CORPORATE INFORMATION

Board of Directors
Mr. Mahendra Nahata (Chairman)
Mr. S. Lakshmanan
Mr. R. K. Bansal
Mr. M. P. Shukla
Dr. R. M. Kastia
Mr. K. B. Lal
Mr. Vinay Maloo (upto 31st October, 2006)
Mr. T. S. V Panduranga Sarma (upto 31st October, 2006)

Manager & Chief Executive Officer
Mr. Surendra Lunia

Audit Committee
Mr. S. Lakshmanan (Chairman)
Mr. Mahendra Nahata
Mr. R. K. Bansal
Mr. M. P. Shukla (w.e.f 31st January, 2007)
Mr. T. S. V Panduranga Sarma (upto 31st October, 2006)

Share Transfer & Investors' Grievance Committee
Dr. R. M. Kastia (Chairman)
Mr. K. B. Lal
Mr. M. P. Shukla (w.e.f. 31st October, 2006)
Mr. T. S. V Panduranga Sarma (upto 31st October, 2006)

Remuneration Committee
Mr. S. Lakshmanan (Chairman)
Mr. M. P. Shukla
Dr. R. M. Kastia

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

Auditors
S. R. Batliboi & Associates, Chartered Accountants
Atul Kulshrestha & Co., 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 Limited

Registered Office
B-71, Industrial Area,
Phase VII, Mohali, – 160 055, Punjab

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

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NOTICE

NOTICE is hereby given that the **Sixtieth Annual General Meeting** of HFCL Infotel Ltd. will be held on Friday, the 28th day of September, 2007**,** at 12:00 Noon at the Registered Office of the Company situated at B-71, Phase – VII, Industrial Area, Mohali -160055, Punjab, to transact the following business: -

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as at March 31, 2007, 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. Mahendra Nahata, who retires by rotation and being eligible offers himself for re-appointment;

3. To appoint a Director in place of Mr. M. P. Shukla, 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 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 remuneration as may be decided by the Board of Directors".

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to the provisions of Section(s) 198, 269, 385, 386, 387 and 388 read with Section 2(24) and all other applicable provisions, if any, of the Companies Act, 1956 ('the Act') (including any statutory modification or re-enactment thereof, guidelines for managerial remuneration issued by the Central Government from time to time) read with Schedule XIII to the Act, subject to approval of the lenders, Central Government and such other approvals as may be necessary, consent of Company be and is hereby accorded for the appointment of Mr. Surendra Lunia , as Manager in terms of the Companies Act, 1956, for a term of three years with effect from 25th July, 2007, on the following terms and conditions including the remuneration as set out hereafter:-

1. Remuneration:-

a) Basic Salary:- Upto a maximum of Rs.2,00,000/- per month;

b) Performance Linked Incentive (PLI) / Bonus: - Up to 150% of the Basic Pay.

2. **Allowances and Perquisites as given below, limited to 200% of the Basic Pay which includes**:-

a) House Rent Allowance

b) Personal Pay

c) Company Car with Driver

d) Allowances (Including Medical, Leave Travel Concessions and Special Allowance)

e) Perquisites (including Credit card, Club Membership and hard furnishings)

3. Contribution to Provident Fund & Gratuity shall be as per the rules of the Company.

4. Other terms: -

a) The appointment may be terminated on either side by giving three months notice in writing or three months salary in lieu thereof. Salary here means cost to the Company.

b) Mr. Surendra Lunia shall be entitled to reimbursement of entertainment, travelling and all other expenses incurred for the business of the Company as per the Rules of the Company.

c) Mr. Surendra Lunia shall also be eligible for housing and other loans and facilities in accordance with the Rules of the Company.

d) For all other terms and conditions not specifically spelt out above, the rules and regulations of the Company shall apply.

e) Mr. Surendra Lunia shall be entitled to an increase in remuneration at any time within a period of three years, subject to a limit of 100% increase in the basic salary in three years.

RESOLVED FURTHER THAT in accordance with the final approval granted by the Central Government, the Board of Directors of the Company (hereinafter "the Board" which term shall be deemed to include the remuneration Committee constituted by the Board), be and are hereby authorised to alter and vary the terms and conditions of the said appointment and remuneration including salary, perquisites and other allowances, as may be agreed to between the Board of Directors and Mr. Surendra Lunia.

By Order of the Board
***for* HFCL Infotel Limited**

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

Place: New Delhi
Date : 31st July, 2007

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 ENTITILED 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 21st September 2007 to 28th September 2007 (both days inclusive).

3. 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.

4. 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.***

5. 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.

6. Members / Proxies are requested to fill the enclosed Attendance Slip and deposit the same at the entrance of the meeting hall.
7. 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 2000 onwards.
8. To avail the facility of nomination, members are requested to submit to the Company the nomination form, which will be supplied on request.
9. The information required to be provided under the Listing Agreement entered into various Stock exchanges, regarding the Directors who are proposed to be appointed / re-appointed as set out above are annexed hereto.
10. The explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 relating to special business set out above is annexed hereto and forms part of this notice.

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

Item No. 5

In accordance with the requirements of Section 269 of the Companies Act, 1956, every Company having paid up Capital Rs.5 crores or more shall have a Managing Director or Whole time Director or a Manager and the Board in its meeting held on 26th July, 2004 had appointed Mr. Surendra Lunia as Manager with in the meaning of the Companies Act, 1956 for the period of 3 years. This appointment has been approved by the Shareholders in the Annual General Meeting held on 30th September, 2004 and approval of Ministry of Company Affairs has also been obtained. The term of appointment of Mr. Lunia as Manager expired on 25th July, 2007.

Mr. Surendra Lunia, aged 45 yrs., is a Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India and has more than 22 years of experience to his credit during which he has held various senior positions with reputed companies.

Mr. Surendra Lunia has been associated with the Company for about 7 years and is occupying the position of the Manager & Chief Executive Officer for last three years.

The statement under sub clause 1(C) of Section II of Part II of the Schedule XIII of the Companies Act, 1956, required to be provided to the Shareholders along with notice calling the Annual General Meeting of the Company, is given as below:-

I. General Information:-	
(1) Nature of Industry	The present business of the Company consists of providing Basic Telephony Services in the State of Punjab and Union Territory of Chandigarh.
(2) Date or expected date of commencement of commercial production	The Company is not engaged in any manufacturing activity. However, the Company had launched its current business of providing commercial telephony services in the State of Punjab and Union Territory of Chandigarh effective 16th October, 2000.
(3) In case of new companies expected date of commencement of activities as per the project approved by the financial institutions appearing in the prospectus.	—Not Applicable —
(4) Financial performance based on given indicators	The financial performance of the Company for the financial year 2006-2007 is discussed in the Directors' Report and Management Discussion & Analysis Report. However, the performance based on the key indicators is being reproduced as follows: - **Key Financial Indicators** — **(Rs. In Crores)** **Revenues** — **275.90** **EBITDA** — **55.01**
(5) Export Performance and net foreign exchange collaborations	—Not Applicable —
(6) Foreign Investments of collaborators, if any.	—Nil—
II. Information about the Appointee:-	
(1) Background Details	The appointee is a Post Graduate in Commerce and a Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India and has more than 22 years of experience with reputed companies.
(2) Past Remuneration	The appointee served a term of three years from 26/7/04 as the Manager under Section 269 read with Section 2(24) of the Companies Act, 1956, and was in receipt of gross remuneration of Approx. Rs. 6.41 Lacs per month.
(3) Recognition or Awards	The appointee was earlier working with HFCL Infotel Ltd. as Chief Financial Officer. Considering his performance, the management promoted the appointee as the Chief Operating Officer of the Company w.e.f 25.03.2004. He was appointed as Manager & Chief Executive Officer w.e.f 26.07.2004.
(4) Job Profile & Suitability	Apart from being appointed as the Manager, the appointee has been working as the Chief Executive Officer of the Company, looking after the

<table>
<tr><td></td><td>day today management of the Company in consultation with other Senior Officials of the Company under the overall supervision and control of the Board of Directors of the Company. After his appointment as Manager, the appointee continues to be in charge of the day-to-day affairs of the Company under the supervision and control of the Board of Directors.The appointee has rich experience of 22 years during which he has been associated with reputed companies and has in depth knowledge of various business segments. The Directors consider the appointee to be a fit person to be re-appointed as Manager of the Company.</td></tr>
<tr><td>(5) Remuneration Proposed</td><td>The remuneration proposed to be paid to the appointee under various heads is as under:-
(Rs. Per Month)
<table>
<tr><td>Basic Salary</td><td>Allowances & Perquisites (A)</td><td>Others (B)</td><td>(B)Stock Option / Commission / Pension</td></tr>
<tr><td>2,00,000 / -</td><td>Upto 200% of the Basic Pay</td><td>Upto 150% of the Basic Company</td><td>NIL</td></tr>
</table>
Provident Fund, Gratuity and Leave Encashment shall be as per the Rules.
(A) Allowances include House Rent Allowance, Personal Pay, Allowances, Medical, LTA , Special Allowance etc . Perquisites include Company Car with Driver, Credit card, Club Membership, hard furnishings etc.
(B) Others include Performance Linked Incentives, Bonus & ex-gratia.
It is proposed to authorize the Board to increase the aforesaid remuneration, subject to a limit of 100%, increase in the basic salary, at any time / time to time within three years.
The Board shall fix the actual remuneration payable, which shall be within the overall limits as specified above.</td></tr>
<tr><td>(6) Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person.</td><td>The Company has posted an Annual Revenue of Rs.275.90 crores in the last financial year. This is likely to grow in the coming years.

The proposed remuneration is in consonance with the prevailing trends in the Telecom industry and is justifiable considering the area of operations of the company, profile and position of the appointee.</td></tr>
<tr><td>(7) Pecuniary relationship, directly or indirectly, with the Company or relationship with the managerial personnel, if any.</td><td>The appointee has no pecuniary relationship with the Company and is not related to any managerial personnel in the Company.</td></tr>
<tr><td>III . Other Information:-</td><td></td></tr>
<tr><td>(1) Reason of loss or inadequate profits</td><td>Telecom business being capital intensive in nature with Projects having long gestation periods and low initial paybacks, long term commitments are required. Losses are incurred during the initial years, when the network is being rolled out and new subscribers are being acquired. Once the breakeven is achieved, return on capital employed becomes attractive as the same infrastructure is used for generating additional revenues.</td></tr>
<tr><td>(2) Steps taken or proposed to be taken for improvement</td><td>The management has plans of expanding the areas of operation by acquiring new licenses. The expanded operations would provide the necessary economies of scale and improve profitability. The company has also expanded its service portfolio by getting into Broadband and cable TV (Digital & IPTV) segment by leveraging its existing telecommunication infrastructure. These new business segments would improve the overall profitability of company's business.</td></tr>
<tr><td>(3) Expected increase in the productivity and profits in measurable terms</td><td>The Company is making operating profits (EBIDTA) and the current cash flows are sufficient to service the interest liability. Post expansion the Company will improve its operating profit margins and positive profit after tax and depreciation is expected after implementation of the expansion plans.</td></tr>
<tr><td>IV. Disclosures:-</td><td></td></tr>
<tr><td>(1) Remuneration Package of the Managerial Person</td><td>The remuneration paid to the managerial person is disclosed in the Notes to the Accounts.</td></tr>
<tr><td>(2) Disclosure in Corporate Governance</td><td>The disclosures as required under this head and applicable to the Company have been discussed in the Corporate Governance Report forming part of the Annual Report.</td></tr>
</table>

Shareholders approval is being sought confirming the appointment and remuneration payable to Mr. Surendra Lunia, on the terms and conditions as set out in the resolution contained in this notice.

The Company will make an application to the Central Government seeking approval for the appointment and remuneration payable to Mr. Surendra Lunia as a Manager.

Your Directors recommend the passing of the resolution.

None of the Directors is concerned or interested in this resolution.

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

Name	**Mr. Mahendra Nahata**	**Mr. M.P.Shukla**
Date of Birth	19.05.1959	18.06.1932
Date of Appointment	29.04.2003	29.04.2003
Qualification	B.Com(Hons)	B.E. (Electrical)
Expertise in specific functional areas	Over all Management Mr. Nahata, has more than 22 years of business experience to his credit. He was one of the promoters of HFCL Group in 1987 and is occupying the Position as a whole time Director in Himachal Futuristic Communications Limited (HFCL).	Over all Management Mr. Shukla has a vast array of experience in various assignments viz, business planning, implementation and operation of telecommunication services. He is former Chairman and Managing Director of Mahanagar Telephone Nigam Ltd. Mr. Shukla is associated with HFCL Group since 2001
Directorships in other Public Companies	1. Himachal Futuristic Communications Limited 2. Himachal Exicom Communications Limited 3. HTL Limited 4. Consolidated Futuristic Solutions Ltd. (under liquidation as per order of H'ble High Court of Delhi	1. Himachal Futuristic Communications Limited 2. HFCL Satellite Communications Limited
Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	**1. HFCL Infotel Ltd** - Audit Committee -Member - STIG* Committee - Member - PMRC** - Member	**1. HFCL Infotel Limited** - Audit Committee - Member-Remuneration Committee - Member - STIG* Committee - Member - PMRC** - Chairman
Shares held in the Company	NIL	NIL

* Share Transfer & Investor Grievance Committee (STIG)
** Project Management Review Committee (PMRC)

By order of the Board
For HFCL Infotel Limited

Sd/-

Place: New Delhi
Date: 31st, July, 2007

S. Prabhakar
Company Secretary
& Head /legal & Regulatory

DIRECTORS' REPORT

Your Directors take pleasure in presenting the Sixtieth Annual Report of your Company together with the Audited Accounts for the year ended 31st March, 2007.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2007 are as under: -

(Rs. in millions)

Particulars	2007	2006
Gross Income – - Service Revenue - Other Income	 2759.00 6.34	 2918.90 11.50
Total	2765.34	2930.40
Operating Profit before Finance Charges, Depreciation, Amortisation and Loss on sold / discarded fixed Assets	550.19	762.70
Loss on sold / discarded Fixed Assets and Capital work in progress	28.35	188.81
Finance Cost	635.13	599.84
Depreciation and Amortisation	1021.80	1090.13
Loss for the year before prior period Expenditure and Tax	1135.10	1116.08
Prior period Expenditure (net)	21.83	9.47
Loss for the year before Tax	1156.94	1125.55
Provision for taxation for earlier years	-	(1.56)
Fringe Benefits tax	6.31	6.37
Loss for the year	**1163.25**	**1130.36**
Loss brought forward from previous year	**6562.40**	**5432.00**
Loss carried to the Balance Sheet	**7725.66**	**6562.40**

DIVIDEND

The Company being in the initial years of operation in a highly capital intentive telecom sector, has accumulated losses. Your Directors, therefore, are not in a position to recommend any dividend for the financial year 2006-07.

PERFORMANCE

The revenue from telecom service decreased from Rs. 2930.40 million in the previous year to Rs. 2765.34 million 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.550.19 million as compared to the previous year's figure of Rs. 762.70 million from telecom services.

The Broadband DSL-high-speed Internet product received an overwhelming response from the subscribers due to its inherent superior features such as stability, security and high speed. The subscriber base in Broadband has also shown a growth of over 97%, which correspond to 33,987 almost subscribers as compared to about 17,289 subscribers during the preceding year. Mobile Subscriber base grew by 4.5% from about 68,000 at the end of March 2006 to 71,000 at the end of March 2007 and Fixed Voice Subscriber base reduced by 3.5% from about 257000 at the end of March 2006 to 248000 at the end of March 2007

SHARE CAPITAL/OFCDs

The Corporate Debt Restructuring (CDR) cell, constituted under the aegis of the Reserve Bank of India, approved the revised CDR package in June, 2005 and it was laid down in the revised CDR Package that the secured OFCDs shall be converted into shares at par, subject to the applicable provisions of SEBI guidelines and other relevant Acts during the Financial year 2005-06. As per the approved revised CDR package, your Company had approached the holders of Optionally Fully Convertible Debentures (OFCDs) for conversion of those secured OFCDs into equity shares.

Pending resolution of the pricing issue, for which the Company has sought informal opinion from SEBI under SEBI (Informal Guidance) Rules the Company has transferred 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.

DIRECTORS

Mr. Vinay Maloo and Mr. T. S. V. Panduranga Sarma, Directors on the Board of the Company have resigned w.e.f 31st October, 2006 from the Board of Directors due to their pre-occupation. The Board wishes to place on record its sincere appreciation for the valuable services rendered by Mr. Vinay Maloo and Mr. T. S. V. Panduranga Sarma during their tenure as Directors on the Board of the Company and wishes them all the success.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Mahendra Nahata and Mr. M. P. Shukla 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, 2007, 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, 2007 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, 2007 on a going concern basis.

SUBSIDIARY

The wholly owned subsidiary of the company, Connect Broadband Services Limited was formed on 2nd July, 2004 to undertake the business of distribution of Video and Cable TV services. The Company 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 & 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. 19.13 lacs remains unclaimed for payment.

AUDITORS & AUDITORS' REPORT

M/s S.R. Batliboi & Associates, Chartered Accountants and M/s Atul Kulshrestha & Co., Chartered Accountants, the Statutory Auditors of the Company, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

MANAGEMENT'S EXPLANATION TO THE AUDITORS' OBSERVATION:

1. Company has incurred a loss of Rs 1,163.26 million during the year (accumulated loss of Rs 7,725.67million) resulting into erosion of its net-worth, and has a net current liability of Rs 1,403.98 million after considering provision for interest amounting to Rs 762.30 million The Company has achieved profitability at the 'Earnings before interest and depreciation / amortisation 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 significantly 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 and to substantially increase its subscriber base. The management in view of its business plans is confident of generating cash flows and 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.

2. Company has invested Rs 717.67 million in an associate company, The Investment Trust of India Limited ('ITI'). ITI has incurred a net loss of Rs 92.52 million and has a negative net worth of Rs 13.22 million as on March 31, 2007. The Auditors of ITI has in their audit report dated May 25, 2007 qualified that the ability of ITI to continue as going concern, which depends on its ability to generate income on their Investment Business Segment. The management of ITI is, however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of the investments.

   Other observations have been dealt with in notes to Accounts which are self explanatory and do not call for further comments.

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 key focus of HR initiatives being undertaken by the Company. To enhance productivity and creativity, the Company encourages employees to strengthen their entrepreneurial skills.

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 exchange outgo was to the tune of Rs. 37.62 million which was on account of travel, finance and other expenses.

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 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: - New Delhi
Date: - 31st July, 2007

(Mahendra Nahata)
Chairman

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDARY COMPANY

1.	Name of the Company	Connect Broadband Services Limited
2.	Financial Year ended on	31.03.2007
3.	Shares of the Subsidiary held by the Company on the above date	
	(a) Number and Face Value	35,50,000 equity shares of Rs.10/- each
	(b) Extent of Holding	100% (rounded off)
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, 2007	(5,58,23,866)
	(b) not dealt within the accounts of the Holding Company for the year ended on March 31, 2007	**N.A**.
5.	The net aggregates 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, 2007	(3,31,00,732)
	(b) not dealt with in the accounts of the Holding Company for the period ended March 31, 2007	**N.A**

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2006-07

(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 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 Six 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)	4	2	0
Mr.R.K.Bansal (Nominee of IDBI)	29.04.2005	(NED / ID / Nominee)	2	3	0
Mr. S.Lakshmanan (Nominee of LIC)	17.06.2003	(NED / ID / Nominee)	Nil	3	2
Mr. M.P.Shukla #	29.04.2003	(NED / ID)	2	4	1
Mr. K.B. Lal	29.10.2003	(NED / NID)	Nil	2	0
Dr. Ranjeet Mal Kastia	19.06.2004	(NED / NID)	3	3	1

Note:

**Includes Membership / Chairmanship in HFCL Infotel Ltd.; excludes private companies; includes membership acquired after 31st March, 2007; 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, NID-Non Independent Director]

*** Mr. Vinay Maloo and Mr. T.S.V Panduranga Sarma resigned from the Board w.e.f. 31st October, 2006*

 # Mr. M. P. Shukla is a member of the Audit Committee w..e.f 31st January, 2007 and Share Transfer and Grievance Committee w.e.f 31st October, 2006.

(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 01.04.2006 to 31.03.2007, the Board met 7 times on the following dates viz. 30th June, 2006, 17th July, 2006, 31st July, 2006, 31st October, 2006, 8th December, 2006, 31st January, 2007 and 27th March, 2007.

The 59th Annual General Meeting of your Company was held on 29th September, 2006.

Attendance of Directors at the Board Meetings held during the year 2006-07 and at the last Annual General Meeting is as under:

Attendance of the Directors in the Financial Year 2006-07

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

(C) Information Placed before the Board

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

a. Minutes of all Committee Meetings;

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

c. Annual Operating Plans, Budgets and updates thereon;

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

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

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

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

h. Details of any joint venture or collaboration agreement;

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

j. Legal Compliance reports and Certificates.

k. Accounts of the subsidiary Companies.

3. 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 Committees 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. S Lakshmanan, (elected as Chairman w.e.f 31.10.2006)
- Mr. T. S. V Panduranga Sarma, Chairman (till 31.10.2006)
- Mr. Mahendra Nahata
- Mr. R. K. Bansal
- Mr. M. P. Shukla (w.e.f 31st January, 2007)

CEO, Head of Finance, Statutory Auditors 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 and the Committee meets regularly. The quorum for the Audit Committee is two independent 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.
- 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 authorized to review of 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, five Audit Committee meetings were held on the following dates :

30th June, 2006, 31st July, 2006, 31st October, 2006, 10th November, 2006 and 31st January, 2007.

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

Meetings and the attendance of the Directors for the FY 2006-07

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

(B) Remuneration Committee

The Remuneration Committee of the Company comprises of all Non-Executive directors and 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
- Dr. R. M. Kastia

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 30th June 2006. All the members have attended the meeting.

(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 certificates and non-receipt of dividend etc. and to oversee the performance of Registrar and Share Transfer Agent and recommend 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), comprise of

1. Dr. R. M. Kastia, Chairman
2. Mr. K. B. Lal
3. Mr. M. P. Shukla (w.e.f 31.10.2006)
4. Mr. T. S. V Panduranga Sarma (till 31.10.2006)

Mr. S. Prabhakar, Company Secretary & Head-Legal & Regulatory is the Compliance officer during the year.

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 shares, however, only STIG is empowered to issue the duplicate share certificates.

During the year under review, the STIG Committee met twice on 28th August, 2006 and 31st October, 2006 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	2	2
Mr.T.S.V.Panduranga Sarma	2	1
Mr. K. B. Lal	2	2

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

1. Mr. Surendra Lunia, CEO,
2. Mr. S.Prabhakar, Company Secretary & Head-Legal & Regulatory
3. Mr. Vikash Aggarwal, Head – Corporate Finance (w.e.f. 31.10.2006)
4. Mr. Pradeep Goel , A.V.P (Finance & Accounts) (till 31.10.2006)

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 shares in case of loss of share certificate and is only authorized to handle issue of duplicate certificate of only in the case of mutilated / torn / partially burnt shares certificates etc. During the year-ended 31st March, 2007 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 were 7. There were no unresolved complaints as on 31st March, 2007.

(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 has not met as the issues were discussed in the Board Meetings.

(E) Sitting fee paid to the Directors

The Company pays sitting fees to all the Non-Executive Directors at the rate of Rs.5000/- for each Board / Committee Meeting. The details of sitting fee paid to Directors during the FY 2006-07 are as under: -

S. No.	Name of the Director	Sitting Fee (in Rs.)					Total Sitting Fee paid
		Board Meeting	Audit Committee	Remuneration committee	Project management Review committee	STIG Committee	
1	Mr.Mahendra Nahata	35000	25000	Nil	Nil	Nil	60000
2	Mr.Vinay Maloo	Nil	Nil	Nil	Nil	Nil	Nil
3	Mr.T.S.V.Panduranga Sarma	15000	10000	Nil	Nil	5000	30000
4	Mr. R.K.Bansal	30000	15000	Nil	Nil	Nil	45000
5	Mr.S.Lakshmanan	35000	25000	5000	Nil	Nil	65000
6	Mr.M.P.Shukla	35000	Nil	5000	Nil	Nil	40000
7	Mr.K.B.Lal	30000	Nil	Nil	Nil	10000	40000
8	Dr.R. M. Kastia	35000	Nil	5000	Nil	10000	50000

*Besides sitting fee Mr. R. K. Bansal has been paid Rs. 860/- per Board Meeting to cover out of pocket expenses as laid down by Industrial Development Bank of India Limited.

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
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
2005-2006	59	B-71, Industrial Area, Phase-VII, Mohali	29.09.2006	12:00 Noon

No Extraordinary General Meeting was held during 2006–07:

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 the 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

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 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 last Annual General meeting held on 29th September, 2006 no special resolution was passed.

In the 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. 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.

b. 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 with the same. A declaration signed by the Manager and CEO to this effect which forms part of this report.

c. 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.

d. 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 imposed or strictures passed 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.

e. Secretarial Audit

A qualified practicing Company Secretary carries out secretarial audit every quarter 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. 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.

f. 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 adopted a Whistle blower policy w.e.f 14th May, 2007 and Mr. S. S. Nijjar is designated as Chief Vigilance Officer (CVO) under the policy and he will be responsible for carrying out a comprehensive, neutral and fair investigation into the matters reported. The policy was circulated to all the employees of the Company.

7. Means of Communication

The Quarterly, Half Yearly and Annual results are published in The Financial Express, English daily and Desh Sevak, vernacular language paper and forwarded to 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. 60th Annual General Meeting

Date : 28th Septemeber, 2007

Time : 12:00 Noon

Venue : B-71, Industrial Area, Phase VII, Mohali - 160055 Punjab.

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 30th June, 2007	Last week of July 2007
Results for the Qtr ending 30th September, 2007	Last week of October 2007
Results for the Qtr ending 31st December, 2007	Last week of January 2008
Results for the year ending 31st March,2008 (un-audited)	Last week of April 2008
Annual General Meeting	In September, 2008

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.

The Financial year covers the period from 1st April, 2007 to 31st March, 2008.

e. Dividend payment date :

No dividend was recommended by the Board for the Financial year 2006-07

f. Registered Office

The Registered Office of the Company is situated at B-71, Phase VII, Industrial Area, 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 of amalgamation 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 "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 5th April, 2006 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. SEBI vide its order dated 7th March, 2007 directed that communication of observations on the draft offer for sale document filed by HFCL Infotel Limited be withheld till the proceedings under Section 11B of the SEBI Act are disposed off.

The requisite listing fee has been paid to the Stock Exchanges where shares of the Company are listed. Listing fee is not paid to Calcutta stock exchange since the Company has completed all the formalities for delisting but the exchange is withholding delisting without assigning any reason.

h. Stock Code

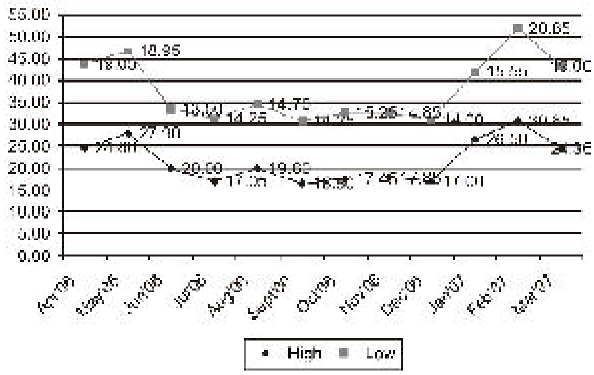
- The Stock Exchange, Mumbai – 511116
- Madras Stock Exchange Ltd. – ITR

i. Stock Price Data

The reported high and low closing prices of the Company's shares traded during the fiscal 2006-2007 on the Stock Exchange, Mumbai are given below:

Month	High	Low
Apr'06	24.80	19.05
May'06	27.90	18.95
Jun'06	20.00	13.50
Jul'06	17.05	14.25
Aug'06	19.80	14.70
Sept'06	16.50	14.25
Oct'06	17.45	15.25
Nov'06	17.85	14.85
Dec'06	17.00	14.00
Jan'07	26.50	15.55
Feb'07	30.85	20.85
Mar'07	24.35	19.00

Performance in comparison to BSE sensex



j. Registrar & Share Transfer Agents

All share 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. Vikash Agarwal, Head – Corporate Finance 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 the case of request is received to issue of duplicate shares in lieu of the lost share certificate, a Board level Committee known as Share Transfer and Investors' Grievance Committee (STIG) is authorized and the Share Transfer In-House Committee does not have any power. The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider the other transfer proposals and attend to shareholder grievances.

m. Distribution of Shareholding as on 31st March, 2007

No. of Equity Shares Held	Shareholders No.	Shareholders %	Shareholding No.	Shareholding %
0 - 5000	7723	83.8636	11876730	0.226
5001 - 10000	737	8.003	6081580	0.1157
10001- 20000	368	3.996	5591700	0.1064
20001- 30000	92	0.999	2373850	0.0451
30001- 40000	54	0.5863	1939150	0.0368
40001- 50000	55	0.5972	2645010	0.0503
50001- 100000	81	0.8795	6315220	0.1201
100001 -and above	99	1.075	5218348280	99.2992
Total :	**9209**	**100.00**	**5255171520**	**100.00**

l. Categories of Shareholding as on 31st March 2007

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)	87912731	16.7288
c	Foreign Institutional Invest.	25826	0.0049
	Sub Total	**87938557**	**16.7338**
4	**Others**		
a	Private Corporate Bodies	98514619	18.746
b	Indian Public	13316331	2.5339
c	NRI's	23044	0.004
d	Any Other - Clearing Member	19601	0.0037
	Sub Total	**111873595**	**21.2882**
	Grand Total	**525517152**	**100.0000**

n. **Dematerialization of Shares**

62.01% 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, 2007. 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 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 31,62,00,000 equity shares out of the said 43,20,00,250 equity shares has been taken but these shares are yet to be listed. The Company had filed the application for listing these shares with the Mumbai and Madras Stock Exchanges.

o. **Unclaimed Dividends**

Dividend declared and paid for the financial year ended 31st March, 2000 shall fall due after expiry of seven years in October, 2007 and the Company shall transfer the balance in unclaimed dividend account to Investor Education and Protection Fund within specified time limit.

p. **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 at 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 opinion under the SEBI (Informal Guidance) Rules and the Company has sought Informal opinion under the SEBI (Informal Guidance) Rules but no opinion has been given by SEBI till date.

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.

q. **Head Office**

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

r. **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.

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

t. **Extent to which mandatory requirements have not been complied with:**

Formulation of Risk assessment and minimization is still under process.

u. **Extent to which non mandatory requirements have been complied with:**

i) Remuneration Committee has been formed and it is functioning regularly as reported earlier in this report.

ii) Whistle Blower Policy has been formulated and it be becomes effective from 14th May, 2007.

v. Shares / Convertible Instruments held by Non Executive Directors NIL

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 31" March, 2007.

Place: New Delhi
Date: 31" July, 2007

SURENDRA LUNIA
Manager and
Chief Executive Officer

CEO/CFO CERTIFICATION

To,
The Board of Directors
HFCL Infotel Ltd.

27th July, 2007

Compliance Certificate by Manager & CEO & Chief Financial Officer (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 Vikash Agarwal, General Manager –Corporate Finance & CFO 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.

(Vikash Agarwal)
G. M – Corporate Finance & CFO

(Surendra Lunia)
Manager & Chief Executive Officer

CERTIFICATE BY PRACTICISING COMPANY SECRETARY

On compliance with the conditions of Corporate Governance under clause 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 31st March, 2007, 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 the compliance of the conditions of the Corporate Governance. It is neither an adult nor an expression of opinion on the financial statements of the Company.

In our opinion and to 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 the Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company not the efficiency nor effectiveness with which the management has conducted the affairs of the Company.

For A. Arora & Co.
Company Secretaries

Sd/-
Ajay Arora
Membership. No. F- 2191
C.P No. 993
Place : Chandigarh
Date : 31st July, 2007

MANAGEMENT DISCUSSION & ANALYSIS REPORT

OVERVIEW

HFCL Infotel Ltd ("Infotel" or "the Company") is a leading 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 License that it holds for Punjab Telecom Circle. The Company started operations in September, 2000 under the brand name "CONNECT". At the end of the financial year (i.e. March 31, 2007), the Company had 319,472 telephony subscribers, including 248,382 in fixed-line segment and 71,090 in mobile segment. In addition, the Company had 33,987 Broadband Internet Access subscribers.

The Company with its extensive optic fiber cable network of over 3300 km, provides services in about 140 cities/ towns covering 52 of the 55 Short Distance Charging Areas ("SDCA") of Punjab Telecom 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 Business and Financial highlights for the financial year are:

- CDMA wireless network was upgraded to the contemporary 3G1x standards. Going forward, the network will be expanded to cover the whole circle thus providing umbrella coverage for mobile Voice Services.
- Cable TV network of Company's Subsidiary CBSL was expanded to cover all key towns of Punjab.
- Subscriber base of Broadband Internet Access services on ADSL grew by 97% from about 17,289 at the end of March 2006 to 33,987 at the end of March 2007.
- Mobile Subscriber base grew by 4.5% from about 68,000 at the end of March 2006 to 71,000 at the end of March 2007.
- Fixed Voice Subscriber base reduced by 3.5% from about 257000 at the end of March 2006 to 248000 at the end of March 2007
- Gross Revenue declined by 5.6% from Rs. 293.04 Crore for FY 2005-06 to Rs.276.53 Crore for Financial Year 2006-07.
- Operating Profit (EBIDTA) declined by 27.9% from Rs 76.27 Crore for FY2005-06 to Rs. 55.02 Crore for FY2006-07.

INDUSTRY STRUCTURE

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

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

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

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

KEY INDUSTRY DEVELOPMENTS

Growth & Market Trends

<u>Telecom Services</u>

During the FY 2006-07, 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 while 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 by 82.22% over the previous year 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'06	March'07	
Mobile Voice	89.6	137.8	53.8%
Fixed Voice	49.7	54.4	9.5%
- Fixed wireline	43.1	44.4	3.0%
- Fixed wireless	6.6	9.9	50.0%
Gross Total	**139.3**	**192.2**	**38.0%**
Broadband	1.35	2.46	82.22%
Internet	6.94	8.5	22.48%

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 are growing sharply
- Services such as banking, insurance, hospitality, etc. are 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 expands sharply.

In the last few years the Industry has witnessed a trend of voice traffic shifting from Fixedline networks to Mobile networks. The reasons for this shift are as under :

- ➢ Increasing penetration of mobile telephony leading to consistently increasing mix of calls being made to mobiles.
- ➢ Mobile seen as cheaper for short duration calls. Consistently reducing tariffs on mobiles, leading to price insensitivity among users.
- ➢ Mobile handset found to be much more convenient, with features like telephone directory, SMS and immense possibilities of personalization
- ➢ With increased mobility, more and more usage is happening while the user is out of home / office
- ➢ On-net calls being extremely affordable, users are replacing their fixedline phones with a second mobile from the same operator
- ➢ Fixedline phone being used more for incoming calls
- ➢ Mobile players entering the PCO market with aggressive pricing on calls made to mobile-phones
- ➢ Increasing penetration of mobile telephony and cheap STD rates leading to drop in walk-in traffic at PCO locations

Tariffs

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

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

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

- All licencees of Unified Access Service, Cellular Mobile Telephone Services, National Long Distance Services and International Long Distance Services are required to pay 0.75% of their Adjusted Gross Revenue (AGR) as ADC to the BSNL. BSNL will retain ADC chargeable as percentage of the AGR while the Unified Access Licencees / BSOs will retain the ADC pertaining to the wireline subscribers.
- ADC on Outgoing International Calls has been reduced to zero from Re. 0.80 / minute from April 1, 2007
- The UASLs / BSOs other than BSNL would retain ADC in terms of percentage of AGR and also on outgoing international calls from their wireline subscribers.
- No changes were made in mobile and fixed termination charges, which continue to be Re. 0.30 / minute.
- No ADC charge on rural revenue of operators to motivate penetration of telecom services in rural areas.

Impact on the Company

- ADC on FWP / FWT / LM revenue @ Re 0.75% of AGR
- ADC on Outgoing ISD reduced: Re 0.80 / Min – Will result in reduction of international long distance tariffs
- No ADC to be paid on Local / NLD / ILD traffic generated from wire line

Video / Cable TV services

India has around 214 mn households out of which around 114 mn have Television (TV). Out of the 114 mn TV households there are around 65 mn TV households with 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).

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 Rs. 10,000.
- 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 Conditional Access System (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.
- A round table meeting was convened by TRAI on 1st February 2007, at Delhi with various stakeholders on the subject of digitization and introduction of Voluntary CAS in the country. Industry experts as well as representatives of consumer organizations, MSOs, cable operators, DTH operators, broadcasters and equipment manufacturers participated in the round table. One of the major issues that was discussed with the stakeholders in the round table was exploring alternative models for voluntary CAS. Consequently, a small Group consisting of members drawn from TRAI, Ministry of Information and Broadcasting, Prasar Bharti, Broadcasters, MSOs, DTH operators, Cable operator / Distributor associations, technical experts, consumer organizations was constituted to deliberate on the issues relating to digitization and introduction of voluntary CAS. The Group submitted its recommendations to the Authority on 12th June, 2007 on the best way forward for implementation of CAS in cable TV network. The major recommendations in the Group's report are briefly summarized below:-
  - o Voluntary CAS would be a non-starter unless the date from which CAS is to be implemented is mandated.
  - o 55 cities in the country have been identified i.e. all state capitals, and all other cities with a population of one million and above.
  - o The dates of roll out of CAS for these identified cities to be notified in advance by the Government of India in one go.
  - o The 55 identified cities to be covered in phases over a time frame spread over three years from Oct 2008 to Sept 2011.
  - o Voluntary efforts towards digitization and introduction of CAS ahead of the mandated date for roll out of CAS to be facilitated by extending the existing CAS regulatory framework.
  - o Framework to facilitate voluntary efforts for introduction of CAS in cities other than identified cities also provided.

Data Services

For 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 utilisation 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:
    - Increase in PC penetration
    - Reduction in broadband access pricing
    - Increased availability of broadband with rollout of network by operators
    - Relevant content and applications increasingly being made available
    - PC based education spreading across schools - impacting home usage

- DSL will have an edge over all other delivery mechanisms 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 wireline voice services to smaller towns and currently has presence in 140 towns of Punjab. On the Mobile voice segment, the Company expanded its wireless network footprint to most parts of the five towns, where the Company's wireless network is present. Going forward the Company plans to expand the wireless network to cover the entire Telecom circle of Punjab so that full mobile services can be offered to subscribers.

Following rapid decline in equipment prices, Broadband Internet Access has emerged as a viable value-addition tool and growth driver for the wireline telephony segment. The Company has already deployed broadband network equipment in most of the areas served by the Company's wireline services and 20% of the wireline base is on broadband.

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

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

It is felt that the largest growth driver in telecom market lies in Mobile. Realizing that mobile service is the largest growth opportunity and to corner a large pie in the growing telecom market, management believes that Pan Punjab expansion of wireless followed by Pan-India roll out of mobile network would be the most lucrative proposition, if the right financial support and spectrum are made available.

The Company intends to deploy mobile telecommunication services on a specific and coordinated schedule. Network assets will be deployed initially to meet the best Indoor and Outdoor coverage of Infotel's customers both business and residential. The deployment of fixedline and broadband network shall be undertaken on selective basis. Infotel has also planned to provide a large bouquet of value-added services to its customers.

The Company believes that the aforesaid expansion 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. The proposed expansion will also enable the Company to offer attractive "on-net" calling tariffs within the community of interest, a service facet deployed by other 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 of Punjab, but plans to expand the wireless network footprint to most parts of Punjab in the current financial. In terms of subscriber base, all existing mobile operators are showing a healthy growth pattern and none of the major operators holds sway over the market. The market and segments within will be shared by 5-6 operators enjoying 15-20% share.

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 planned expansion of wireless services into Pan Punjab, at low incremental capital cost and low incremental operating cost will help improve the overall asset utilization and profitability ratios.
- 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.
- 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.
- 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.

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 in Punjab circle. However, to attract new customers, and to offer new / better services, the Company needs to continually make further investment in the expansion / upgradation of its network.

As is the case for any other capital-intensive infrastructure business, the deployment of telecommunication services infrastructure entails significant capital expenditure, a substantial portion of which needs to be incurred before the realization of adequate revenues. Though the Company has reported a cash profit since the first quarter of 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, 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 Punjab Circle. Other service providers in Punjab 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. The Company's long term plan for expansion of wireless services Pan India is subject to availability of spectrum.

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

4. Risk of rapid technological changes

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

5. Dependence on key personnel

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

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

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

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

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

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

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 2006-07, the Company has expanded its wireline services to 140 cities / towns of Punjab and widen its wireless footprint deep into the existing 5 towns where Company has wireless network. Due to sluggish market conditions in fixedline segment and delay in tie up of external funds, the overall subscribers' base has shown a negative growth of about 1.8% which correspond, to almost 319 lacs subscribers as compared to 325 lacs subscribers during the preceding year. However, the Company has shown a growth of 4.5% in mobile segment over 68K subscriber during the preceding year.

The revenue from telecom service decreased from Rs. 291.89 Crore in the last year to 276.53 Crore during this year. The Operating Profits, i.e. Earnings Before Interest, Depreciation, Extra Ordinary Items and Tax stood at Rs 55.02 Crore as compared to the previous year's figure of Rs. 76.27 Crores.

(Rs. in Crore)

Revenue at glance are as follows:

Parameter	**FY 2006-07**	**FY 2005-06**
Unified Access Services	224.10	252.03
Internet Services	31.02	16.64
Inter connect Usage Charges	16.89	17.63
Infrastructure Services	3.89	5.60
Other Income	0.63	1.15
Total	276.53	293.04

FINANCIAL PERFORMANCE

Key Financial Indicators

Telecom Business

(Rs. in Crore)

Parameter	**FY 2006- 07**	**FY 2005- 06**
Revenue from Telephony Service	275.90	291.89
EBIDTA	54.38	75.12

On Gross Basis

(Rs. In Core)

Parameter	**2006- 07**	**2005- 06**
Gross Income	276.53	293.04
Operating Profit	55.02	76.27
Loss after Tax	116.33	113.04

Major Expenses at a glance are as follows:

(Rs in Crore)

Parameter	**2006- 07**	**2005- 06**
Network Operations Expenditure	115.48	125.78
Personnel Cost	46.17	38.34
Sales & Marketing	13.11	12.58
Administration & Other Expenditure	46.75	40.07
Finance Cost	63.51	59.98
Total	285.02	276.75
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. There are no share allotments during the year. However, pending allotment of equity shares, the Company has converted secured 0% Optionally Fully Converted Debenture along with yield @9.3% into Advance against share application money aggregating

Rs. 88.05 Crore, in terms of the revised CDR package.

Secured Loans

The Secured loans of the company have been increased from Rs. 624.32 Crore on March 31, 2006 to Rs. 626.32 Crore on March 31, 2007 pursuant to increase in interest accrued and due on the term loans, vehicle loans and bank overdraft during the year.

Unsecured Loans

Unsecured Loans Increased from Rs. 66.67 Crore on March 31, 2006 to Rs 76.27 Crore on March 31, 2007 mainly on account of foreign exchange fluctuations and Short term loan taken from HFCL Internet Services Limited and interest accrued on the same during the year.

Fixed Assets

The company made net addition of Rs. 42.45 Crore in the Gross Block during the year 2006-07. However, net block has decreased from Rs.556.34 Crore on March 31, 2006 to Rs.524 Crore on March 31, 2007. The Capital Work in Progress was Rs 14.14 Crore on March 31, 2007 as compared to Rs.23.67 Crore on March 31, 2006.

Intangible assets

The intangible assets (net) have been decreased from Rs. 159.77 Crore on March 31, 2006 to Rs. 146.03 Crore on March 31, 2007, mainly as a result of yearly amortization.

Investments

The investment made by the company has been increased from Rs. 75.32 Crore on March 31, 2006 to Rs 80.82 Crore on March 31, 2007. This increase is on account of investment in equity shares of wholly owned subsidiary named Connect Broadband Services Limited.

Current liabilities and Provisions

The Current liabilities and Provisions of the company stood at Rs. 201.63 Crore on March 31, 2007 as compared to Rs.150.21 Crore on March 31, 2006. This increase is mainly due to increase in provision for interest by Rs. 38.15 Crore .

Current Assets

The current assets of the company stood at Rs 61.23 Crore as on March 31, 2007 as compared to Rs. 63.87 Crore as on March 31, 2006. These mainly include cash & bank balances, loans and advances and sundry Debtors.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

The company strongly believes that human capital is the key resource in achieving company's growth and business success. The year ended on March 31, 2007 witnessed employee strength growing to 727, with an average age of employees less than 30 yrs. The company has a professionally qualified work force out of which more than 70% are Engineers, MBA's, C.A / C.S. etc.

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

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

CAUTIONARY STATEMENT

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

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

Auditors' Report

To

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached Balance Sheet of HFCL INFOTEL LIMITED, as at March 31, 2007, 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 have 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 1,163.26 million during the year (accumulated loss of Rs 7,725.67million) resulting into erosion of its net-worth, and has a net current liability of Rs 1,403.98 million (after considering provision for interest amounting to Rs 762.30 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, 2007. The Company has achieved profitability at the 'Earnings before interest and depreciation/ amortisation' 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 significantly 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 and to substantially increase its subscriber base. Also, in view of the Company providing financial and business support to its subsidiary, CBSL, the recoverability of its investment and receivable from CBSL amounting to Rs 90.50 million and Rs 4.46 million respectively (which reported a loss of Rs 55.82 million and has negative net worth of Rs 53.42 million) is dependant on the Company's ability to continue as a going concern. The management in view of its business plans is confident of generating cash flows and 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. *Attention is invited to Note 12 of Schedule 22 of the financial statements regarding Company's investment of 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 has incurred a net loss of Rs 92.52 million and has a negative net worth of Rs 13.22 million as on March 31, 2007. The Auditor's of ITI has in their audit report dated May 25, 2007qualified ability of ITI to continue as going concern which depends on its ability to generate income on their Investment Business Segment. The management of ITI is, however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of the investments. Considering the uncertainty involved in the generation of Income on investments, we are unable to comment on the carrying value or the realisability of such investments and thereby its impact on the profit and loss for the year.*

6. Further to our comments in 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, 2007 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) Subject to matters stated in paragraph 5 above, consequential effect of whereof is not ascertainable, 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, 2007;

      (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.

S.R. BATLIBOI & ASSOCIATES	**ATUL KULSHRESTHA & CO.**
Chartered Accountants	Chartered Accountants
per Prashant Singhal	**per Anil Kumar Aggarwal**
Partner	Partner
Membership No: 93283	Membership No. 91720
Place: Gurgaon	Place: New Delhi
Date: June 12, 2007	Date: June 12, 2007

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 (as amended) 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 or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

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 as amended 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 and cess have generally been regularly deposited with the appropriate authorities except *there have been certain undue delays in number of cases in respect of 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, income tax, 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 the statute	Nature of dues	Amount (Rs)	Financial Year	Forum where dispute is pending
Income-Tax Act, 1961	Interest tax	8,310,389	1993-1994	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	8,602,606	1994-1995	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	11,578,837	1995-1996	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	1,153,020	1996-1997	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Interest tax	752,799	1997-1998	Income Tax Appellate Tribunal
Income-Tax Act, 1961	Income tax	8,475,671	2001-2002	Income Tax Appellate Tribunal

10. *The accumulated losses of the Company as at March 31, 2007, are more than fifty percent of its net worth as at that date. The Company before considering interest provisions on yield basis of Rs 385,459,761 and loss on sale of fixed assets of Rs 24,209,192 has made a cash profit of Rs.296,367,991. After considering this interest provision and loss on sale/discard of fixed assets, the company has incurred a cash loss of Rs. 113,300,962. The Company has incurred cash loss during the immediately preceding financial year after considering provision of interest amounting Rs 384,838,920 and loss on sale/discard of fixed assets amounting Rs. 179,336,400 .*

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. million)

Lender	Due Date	Interest Amount	Date of Payment
IDBI, VBL, OBC, LIC	May 1, 2006	14.37	July 7, 2006 / June 28, 2006 / July 24, 2006 / July 27, 2006
IDBI, VBL, OBC, LIC	June 1, 2006	14.87	August 28, 2006 / August 29, 2006 / August 28, 2006 / August 26, 2006
IDBI, VBL, SBOP, OBC, LIC	July 1, 2006	15.01	September 27, 2006 / Sepember 27, 2006 / July 12, 2006 / September 27, 2006 / September 26, 2006
IDBI, VBL, SBOP, OBC, LIC	August 1, 2006	15.74	October 26, 2006 / October 26, 2006 / August 18, 2006 / October 26, 2006 / October 27, 2006
IDBI, VBL, SBOP, OBC, LIC	September 1, 2006	15.81	September 7, 2006 / November 7, 2006 / November 9,2006 / November 20, 2006 / November 23, 2006
IDBI, VBL, SBOP, OBC, LIC	October 1, 2006	15.72	December 26, 2006 / December 16, 2006 / October 14, 2006 / December 16, 2006 / December 18, 2006
IDBI, VBL, SBOP, OBC, LIC	November 1, 2006	15.81	January 25, 2007 / January 27, 2007 / November 7, 2006 / January 24, 2007 / January 24, 2007
IDBI, VBL, SBOP, OBC, LIC	December 1, 2006	15.31	December 7, 2006 / February 21, 2007 / February 22, 2007 / February 23, 2007 / February 24, 2007
IDBI, VBL, SBOP, OBC, LIC	January 1, 2007	15.81	January 13, 2007 / March 22, 2007 / March 23, 2007 / March 24, 2007 / March 25, 2007
IDBI, VBL, SBOP, OBC, LIC	February 1, 2007	15.82	April 26, 2007 / April 26, 2007 / February 13, 2007 / April 27, 2007 / April 25, 2007
IDBI, VBL, SBOP, OBC, LIC	March 1, 2007	14.38	May 23, 2007 / May 23, 2007 / March 10, 2007 / May 23, 2007 / May 21, 2007
IDBI, VBL, OBC, LIC	April 1, 2007	18.90	May 23, 2007 / May 23, 2007 / May 23, 2007 / May 21, 2007

Due to the delays above, the Company has paid Rs 4.43 million and accrued Rs- 2.46 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 the Company has used for *short-term funds amounting to Rs. 62,000,000 for purchase of fixed assets.*
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 previous years -for 7,551,178 Zero per cent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each.
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.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Place: Gurgaon
Date: June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place: New Delhi
Date: June 12, 2007

HFCL INFOTEL LIMITED

BALANCE SHEET AS AT MARCH 31, 2007

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

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
			Schedule 22, Note 23
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	880,541,768	874,991,394
Reserves and Surplus	3	159,894,077	159,894,077
		6,945,607,365	**6,940,056,991**
Loan Funds			
Secured Loans	4	6,263,152,090	6,243,160,372
Unsecured Loans	5	762,708,541	666,712,211
		7,025,860,631	**6,909,872,583**
		13,971,467,996	**13,849,929,574**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		9,026,056,715	8,601,513,150
Less: Accumulated Depreciation		(3,786,093,632)	(3,038,111,512)
Net Block		**5,239,963,083**	**5,563,401,638**
Capital Work-In-Progress (Includes capital advances for Rs 3,526,218 (2006 - Rs 5,777,267)		141,356,097	236,690,319
		5,381,319,180	**5,800,091,957**
Intangible Assets, net	7	**1,460,291,666**	**1,597,650,428**
Investments	8	**808,170,900**	**753,170,900**
Current Assets, Loans and Advances			
Sundry Debtors	9	403,010,617	405,910,460
Cash and Bank Balances	10	119,917,712	118,781,818
Other Current Assets	11	5,418,441	17,972,277
Loans and Advances	12	83,949,072	95,997,040
		612,295,842	**638,661,595**
Less: Current Liabilities and Provisions	13		
Current Liabilities		2,000,399,044	1,493,377,984
Provisions		15,875,655	8,675,904
		2,016,274,699	**1,502,053,888**
Net Current Liabilities		**1,403,978,857**	**863,392,293**
Profit & Loss Account		7,725,665,107	6,562,408,582
		13,971,467,996	**13,849,929,574**
Significant Accounting Polices	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.

For S.R. BATLIBOI & ASSOCIATES	ATUL KULSHRESTHA & CO.	For and on behalf of the Board	
Chartered Accountants	**Chartered Accountants**		
per Prashant Singhal	**per Anil Kumar Aggarwal**	**Mahendra Nahata**	**M. P. Shukla**
Partner	**Partner**	Director	Director
Membership No. 93283	Membership No: 91720		
		Surendra Lunia	**S.Prabhakar**
Place : Gurgaon	Place : New Delhi	Chief Executive Officer	Company Secretary &
Date : June 12, 2007	Date : June 12, 2007		Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
INCOME			
Service Revenue	**14**	2,758,993,605	2,918,898,214
Other Income	**15**	6,347,093	11,473,277
		2,765,340,698	**2,930,371,491**
EXPENDITURE			
Network Operation Expenditure	**16**	1,154,848,754	1,257,757,910
Personnel Expenditure	**17**	461,677,452	383,424,273
Sales and Marketing Expenditure	**18**	131,114,102	125,755,983
Administrative and Other Expenditure	**19**	467,507,969	400,731,753
		2,215,148,277	**2,167,669,919**
Operating Profit before Finance Charges, Depreciation, Amortization and Loss on Sold / Discarded Fixed Assets		550,192,421	762,701,572
Loss on Sold / Discarded Fixed Assets		28,358,867	188,814,488
Finance Charges	**20**	635,134,517	599,843,429
Depreciation	**6**	868,531,886	919,332,871
Amortisation	**7**	153,275,592	170,798,382
Loss for the year before Prior Period Expenditure and Tax		**1,135,108,441**	**1,116,087,598**
Prior Period Expenditure (Net)	**22 Note 21**	21,838,478	9,471,974
Loss for the year before Tax		**1,156,946,919**	**1,125,559,572**
Provision for Taxation			
Earlier years	**22 Note 13**	-	(1,561,832)
Fringe Benefit Tax		6,309,606	6,369,551
Loss for the year		**1,163,256,525**	**1,130,367,291**
Loss, brought forward from previous year		**6,562,408,582**	**5,432,041,291**
Loss carried to the Balance Sheet		**7,725,665,107**	**6,562,408,582**
Loss per share (equity shares, par value of Rs 10 each)			
Basic (in Rs)	**22 Note 15**	2.21	2.15
Diluted (in Rs)		2.21	2.15
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	525,517,152
Diluted		525,517,152	525,517,152
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.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants
per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
Schedule 1: Share Capital [See Schedule 22, Note 7]		
Authorised:		
1,300,000,000 (2006 - 1,300,000,000) equity shares of Rs 10 each (2006 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (2006 - 20,000,000) preference shares of Rs 100 each (2006 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	**15,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2006 - 525,517,152) equity shares of Rs 10 each (2006 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (2006 - 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 (2006 - 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 (2006 - 325,705,000) 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 as per provisions of applicable law.

(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 (2006 - 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 TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 2: Advance Against Share Application Money [See Schedule 22, Note 8]		
Advance Against Equity Share Application Money	880,541,768	874,991,394
	880,541,768	**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	9,523,145	84,038,460
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	-	74,515,315
	9,523,145	**9,523,145**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	159,894,077	**159,894,077**

(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) During the year 2006 in accordance with the CDR Scheme [See Schedule 21, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the securities 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	32,532,983	22,834,373
Vehicle loans	13,392,651	10,731,960
Bank overdraft	167,226,456	159,594,039
	6,263,152,090	**6,243,160,372**
Amounts repayable within a year -Vehicle Loan	6,937,979	5,305,011
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)	527,470,715	495,998,369
Short-term loan (Loan from HFCL Internet Services Limited)	62,000,000	-
Interest accrued & due on short term loan	2,523,984	-
	762,708,541	**666,712,211**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS
SCHEDULE 6: FIXED ASSETS

(Amount in Rs.)

Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1,2006	Additions For the year	Sale/ Adjustment For the year	As at March31,2007	As at April 1,2006	For the year	On Sale/ Adjustment	As at March 31,2007	As at March 31,2007	As at March 31,2006
Freehold Land	16,142,623	-	-	16,142,623	-	-	-	-	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	648,697	92,161	-	740,858	8,155,561	8,247,722
Building	184,832,610	4,161,949	-	188,994,559	18,825,978	3,519,623	-	22,345,601	166,648,958	166,006,632
Leasehold Improvements	86,022,278	2,015,780	-	88,038,058	35,232,321	9,221,419	-	44,453,740	43,584,318	50,789,957
Network Equipment	2,987,887,704	196,188,007	(1,977,666)	3,182,098,045	1,158,409,542	347,499,907	(913,732)	1,504,995,717	1,677,102,328	1,829,478,162
Optical Fibre Cable and Copper Cable	4,132,047,057	139,930,017	-	4,271,977,074	1,181,351,230	289,756,744	-	1,471,107,974	2,800,869,100	2,950,695,827
Telephone Instruments at Customers Premises	877,608,561	189,851,621	(128,420,426)	939,039,756	490,600,502	172,131,424	(115,422,531)	547,309,395	391,730,361	387,008,059
Computers	199,830,059	13,314,411	(1,895,556)	211,248,914	100,270,143	31,621,705	(1,562,467)	130,329,381	80,919,533	99,559,916
Office Equipment	41,097,789	3,738,419	(1,364,743)	43,471,465	15,468,605	4,835,764	(451,537)	19,852,832	23,618,633	25,629,184
Furniture & Fixture	38,060,864	1,444,065	(113,725)	39,391,204	23,119,312	3,744,624	(54,233)	26,809,703	12,581,501	14,941,552
Vehicles	29,087,186	12,172,615	(4,501,203)	36,758,598	14,185,182	6,108,516	(2,145,266)	18,148,431	18,610,167	14,902,004
	8,601,513,150	**562,816,884**	**(138,273,319)**	**9,026,056,715**	**3,038,111,512**	**868,531,886**	**(120,549,766)**	**3,786,093,632**	**5,239,963,083**	**5,563,401,638**
Previous Year	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

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at April 1,2006	Additions For the year	Sale/ Adjustment For the year	As at March31,2007	As at April 1,2006	For the year	On Sale/ Adjustment	As at March 31,2007	As at March 31,2007	As at March 31,2006
Computer Software	138,511,553	15,916,830	-	154,428,383	106,428,841	17,220,302	-	123,649,143	30,779,240	32,082,712
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	787,090,887	136,055,290	-	923,146,177	1,429,512,426	1,565,567,716
	2,491,170,156	**15,916,830**	**-**	**2,507,086,986**	**893,519,728**	**153,275,592**	**-**	**1,046,795,320**	**1,460,291,666**	**1,597,650,428**
Previous Year	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

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 8 : INVESTMENTS (Non Trade - Long Term) [See Schedule 22, Note 12]		
Subsidiary company		
Long Term (at cost)		
Unquoted		
3,550,000 [2006 - 50,000] equity shares of Rs 10 each fully paid in Connect Broadband Services Limited ('CBSL')	35,500,000	500,000
Advance Against Share Application Money in Connect Broadband Services Limited ('CBSL')	55,000,000	35,000,000
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2006 - 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 [2006 - 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
	808,170,900	753,170,900

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 connected services . During the year 3,500,000 shares of Rs 10 each at par has been allotted by CBSL.

(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, 2007

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

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

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 9: Sundry Debtors		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	5,373,924	8,331,361
Unsecured and Considered Good	5,102,880	2,594,928
Unsecured and Considered Doubtful	88,778,602	56,089,243
Debts outstanding for a period less than six months:		
Secured and Considered Good	13,172,457	39,227,042
Unsecured and Considered Good	379,361,356	355,757,129
Unsecured and Considered Doubtful	36,748,929	31,553,566
	528,538,148	493,553,269
Less: Provision for Doubtful Debts	125,527,531	87,642,809
	403,010,617	**405,910,460**

Notes:

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

b) Includes Rs 128,624,731 (2006 - Rs 155,219,454) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2007 [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 4,539,954 (2006 - Rs 9,330,004)

Maximum amount outstanding during the year Rs 9,330,004 (2006 - Rs 9,330,004).

SCHEDULE 10: Cash and Bank Balances		
Cash in Hand	855,436	1,457,395
Cheques in Hand	10,043,709	8,033,776
Balances with Scheduled Banks		
In Current Account	30,036,984	35,357,653
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 77,068,875, (2006 - Rs. 71,886,014)]	77,068,875	71,886,014
In Escrow Account [See note below]	1,912,708	2,046,980
	119,917,712	**118,781,818**

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	5,418,441	2,279,457
Assets held for sale [See Schedule 22, Note 11(d)]	-	15,692,820
	5,418,441	17,972,277

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (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	29,475,264	27,752,540
Considered Doubtful [See Schedule 22, Note 1(f)]	134,859,908	134,859,908
Due from Connect Broadband Services Ltd - Wholly owned Subsidiary (Maximum outstanding balance during the year Rs 43,814,174, 2006 - Rs 39,437,103)	4,460,009	3,256,350
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999, 2006 - 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, 2006 - Rs 119,784)	119,784	119,784
Security Deposits		
Considered Good	19,547,921	15,503,916
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	5,421,667	8,577,206
Balance with Customs and Excise	23,774,428	39,637,245
	220,020,245	**232,068,213**
Less: Provision for Doubtful Advances	136,071,173	136,071,173
	83,949,072	**95,997,040**
Notes:		
Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 650,000, 2006 - Rs 800,000)	500,000	650,000
Other Advances (Maximum amount outstanding during the year Rs 963,737, 2006 - Rs 638,266)	93,573	31,046

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 13: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors [See Schedule 22, Note 14]		
Capital Goods	239,176,512	260,795,455
Expenses	118,777,893	80,509,248
Interconnection Usage Charges ('IUC') payable to other operators	153,007,910	125,516,470
Expenses Payable	187,089,552	151,374,944
Book Overdraft	26,231,655	11,151,491
Advance Against Booking	777,830	1,722,020
Advance From Customers and Unaccrued Income***	184,531,853	142,361,732
Security Deposits		
From Subscribers	154,552,466	185,116,714
From Others	23,574,873	24,940,819
Investor Education and Protection Fund*		
Unclaimed Dividends	520,779	568,549
Unclaimed Deposits from Public	850,649	1,058,574
Interest accrued and due on Public Deposits	115,496	146,323
Other Liabilities	129,364,971	107,747,426
Provision for interest**	781,826,605	400,368,219
	2,000,399,044	**1,493,377,984**

* 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 762,300,000 (2006 - Rs 381,150,000) as to be adjusted over a period of from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs 15,216,844 (2006 - Rs 15,529,298) and interest accrued but not due on unsecured loan amounting to Rs 4,309,761 (2006 - Rs 3,688,921)

*** Includes Rs. 163,180,267 pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which ranges from year 2004 to 2019.

Provisions		
Wealth Tax	37,175	27,254
Leave Encashment / Availment	9,327,742	4,858,401
Gratuity	6,510,738	3,790,249
	15,875,655	**8,675,904**
	2,016,274,699	**1,502,053,888**

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 (2006 - 523,617) towards repayment of public deposits under the NBFC CoR [See Schedule 22, Note 19]

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 14: Service Revenue		
Revenue		
From Unified Access Services	2,240,915,825	2,520,287,328
From Interconnection Usage Charge	168,918,924	176,266,535
From Infrastructure Services	38,935,188	55,961,133
From Internet Services	310,223,668	166,383,218
	2,758,993,605	**2,918,898,214**
SCHEDULE 15: Other Income		
Interest Income [Gross of tax deducted at source - Rs Nil (2006 - Rs 72,771)]	4,391,094	2,955,879
Excess Provision written back	443,733	5,323,739
Miscellaneous Income	1,512,266	3,193,659
	6,347,093	**11,473,277**
SCHEDULE 16: Network Operation Expenditure*		
Interconnect Usage Charges	651,412,560	798,136,479
Other Value Added Service charges	4,175,815	7,090,737
Port Charges	29,559,179	31,173,841
Testing and Technical Survey Expenses	177,000	556,000
Licence Fees on Revenue Share Basis	146,740,536	158,083,947
Royalty and licence fees to Wireless Planning Commission	14,731,151	14,873,867
Stores and Spares Consumed	70,512,507	45,209,861
Rent	35,736,097	31,809,458
Electricity and Water	52,357,540	45,112,478
Security Charges	3,241,021	3,865,789
Repair & Maintenance - Network	87,533,586	75,218,375
Bandwidth Charges	58,671,762	46,627,078
	1,154,848,754	**1,257,757,910**
SCHEDULE 17: Personnel Expenditure*		
Salaries, Wages and Bonus	417,226,703	335,168,831
Employer's Contribution to Provident and Other Funds	17,432,070	16,739,207
Staff Welfare Expenses	14,796,820	18,592,099
Recruitment & Training Expenses	12,221,859	12,924,136
	461,677,452	**383,424,273**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS		AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 18: Sales and Marketing Expenditure			
Sales and Business Promotion		9,047,335	13,625,093
Advertisement Expenses		42,777,210	29,006,279
Customers Acquisition Costs		79,289,557	83,124,611
		131,114,102	**125,755,983**
SCHEDULE 19: Administrative and Other Expenditure*			
Legal and Professional Expenses		25,256,609	37,215,256
Travelling and Conveyance		59,077,528	55,304,233
Communication Expenses		6,458,175	6,232,199
Rent		20,241,301	17,973,955
Security Charges		3,239,338	3,657,371
Repairs and Maintenance - Building		1,445,243	1,765,842
Repairs and Maintenance - Others		12,791,627	10,137,578
Electricity and Water		13,557,993	13,759,190
Insurance		6,375,005	6,539,066
Rates and Taxes		5,742,569	14,444,436
Freight & Cartage		6,870,889	7,918,123
Printing and Stationary		6,850,326	6,685,831
Billing and Collection Expenses		65,907,866	53,695,073
Software Expenses		14,877	111,214
Directors' Fees		335,200	420,000
Bad Debts Written off		177,956,896	110,568,247
Provision for Doubtful Debts	63,634,010		
Less: Transferred to Bad Debts Written off	(13,126,749)	50,507,261	50,367,393
Wealth Tax		37,175	27,254
Miscellaneous Expenses		4,842,091	3,909,492
		467,507,969	**400,731,753**
SCHEDULE 20: Finance Charges*			
Interest on Term Loans**		591,494,812	571,529,986
Interest to Others		30,617,856	14,752,211
Bank Guarantee Commission		7,583,444	5,948,043
Trustees Fee		1,000,000	1,000,000
Other Finance Charges		4,438,405	6,613,189
		635,134,517	**599,843,429**

* 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 0.96 million, Rs 10.15 million, Rs 2.49 million, Rs 15.41 million, Rs 3.45 million, Rs 0.31 million, Rs 0.19 million and Rs 6.00 million, respectively.

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 381,150,000 (2006 - Rs 381,150,000) 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, 2007

[All amounts in Indian Rupees, except share data 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, 2007, 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 Hon' able 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 previous 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 was rescheduled and will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, secured OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD were to 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.

During the year, the Company has incurred losses of Rs 1,163.26 million resulting into accumulated loss of Rs 7,725.67 million as at March 31, 2007 which has substantially eroded its net worth and has a net current liability of Rs 1,403.98 million including capital liability of Rs 239.17 million and subscriber security deposits of Rs 154.55 million (after considering provision for interest amounting to Rs 762,300,000 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, 2007, the Company has arranged Rs 13,547 million and is in advanced stage of discussions for the arrangement of Rs 1,923 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 substantially dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. 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. 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 (other than Telephone Instruments)	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 Adjusted Gross Revenue ('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.

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 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 / Availment

Liability for leave encashment / availment 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.

Liability for sick leave 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.

During the quarterly reporting the Company for the purpose of computation of its liability for gratuity and leave encashment had adopted the Accounting Standard 15 ('AS- 15 Revised'). However, in view of the deferment of AS-15 Revised to the next financial year, the Company has computed its actuarial liability for leave encashment and gratuity as per the existing applicable accounting standard.

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 supported by convincing evidence 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 or virtually certain, as the case may be 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 primary reporting of the Company has been performed on the basis of business segments. The Company has 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. 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, 2007

[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	2007	2006
I.	**Estimated Value of Contracts remaining** To be executed on capital account and not provided for net of capital advances Rs. 3,526,218 (2006- Rs 5,777,267)	72,984,777	108,056,869
II.	**Contingent Liabilities and Commitments**		
	Financial Bank Guarantees (refer Note (a) below)	266,944,632	205,037,159
	Performance Bank Guarantees (refer Note (a) below)	56,357,806	63,555,392
	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.6,305,000 (2006-Rs 8,280,000)	56,034,579	73,166,895
IV.	**Income-tax matters under Appeal** (refer Note (b) below)	38,873,322	41,865,920
V.	**Claims against the Company not acknowledged as debts –** mainly representing various miscellaneous claims filed on the Company which are subject matter of litigation	4,973,508	4,966,675
VI.	**Others**(refer Note (c, d and e) below)	282,131,197	29,585,211
	Total	**5,930,315,044**	**5,751,234,121**

(a) Financial bank guarantees as at March 31, 2007 of Rs 266.94 million (2006 — Rs 204.36 million) and performance bank guarantees of Rs 56.36 million (2006 — Rs 63.55 million) are secured. The details of security created are 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 2001-02 aggregating to Rs 8.47 million and interest tax related matters for the Assessment Year 1993-94 to 1997-98 aggregating to Rs 30.39 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).

(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 Wireless Finance Division of Department of Telecommunications has subsequently claimed Rs 39.31 million vide letter number 1020/48/2005-WFD dated September 13, 2006 towards the Spectrum Charges dues from year 2001 to year 2006. The Company has submitted a detailed reply on October 31, 2006. Based on the legal opinion obtained, the Company is confident that no liability would accrue regarding the same in future.

(d) During the year, Bharat Sanchar Nigam Limited ('BSNL') has raised supplementary bill dated August 10, 2006 for Rs 167.61 million towards Inter-connect Usage Charges ('IUC') and Access Deficit Charges ('ADC') for the period November 11, 2004 to August 31, 2005 on the Company in accordance with HQ Letter No. 460-1/2006-REGLN dated May 22, 2006. These charges are on account of unilateral declaration of Company's Fixed Wireless Phone services as Limited Mobility Services by BSNL. The Company has submitted its reply to BSNL on August 23, 2006 asking for the calculation/basis for the additional amount raised towards IUC and ADC by BSNL. Subsequently, BSNL issued a disconnection notice on August 26, 2006 which required the payment of Rs 208.24 million (including Rs 167.61 million). The Company has submitted details to BSNL for payments already made for Rs 40.63 million. The Company has approached Hon'ble TDSAT on the subject matter and a stay order was granted against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JL/HFCL/75 dated March 20, 2007 for Rs 5.20 million to which the Company has submitted its reply on March 23, 2007 intimating that the matter being sub-judicious and pending decision by the Hon'ble TDSAT no coercive action be taken against the Company. The subsequent hearing has been adjourned to July 4, 2007. The Company, based on expert legal opinion, believes that there would be no financial liability against such bills and accordingly, has not recorded any liability towards the IUC and ADC supplementary bills during the year.

(e) The Company is in receipt of Show Cause Notice dated June 4, 2007 from Department of Telecommunications (‘DoT’) for non fulfilment of first year’s roll-out obligations of Unified Access Service License (‘UASL’) Agreement for Punjab Service Area, where in the licensee as per the terms of the license agreement was required to ensure that at least 10% of the District Headquarter / Towns are covered in the first year of the date of migration to USAL which commences from the date of Test Certificate issued by Telecom Engineering Centre (‘TEC’). As stated by DoT in the Show Cause Notice issued, the Company has violated the conditions of UASL and accordingly Liquidated Damages of Rs 70 million has been imposed and have also sought explanation within 21 days as to why DoT should not take action against the Company under the UASL Agreement. The Company, based on expert legal advice believes that there would be no financial liability against such claims of DoT and accordingly, has not recorded any liability towards the Liquidated Damages during the year.

(f) Loans and advances include amounts recoverable from Essar Investments Limited (‘EIL’) aggregating to Rs 134.07 million. The Company had made payments in earlier years to EIL for takeover of certain accounted 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 subsequent date of hearing is fixed for June 25, 2007. 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)

	2007	**2006**
Travel expenses [include expenses transferred to CBSL Rs 8,335,092 (2006 – 3,212,214)]	8,995,817	4,051,228
Finance charges [include expenses transferred to CBSL Rs 5,996,298 (2006 – 6,493,731)]	28,421,639	13,534,623
Others	203,619	454,014
Total	**37,621,075**	**18,039,865**

3. **Managerial remuneration**

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

	2007	**2006**
Salary	2,031,000	1,728,000
Employer’s contribution to provident fund	243,720	207,360
Perquisites / Allowances	3,351,797	2,655,063
Ex-gratia / Performance linked incentive	1,112,832	693,500
Total	**6,739,349**	**5,283,923**

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 (excluding service tax)**

	2007	**2006**
Audit fees	2,000,000	2,000,000
Tax audit fee	325,000	220,000
Other services	250,000	2,000,000
Reimbursement of out-of-pocket expenses	249,672	1,001,229
Total	**2,824,672**	**5,221,229**

5. CIF value of imports

	2007	2006
Import of capital equipment (other than telephone instruments)	114,609,464	384,981,731
Import of telephone instruments	56,368,183	113,543,885
Others	8,905,277	1,645,980
Total	**179,882,924**	**500,171,596**

6. Consumption of Stores & Spares

	2007		2006	
	Value	%	Value	%
Indigenous	62,685,516	88.90	44,199,269	97.76
Imported	7,826,991	11.10	1,010,591	2.24
Total	**70,512,507**	**100.00**	**45,209,860**	**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 complied with all the necessary requirements for delisting and submitted its application in CSE. Despite repeated reminders, the Company has not yet received CSE's approval in this regard.

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 Company and BSE has reached to a settlement under the order of Security Appellate Tribunal ('SAT') dated October 17, 2005 whereby the Company has agreed to undertake a public offer for sale ('OFS') of 8,000,000 shares i.e. 1.52% of the total share capital, held by the promoter. Accordingly, 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 awaiting SEBI clearance.

8. Advance Against Share Application Money

As per the restructuring package approved under CDR mechanism, 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 had transferred OFCDs of Rs 755.12 million and OFCDs premium of Rs 119.87 million to Advance Against Equity Share Application Money on March 31,2006. During the year the Company has further transferred Rs 5.55 million including OFCD premium of Rs 0.75 million to Advance Against Equity Share Application Money which pertained to differential interest due to monthly vis-à-vis quarterly compounding in respect of term loan from a scheduled bank. Pending clarification on conversion price of such OFCDs (including premium) from SEBI, the Company is to allot equity shares in lieu of Advance Against Equity Share Application Money. The Company has sought advise from SEBI under informal guidance route and at the same time requested its lenders to submit legal opinion in the matter.

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 restructuring 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. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the Company has entered into amendatory Master Restructuring Agreement and Amendatory Security Trusteeship Agreement ('STA') on March 9, 2006, whereby Centurion Bank of Punjab has also joined as one of the lenders and has agreed to appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

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 13.39 million (2006 – Rs 10.73 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 2010. Vehicle loans repayable within one-year amounts to Rs 6.94 million. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan is 36 months.

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, 2007 (2006 – 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, 2007, the Company has utilized Rs 527.47 million (US$ 12.06 million) of this facility. The facility is secured by financial Bank guarantee of Rs 108.82 million and by a Corporate Guarantee of Rs 544.13 million given by HFCL, the Holding Company, on pari passu basis with other lenders.

(d) The Company in terms of the agreement dated April 4, 2006 has taken loan amounting to Rs 62.00 million (outstanding at year end Rs 62.00 million, previous year Rs Nil) from HFCL Internet Services Limited. The loan carries 12% interest and is repayable within the next one year.

11. Fixed Assets and Capital Work-In-Progress

(a) Capital Work in Progress includes Goods in Transit of Rs 14.30 million (2006 - Rs 10.07 million).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange gain of Rs 15.42 million, (2006 – foreign exchange loss of Rs 8.84 million).

(c) As on March 31, 2007, telephone instruments aggregating to a net book value of Rs 317.22 million (2006 – Rs 345.18 million) and other assets aggregating to net book value of Rs 29.44 million (2006 – Rs 12.36 million) are located at customer premises and at other operators sites, respectively.

(d) During the previous year, the Company had revised the economic useful life of CDMA based wireless network equipment and accordingly these assets were valued, based on part of the assets sold in the current year. Accordingly the Company was carrying, an amount of Rs 15.69 million as Assets held for Sale as on March 31, 2006. During the year the Company has sold part of the equipment and realized Rs 4.48 million. The Company feels that the remaining assets would not be redeployed as therefore believes that the assets would not realise its carrying value. Accordingly, these assets with a carrying cost of Rs 11.21 million have been written off during the year.

12. Investments

(a) As more fully discussed in note 1(a) of schedule 21, the amalgamated balance sheet of the Company included investments of Rs 717.67 million (Rs 18 million as equity and Rs 699.67 million as unsecured OFCD redeemable in 10 years from the year 2002-03) in an associate company, The Investment Trust of India Limited ('ITI'). ITI, a non-banking finance company, earned a net loss of Rs 92.06 million for the year ended March 31, 2007 and has a negative net worth of Rs 13.22 million as on March 31, 2007. The Auditor's of ITI in their audit report dated May 25, 2007 has qualified the ability of ITI to continue as going concern which depends on it's ability to generate income on their Investment Business Segment. The management of ITI, is however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of these long-term investments.

(b) During the year, 3,500,000 shares of Rs 10 each at par has been allotted by CBSL against the amounts standing as Advance Against Share Application Money and is disclosed as an Investment.

During the year, the Company has further incurred certain cost for its subsidiary, CBSL amounting to Rs 56.20 million out of which Rs 55 million has been converted as contribution towards Advance Against Equity Share Capital of CBSL and is disclosed as an investment.

CBSL has incurred a loss of Rs 55.82 million for the year ended March 31, 2007 and has a negative net worth of Rs 53.42 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 1,163.26 million (accumulated losses of Rs 7,725.67 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 Micro, Small Scale Industrial Undertakings ('SSI') and Small and Medium Enterprises ('SME') as at March 31, 2007 of Rs Nil (2006 — 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.

	2007	2006
Loss for the year (in Rs)	1,163,256,525	1,130,367,291
Weighted average number of shares	525,517,152	525,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share – basic and diluted (in Rs)	2.21	2.15

16. Operating leases

Company as a Lessee

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2007 is Rs 55.98 million aggregated (March 31, 2006 — Rs 49.78 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 4.15 million (2006 – Rs 2.84 million) towards site sharing cost.

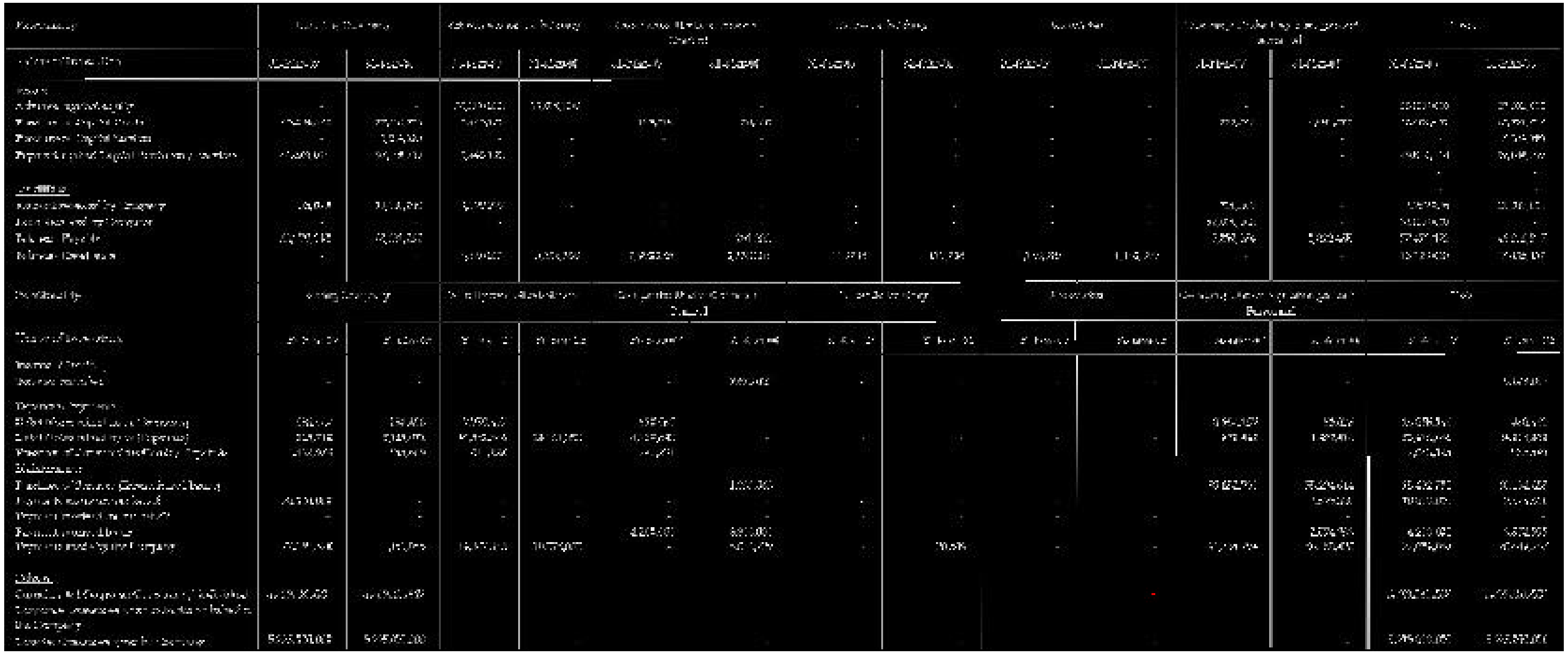
Company as a Lessor

(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 8.39 million (2006 – Rs 1.35 million) towards site sharing revenue.

17. Segmental Reporting

The primary reporting of the Company has been performed on the basis of business segments. The Company has 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 transactions



a. Disclosure of Material Transactions with Related Parties

HFCL Satellite Communication Limited

· Payments received by the company Rs 4,200,000 (2006-Rs 68,000,000) and debit notes raised by the company Rs 4,139,840 (2006- Rs 9,651,862).

· Balance receivable is Rs 8,679,794 (2006- Rs 9,330,004).

Himachal Exicom Communications Limited

· Purchase of capital goods by the Company Rs 185,518 (2006- Rs 78,665), purchase of consumables / services Rs 237,321 (2006- Rs 187,340) and payments made by the Company Rs Nil (2006- Rs 3,330,933).

· Balance payable is Rs 680,558 (2006- Rs 261,800).

Microwave Communication Limited

· Purchase of Services by the Company of Rs Nil (2006- Rs 1,712,529) and payment made by the Company of Rs Nil (2006- Rs 1,685,304).

Advances given to Key Managerial Personnel (Chief Executive Officer)

Interest Free Housing loan Rs 500,000 (2006 – 650,000), other advances Rs 93,573 (2006 – Rs 31,046)

- 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, 2007 (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, India Card Technology Pvt. Ltd., Moneta Finance Pvt. Ltd.

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 21, 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	850,649
• Interest accrued and due on public deposits upto September 15, 2003	Rs	115,496
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs	403,834
• Cheques outstanding beyond 6 months	Rs	523,617
• Others (Under reconciliation)	Rs	19,112
	Rs	**1,912,708**
Balances with Scheduled banks in Escrow account	**Rs**	**1,912,708**

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 are to be credited out of the profits of each year until such debentures are redeemed.

During the year, the Company has incurred loss of Rs 1,163.26 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	2007	2006
Customers Acquistion Costs	39,936	87,765
Legal & Professional Charges	-	46,200
Communication Expenses	-	12,889
Staff Welfare	-	21,314
Repair & Maintenance - Network	-	3,644,810
Interest on Term Loans	-	5,550,374
Interconnect Usage Charges	-	392,562
Revenue from Unified Access Services	-	(284,178)
Travelling and Conveyance	864,439	5,464
Miscellaneous Income	-	(5,226)
Intertest to Others	365,427	
Fringe Benefit Tax	307,639	
Sick Leave	1,598,942	
Licence Fee on Revenue Share Basis	17,860,705	
Royalty and licence fees to Wireless planning Commission	513,684	
Rent	287,706	
Total	**21,838,478**	**9,471,974**

22. The Company is primarily engaged in the business of providing telecommunication services. The production and sale of such software is not capable of being expressed in any generic unit. Hence, other information pursuant to the provisions of the paragraph 3, 4C and 4D of Part II Schedule VI of the Companies Act, 1956 are not applicable to the Company

23. 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
per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,156,946,919)	(1,125,559,572)
Adjustments for:		
Depreciation and Amortisation	1,021,807,478	1,090,131,252
Prior Period Expense / (Income) (Net)	21,838,478	9,471,974
Excess Provision Written Back	(443,733)	(5,323,739)
Loss on Sold / Discarded Fixed Assets	28,358,867	188,814,489
Bad Debts Writen Off	177,956,896	110,568,247
Provision for Doubtful Debts	50,507,261	50,367,393
Finance Expenses *	635,134,517	599,843,428
Interest Income	(4,391,094)	(2,955,879)
Operating profit before working capital changes	**773,821,751**	**915,357,593**
Movement in working capital:		
(Increase) / Decrease in debtors	(225,564,315)	(270,860,602)
(Increase) / Decrease in Loans and advances	8,892,430	3,543,472
Increase / (Decrease) in Current liabilites and provisions	155,111,622	209,490,185
Cash generated from operations	**712,261,488**	**857,530,648**
Direct Taxes paid (Net)	(3,191,242)	(1,876,540)
Prior Period Expense / (Income) (Net)	(21,838,478)	(9,471,974)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**687,231,768**	**846,182,134**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(505,018,435)	(1,219,137,585)
Proceeds from sale of fixed assets	5,057,506	2,147,185
Purchase of investments in Equity Share Capital	(55,000,000)	(35,000,000)
Purchase of investments in fixed deposits	(5,182,860)	(37,683,230)
Wealth tax	37,175	27,254
Interest Received	1,252,110	921,241
NET CASH USED IN INVESTING ACTIVITIES (B)	**(558,854,504)**	**(1,288,725,135)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	18,098,388	99,970,635
Repayment to Secured Loan	(7,805,281)	(6,903,281)
Repayment of Public Deposits	(207,925)	(682,025)
Proceeds from Unsecured loan	93,472,346	495,998,369
Interest paid	(235,933,989)	(176,727,308)
Dividend paid	(47,770)	(166,611)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**(132,424,230)**	**411,489,779**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**(4,046,966)**	**(31,053,222)**
Cash and Cash Equivalents at the beginning of the year	46,895,804	77,949,025
Cash and Cash Equivalents at the end of the year	**42,848,837**	**46,895,804**

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 yeild basis amounting to Rs 381,150,000 (2006 - Rs 381,150,000) 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 :

	2007	2006
Cash in Hand	855,436	1,457,395
Cheques in Hand	10,043,709	8,033,776
Balances with Scheduled Banks		
- In Current Account	30,036,984	35,357,653
- In Escrow Account	1,912,708	2,046,980
	42,848,837	**46,895,804**

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

S.R.BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board Directors

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

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, 2007
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	8,262,077,588
	Total Assets	8,262,077,588
	SOURCE OF FUNDS	
	Shareholders' Funds	6,785,713,288
	Reserves & Surplus	159,894,077
	Secured Loans	6,263,152,090
	Unsecured Loans	762,708,541
	APPLICATION OF FUNDS	
	Net Fixed Assets	
	(Including Intangible Asset)	6,841,610,846
	Accumulated Losses	7,725,665,107
	Investments	808,170,900
	Net Current Liabilities	1,403,978,857
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,765,340,698
	Total Expenditure	3,922,287,617
	Profit / (Loss) Before Tax	(1,156,946,919)
	Profit / (Loss) After Tax	(1,163,256,525)
	Earning Per Share	(2.21)
	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

Place : New Delhi
Date : June 12, 2007

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Auditors' Report

To

The Board of Directors of HFCL INFOTEL LIMITED

1. We have audited the attached the consolidated Balance Sheet of HFCL Infotel Limited ('the Company'), its subsidiary Connect Broadband Services limited and its associate The Investment Trust of India Limited (together referred to as "the Group") as described in Schedule 22, Note 1(a), as at March 31, 2007, and also the consolidated Profit and Loss Account and consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We have 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 1,284.26 million during the year and accumulated loss of Rs 7,832.59 million resulting into erosion of its net-worth, and has a net current liability of Rs 1,402.46 million (after considering provision for interest amounting to Rs 762.30 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, 2007. The Group has achieved profitability at the 'Earnings before interest and depreciation / amortisation' level, and is also able to generate cash from operations since previous financial year. The ability of the Group to continue as a going concern is significantly 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 and to substantially increase its subscriber base. The management of the Company in view of its business plans is confident of generating cash flows and 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. *Attention is invited to Note 8 of Schedule 23 of the financial statements regarding Company's investment of Rs 699.67 million in the Investment Trust of India Limited ('ITI'). ITI has incurred a net loss of Rs 92.52 million and has a negative net worth of Rs 13.22 million as on March 31, 2007. The Auditor's of ITI has in their audit report dated May 25, 2007qualified ability of ITI to continue as going concern which depends on its ability to generate income on their Investment Business Segment. The management of ITI is, however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of the investments. Considering the uncertainty involved in the generation of income on investments, we are unable to comment on the carrying value or the realisability of such investments and thereby its impact on the consolidated loss for the year.*

5. We did not audit the financial statements of The Investment Trust of India Limited, whose financial statements reflect the total assets of Rs 921.21 million as at March 31, 2007 and the loss for the year of Rs 92.52 million (which represent 1.18 % of 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 amount included in respect of the associate, is based solely on the report of the other auditors .

6. We did not audit the financial statements of Connect Broadband Services Limited, whose financial statements reflect the total assets of Rs 35.50 million (which represents 0.25% of consolidated assets) as at March 31, 2007. These financial statements have been audited by other auditor whose report has been furnished to us. In our opinion insofar as it relates to the amount included in respect to the subsidiary is based solely on the report of other auditors.

7. We report that the consolidated financial statements have been prepared by the Group in accordance with the requirement of Accounting Standard (AS) 21, Consolidated Financial Statements, Accounting Standard (AS) 23, Accounting for Investment in Associates in Consolidated Financial Statements, issued by Institute of Chartered Accountants of India and on the basis of separate financial statements of the ITI and CBSL included in the consolidated financial statements.

8. *Subject to matters stated in paragraph 4 above, consequential effect of whereof is not ascertainable,* in our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statement give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the consolidated balance sheet, of the state of affairs of the Group as at March 31, 2007;

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

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2007
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs)
			Schedule 23, Note 19
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	880,541,768	874,991,394
Reserves and Surplus	3	159,894,077	159,894,077
		6,945,607,365	**6,940,056,991**
Loan Funds			
Secured Loans	4	6,263,152,090	6,243,160,372
Unsecured Loans	5	762,708,541	666,712,211
		7,025,860,631	**6,909,872,583**
		13,971,467,996	**13,849,929,574**
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		9,026,121,538	8,601,542,973
Less: Accumulated Depreciation		(3,786,097,493)	(3,038,111,883)
Net Block		**5,240,024,045**	**5,563,431,090**
Capital Work-In-Progress (Includes capital advances for Rs 3,526,218 (2006 - Rs 5,777,267)		141,356,097	236,690,319
		5,381,380,142	**5,800,121,409**
Intangible Assets, net	7	**1,460,291,666**	**1,597,650,428**
Investments	8	**699,670,900**	**764,853,763**
Current Assets, Loans and Advances			
Inventories			6,439,504
Sundry Debtors	9	410,901,792	406,776,314
Cash and Bank Balances	10	121,554,263	119,377,087
Other Current Assets	11	5,418,441	17,972,277
Loans and Advances	12	87,461,473	93,603,047
		625,335,969	**644,168,229**
Less: Current Liabilities and Provisions	13		
Current Liabilities		2,011,848,805	1,496,484,297
Provisions		15,951,580	8,706,410
		2,027,800,385	**1,505,190,707**
Net Current Liabilities		**1,402,464,416**	**861,022,478**
Profit and Loss Account		7,832,589,705	6,548,326,451
		13,971,467,996	**13,849,929,574**
Significant Accounting Policies	22		
Notes to Accounts	23		

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

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants
per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

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

PARTICULARS	SCHEDULE	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
INCOME			
Service Revenue	**14**	2,794,801,402	2,922,069,650
Other Income	**15**	6,405,180	11,476,175
		2,801,206,582	**2,933,545,825**
Expenditure			
Network Operation Expenditure	**16**	1,176,337,495	1,261,537,019
Cost of Goods Sold	**17**	6,439,504	95,071
Personnel Expenditure	**18**	483,638,835	390,140,811
Sales and Marketing Expenditure	**19**	131,114,102	125,755,983
Administrative and Other Expenditure	**20**	508,896,895	417,061,705
Preliminary Expenses - Written off		-	174,958
Pre-operative Expenses - Written off		-	8,656,404
		2,306,426,831	**2,203,421,951**
Operating Profit before Finance Charges, Depreciation, Amortization and Loss on Sold / Discarded Fixed Assets		494,779,751	730,123,874
Loss on Sold / Discarded Fixed Assets		28,360,282	188,814,488
Finance Charges	**21**	635,134,517	599,843,429
Depreciation	**6**	868,535,712	919,333,242
Amortisation	**7**	153,275,592	170,798,382
Loss for the year before Prior Period Expenditure and Tax		**1,190,526,352**	**1,148,665,667**
Prior Period Expenditure (Net)	**23, Note 17**	21,838,478	9,471,974
Loss for the year before Tax		**1,212,364,830**	**1,158,137,641**
Provision for Taxation Earlier years	**23, Note 9**	-	(1,561,832)
Fringe Benefit Tax		6,715,561	6,892,214
Loss for the year before Share of Associate's Losses		**1,219,080,391**	**1,163,468,023**
Share Of Profit / (Loss) of Associate company	**8**	**(65,182,863)**	**13,593,513**
Loss for the year		**1,284,263,254**	**1,149,874,510**
Loss, brought forward from previous year		**6,548,326,451**	**5,398,451,941**
Loss carried to the Balance Sheet		**7,832,589,705**	**6,548,326,451**
Loss per share (equity shares, par value of Rs 10 each)	**23, Note 11**		
Basic (in Rs)		2.32	2.19
Diluted (in Rs)		2.32	2.19
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	525,517,152
Diluted		525,517,152	525,517,152
Significant Accounting Policies	22		
Notes to Accounts	23		

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

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants
per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
Schedule 1: Share Capital [See Schedule 23, Note 3]		
Authorised:		
1,300,000,000 (2006 - 1,300,000,000) equity shares of Rs 10 each (2006 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (2006 - 20,000,000) preference shares of Rs 100 each (2006 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	**15,000,000,000**
Issued, Subscribed and Paid up		
525,517,152 (2006 - 525,517,152) equity shares of Rs 10 each (2006 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (2006 - 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 (2006 - 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 (2006 - 325,705,000) 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 as per provisions of applicable law.

(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 (2006 - 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 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.

Schedule 2: Advance Against Share Application Money [See Schedule 23, Note 4]

Advance Against Equity Share Application Money	880,541,768	874,991,394
	880,541,768	**874,991,394**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (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	9,523,145	84,038,460
Less: Utilised towards the premium payable on redemption of Optionally Fully convertible debentures	-	74,515,315
	9,523,145	**9,523,145**
Statutory Reserve [See Note (c) below]	**11,900,000**	**11,900,000**
General Reserve	**104,438,156**	**104,438,156**
	159,894,077	**159,894,077**

(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) During the year 2006 in accordance with the CDR Scheme [See Schedule 22, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the share premium to that extent.

(c) As more fully discussed in Schedule 22, Note 1(a), the Company (*formerly* The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 23, Note 15, 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, 2007 (Rs.)	AS AT MARCH 31, 2006 (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	32,532,983	22,834,373
Vehicle loans	13,392,651	10,731,960
Bank overdraft	167,226,456	159,594,039
	6,263,152,090	**6,243,160,372**
Amounts repayable within a year - Vehicle Loan	6,937,979	5,305,011
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)	527,470,715	495,998,369
Short-term loan (Loan from HFCL Internet Services Limited)	62,000,000	-
Interest accrued & due on short term loan	2,523,984	-
	762,708,541	**666,712,211**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS
SCHEDULE 6: FIXED ASSETS

Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1,2006	Additions For the year	Sale/ Adjustment For the year	As at March31,2007	As at April 1,2006	For the year	On Sale/ Adjustment	As at March 31,2007	As at March 31,2007	As at March 31,2006
Freehold Land	16,142,623	-	-	16,142,623	-	-	-	-	16,142,623	16,142,623
Leasehold Land	8,896,419	-	-	8,896,419	648,697	92,161	-	740,858	8,155,561	8,247,722
Building	184,832,610	4,161,949	-	188,994,559	18,825,978	3,519,623	-	22,345,601	166,648,958	166,006,632
Leasehold Improvements	86,022,278	2,015,780	-	88,038,058	35,232,321	9,221,419	-	44,453,740	43,584,318	50,789,957
Network Equipment	2,987,887,704	196,188,007	(1,977,666)	3,182,098,045	1,158,409,542	347,499,907	(913,732)	1,504,995,717	1,677,102,328	1,829,478,162
Optical Fibre Cable and Copper Cable	4,132,047,057	139,930,017	-	4,271,977,074	1,181,351,230	289,756,744	-	1,471,107,974	2,800,869,100	2,950,695,827
Telephone Instruments at Customers Premises	877,608,561	189,851,621	(128,420,426)	939,039,756	490,600,502	172,131,424	(115,422,531)	547,309,395	391,730,361	387,008,059
Computers	199,830,059	13,314,411	(1,895,556)	211,248,914	100,270,143	31,621,705	(1,562,467)	130,329,381	80,919,533	99,559,916
Office Equipment	41,111,639	3,731,419	(1,364,743)	43,478,315	15,468,651	4,836,531	(451,872)	19,853,310	23,625,005	25,642,988
Furniture & Fixture	38,076,837	1,486,065	(113,725)	39,449,177	23,119,637	3,747,682	(54,233)	26,813,086	12,636,091	14,957,200
Vehicles	29,087,186	12,172,615	(4,501,203)	36,758,598	14,185,182	6,108,516	(2,145,266)	18,148,431	18,610,167	14,902,004
	8,601,542,973	**562,851,884**	**(138,273,319)**	**9,026,121,538**	**3,038,111,883**	**868,535,712**	**(120,550,101)**	**3,786,097,493**	**5,240,024,045**	**5,563,431,090**
Previous Year	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

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at April 1,2006	Additions For the year	Sale/ Adjustment For the year	As at March31,2007	As at April 1,2006	For the year	On Sale/ Adjustment	As at March 31,2007	As at March 31,2007	As at March 31,2006
Computer Software	138,511,553	15,916,830	-	154,428,383	106,428,841	17,220,302	-	123,649,143	30,779,240	32,082,712
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	787,090,887	136,055,290	-	923,146,177	1,429,512,426	1,565,567,716
	2,491,170,156	**15,916,830**	-	**2,507,086,986**	**893,519,728**	**153,275,592**	-	**1,046,795,320**	**1,460,291,666**	**1,597,650,428**
Previous Year	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

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 8: Investments (Non Trade - Long term) [See Schedule 23, Note 8]		
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2006 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')		65,182,863
6,996,709 [2006 - 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
	699,670,900	**764,853,763**

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, 2007

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

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

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

Cost	18,000,000	18,000,000
Opening Profit sharing of Associate	47,182,863	33,589,349
Add:		
Share of Profit / (Loss) in Associate during the year	(65,182,863)	13,593,514
	-	**65,182,863**

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

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
Schedule 9: Sundry Debtors		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	5,433,385	8,331,361
Unsecured and Considered Good	5,102,880	2,594,928
Unsecured and Considered Doubtful	88,778,602	56,089,243
Debts outstanding for a period less than six months:		
Secured and Considered Good	21,004,171	40,092,896
Unsecured and Considered Good	379,361,356	355,757,129
Unsecured and Considered Doubtful	36,748,929	31,553,566
	536,429,323	494,419,123
Less: Provision for Doubtful Debts	125,527,531	87,642,809
	410,901,792	406,776,314

Notes:

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

b) Includes Rs 128,624,731 (2006 - Rs 155,219,454) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2007 [See Schedule 22, Note 2.10]

c) Debtors includes amount due from HFCL Satellite Communication Limited, the company under the same management, amounting to Rs 4,539,954 (2006 - Rs 9,330,004) Maximum amount outstanding during the year Rs 9,330,004 (2006 - Rs 9,330,004).

Schedule 10: Cash and Bank Balances		
Cash in Hand	1,157,405	1,458,721
Cheques in Hand	10,043,709	8,033,776
Balances with Scheduled Banks		
In Current Account	31,249,137	35,918,698
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 77,068,875, (2006 - Rs. 71,886,014)]	77,191,304	71,918,912
In Escrow Account [See note below]	1,912,708	2,046,980
	121,554,263	**119,377,087**

Notes:

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

Schedule 11: Other Current Assets		
Interest Accrued on Fixed Deposits	5,418,441	2,279,457
Assets held for sale [See Schedule 23, Note 7 (d)]	-	15,692,820
	5,418,441	17,972,277

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (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	36,088,337	28,034,052
Considered Doubtful [See Schedule 23, Note 1(f)]	134,859,908	134,859,908
Due from The Investment Trust of India Limited - Associate	1,149,999	1,149,999
(Maximum outstanding balance during the year Rs 1,149,999, 2006 - Rs 1,149,999)		
Due from HTL Limited - Company under the same management		
(Maximum outstanding balance during the year		
Rs 119,784, 2006 - Rs 119,784)	119,784	119,784
Security Deposits		
Considered Good	20,586,448	16,003,916
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	5,421,667	8,577,206
Balance with Customs and Excise	24,095,238	39,718,090
	223,532,646	**229,674,220**
Less: Provision for Doubtful Advances	136,071,173	136,071,173
	87,461,473	**93,603,047**
Notes:		
Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 650,000, 2006 - Rs 800,000)	500,000	650,000
Other Advances (Maximum amount outstanding during the year Rs 963,737, 2006 - Rs 638,266)	93,573	31,046

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
SCHEDULE 13: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors [See Schedule 23, Note 10]		
Capital Goods	239,176,512	260,795,455
Expenses	125,679,101	81,893,916
Interconnection Usage Charges ('IUC') payable to other operators	153,007,910	125,516,470
Expenses Payable	187,089,552	151,374,944
Book Overdraft	26,231,655	11,151,491
Advance Against Booking	777,830	1,722,020
Advance From Customers and Unaccrued Income***	186,065,808	142,927,454
Security Deposits		
From Subscribers	154,552,466	185,116,714
From Others	24,488,225	25,465,819
Investor Education and Protection Fund*		
Unclaimed Dividends	520,779	568,549
Unclaimed Deposits from Public	850,649	1,058,574
Interest accrued and due on Public Deposits	115,496	146,323
Minority Interest	600	600
Other Liabilities	131,465,617	108,377,749
Provision for interest**	781,826,605	400,368,219
	2,011,848,805	**1,496,484,297**

* 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 762,300,000 (2006 - Rs 381,150,000) as to be adjusted over a period of from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs 15,216,844 (2006 - Rs 15,529,298) and interest accrued but not due on unsecured loan amounting to Rs 4,309,761 (2006 - Rs 3,688,921)

*** Includes Rs. 163,180,267 pertaining to infrastructure income received in advance which is recognized on a straight line basis in the terms of agreement which ranges from year 2004 to 2019.

Provisions		
Wealth Tax	37,175	27,254
Leave Encashment / Availment	9,403,667	4,888,907
Gratuity	6,510,738	3,790,249
	15,951,580	**8,706,410**
	2,027,800,385	**1,505,190,707**

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 (2006 - 523,617) towards repayment of public deposits under the NBFC CoR [See Schedule 23, Note 15]

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
Schedule 14: Service Revenue		
Revenue		
From Unified Access Services	2,240,915,825	2,520,287,328
From Interconnection Usage Charge	168,918,924	176,266,535
From Infrastructure Services	38,935,188	55,961,133
From Internet Services	310,223,668	166,383,218
Revenue From Cable Television Operations	35,807,797	3,171,436
	2,794,801,402	**2,922,069,650**
Schedule 15: Other Income		
Interest Income [Gross of tax deducted at source Rs Nil (2006 - Rs 72,771)]	4,391,094	2,955,879
Excess Provision written back	443,733	5,323,739
Miscellaneous Income	1,570,353	3,196,557
	6,405,180	**11,476,175**
Schedule 16: Network Operation Expenditure		
Interconnect Usage Charges	651,412,560	798,136,479
Other Value Added Service charges	4,175,815	7,090,737
Port Charges	29,559,179	31,173,841
Testing and Technical Survey Expenses	177,000	556,000
Licence Fees on Revenue Share Basis	146,740,536	158,083,947
Royalty and licence fees to Wireless Planning Commission	14,731,151	14,873,867
Stores and Spares Consumed	70,512,507	45,209,861
Rent	35,736,097	31,809,458
Electricity and Water	52,357,540	45,112,478
Security Charges	3,241,021	3,865,789
Repair & Maintenance - Network	87,533,586	75,218,375
Bandwidth Charges	58,671,762	46,627,078
Subscription and Carriage operating cost	21,488,741	3,779,109
	1,176,337,495	**1,261,537,019**
Schedule 17: Cost Of Goods Sold		
Opening Stock	6,439,504	-
Purchases	-	6,534,575
Less Closing stock	-	6,439,504
	6,439,504	**95,071**
Schedule 18: Personnel Expenditure		
Salaries, Wages and Bonus	437,741,048	341,681,482
Employer’s Contribution to Provident and Other Funds	18,793,657	16,912,486
Staff Welfare Expenses	14,882,271	18,622,707
Recruitment & Training Expenses	12,221,859	12,924,136
	483,638,835	**390,140,811**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS		AS AT MARCH 31, 2007 (Rs.)	AS AT MARCH 31, 2006 (Rs.)
Schedule 19: Sales and Marketing Expenditure			
Sales and Business Promotion		9,047,335	13,625,093
Advertisement Expenses		42,777,210	29,006,279
Customers Acquisition Costs		79,289,557	83,124,611
		131,114,102	**125,755,983**
Schedule 20: Administrative and Other Expenditure			
Legal and Professional Expenses		40,689,369	43,978,842
Travelling and Conveyance		77,816,353	62,170,067
Communication Expenses		6,617,926	6,287,574
Rent		20,698,138	18,157,692
Security Charges		3,615,382	3,808,963
Repairs and Maintenance - Building		1,445,243	1,765,842
Repairs and Maintenance - Others		14,343,460	10,649,318
Electricity and Water		16,457,752	14,847,247
Insurance		6,550,028	6,555,558
Rates and Taxes		6,233,257	14,453,283
Freight & Cartage		6,870,889	7,918,123
Printing and Stationary		6,939,957	6,749,547
Billing and Collection Expenses		65,907,866	53,695,074
Software Expenses		14,877	111,214
Directors' Fees		335,200	422,500
Bad Debts Written off		177,956,896	110,568,247
Provision for Doubtful Debts	63,634,010		
Less: Transferred to Bad Debts Written off	(13,126,749)	50,507,261	50,367,393
Wealth Tax		37,175	27,254
Miscellaneous Expenses		5,859,866	4,527,967
		508,896,895	**417,061,705**
Schedule 21: Finance Charges			
Interest on Term Loans*		591,494,812	571,529,986
Interest to Others		30,617,856	14,752,211
Bank Guarantee Commission		7,583,444	5,948,043
Trustees Fee		1,000,000	1,000,000
Other Finance Charges		4,438,405	6,613,189
		635,134,517	**599,843,429**

* Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 381,150,000 (2006 - Rs 381,150,000) as per CDR Scheme.

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, 2007

[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, 2007, 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 Hon' able 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 previous 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 hereafter 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 was rescheduled and will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, secured OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD were to 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.

During the year, the Company has incurred losses of Rs 1,284.26 million resulting into accumulated loss of Rs 7,832.59 million as at March 31, 2007 which has substantially eroded its net worth and has a net current liability of Rs 1,402.46 million including capital liability of Rs 239.17 million and subscriber security deposits of Rs 154.55 million (after considering provision for interest amounting to Rs 762,300,000 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, 2007, the Company has arranged Rs 13,547 million and is in advanced stage of discussions for the arrangement of Rs 1,923 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 substantially dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. 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. 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, 2007. 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 (other than Telephone Instruments)	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 capitalised 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.

2.5 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 2.7(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 Adjusted Gross Revenue ('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.

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. HIL 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.

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 / Availment

Liability for leave encashment / availment 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.

Liability for sick leave 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.

During the quarterly reporting, the Company for the purpose of computation of its liability for gratuity and leave encashment had adopted the Accounting Standard 15 (‘AS- 15 Revised’). However, in view of the deferment of AS-15 Revised to the next financial year, the Company has computed its actuarial liability for leave encashment and gratuity as per the existing applicable accounting standard.

The gratuity benefits of 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 supported by convincing evidence 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 or virtually certain, as the case may be 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 primary reporting of the Group has been performed on the basis of business segments. The Group has 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. 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 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, 2007

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

SCHEDULE 23:

NOTES FORMING PART OF THE ACCOUNTS

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

S. No.	Description	2007	2006
I.	**Estimated Value of Contracts remaining** to be executed on capital account and not provided for net of capital advances Rs. 3,526,218 (2006- Rs 5,777,267)	72,984,777	108,056,869
II.	**Contingent Liabilities and Commitments**		
	Financial Bank Guarantees (refer Note (a) below)	266,944,632	205,037,159
	Performance Bank Guarantees (refer Note (a) below)	56,357,806	63,555,392
	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.6,305,000 (2006-Rs 8,280,000)	56,034,579	73,166,895
IV.	**Income-tax matters under Appeal** (refer Note (b) below)	38,873,322	41,865,920
V.	**Claims against the Company not acknowledged as debts** mainly representing various miscellaneous claims filed on the Company which are subject matter of litigation	4,973,508	4,966,675
VI.	**Others** (refer Note (c, d and e) below)	282,131,197	29,585,211
	Total	**5,930,315,044**	**5,751,234,121**

(a) Financial bank guarantees as at March 31, 2007 of Rs 266.94 million (2006 — Rs 204.36 million) and performance bank guarantees of Rs 56.36 million (2006 — Rs 63.55 million) are secured. The details of security created are detailed out in note no. 6 (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 2001-02 aggregating to Rs 8.47 million and interest tax related matters for the Assessment Year 1993-94 to 1997-98 aggregating to Rs 30.39 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).

(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 Wireless Finance Division of Department of Telecommunications has subsequently claimed Rs 39.31 million vide letter number 1020/48/2005-WFD dated September 13, 2006 towards the Spectrum Charges dues from year 2001 to year 2006. The Company has submitted a detailed reply on October 31, 2006. Based on the legal opinion obtained, the Company is confident that no liability would accrue regarding the same in future.

(d) During the year, Bharat Sanchar Nigam Limited ('BSNL') has raised supplementary bill dated August 10, 2006 for Rs 167.61 million towards Inter-connect Usage Charges ('IUC') and Access Deficit Charges ('ADC') for the period November 11, 2004 to August 31, 2005 on the Company in accordance with HQ Letter No. 460-1/2006-REGLN dated May 22, 2006. These charges are on account of unilateral declaration of Company's Fixed Wireless Phone services as Limited Mobility Services by BSNL. The Company has submitted its reply to BSNL on August 23, 2006 asking for the calculation/basis for the additional amount raised towards IUC and ADC by BSNL. Subsequently, BSNL issued a disconnection notice on August 26, 2006 which required the payment of Rs 208.24 million (including Rs 167.61 million). The Company has submitted details to BSNL for payments already made for Rs 40.63 million. The Company has approached Hon'ble TDSAT on the subject matter and a stay order was granted against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JL/HFCL/75 dated March 20, 2007 for Rs 5.20 million to which the Company has submitted its reply on March 23, 2007 intimating that the matter being sub-judicious and pending decision by the

Hon'ble TDSAT no coercive action be taken against the Company. The subsequent hearing has been adjourned to July 4, 2007. The Company, based on expert legal opinion, believes that there would be no financial liability against such bills and accordingly, has not recorded any liability towards the IUC and ADC supplementary bills during the year.

(e) The Company is in receipt of Show Cause Notice dated June 4, 2007 from Department of Telecommunications ('DoT') for non fulfilment of first year's roll-out obligations of Unified Access Service License ('UASL') Agreement for Punjab Service Area, where in the licensee as per the terms of the license agreement was required to ensure that at least 10% of the District Headquarter / Towns are covered in the first year of the date of migration to USAL which commences from the date of Test Certificate issued by Telecom Engineering Centre ('TEC'). As stated by DoT in the Show Cause Notice issued, the Company has violated the conditions of UASL and accordingly Liquidated Damages of Rs 70 million has been imposed and have also sought explanation within 21 days as to why DoT should not take action against the Company under the UASL Agreement. The Company, based on expert legal advice believes that there would be no financial liability against such claims of DoT and accordingly, has not recorded any liability towards the Liquidated Damages during the year.

(f) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134.07 million. The Company had made payments in earlier years to EIL for takeover of certain accounted 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 subsequent date of hearing is fixed for June 25, 2007. 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:

	2007	2006
Salary	2,031,000	1,728,000
Employer's contribution to provident fund	243,720	207,360
Perquisites / Allowances	3,351,797	2,655,063
Ex-gratia / Performance linked incentive	1,112,832	693,500
Total	**6,739,349**	**5,283,923**

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 complied with all the necessary requirements for delisting and submitted its application in CSE. Despite repeated reminders, the Company has not yet received CSE's approval in this regard.

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 Company and BSE has reached to a settlement under the order of Security Appellate Tribunal ('SAT') dated October 17, 2005 whereby the Company has agreed to undertake a public offer for sale ('OFS') of 8,000,000 shares i.e. 1.52% of the total share capital, held by the promoter. Accordingly, 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 awaiting SEBI clearance.

4. Advance Against Share Application Money

As per the restructuring package approved under CDR mechanism, 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 had transferred OFCDs of Rs 755.12 million and OFCDs premium of Rs 119.87 million to Advance Against Equity Share Application Money on March 31,2006. During the year the Company has further transferred Rs 5.55 million including OFCD premium of Rs 0.75 million to Advance Against Equity Share Application Money which pertained to differential interest due to monthly vis-à-vis quarterly compounding in respect of term loan from a scheduled bank. Pending clarification on conversion price of such OFCDs (including premium) from SEBI, the Company is to allot equity shares in lieu of Advance Against Equity Share Application Money. The Company has sought advise from SEBI under informal guidance route and at the same time requested its lenders to submit legal opinion in the matter.

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 restructuring 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. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the Company has entered into amendatory Master Restructuring Agreement and Amendatory Security Trusteeship Agreement ('STA') on March 9, 2006, whereby Centurion Bank of Punjab has also joined as one of the lenders and has agreed to appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

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 13.39 million (2006 – Rs 10.73 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 2010. Vehicle loans repayable within one-year amounts to Rs 6.94 million. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan is 36 months.

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, 2007 (2006 – 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, 2007, the Company has utilized Rs 527.47 million (US$ 12.06 million) of this facility. The facility is secured by financial Bank guarantee of Rs 108.82 million and by a Corporate Guarantee of Rs 544.13 million given by HFCL, the Holding Company, on pari passu basis with other lenders.

(d) The Company in terms of the agreement dated April 4, 2006 has taken loan amounting to Rs 62 million (outstanding at year end Rs 62 million, previous year Rs Nil) from HFCL Internet Services Limited. The loan carries 12% interest and is repayable within the next one year.

7. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 14.30 million (2006 - Rs 10.07 million).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange gain of Rs 15.42 million, (2006 – foreign exchange loss of Rs 8.84 million).

(c) As on March 31, 2007, telephone instruments aggregating to a net book value of Rs 317.22 million (2006 – Rs 345.18 million) and other assets aggregating to net book value of Rs 29.44 million (2006 – Rs 12.36 million) are located at customer premises and at other operators sites, respectively.

(d) During the previous year, the Company had revised the economic useful life of CDMA based wireless network equipment and accordingly these assets were valued, based on part of the assets sold in the current year. Accordingly the Company was carrying, an amount of Rs 15.69 million as Assets held for Sale as on March 31, 2006. During the year the Company has sold part of the equipment and realized Rs 4.48 million. The Company feels that the remaining assets would not be redeployed as therefore believes that the assets would not realise its carrying value. Accordingly, these assets with a carrying cost of Rs 11.21 million have been written off during the year.

8. Investments

(a) As more fully discussed in note 1(a) of schedule 22 the amalgamated balance sheet of the Company included investments of Rs 717.67 million (Rs 18 million as equity and Rs 699.67 million as unsecured OFCD redeemable in 10 years from the year 2002-03) in an associate company, The Investment Trust of India Limited ('ITI'). ITI, a non-banking finance company, earned a net loss of Rs 92.06 million for the year ended March 31, 2007 and has a negative net worth of Rs 13.22 million as on March 31, 2007. The Auditor's of ITI in their audit report has qualified the ability of ITI to continue as going concern which depends on it's ability to generate income on their Investment Business Segment. The management of ITI, is however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future.

9. Deferred Taxes

During the year, the Company has incurred loss of Rs 1,284.26 million (accumulated losses of Rs 7,832.59 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 Micro, Small Scale Industrial Undertakings ('SSI') and Small and Medium Enterprises ('SME') as at March 31, 2007 of Rs Nil (2006 — Rs Nil) (based on the information, to the extent available with the Company, 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.

	2007	2006
Loss for the year (in Rs.)	1,284,263,254	1,149,874,509
Weighted average number of shares	525,517,152	525,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share – basic and diluted (in Rs)	2.32	2.19

12. Operating leases

Company as a Lessee

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2007 is Rs 55.98 million (2006 - Rs 49.78 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 4.15 million (2006 – Rs 2.84 million) towards site sharing cost.

Company as a Lessor

(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 8.39 million (2006 – Rs 1.35 million) towards site sharing revenue.

13. Segmental Reporting

The primary reporting of the Company has been performed on the basis of business segments. The Company has 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.

14. Related party transaction

Related Party Transactions for the Financial Year - 06 - 07

(Amount in Rupees)

Relationship	Holding Company		Comapnies Under Common Control		Fellow Subsidiary		Associate		Company Under Key Management Personel		Total	
Nature of Transaction	31-Mar-07	31 Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Assets												
Purchase of Capital Goods	62,096,107	77,660,776	185,518	78,665	-	-	-	-	727,746	4,981,577	63,009,371	82,721,018
Purchase of Capital Services	-	3,584,293	-	-	-	-	-	-	-	-	-	3,584,293
Payment against Capital Purchases/Services	44,069,094	97,148,292	-	-	-	-	-	-	-	-	44,069,094	97,148,292
Liabilities												
Amount received by Cpmpany	53,099	11,000,000	-	-	-	-	-	-	200,000	-	253,099	11,000,000
Loan Received By Company	-	-	-	-	-	-	-	-	62,000,000	-	62,000,000	-
Balance - Payable	60,179,118	43,031,262	-	261,800	-	-	-	-	17,292,054	3,323,455	77,471,172	46,616,517
Balance - Receivable -	-	-	7,999,236	9,330,004	119,784	119,784	1,149,999	1,149,999	-	-	9,269,019	10,599,787

Relationship	Holding Company		Comapnies Under Common Control		Fellow Subsidiary		Associate		Company Under Key Management Personel		Total	
Nature of Transaction	31-Mar-07	31 Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Income / Receipt												
Service Provided	-	-	-	9,679,087	-	-	-	-	-	-	-	9,679,087
Expenses/Payments												
Debit Notes raised on us (Expenses)	693,342	394,486	590,050	-	-	-	-	-	8,982,192	56,075	10,265,584	450,561
Debit Notes raised by us (Expenses)	815,718	5,185,072	4,139,840	-	-	-	-	-	878,442	1,472,416	5,834,000	6,657,488
Purchase of Consumbles Goods/ Repair & Maintenances	1,493,978	755,569	237,321	-	-	-	-	-	-	-	1,731,299	755,569
Purchase of Servicdes (Expenditure Nature)	-	-	-	1,899,869	-	-	-	-	98,482,780	58,234,614	98,482,780	60,134,483
Payments made on our behalf	20,000,000	-	-	-	-	-	-		-	2,525,300	20,000,000	2,525,300
Payments received by us	-	-	4,200,000	6,800,000	-	-	-	-	-	2,574,999	4,200,000	9,374,999
Payments made by the Company	22,187,320	1,150,055	-	5,016,237	-	30,519	-	-	91,355,274	54,150,436	113,522,594	60,347,247
Others												
Corporate												
Consolidated Corporate Gaurantee/Individual												
Corporate Guarantee given to												
Banks on behalf of the Company	5,769,131,662	5,769,131,662	-	-	-	-	-	-	-	-	5,769,131,662	5,769,131,662
Counter Guarantee given by Company	5,225,000,000	5,225,000,000	-	-	-	-	-	-	-	-	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 4,200,000 (2006-Rs 68,000,000) and debit notes raised by the company Rs 4,139,840 (2006- Rs 9,651,862).
- Balance receivable is Rs 8,679,794 (2006- Rs 9,330,004).

Himachal Exicom Communications Limited

- Purchase of capital goods by the Company Rs 185,518 (2006- Rs 78,665), purchase of consumables / services Rs 237,321 (2006- Rs 187,340) and payments made by the Company Rs Nil (2006- Rs 3,330,933).
- Balance payable is Rs 680,558 (2006- Rs 261,800).

Microwave Communication Limited

- Purchase of Services by the Company of Rs Nil (2006- Rs 1,712,529) and payment made by the Company of Rs Nil (2006- Rs 1,685,304).

Advances given to Key Managerial Personnel (Chief Executive Officer)

- Interest Free Housing loan Rs 500,000 (2006 – 650,000), other advances Rs 93,573 (2006 – Rs 31,046)
- 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, 2007 (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, India Card Technology Pvt. Ltd., Moneta Finance Pvt. Ltd.

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 850,649
• Interest accrued and due on public deposits upto September 15, 2003	Rs 115,496
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs 403,834
• Cheques outstanding beyond 6 months	Rs 523,617
• Others (Under reconciliation)	Rs 19,112
	Rs 1,912,708
Balances with Scheduled banks in Escrow account	**Rs 1,912,708**

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 are to be credited out of the profits of each year until such debentures are redeemed.

During the year, the Company has incurred loss of Rs 1,284.26 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	**2007**	**2006**
Customers Acquistion Costs	39,936	87,765
Legal & Professional Charges	-	46,200
Communication Expenses	-	12,889
Staff Welfare	-	21,314
Repair & Maintenance - Network	-	3,644,810
Interest on Term Loans	-	5,550,374
Interconnect Usage Charges	-	392,562
Revenue from Unified Access Services	-	(284,178)
Travelling and Conveyance	864,439	5,464
Miscellaneous Income	-	(5,226)
Intertest to Others	365,427	-
Fringe Benefit Tax	307,639	-
Sick Leave	1,598,942	-
Licence Fee on Revenue Share Basis	17,860,705	-
Royalty and licence fees to Wireless planning Commission	513,684	-
Rent	287,706	-
Total	**21,838,478**	**9,471,974**

18. The Company is primarily engaged in the business of providing telecommunication services. The production and sale of such software is not capable of being expressed in any generic unit. Hence, other information pursuant to the provisions of the paragraph 3, 4C and 4D of Part II Schedule VI of the Companies Act, 1956 are not applicable to the Company

19. 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
per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary & Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

HFCL INFOTEL LIMITED
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	For the Year Ended MARCH 31, 2007 (Rs.)	For the Year Ended MARCH 31, 2006 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,212,364,830)	(1,158,137,641)
Adjustments for:		
Depreciation and Amortisation	1,021,811,304	1,090,131,623
Prior Period Expense / (Income) (Net)	21,838,478	9,471,974
Excess Provision Written Back	(443,733)	(5,323,739)
Loss on Sold / Discarded Fixed Assets	28,360,282	188,814,489
Bad Debts Writen Off	177,956,896	110,568,247
Provision for Doubtful Debts	50,507,261	50,367,393
Wealth Tax	37,175	27,254
Finance Expenses *	635,134,517	599,843,428
Interest Income	(4,391,094)	(2,955,879)
Pre-operative Expenses - Written off	-	59,628
Preliminary Expenses - Written off	-	174,958
Operating profit before working capital changes	**718,446,256**	**883,041,735**
Movement in working capital:		
(Increase) / Decrease in inventory	6,439,504	(6,439,504)
(Increase) / Decrease in debtors	(232,589,635)	(271,726,456)
(Increase) / Decrease in Loans and advances	2,986,035	5,937,465
Increase / (Decrease) in Current liabilites and provisions	163,490,567	212,609,778
Cash generated from operations	**658,772,727**	**823,423,018**
Direct Taxes paid (Net)	(3,587,276)	(2,399,203)
Prior Period Expense / (Income) (Net)	(21,838,478)	(9,471,974)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**633,346,973**	**811,551,841**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(505,053,435)	(1,219,167,408)
Proceeds from sale of fixed assets	5,055,756	2,147,185
Purchase of investments in Equity Share Capital	-	
Purchase of investments in fixed deposits	(5,272,391)	(37,683,230)
Interest Received	1,252,110	921,241
NET CASH USED IN INVESTING ACTIVITIES (B)	**(504,017,959)**	**(1,253,782,212)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	18,098,388	99,970,635
Repayment of Secured loan	(7,805,281)	(6,903,281)
Repayment of Public Deposits	(207,925)	(682,025)
Proceeds from Unsecured loan	93,472,346	495,998,369
Interest paid	(235,933,989)	(176,727,308)
Dividend paid	(47,770)	(166,611)
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**(132,424,230)**	**411,489,780**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	**(3,095,216)**	**(30,740,591)**
Cash and Cash Equivalents at the beginning of the year	47,458,175	78,231,664
Cash and Cash Equivalents at the end of the year	**44,362,958**	**47,491,073**

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 yeild basis amounting to Rs 381,150,000 (2006 - Rs 381,150,000) 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	1,157,405	1,458,721
Cheques in Hand	10,043,709	8,033,776
Balances with Scheduled Banks		
- In Current Account	31,249,137	35,918,698
- In Escrow Account	1,912,708	2,079,878
	44,362,958	**47,491,073**

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283
Place : Gurgaon
Date : June 12, 2007

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720
Place : New Delhi
Date : June 12, 2007

For and on behalf of the Board of the director

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

S.Prabhakar
Company Secretary &
Head - Legal & Regulatory

Place : New Delhi
Date : June 12, 2007

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, 2007
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	8,166,678,675
	Total Assets	8,166,678,675
	SOURCE OF FUNDS	
	Shareholders' Funds	6,785,713,288
	Reserves & Surplus	159,894,077
	Secured Loans	6,263,152,090
	Unsecured Loans	762,708,541
	APPLICATION OF FUNDS	
	Net Fixed Assets (Including Intangible Asset)	6,841,671,807
	Accumulated Losses	7,832,589,705
	Investments	699,670,900
	Net Current Liabilities	1,402,464,416
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,801,206,582
	Total Expenditure	4,013,571,411
	Profit / (Loss) Before Tax	(1,212,364,830)
	Profit / (Loss) After Tax (Including share of Profit of Associate Company)	(1,219,080,391)
	Earning Per Share	(2.32)
	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	**M. P. Shukla**	**Surendra Lunia**
Director	Director	Chief Executive Officer
Place : New Delhi		**S.Prabhakar**
Date : June 12, 2007		Company Secretary & Head - Legal & Regulatory

DIRECTORS' REPORT

CONNECT BROADBAND SERVICES LIMITED

Dear Members,

Your Directors take pleasure in presenting the Third Annual Report of your Company together with the Audited Accounts for the year ended 31st March, 2007.

Summary of Financial Results

The summarized Financial Results for the year ended 31st March, 2007 are as under: -

(In Rs.)

Particulars	2007	2006
Gross Income – - Income from Operations	3,58,07,797	31,71,436
- Other Income	58,086	2,898
Total	3,58,65,883	31,74,334
Expenses Before Depreciation	9,12,79,968	3,57,52,032
Depreciation	3,826	371
Loss for the year before Tax	5,54,17,911	3,25,78,069
Provision for taxation	NIL	NIL
Fringe Benefits tax	4,05,955	5,22,663
Loss for the year	**5,58,23,866**	**3,31,00,732**
Loss, brought forward from previous year	**3,31,00,732**	**NIL**
Loss carried to the Balance Sheet	**8,89,24,598**	**3,31,00,732**

Operations

During the year under review, your Company expanded its cable TV distribution business as an MSO to cover the entire State of Punjab. Plans have been drawn up for setting up a digital infrastructure so that digital TV can be launched once CAS regulation becomes applicable in Punjab.

Your Company's endeavor would be to expand the operations geographically apart from offering a wider bouquet of services to its subscribers, and become a leading player in the home entertainment segment.

Dividend

Since the Company is in the initial years of operation there is heavy deployment of capital. Your company could not generate profits and hence, your Directors are not in a position to recommend any dividend for the financial year 2006-07.

Holding Company

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

Directors

Mr. T. S. V. Panduranga Sarma and Mr. Pradeep Goel, Directors on the Board of the Company have resigned from the Board of Director, due to their pre-occupation. The Board wishes to place on record its sincere appreciation for the valuable services rendered by Mr. T. S. V. Panduranga Sarma and Mr. Pradeep Goel during their tenure as Director on the Board of the Company and wishes them all the success.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. G.D.Singh 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.

Auditors & Auditors' Report

M/s Khandelwal Jain & Co., Chartered Accountants, the Statutory Auditors of the Company, retires at the ensuing Annual General Meeting and is eligible for re-appointment.

The Observations made in Auditor's report are dealt with in Notes to Accounts which are self emplanatory and do not call for any further comments.

Public Deposits

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

Share Capital

Your Company in May, 2006 has increased its Authorised Capital from Rs.1(One) crore to Rs.10 (Ten) crore to enable the Company to further mobilize funds for business expansion. The Company has allotted 35,00,000 equity shares of Rs.10 each at par aggregating Rs.3,50,00,000 to its holding, HFCL Infotel Limited in lieu of advance received towards expenses in June, 2006

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, 2007, 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, 2007 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, 2007 on a going concern basis.

Statutory Statements

CBSL 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.

There is no foreign exchange earnings/ outgo during the year.

Pariculars of employees under Section 217 (2A)

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, Holding Company, 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.

On behalf of the Board

Place: Mohali **(Surendra Lunia)**
Date: 28th July, 2007 **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 31st March, 2007, the Profit & 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 have conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are 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 (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks as considered appropriate and according to the information and explanations given to us during the course of the audit, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable.

4. Attention is invited to note no.1 of Schedule 15 to the accompanying financial statement. Current Liabilities include amount of Rs.5,94,60,009 received from the holding company, HFCL Infotel Ltd towards financial support during the project phase. The company would need to be provided financial support by its holding company till the completion of the project phase with respect to that accounts have been prepared on a going concern basis in spite of loss of Rs. 55,823,866/- incurred during the year and accumulated debit balances in the profit and loss account of Rs. 88,924,598/- as at 31st March 2007, which has resulted in negative net worth of Rs. 53,423,998/- as at 31st March 2007.

5. Further to our comments in the Annexure referred to above paragraph, 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 31st March, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on above date from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the other notes and the significant accounting policies thereon, 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 31st March, 2007;

   (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 Khandelwal Jain & Co.
Chartered Accountants,

(Akash Shinghal)
Partner
Membership No.: 103490

Place: New Delhi
Dated: 23rd May, 2007

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report of even date to the Members of **CONNECT BROADBAND SERVICES LIMITED** on the accounts for the year ended 31st March, 2007;

(i) (a) The Company has maintained proper records showing full particulars including quantitative details and situations of Fixed Assets.

(b) As per the information and explanations given to us, there is a phased programme of physical verification of fixed assets adopted by the Company and no material discrepancies were noticed on such verification. In our opinion, the frequency of verification is reasonable, having regard to the size of the Company and nature of its business.

(c) During the year, the Company has not disposed off substantial part of the fixed assets.

(ii) (a) As per the information furnished, the Inventories have been physically verified by the management at reasonable intervals during the year. In our opinion, having regard to the nature and location of stocks, the frequency of physical verification is reasonable.

(b) In our opinion, and according to the information and explanations given to us, procedures of physical verification of inventory 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. In our opinion, the discrepancies noticed on physical verification of stocks were not material in relation to the operation of the Company and the same have been properly dealt with in the books of account.

(iii) (a) As per the information furnished, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, Clause 4 (iii) (b), (c) and (d) of the said Order is not applicable.

(b) As per the information furnished, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, Clause 4 (iii) (e), (f) and (g) of the said Order is not applicable.

(iv) In our opinion and according to information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal controls.

(v) Based on the audit procedure applied by us and according to the information and explanations provided by the management, during the year, there has been no contract or arrangement that needed to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, Clause 4 (v)(b) of the said Order is not applicable.

(vi) The Company has not accepted any deposits from the public within the meaning of the provisions of Section 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules made there under.

(vii) The paid up capital and reserves of the Company was less than Rs. 50 lacs at the commencement of the year and the average annual turnover of three financial years immediately preceding the current financial year has not exceed the five crore rupees. Accordingly provisions of clause 4 (vii) of the said order with respect to adequacy of internal audit system is not applicable.

(viii) As per the information and explanation given to us, the Central Government has not prescribed maintenance of the cost records under section 209(1)(d) of the Companies Act, 1956 in respect to the company's product.

(ix) (a) According to the information and explanations given to us and records examined by us, the Company is regular in depositing with the appropriate authorities, undisputed statutory dues in respect of provident fund, employees' state insurance, income tax deduced at source (TDS), service tax and Fringe Benefit Tax (FBT) dues,*except there has been some delays in certain cases in respect of service tax, TDS & FBT.* According to information and explanations given to us, no undisputed arrears of statutory dues were outstanding as at 31st March, 2007 for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of sales tax, income tax, custom duty, wealth tax, excise duty and cess which have not been deposited on account of any dispute.

(x) The Company was incorporated on 2nd July 2004, since the Company is in existence for less than five years, we are of the opinion that no comment is required under clause (x) of Para 4 of the order regarding the erosion of 50% or more of networth and cash losses in the current and immediately preceding financial year.

(xi) In our opinion and according to the information and explanation givern to us, the Company has not taken any loan from any financial institution or bank and has not issued any debenture. Accordingly clause (xi) of Para 4 of the said order is not applicable.

(xii) Based on our examination of the records and information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) As per the information and explanations given to us the provisions of any Special Statute applicable to Chit Fund do not apply to the Company. The Company is also not a nidhi / mutual benefit fund / society.

(xiv) The Company is not dealing in or trading in shares, securities, debentures and other investments.

(xv) Based on our examination of the records and information and explanations given to us, the Company has not given any corporate / counter guarantees for loans taken by other, from bank and financial institutions.

(xvi) The Company has not raised any term loan during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company as at the end of the year, funds raised on short term basis have, prima facie, not been used for long term investment. *However, the company has received the funds from its holding company ie HFCL Infotel Limited amounting to Rs. 5,62,03,659 during the current financial year for meeting its day to day requirements.As per the representation received from the management, the holding company i.e. HFCL Infotel Limited is considering for its conversion into 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.

(xx) The Company has not raised any money by public issues during the year covered by our report.

(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 Khandelwal Jain & Co.
Chartered Accountants,

(Akash Shinghal)
Partner
Membership No.: 103490

Place: New Delhi
Dated: 23rd May, 2007

CONNECT BROADBAND SERVICES LIMITED
BALANCE SHEET AS AT MARCH 31 , 2007

PARTICULARS	SCHEDULE	As at March 31, 2007 (Rs.)	As at March 31, 2006 (Rs.)
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	35,500,600	500,600
Advance against share application Money		-	35,000,000
		35,500,600	**35,500,600**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	2	64,823	29,823
Less : Depreciation		3,862	371
Net Block		**60,961**	**29,452**
Current Assets, Loans & Advances			
Inventories	3	-	6,439,504
Sundry Debtors	4	7,891,175	865,854
Cash and Bank Balances	5	1,636,550	595,269
Loans & Advances	6	7,762,630	749,324
Prepaid Expenses		209,780	113,033
		17,500,135	**8,762,984**
Less: Current Liabilities and provisions			
Current Liabilities	7	70,909,170	6,362,063
Provisions		75,925	30,506
		70,985,095	**6,392,569**
Net Current Assets		**(53,484,959)**	**2,370,415**
Profit & Loss Account		88,924,598	33,100,732
		35,500,600	**35,500,600**
Significant Accounting Policies	14		
Notes to Accounts	15		

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

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

For and on behalf of the Board

Akash Shinghal
Partner
Membership No.: 103490

Surendra Lunia
Director

G.D.Singh
Director

New Delhi
Date : May 23,2007

Bipan Chopra
Manager- (F&A)

Puneet Anurag
Company Secretary

CONNECT BROADBAND SERVICES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

PARTICULARS	SCHEDULE	For the Year ended March 31, 2007 (Rs.)	For the Year ended March 31, 2006 (Rs.)
INCOME			
Income from operations	**8**	35,807,797	3,171,436
Other Income		58,086	2,898
(Includes tds Rs.48, Previous year Rs.Nil)			
		35,865,883	**3,174,334**
EXPENDITURE			
Direct Expenses	**9**	21,488,741	3,779,109
Cost of Goods Sold	**10**	6,439,504	95,071
Personnel Expenditure	**11**	21,961,383	6,716,538
Administrative & Selling Expenditure	**12**	41,388,926	16,329,952
Preliminary Expenses-Written-off		-	174,958
Pre-operative Expenses-Written-off	**13**	-	8,656,404
Loss on sale of Fixed assets		1,415	-
Depreciation	**2**	3,826	371
		91,283,794	**35,752,403**
Loss for the year before Tax		**55,417,911**	**32,578,069**
Provision for Tax			
- Fringe Benefit Tax -2005-06		4,135	522,663
- Fringe Benefit Tax -2006-07		401,820	-
Loss brought forward		33,100,732	-
Loss after Tax carried to Balance Sheet		**88,924,598**	**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

For Khandelwal Jain & Co.
Chartered Accountants

Akash Shinghal
Partner
Membership No.: 103490

New Delhi
Date : May 23,2007

For and on behalf of the Board

Surendra Lunia
Director

G.D.Singh
Director

Bipan Chopra
Manager- (F&A)

Puneet Anurag
Company Secretary

CONNECT BROADBAND SERVICES LIMITED
SCHEDULE FORMING PART OF THE BALANCE SHEET

PARTICULARS	As at March 31, 2007 (Rs.)	As at March 31, 2006 (Rs.)
SCHEDULE 1		
SHARE CAPITAL		
Authorised :		
1,00,00,000 (Previous year 10,00,000) Equity Share of 10/- each	100,000,000	10,000,000
Issued, Subscribed & Paid Up		
35,50,060 Equity Shares of Rs 10/- each	35,500,600	500,600
	35,500,600	**500,600**

SCHEDULE 2

FIXED ASSETS

(Amount in Rs.)

	Gross Block				Depreciation				Net Block	
Assets	**As at April 1,2006**	**Additions**	**Sale/ Adjustment**	**As at 31 Mar'07**	**As at April 1, 2006**	**For the Year**	**On Sale/ Adjustment**	**As at 31Mar'2007**	**As at 31 Mar'2007**	**As at March 31, 2006**
Furniture & Fixtures	15,973	42,000	-	57,973	325	3,059	-	3,384	54,589	15,648
Office Equipment	13,850	-	7,000	6,850	46	767	335	478	6,372	13,804
Total	**29,823**	**42,000**	**7,000**	**64,823**	**371**	**3,826**	**335**	**3,862**	**60,961**	**29,452**
Previous Year	-	29,823	-	29,823	-	371	-	371	29,452	-

SCHEDULE 3		
INVENTORIES		
LSA & Rollout Material	-	6,439,504
	-	**6,439,504**
SCHEDULE 4		
SUNDRY DEBTORS		
Debts outstanding for a period exceeding six months	59,461	-
Others	7,831,714	865,854
	7,891,175	**865,854**
SCHEDULE 5		
CASH AND BANK BALANCES		
Cash in Hand	301,969	1,326
Balance with Scheduled Banks		
- In Current Accounts	1,212,152	561,045
- In Fixed Deposits(including interest)	122,429	32,898
	1,636,550	**595,269**

CONNECT BROADBAND SERVICES LIMITED
SCHEDULE FORMING PART OF THE BALANCE SHEET

PARTICULARS	As at March 31, 2007 (Rs.)	As at March 31, 2006 (Rs.)
SCHEDULE 6		
LOANS AND ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Advances Recoverable in cash or kind or for value to be received	6,403,294	168,479
Security Deposit	1,038,527	500,000
Taxes Recoverable	320,810	80,845
	7,762,630	**749,324**
SCHEDULE 7		
CURRENT LIABILITIES AND PROVISIONS		
Current Liabilities		
Sundry Creditors **(Note)**	66,361,217	4,641,018
Security Deposit	913,352	525,000
Advance from Customers	1,533,955	565,722
Other Liabilities	2,100,646	630,323
	70,909,170	6,362,063
Provisions		
For Leave Encashment	75,925	30,506
	70,985,095	**6,392,569**

Note :-
Sundry creditors include a sum of Rs.5,94,60,009 payable to holding company, HFCL Infotel Ltd.Maximum balance during the year Rs.5,94,60,009 Previous year Rs.3,83,37,103.

CONNECT BROADBAND SERVICES LIMITED
SCHEDULE FORMING PART OF THE PROFIT & LOSS ACCOUNT

PARTICULARS	For the Year ended March 31, 2007 (Rs.)	For the Year ended March 31, 2006 (Rs.)
SCHEDULE 8		
INCOME FROM OPERATIONS		
Income from Cable Services	29,370,312	3,077,402
Sale of Net work equipment	6,437,485	94,034
	35,807,797	**3,171,436**
SCHEDULE 9		
DIRECT EXPENSES		
Subscription charges	14,519,643	2,424,109
Channel Operating Cost	200,000	1,355,000
Carraige Fee Expenses	3,845,531	-
Copy Right Charges	2,097,000	-
Licence Fee	666,300	-
Telefilm production Expenses	160,267	-
	21,488,741	**3,779,109**

CONNECT BROADBAND SERVICES LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year ended March 31, 2007 (Rs.)	For the Year ended March 31, 2006 (Rs.)
SCHEDULE 10		
COST OF GOODS SOLD		
Opening Stock	6,439,504	-
Purchases	-	6,534,575
Less Closing Stock	-	6,439,504
	6,439,504	**95,071**
SCHEDULE 11		
PERSONNEL EXPENSES		
Salary & Allowances	20,514,344	6,512,651
Contribution to PF and other funds	1,276,991	142,773
Leave Encashment	84,596	30,506
Staff Welfare	85,451	30,608
	21,961,383	**6,716,538**
SCHEDULE 12		
ADMINISTRATIVE AND OTHER EXPENSES		
Travelling & Conveyance	18,385,286	6,683,342
Rent	456,837	183,737
Rates and Taxes	490,688	8,847
Business Promotion	47,667	168,472
Legal & Professional Charges	15,412,760	6,733,586
Advertisement	118,211	293,346
Insurance Expenses	175,023	16,492
Car On Hire	353,539	182,492
Electricity & Water Charges	2,899,759	1,088,058
Auditors Remuneration	20,000	30,000
Director Sitting Fees	-	2,500
Office Maintenance	784,483	258,256
Printing & Stationery	89,631	63,716
Repair & Maintenance - Others	767,350	253,484
Security Expenses	376,043	151,592
Telephone Expenses	159,752	55,375
Commision	631,386	55,000
Hire Charges-Equipment	15,000	-
Bank Charges	21,896	-
Miscellaneous Expenses	183,615	101,657
	41,388,926	**16,329,952**

CONNECT BROADBAND SERVICES LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year ended March 31, 2007 (Rs.)	For the Year ended March 31, 2006 (Rs.)
SCHEDULE 13		
PRE-OPERATIVE EXPENSES WRITTEN OFF		
Opening Balance as on 01.04.05	-	59,628
Expenses incured during the year		
Salary	-	5,477,219
Travelling & Conveyance	-	534,409
Rent -		165,411
Legal and Professional charges	-	71,525
Auditors Remuneration	-	-
Bank Charges & Commission	-	-
Rates and Taxes	-	670
Office Maintenance	-	247,938
Business Promotion	-	64,803
Electricity & Water Charges	-	1,285,886
Car on Hire	-	43,593
Insurance Expenses	-	9,403
Printing & Stationery	-	223
Repair & Maintenance - Others	-	289,138
Security Expenses	-	179,155
Telephone Expenses	-	9,162
Advertisement	-	218,242
Miscellaneous Expenses	-	-
	-	8,656,404
Less: Income		
Miscellaneous Income	-	-
	-	-
Closing Balance of Pre-operative Expenses (Written- off)	**-**	**8,656,404**

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 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.

6. Inventories

Inventories are valued at lower of cost and net realizable 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.

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.

8. Earning Per Share

Basic earnings per share are 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 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, 2007.
3. Deferred tax assets on account of carried forward loss and preliminary expenses have not been recognized 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, 2007 (Rupees)	Year ended March 31, 2006 (Rupees)
Travel expenses	83,35,092	32,12,214
Professional charges	59,96,298	64,93,731
Total	**1,43,31,390**	**97,05,945**

5. Directors Remunerations:
Remuneration transferred from HFCL Infotel Limited, paid to Mr.G.D.Singh designated as Director is as under :

Particulars	Year ended March 31, 2007 (Rupees)	Year ended March 31, 2006 (Rupees)
Salary	37,08,348	31,02,770
Total	**37,08,348**	**31,02,770**

The above salary does not include gratuity and leave encashment Provisions.

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

Particulars	Year ended March 31, 2007 (Rupees)	Year ended March 31, 2006 (Rupees)
Audit fees	10,000	10,000
Tax Audit Fees	10,000	Nil
Other Services	Nil	20,000
Total	**20,000**	**30,000**

7. Equity Shares Allotment

During the year, Company has issued equity shares amounting to Rs. 35,000,000 to HFCL Infotel Limited, the Holding Company.

8. Quantative details of Traded Goods

Particulars	UOM	Opening Stock		Purchases		Sales		Closing Stock	
		Qty	Value	Qty	Value	Qty	Value	Qty	Value
Cables	Kms	220	4842020	-	-	220	4820770	-	-
Pole Fixtures &									
Accessories	No's	8074	250206	-	-	8074	251564	-	-
PVC Items	No's	8965	83173	-	-	8965	83593	-	-
Wall fixtures/Rings	No's	17536	269772	-	-	17536	301021	-	-
Others	-	-	994333	-	-	-	980537	-	-
Total-	-	-	6439504	-	-	-	6437485	-	-

9. 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

Note: Related party relationship is as identified by the Company and relied upon by the auditor.

Following are the transactions with the related parties:

Relationship	**HFCL Infotel Limited**		**HFCL Internet Services Limited**		**Total**	
	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06	31-Mar-07	31-Mar-06
Nature of Transaction						
Assets						
Purchase of Equity Shares	-	-	-	-	-	-
Liabilities						
Issue of Equity Shares	-	-	-	-	-	-
Advance against share Application Money	-	3,50,00,000	-	-	-	3,50,00,000
Balance-Payable	5,94,60,009	32,56,350	-	9,250	5,94,60,009	32,65,600
Balance- Receivable	-	-	-	-	-	-
Income /Receipt						
Services Provided	-	-	-	-	-	-
Sale of material	63,56,956	-	-	-	63,56,956	-
Debit Note Raised by Us	27,99,572	-	-	-	27,99,572	-
Payment made by Us	20,29,727	-	-	-	20,29,727	-
Expenses/Payments	-					
Debit Notes raised on us	4,75,82,446	2,81,61,350	-	-	4,75,82,446	2,81,61,350
Purchase of Services (Expenditure Nature)	-	-	-	-	-	-
Payments made on our behalf	-	-	-	9,250	-	9,250
Payments received by us	1,98,07,468	1,00,95,000	-	-	1,98,07,468	1,00,95,000
Payments made by the company	-	-	-	-	-	-

Note: Details of remuneration to key management personnel Sh. G. D. Singh are disclosed under note 5.

10. Earnings per share:

(Amount in Rs.)

Particulars	2006-2007	2005-2006
Profit /(Loss) Attributable to Equity Shareholders	(5,58,23,866)	(3,20,55,406)
Weighted average number of equity shares	26,94,635	50,060
Nominal Value of Equity Share	10	10
Basic Earning / (Loss) per share	(20.72)	(640)

11. Business Segment:

    The operation of the Company relates to only one segments viz. Distribution of Cable Television Network.

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

As per our report of even date attached

For Khandelwal Jain & Co.
Chartered Accountants

Akash Shinghal
Partner
Membership No.: 103490

New Delhi
Date : May 23,2007

For and on behalf of the Board

Surendra Lunia
Director

G.D.Singh
Director

Bipan Chopra
Manager- (F&A)

Puneet Anurag
Company Secretary

CONNECT BROADBAND SERVICES LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2007

PARTICULARS	For the Year ended March 31, 2007 (Rs.)	For the Year ended March 31, 2006 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (Loss) for the Year	(55,417,911)	(32,578,069)
Adjustment for :		
Depreciation	3,826	371
Loss on Sale of Fixed Assets	1,415	-
Pre opertative expenses w/o	-	59,628
Preliminary Expenses w/o	-	174,958
Operating profit before working capital changes	(55,412,670)	(32,343,112)
Adjustments for changes in :		
(Increase)/Decrease in Inventories	6,439,504	(6,439,504)
(Increase)/Decrease in Debtors	(7,025,321)	(865,854)
(Increase)/Decrease in Loan & Advances	(7,110,053)	(862,357)
Increase/(Decrease) in Current Liabilties	64,547,108	6,345,437
Provision for leave encashment	45,418	30,506
Fringe Benefit Tax	(405,955)	(522,663)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	**1,078,031**	**(34,657,547)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed assets	(42,000)	(29,823)
Sale of Fixed Assets	5,250	-
NETCASH USED IN INVESTING ACTIVITIES (B)	**(36,750)**	**(29,823)**
CASH FLOW FROM FINANCING ACTIVITIES		
Share capital	35,000,000	-
Advance against share application Money	(35,000,000)	35,000,000
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	**-**	**35,000,000**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,041,281**	**312,630**
cash and cash Equivalents at the beginning of the year	595,269	282,639
cash and cash Equivalents at the end of the year	**1,636,550**	**595,269**

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 conform to current year classification.
4. Cash and cash equivalents include :

Cash in hand	301,969	1,326
Balance with Scheduled Banks		
- In Current Accounts	1,212,152	561,045
- In Fixed Deposits(including interest)	122,429	32,898
	1,636,550	**595,269**

As per our report of even date.
For Khandelwal Jain & Co.
Chartered Accountants

Akash Shinghal
Partner
Membership No.: 103490

New Delhi
Date : May 23,2007

For and on behalf of the Board

Surendra Lunia
Director

G.D.Singh
Director

Bipan Chopra
Manager- (F&A)

Puneet Anurag
Company Secretary

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	31-03-2007		
II	CAPITAL RAISED DURING THE YEAR (RUPEES)			
	Public Issue	NIL	Rights Issue	NIL
	Bonus Issue	NIL	Private Placement	35,500,600
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)			
	Total Liabilities	17,561,096	Total Assets	17,561,096
	SOURCES OF FUNDS			
	Shareholders Funds	35,500,600	Reserves & Surplus	NIL
	Secured Loans	NIL	Unsecured Loans	NIL
	Advance against Share Application Money	NIL		
	APPLICATION OF FUNDS			
	Net Fixed Assets (Including Intangible Asset)	60961	Investments	NIL
	Accumulated Losses	88,924,598		
	Net Current Assets	(53,484,959)		
IV	PERFORMANCE OF THE COMPANY (RUPEES)			
	Turnover	35,865,883	Total Expenditure	91,283,794
	Profit / (Loss) Before Tax	(55,417,911)	Profit / (Loss) After Tax	(55,823,866)
	Earning per Share (Weighted Average No)	(20.72)	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	**G.D.Singh**	**Bipan Chopra**	**Puneet Anurag**
Director	Director	Manager- (F&A)	Company Secretary

Place : New Delhi
Date : May 23,2007

ATTENDANCE SLIP

HFCL INFOTEL LIMITED

Registered Office:- B-71, Phase VII, Industrial Area, 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 60^{th} Annual General Meeting of the Company held on Friday, the 28^{th} day of September, 2007 at 12:00 noon at B-71, Phase VII, Industrial Area, Mohali – 160 055, Punjab.

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 Area, 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 60^{th} Annual General Meeting to be held on Friday, the 28^{th} day of September, 2007 at 12:00 noon at B-71, Phase VII, Industrial Area, Mohali – 160 055, Punjab or at any adjournments thereof.

Signed on this ………………………………… day of ……………………… 2007
Signature …………………………………………
No. of Shares held ………………………………

Revenue Stamp of Rs. 1/-

* 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.

UNDER U.P.C.

To

If undelivered, please return to:-

HFCL INFOTEL LIMITED
Regd. Office: - B-71, Phase VII, Industrial Area, Mohali – 160 055, Punjab