ANNUAL REPORT
2007 - 2008

HFCL GROUP

Himachal Futuristic Communications Ltd.

BOARD OF DIRECTORS

Shri Mahendra Pratap Shukla	Non-Executive Chairman
Shri Mahendra Nahata	Managing Director
Dr. R M Kastia	Wholetime Director
Shri Arvind Kharabanda	Director (Finance)
Shri R K Bansal	Nominee Director (IDBI)
Shri Y L Agarwal	Director
Shri Manoj Baid	Company Secretary

BANKERS
State Bank of India
Oriental Bank of Commerce
Punjab National Bank
Bank of Baroda
Union Bank of India
Centurian Bank of Punjab Limited

AUDITORS
M/s Khandelwal Jain & Company
Chartered Accountants
12-B, Baldota Bhawan
117, Maharshi Karve Road
Mumbai – 400 020

REGISTERED OFFICE & WORKS
8, Electronics Complex
Chambaghat, Solan – 173 213
Himachal Pradesh

CORPORATE OFFICE
8, Commercial Complex
Masjid Moth, Greater Kailash - II
New Delhi – 110 048

OPTICAL FIBRE CABLE PLANT
Cable Division
L 35-37, Industrial Area, Phase – II
Verna Electronics city, Salcete
Goa - 403 722

SHARE DEPARTMENT & INVESTOR RELATION CELL
8, Commercial Complex
Masjid Moth, Greater Kailash - II
New Delhi – 110 048

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HIMACHAL FUTURISTIC COMMUNICATIONS LTD.
NOTICE

Notice is hereby given that the 21st Annual General Meeting of Himachal Futuristic Communications Ltd. will be held on Monday, the 29th day of September, 2008 at 03:00 P.M. at the Mushroom Centre, Chambaghat, Solan, (H.P.) to transact the following business:-

AS ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st March, 2008 and the Reports of the Directors and of the Auditors thereon.

2. To appoint a Director in place of Shri Y L Agarwal who retires by rotation and being eligible offers himself for re-appointment.

3. To appoint Auditors for the financial year 2008-2009 to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

   M/s. Khandelwal Jain & Company, Chartered Accountants, the retiring Auditors of the Company are eligible for re-appointment.

AS SPECIAL BUSINESS

4. **Delisting of Equity/ Preference shares from Stock Exchanges**

   To consider and if thought fit, to pass, with or without modification(s), the following Resolution as Special Resolution:-

   "**RESOLVED THAT** pursuant to the applicable provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 (hereinafter referred to as the "Delisting Guidelines"), The Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the Rules framed thereunder, Listing Agreement(s) and all other applicable laws, rules, regulations and guidelines and subject to the approval(s), consent(s), permission(s), sanction(s) of the Securities Exchange Board of India (SEBI), The Stock Exchanges, where the shares of the Company are listed and other appropriate authorities and subject to the such corrections and modifications as may be prescribed while granting such approval(s), consent(s), permission(s) and sanction(s) which may be agreed to by the Board of Directors of the Company (hereinafter referred to as 'Board' which term shall be deemed to include any Committee thereof), the consent of the Company be and is hereby accorded to the Board to get the equity shares of the Company delisted from Delhi Stock Exchange Ltd. (DSE), The Calcutta Stock Exchange Association Ltd. (CSE), Jaipur Stock Exchange Ltd. (JSE), Ludhiana Stock Exchange Ltd. (LSE) and preference shares from Ludhiana Stock Exchange Ltd. (LSE).

   RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to sign and submit all applications, forms, papers and other documents and to comply with all other formalities/procedures and to do all such acts, deeds and things as may be required by the above Stock Exchanges, SEBI and/or by any other statutory regulatory authorities in connection with the delisting of the equity shares of the Company from Delhi Stock Exchange Ltd., The Calcutta Stock Exchange Association Ltd., Jaipur Stock Exchange Ltd., Ludhiana Stock Exchange Ltd. and preference shares from Ludhiana Stock Exchange Ltd."

Registered Office:
8, Electronics Complex
Chambaghat, Solan – 173 213 (H.P.)

By order of the Board
For **Himachal Futuristic Communications Ltd.**

Place: New Delhi
Date : 11th August, 2008

(Manoj Baid)
Company Secretary

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON A POLL INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. A BLANK FORM OF THE PROXY IS ENCLOSED AND IF USED SHOULD BE RETURNED TO THE COMPANY DULY COMPLETED NOT LATER THAN FORTY EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.**

2. Corporate Members intending to send their authorised representatives to attend the Meeting are requested to send a certified true copy of the Board Resolution authorising their representatives to attend and vote on their behalf at the Meeting.

3. The Register of Members and Share Transfer Books of the Company will remain closed from 23rd September, 2008 to 29th September, 2008 (both days inclusive).

4. Members are requested :

   i) to kindly notify the change of address, if any, to the Company/their Depository Participant.

   ii) to bring their attendance slip along with their copy of the Annual Report in the Meeting.

   iii) to deposit the duly completed attendance slip at the Meeting.

DETAILS OF DIRECTOR RETIRING BY ROTATION AND SEEKING RE-APPOINTMENT (INFORMATION IN PURSUANCE OF CLAUSE 49 IV (G) OF THE LISTING AGREEMENT)

Item No. 2 of the Notice

Name	Date of Birth	Qualification	Expertise in specific functional areas	Directorship in other Public Companies	Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	Shares held in the Company
Shri Y L Agarwal	20.09.1936	B.Sc., BE, DFIETE	Shri Y L Agarwal has got more than 47 years experience in the field of Telecom and Broadband Services. He is Ex-chairman and Managing Director of Telecommunications Consultants India Ltd. (TCIL).	1. Electronics Systems Punjab Ltd. 2. HFCL Kongsung Telecom Ltd. 3. Aksh Networks Ltd.	Himachal Futuristic Communications Ltd. Remuneration - Member Audit - Member (w.e.f. 31st July, 2008)	Nil

The Board of Directors of the Company commends his re-appointment.

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

Item No. 4

The Company's equity shares are listed at Bombay Stock Exchange Ltd. (BSE), National Stock Exchange of India Ltd. (NSE), Delhi Stock Exchange Ltd. (DSE), The Calcutta Stock Exchange Association Ltd. (CSE), Jaipur Stock Exchange Ltd. (JSE) and Ludhiana Stock Exchange Ltd. (LSE). The Company's preference shares are also listed at National Stock Exchange of India Ltd. (NSE) and Ludhiana Stock Exchange Ltd. (LSE). The Company's equity shares are actively traded at BSE & NSE. The trading of preference shares are rarely done at the Stock Exchanges. The transactions of equity shares at DSE, CSE, JSE & LSE hardly take place. In view of this, your Board of Directors at its Meeting held on 31st July, 2008 have recommended for voluntary delisting of equity shares from DSE, CSE, JSE & LSE and preference shares from LSE as per the provisions of Securities and Exchange Board of India (SEBI) (Delisting of Securities) Guidelines, 2003. The shareholders will have the nationwide coverage being provided by BSE & NSE, where your Company's equity shares will continue to be listed. The Company's preference share will also continue to be listed at NSE. Therefore, delisting will not adversely affect any investor even in places at the remote area of the Country. The proposed voluntary delisting of equity shares from the DSE, CSE, JSE & LSE and preference shares from LSE will not only reduce the expenditure on the payment of listing fees but will also reduce the administrative work.

The members are, therefore, requested to give their approval to resolution as set out at serial no. 4 of the Notice.

None of the Directors of the Company is concerned or interested in the above Resolution.

Registered Office:	By order of the Board
8, Electronics Complex	For **Himachal Futuristic**
Chambaghat, Solan – 173 213 (H.P.)	**Communications Ltd.**
Place: New Delhi	**(Manoj Baid)**
Date : 11th August, 2008	**Company Secretary**

Corporate Governance

Corporate Governance is a set of standards which aims to improve the Company's image, efficiency and effectiveness. It is the road map, which guides and directs the Board of Directors of the Company to govern the affairs of the Company in a manner most beneficial to all the Shareholders, the Creditors, the Government and the Society at large.

The status of implementation of Clause 49 of the Listing Agreement with the Stock Exchanges on Corporate Governance in the Company is as under: -

1. HFCL Philosophy on Corporate Governance

The cardinal principles of the Corporate Philosophy of HFCL on Corporate Governance can be summarised in the following words: -

"Transparency, professionalism
and
Accountability
With an
Ultimate aim of value creation"

HFCL Corporate Philosophy envisages complete transparency and adequate disclosure with an ultimate aim of value creation for all players i.e. the Stakeholders, the Creditors, the Government and the Employees.

2. Board of Directors

During the year 2007-2008, the Company has got a broad based Board of Directors with one Promoter Managing Director, three Non-Executive Independent Directors (one Non-Executive Chairman, one Nominee Director of IDBI and one Non-Executive Independent Director) and two Wholetime Directors including one Director (Finance).

The members on the Board possess adequate experience, expertise and skills necessary to manage the affairs of the Company in the most efficient manner.

During the financial year ended 31st March 2008, 6 Board Meetings were held on 30.04.2007, 01.06.2007, 31.07.2007, 31.10.2007, 30.11.2007 and 28.01.2008.

The last Annual General Meeting was held on 27th December, 2007.

The composition of the Board, attendance of Directors at the Board Meetings held during the year under review as well as in the last Annual General Meeting and the number of the other Directorships/Committee positions presently held by them are as under: -

Name	Category	No. of other present Directorships held	No. of Board Meetings		Attended last AGM (27/12/2007)
			Held	Attended	
Shri M P Shukla	NEID	3	6	6	YES
Shri Mahendra Nahata	PD[MD]	4	6	5	NO
Dr. R M Kastia	WD	2	6	5	NO
Shri Arvind Kharabanda	WD	1	6	6	YES
Shri Y L Agarwal	NEID	3	6	6	YES
Shri R K Bansal (IDBI Nominee)	NEID	2	6	5	NO

[PD - Promoter Director, NEID - Non-Executive Independent Director, MD - Managing Director, WD - Wholetime Director]

Present Directorship in other Companies/Committee Position (including Himachal Futuristic Communications Ltd.)

S.No	Name of Director	Directorships (Name of Companies)*	Committee Position		
			Name of the Company	Committee	Position
1.	Shri M P Shukla	1. HFCL Infotel Ltd. 2. HFCL Satellite Communications Ltd. 3. HTL Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Chairman
			Himachal Futuristic Communications Ltd.	Audit	Chairman
			Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Chairman
			HFCL Infotel Ltd.	Remuneration	Member
			HFCL Infotel Ltd.	Share Transfer & Investors Grievance	Member
			HFCL Infotel Ltd.	Audit	Member
			HFCL Satellite Communications Ltd.	Audit	Member
			HTL Ltd.	Audit	Member
2.	Shri Mahendra Nahata	1. Himachal Exicom Communications Ltd. (name changed to Exicom Tele-systems Ltd. w.e.f. 11.08.2008) 2. HFCL Infotel Ltd. 3. HTL Ltd. 4. Consolidated Futuristic Solutions Ltd. (in liquidation)	HFCL Infotel Ltd.	Audit	Member
3.	Dr. R M Kastia	1. HTL Ltd. 2. HFCL Infotel Ltd.	Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Member
			HFCL Infotel Ltd.	Remuneration	Member
			HFCL Infotel Ltd.	Share Transfer & Investors Grievance	Member
4.	Shri Arvind Kharabanda	1. HFCL Satellite Communications Ltd.	Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Member
			Himachal Futuristic Communications Ltd.	Audit	Member
			HFCL Satellite Communications Ltd.	Audit	Member
5.	Shri Y L Agarwal	1. Electronics Systems Punjab Ltd. 2. HFCL Kongsung Telecom Ltd. 3. Aksh Networks Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Member
			Himachal Futuristic Communications Ltd.	Audit (w.e.f. 31st July, 2008)	Member
6.	Shri R K Bansal	1. HFCL Infotel Ltd. 2. Madhya Pradesh State Industrial Development Corporation Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Member
			Himachal Futuristic Communications Ltd.	Audit	Member
			HFCL Infotel Ltd.	Audit	Member
			Madhya Pradesh State Industrial Development Corporation Ltd.	Audit	Member

* The Directorship held by Directors as mentioned above does not include Directorship of Foreign Companies, Section 25 Companies and Private Limited Companies, if any.

None of the Directors on the Board hold directorships in more than fifteen public companies and memberships in more than ten Committees and they do not act as Chairman of more than five Committees across all companies in which they are directors.

2.1 Information Placed before the Board

In addition to the matters which statutorily require Board's approval, the following matters as required under code on Corporate Governance are also regularly placed before the Board :-

- Minutes of Audit Committee Meetings, Remuneration Committee Meetings and Share Transfer & Investors Grievance Committee Meetings.
- Matters related to accident, dangerous happenings, material effluent and pollution problems etc., if any.
- Details of Joint Ventures / Collaboration agreements.
- Labour Relations.
- Disclosure of material related party transactions, if any, with potential for conflict of interest.
- Quarterly details of Foreign Exchange exposures and risk management strategies.
- Compliance with Regulatory and Statutory requirements including listing requirement and shareholders services.
- Details of show cause, demand, prosecution and penalty notices which are materially important.
- Any material default, in financial obligations to and by the Company or substantial non-payment of goods sold by the Company.
- Details of public or product liability, claims of substantial nature including any adverse judgments.
- Transactions involving substantial payments towards goodwill, brand equity or intellectual property.
- Sale of material nature of investments, subsidiaries and assets which are outside the normal course of business.
- Board minutes of the unlisted subsidiary companies and significant transactions and arrangements made by the material unlisted subsidiary company.

3. Committees of the Board

In terms of the SEBI code on the Corporate Governance the Board of the Company has constituted the following Committees: -

Audit Committee
Remuneration Committee
Share Transfer & Investors Grievance Committee

3.1 Audit Committee

The followings are the members and their attendance at the Committee Meetings during the year 2007-08: -

Name of Director	Status	No. of Meetings	
		Held	Attended
Shri M P Shukla	Chairman	5	5
Shri R K Bansal	Member	5	5
Shri Arvind Kharabanda	Member	5	5
Shri Y L Agarwal (w.e.f. 31st July, 2008)	Member	0	0

During the period 01.04.2007 to 31.03.2008 the Audit Committee met five times on 30.04.2007, 31.07.2007, 31.10.2007, 30.11.2007 and 28.01.2008.

The broad terms of references of Audit Committee are as under: -

- Overseeing 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 the appointment/re-appointment of external and internal auditors, tax auditors, fixation of statutory audit fees, internal audit fees and tax audit fees and also approval for payment of any other services.
- Review with management, the annual financial statements before submission to the Board.
- Review quarterly un-audited/audited financial results / quarterly review report.
- Review with management, performance of external and internal auditors, adequacy of internal control system.
- To do any internal investigations either departmentally or with the help of internal auditors or any other outside agency into matters where there is suspected fraud or irregularities.
- Discussions with external auditors before the audit commences about nature and scope of audit as well as have post audit discussions to ascertain any area of concern.
- Review the Company's financial and risk management policies.
- To look into the reasons for substantial defaults in the payment to the depositors, debentureholders, shareholders and creditors.
- Review of the use/application of money raised through Public/Rights/Preference Issue.

Shri Mahendra Pratap Shukla, Non-Executive Independent Director is the Chairman of the Committee. The Company Secretary acts as Secretary to the Committee.

3.2 Remuneration Committee

During the year under review, the Remuneration Committee met on 31.07.2007. The attendance of the members in the Remuneration Committee Meetings are as under:-

Name of Director	Status	No. of Meetings	
		Held	Attended
Shri M P Shukla	Chairman	1	1
Shri Y L Agarwal	Member	1	1
Shri R K Bansal	Member	1	1

This Committee is responsible for determining the Company's policy on specific remuneration package for Executive Directors including any compensation payment.

The details of remuneration and perquisites paid to the Executive and Non-Executive Directors during the year 2007-08 are given below:-

Name of Director	Salary	Allowances	Perks	Sitting Fee	Total
	Rs.				
Category A - Executive Directors					
Shri Mahendra Nahata Managing Director	50,40,000	7,35,000	4,17,876	-	61,92,876
Dr. R M Kastia Wholetime Director	37,80,000	22,68,000	9,17,229	-	69,65,229
Shri Arvind Kharabanda Director (Finance)	22,50,000	13,50,000	1,17,884	-	37,17,884
Category B – Nominee Director (Independent Director)					
Shri R K Bansal Director	-	-	-	55,000	55,000
Category C – Non-Executive Independent Directors					
Shri M P Shukla Chairman	-	-	-	1,00,000	1,00,000
Shri Y L Agarwal Director	-	-	-	35,000	35,000

The non-executive directors are paid sitting fee of Rs.5000/- for every Board / Committee meeting attended by them.

Since the Company has defaulted in repayment of its debts for a continuous period of 30 days in the preceding financial year before the date of re-appointment of its Managing Director, Wholetime Director and Director (Finance), necessary applications for managerial remuneration have been made to the Central Government pursuant to section 198, 269, 309 & 311 along with applications under section 637B(a) of the Companies Act, 1956.

3.3 Details of pecuniary relationship/transactions of the Non-Wholetime Directors / their Firms & Companies vis-a-vis the Company during the year 2007-2008

NIL

3.4 Share Transfer & Investors Grievance Committee

The Committee consists of one Non-Executive Independent Director and two Wholetime Directors and is chaired by the Non-Executive Independent Director. This Committee looks into transfer and transmission of shares / debentures / bonds etc., issue of duplicate share certificates, consolidation and subdivision of shares and investors' grievances. This Committee particularly looks into the investors grievances and oversees the performance of the Share Department / Share Transfer Agent and to ensure prompt and efficient investors' services. The Committee met seven times during the year 2007-2008. The followings are the members and their attendance at the Committee Meetings: -

Name of Director	Status	No. of Meetings Held	No. of Meetings Attended
Shri M P Shukla	Chairman	7	7
Dr. R M Kastia	Member	7	7
Shri Arvind Kharabanda	Member	7	7

More details on share transfers, investors' complaints etc. are given in the shareholder information section of this report.

The Board has delegated powers of share transfer to Shri Manoj Baid, Company Secretary to expedite the process of share transfer work.

4. General Body Meetings

Location and time where General Meetings held in the last 3 years is given below:

Year	AGM/ EGM	LOCATION	DATE	TIME
2007-2008	EGM	Mushroom Centre, Solan	25.02.2008	11:00 A.M.
2006-2007	AGM	Mushroom Centre, Solan	27.12.2007	11:00 A.M.
2005-2006	AGM	Mushroom Centre, Solan	28.09.2006	11:00 A.M.
2004-2005	AGM	Mushroom Centre, Solan	30.09.2005	11:00 A.M.
2005-2006	EGM	Mushroom Centre, Solan	09.09.2005	11:00 A.M.

The following resolutions were passed as Special Resolutions in previous three years AGMs /EGMs

Year	AGM/ EGM	SUBJECT MATTER OF SPECIAL RESOLUTIONS	DATE	TIME
2007-2008	EGM	1. Change of Name of the Company.	25.02.2008	11:00 A.M.
2005-2006	AGM	1. Re-appointment of M.D., WDs and Director (Finance). 2. Increase in FIIs Investment limit.	28.09.2006	11:00 A.M.
2004-2005	AGM	1. Allotment of 0% Optionally Fully Convertible Debentures to Institutions/ Banks.	30.09.2005	11:00 A.M.
2005-2006	EGM	1. To offer, issue and allot on preferential basis upto 60000000 warrants convertible into equity shares to promoters etc. 2. International offering of Securities upto US$ 75 Millions.	09.09.2005	11:00 A.M.

One special resolution was passed by postal ballot on 14.10.2005 regarding corporate guarantee provided by the Company to China Exim Bank on behalf of HFCL Infotel Ltd. There were 534 valid ballot papers comprising 10022173 valid votes. 485 shareholders holding 9986493 votes (99.64% of the valid votes) have casted in favour of the resolution as against 35680 votes (0.36% of the valid votes cast) against the resolution.

Mr. Satayendra Kumar, Practicing Company Secretary conducted the Postal Ballot for the above resolution.

5. **Disclosures on materially significant related party transactions with Promoters, Directors, Management, their Subsidiaries or Relatives etc., which may have potential conflict with the interest of the Company at large**

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

6. **Non-compliance by Company, penalties, strictures imposed on the Company by Stock Exchanges / Securities and Exchange Board of India (SEBI) etc. in the last 3 years**

None.

7. **Whistle Blower Policy**

The Board of Directors of the Company in its meeting held on 30th January, 2006 has adopted Whistle Blower Policy, a non mandatory requirement as a measure of good governance and also to ensure better transparency. This Policy has been circulated to employees of the Company and is also available on Company's Website. No employee of the Company is denied access to the Audit Committee.

8. **Means of Communications**

This is being done through quarterly / half yearly and annual results, which are being published in Premier English and Hindi daily newspapers. Press releases are also issued simultaneously. The Company's website **www.hfcl.com** contains Annual Report, Financial Results etc. Annual Report, Shareholding Pattern & Un-Audited/Audited Financial Results of the Company are posted on the SEBI EDIFAR website i.e. **www.sebiedifar.nic.in**. Management Discussions and Analysis forms part of the Directors' Report, which is posted to the shareholders of the Company.

9. **Code of conduct for Board Members and Senior Management Personnel**

The Company has adopted a Code of Conduct for Directors and Senior Management Personnel and the same has been posted on the Company's website. The Directors and the Senior Management Personnel affirm the Compliance of the Code annually. A certificate to this effect is attached to this Report duly signed by the Managing Director.

10. **Shares/Convertible Instruments held by Non-Executive Directors**

NIL

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

Risk assessment and minimization procedure is being formulated.

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

    i) **Remuneration Committee has been formed as reported earlier in this report.**

    ii) **The Company has formulated a Whistle Blower policy and the same has been brought to the notice of all the employees and posted on the Company's website.**

Shareholders' Information

1.	**Dates of Book Closing**	:	23/09/2008 to 29/09/2008 (both days inclusive)	
2.	**Date and venue of Annual General Meeting**	:	29/09/2008 at 03:00 P.M. at Mushroom Centre, Chambaghat, Solan (H.P.)	
3.	**Listing on Stock Exchanges in India**	:	The Ludhiana Stock Exchange Ltd. Phiroze Gandhi Market Ludhiana - 141 008	Tel : +91-161-4612317 Fax : +91-161-2404748
			The Bombay Stock Exchange Ltd. Phiroze Jeejeebhoy Towers, Dalal Street Mumbai - 400 001	Tel : +91-22-22721233 Fax : +91-22-22723121
			National Stock Exchange of India Ltd. Exchange Plaza, 5th Floor, Plot No.C/1 G Block, Bandra Kurla Complex Bandra (East) Mumbai - 400 051	Tel : +91-22-26598235 Fax : +91-22-26598237
			The Calcutta Stock Exchange Association Ltd. 7, Lyons Range Calcutta - 700 001	Tel : +91-33-22104470 Fax : +91-33-22102223
			Delhi Stock Exchange Ltd. DSE House, 3/1, Asaf Ali Road New Delhi - 110 002	Tel : +91-11-23292417 Fax : +91-11-23292181
			Jaipur Stock Exchange Ltd. Stock Exchange Building Jawaharlal Nehru Marg Malviya Nagar Jaipur - 302 017	Tel : +91-141-2729094 Fax : +91-141-2729082
4.	**Status of Listing Fees**	:	Paid to The Bombay Stock Exchange Ltd. & National Stock Exchange of India Ltd. for 2008-2009	
5.	**Listing on Stock Exchanges outside India**	:	The London Stock Exchange Plc 10, Paternoster Square London EC 4 M7LS	Tel : 0044-2077971000 Fax : 0044-2075886057
			Luxembourg Stock Exchange 11, Avenue de la Porte-Neuve BP.165 L - 2011, Luxembourg Grand Duchy of Luxembourg	Tel : 00352-4779361 Fax : 00352-477936204
6.	**Registered office**	:	8, Electronics Complex, Chambaghat Solan - 173 213 (H.P.)	Tel : +91-1792-230643/44 Fax : +91-1792-231902
7.	**Corporate Office**	:	8, Commercial Complex, Masjid Moth Greater Kailash - II New Delhi - 110 048	Tel : +91-11-30882624 Fax : +91-11-30689013
8.	**Works**	:	Wireline/Wireless Division 8, Electronics Complex Chambaghat Solan - 173 213 (H.P.)	Tel : +91-1792-230643/44 Fax : +91-1792-231902
			Cable Division L 35-37 Industrial Area, Phase - II Verna Electronic City, Salcete Goa - 403 722	Tel : +91-832-6697000 Fax : +91-832-2783444
			International Division 8, Commercial Complex, Masjid Moth Greater Kailash - II New Delhi - 110 048	Tel : +91-11-30882624 Fax : +91-11-30689013

9. **Website/Email** : www.hfcl.com / investor@hfcl.com

10. **Name of News Papers in which results are generally published** : Economic Times, Indian Express, Jansatta, Dainik Tribune

11. **Depositories** :

National Securities Depository Ltd.
4th Floor, 'A' Wing, Trade World
Kamla Mills Compound
Senapati Bapat Marg, Lower Parel
Mumbai - 400 013
Tel : +91-22-24994200
Fax : +91-22-24972993

Central Depository Services (India) Ltd.
Phiroze Jeejeebhoy Towers
28th Floor, Dalal Street
Mumbai - 400 023
Tel : +91-22-22723333
Fax : +91-22-22723199

12. **Share Transfer in physical form and other communication regarding share certificates, dividends and change of address etc., to be sent to:**

M/s. MCS Ltd.
Shri Venkatesh Bhawan
W - 40, Okhla Industrial Area, Phase - II
New Delhi - 110 020
Tel : +91-11-41406149
Fax : +91-11-41709881
Email: admin@mcsdel.com

13. **Share Transfer System:**

Shares sent for physical transfers are generally registered and returned within a period of 15 days from the date of receipt if the documents are clear in all respects. The Share Transfer & Investors Grievance Committee meets as often as required.

The Total Number of shares transferred in physical form during the year 2007-2008:

Number of transfer deeds	47
Number of Shares	506160

14. **Investors complaints received during the year 2007-2008 :**

Nature of Complaints	**Received**	**Attended**
Non Receipt of Shares (Transfers/Transmissions/Exchange)	7	7
Non receipt of Annual Reports	5	5
Dematerialisation	2	2
Total	**14**	**14**

The Company has attended to the investor's grievances/correspondence within a period of 15 days from the date of receipt of the same during the year 2007-2008 except in cases which are constrained by disputes and legal impediments. There were no investor grievances remaining unattended/pending as at 31st March, 2008. The Board in its meeting held on 31st October, 2006 has designated Shri Manoj Baid, Company Secretary as the Compliance Officer.

15. **Distribution of shareholdings as on 31st March, 2008 :**

No. of Equity held	**No. of Shareholders**	**% of Shareholders**	**Shares Amount (Rs.)**	**% of Shareholdings**
Upto 5000	258347	72.961	496398130	11.211
5001 – 10000	49063	13.856	396922730	8.964
10001 – 20000	23699	6.693	372741600	8.418
20001 – 30000	7743	2.187	200490650	4.528
30001 – 40000	3434	0.970	124572800	2.813
40001 – 50000	3585	1.012	172342980	3.892
50001 – 100000	4229	1.194	318216860	7.186
100001 & above	3539	1.000	2294584300	51.821
Shares in Transit	448	0.127	51666920	1.167
TOTAL	**354087**	**100.000**	**4427936970**	**100.000**

16. **Categories of Shareholding as on 31st March, 2008 :**

S. No.	Category	Shares	%
A	**Promoters Holding**		
1	Indian Promoters	9298999	2.10007
2	Foreign Promoters	-	-
	Sub Total	**9298999**	**2.10007**
B	**Public Shareholding**		
1	Institutional Investors		
a)	Mutual Funds & UTI	562309	0.12699
b)	Banks, Financial Institutions, Insurance Companies (Central/State Government Institutions/Non-Government Institutions)	12760504	2.88182
c)	Foreign Institutional Investors	6588383	1.48791
	Sub Total	**19911196**	**4.49672**
2	**Non Institutional Investors**		
a)	Private Corporate Bodies	127854901	28.87460
b)	Indian Public	275753865	62.27592
c)	NRIs	3645989	0.82341
d)	**Any Other**		
i)	Foreign Banks	1705	0.00039
ii)	Trusts	755969	0.17073
iii)	OCBs	58201	0.01314
iv)	Shares in transit	5166692	1.16684
C	Shares held by Custodian and against which depository receipts have been issued	346180	0.07818
	GRAND TOTAL(A+B+C)	**442793697**	**100.00000**

17. Dematerialisation of shares

The Company's shares are compulsorily traded in dematerialised form as per SEBI Guidelines. As on 31st March 2008, 99.77% of the equity shares have been dematerialised.

18. Outstanding GDRs / ADRs or any Convertible Instruments, conversion date and any likely impact on equity :

Outstanding GDRs as on 31st March, 2008 represent 346180 Shares (0.08 %). The 31918000 Zero Coupon Premium Bonds are convertible at option of lender if the Company opts for non-payment of premium of 8.5% p.a.

19. Stock Market Price Data on NSE and NIFTY Index

Month	N S E		NIFTY INDEX	
	Highest	Lowest	Highest	Lowest
April, 2007	24.60	21.05	4217.90	3617.00
May, 2007	27.65	22.00	4306.75	3981.15
June, 2007	24.10	21.80	4362.95	4100.80
July, 2007	26.40	22.25	4647.95	4304.00
August, 2007	22.50	16.95	4532.90	4002.20
September, 2007	31.75	19.30	5055.80	4445.55
October, 2007	30.45	21.45	5976.00	5000.95
November, 2007	33.40	23.00	6011.95	5394.35
December, 2007	46.85	27.65	6185.40	5676.70
January, 2008	62.90	25.70	6357.10	4448.50
February, 2008	30.65	22.20	5545.20	4803.60
March, 2008	23.45	14.80	5222.80	4468.55

20. **Stock Codes**: BSE : **500183** , NSE : **HIMACHLFUT**, CSE : **10018008**, LSE : **HIMF**, JSE : **148**, DSE : **08015**

21. **Financial Calendar (tentative and subject to change) 2008-2009:**

Financial Reporting for the first quarter ending June 30, 2008 : **Last week of July, 2008**.

Financial Reporting for the second quarter and half year ending September 30, 2008 : **Last week of October, 2008**.

Financial Reporting for the third quarter ending December 31, 2008 : **Last week of January, 2009**.

Audited Accounts for the year ending March 31, 2009 : **Last week of June, 2009**.

Annual General Meeting for the year ending March 31, 2009 : **September, 2009**.

DECLARATION REGARDING COMPLIANCE OF CODE OF CONDUCT

I, Mahendra Nahata, Managing Director of Himachal Futuristic Communications Ltd. hereby declare that all Board Members and Senior Management Personnel have affirmed compliance of the Code of Conduct as on 31st March, 2008.

sd/-
(Mahendra Nahata)
Dated : 11th August, 2008 **Managing Director**

CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of
HIMACHAL FUTURISTIC COMMUNICATIONS LTD

1. We have examined the compliance of conditions of Corporate Governance by Himachal Futuristic Communications Ltd. ("the Company") for the year ended 31st March, 2008, as stipulated in Clause 49 of the Listing Agreement of the said with various Stock Exchanges (hereinafter referred to as "the agreement").

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

3. In our opinion and based on our review and to the best of our information and according to the explanations given to us and subject to the item no. 11 of the Corporate Governance Report regarding pending Risk Assessment and Minimization Procedure, we certify that the conditions of the Corporate Governance as stipulated in the Clause 49 of the agreement have been complied with in all material aspects by the Company.

4. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained by the Share Transfer and Investors Grievance Committee, there were no investor grievance remaining unattended / pending for more than 30 days as at 31st March, 2008 against the Company except in cases which are constrained by disputes and legal impediments.

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

For KHANDELWAL JAIN & CO.
CHARTERED ACCOUNTANTS

(AKASH SHINGHAL)
Partner
Membership No. : 103490

Place: New Delhi
Date: 11th August, 2008

DIRECTORS' REPORT

To the Members,

The Directors have pleasure in presenting the Annual Report and Audited Accounts for the Financial Year ended 31st March, 2008.

(Rs. in crores)

FINANCIAL RESULTS		**2007-2008**	2006-2007
Sales and Services		**357.92**	1143.21
Other Income		**1.87**	5.67
Profit/(Loss) before depreciation, finance charges and taxation		**(57.79)**	186.06
Less :	Depreciation & Amortisation	**27.16**	26.08
	Finance charges	**69.37**	39.60
Profit/(Loss) before taxes		**(154.32)**	120.38
Provision for taxation		**0.44**	8.57
Prior period adjustments		**(4.21)**	1.76
Profit/(Loss) for the year		**(150.55)**	110.05
Balance brought forward from previous year		**(1022.12)**	(1132.17)
Charge on account of transitional liability for employees benefits		**0.55**	-
Balance carried to Balance Sheet		**(1173.22)**	(1022.12)

DIVIDEND

In view of the loss incurred by the Company, your Directors do not recommend any dividend on equity and preference shares for the year ended 31st March, 2008.

MANAGEMENT DISCUSSIONS & ANALYSIS (MDA)

Financial Review

Sales during the year has decreased to Rs.357.92 crore from Rs. 1143.21 crore in the previous year. During the year under review the Company has incurred a net loss of Rs. 150.55 crore as against the net profit of Rs. 110.05 crore in the previous year.

Capital Structure

During the financial year 2007-08 the paid up capital of the Company comprising of equity and preference shares stood at Rs. 523.29 crore.

Overview of Telecom growth in India

The Present Indian telecommunications network with over 270 million connections is the third largest in the world and the second largest among the emerging economies of Asia. India has emerged as a major base for the telecom industry worldwide and it is the endeavour of the Govt. of India to facilitate further growth of this vital industry as it is not just the growth in telecom sector but it has a 'multiplier effect' on the entire economy. Reform measures coupled with proactive policies of the Govt. of India have resulted in an unprecedented growth of the telecom sector.

Indian telecom sector has come a long way in achieving the dream of providing affordable and effective communication facilities to its citizens as envisaged in the National Telecom Policy (NTP) 1999. Efforts are continuously being made to provide universal access service to all uncovered areas including rural and hilly regions. The other thrust areas broadly consist of building a modern and efficient telecom infrastructure, transforming telecommunication sector to a greater competitive environment with equal opportunities and level playing field, strengthening R&D efforts in the country, achieving efficiency and transparency in spectrum management and enabling Indian telecom companies to become truly global players.

During the last few years the sector has witnessed a very high growth rates. Since 2004 the number of telephones grew at a rate of 40 percent plus, with the exception of 2005. The sector registered significant growth during 2007-08. The targeted growth of 250 million by end of 2007 was achieved in October 2007, when the number of telephones touched 257 million. The current addition of about eight million lines per month puts the telecommunication sector on a strong footing to achieve the target of 500 million connections by 2010. Apart from growth of number of connections, there has been spectacular growth in broadband connections and other value added services.

Opportunities

Large quantity equipments requirements are primarily in the GSM, CDMA and soft switching technologies leading to new generation networks. These are the areas where the multinationals are bidding directly. We are exploring to harness business in soft switch technologies for our manufacturing activities. Large tenders in GSM and CDMA provide us enough opportunities to provide installations and commissioning and other infrastructure related services.

The Company at present is focussing on the telecom infrastructure services segment. The growth in telecom infrastructure service areas is enormous in the coming years and it is hoped that the Company will be able to stabilize the overall performance by capturing a sizeable chunk of the business in these areas.

The rapid growth in broadband and multimedia services has resulted in increased requirement of optical fibre cable (OFC) and turnkey services which will boost our OFC and turnkey business.

Outlook

The Indian economy is expected to grow at around 8% until 2020 and is poised to become second biggest economy of the world by

2050. About 8 million subscribers are being added every month for the next two to three years making Indian telecom network to have 500 million subscribers and teledensity of about 50%. Telecom equipment production is expected to reach $32 billion by 2011. With all these, the outlook for the Company appears to be good. The focus of the Company will remain on telecom infrastructure services and increased attention will be given to business where financial requirement is less and collection is better.

Threats, Risks & Concerns

Low ARPUs, severe competition amongst Service Providers and the need to focus on core strengths have compelled Private Service Providers to go in for Managed Network Services (MNS), outsourcing the delivery and management of network equipment, services and applications to other organizations as a strategic method for improved and efficient operations thus allowing them to focus on their core competencies. MNS Service Providers are thus gaining foothold in the Indian telecom industry providing a challenge to conventional equipment manufacturers and turnkey telecom service providers like our Company.

MNS Service Providers source equipments from foreign equipment vendors who are able to provide very attractive supplier credit terms to Service Providers to obtain contracts, thus making Indian manufacturers non competitive. Migration of the telecom network to all-IP, next generation networks is advantageous for foreign vendors because Indian manufacturers have not been able to develop and manufacture equipment using the new technologies.

ADEQUACY OF INTERNAL CONTROL

HFCL has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported correctly. HFCL has adequate internal audit system, covering on a continuous basis, the entire gamut of operations and services spanning all locations, businesses and functions.

HUMAN RESOURCE DEVELOPMENT (HRD)

HFCL group has a team of experienced and competitive professionals. In the ever changing telecom scenario, we recognize the need for training and retaining the talent pool of the Company. Hence, the Company has taken various initiatives in that direction. Employees have undergone technical trainings to further enhance their skills. Performance reviews of employees are conducted on a regular basis to motivate and reward the performers.

The policies are in the process of being reviewed to make them more employees friendly.

SUBSIDIARIES

M/s. HTL Ltd., M/s HFCL Infotel Ltd. and M/s Moneta Finance (P) Ltd. continue to be the subsidiaries of your Company. M/s Connect Broadband Services Ltd. (name changed to CBSL Cable Networks Ltd. w.e.f. 05.02.2008) ceased to be a subsidiary of M/s HFCL Infotel Ltd. consequently it also ceased to be a subsidiary of your Company w.e.f. 16.04.2008.

As required under Section 212 of the Companies Act, 1956 the audited statements of accounts, along with the reports of the Directors' and the Auditors' thereon, of the above subsidiaries for the year ended 31st March, 2008 are not annexed as the Company has obtained the approval under section 212 (8) of the Companies Act, 1956 from the Ministry of Corporate Affairs exempting the requirements of attaching the annual accounts of the above mentioned subsidiaries.

However, any shareholder desirous of obtaining the Annual Accounts and related information of the above subsidiary companies may write to the Company Secretary at the address given below and the same shall be sent by post:-

The Company Secretary
M/s Himachal Futuristic Communications Ltd.
8, Commercial Complex
Masjid Moth, Greater Kailash - II
New Delhi - 110 048

The Annual Accounts of the subsidiary companies are kept open for inspection for the Members at the Registered Office and Corporate Office of the Company as well as at the Registered Office of concerned subsidiary companies between 10:00 A.M. to 1:00 P.M. on all working days upto the date of AGM.

CAUTIONARY STATEMENT

Statements in the management's discussions and analysis describing the Company's projections, estimates, expectations or predictions may be 'forward looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that would make a difference to the Company's operations include demand-supply conditions, raw material prices, changes in government regulations, tax regimes and economic developments within the country and abroad and such other factors.

FIXED DEPOSITS

The Company has not accepted any Deposits during the year.

DIRECTORS

Shri Y L Agarwal, Director retires by rotation at this Annual General Meeting and being eligible, offers himself for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed:

1. That in the preparation of the accounts for the financial year ended 31st March, 2008, the applicable accounting standards have been followed alongwith proper explanations relating to material departures;

2. That the Directors have selected such accounting policies and applied them consistently 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 at the end of the financial year and of the loss of the Company for the year under review;

3. That the Directors have taken proper and sufficient care 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;

4. That the Directors have prepared the accounts for the financial year ended 31st March, 2008 on a 'going concern' basis.

AUDITORS

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

AUDITORS' REPORT

The information and explanation on qualifications/observations in the Auditors' Report are given in **Annexure - I**.

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 and marked as **Annexure - II**.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS/ OUTGO

The information required under Section 217 (1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 with respect to these matters is set out in the **Annexure-III** and forms part of this Report.

DEPOSITORY SYSTEM

The Company's scrip have come under compulsory dematerialisation w.e.f. 29th November, 1999 for Institutional Investors and w.e.f. 17th January, 2000 for all investors. So far 99.77% of the shares have been dematerialised. The ISIN no. allotted to the equity shares of the Company is INE548A01010.

CORPORATE GOVERNANCE

A separate statement on Corporate Governance along with the Auditors' Certificate on its compliance is given as a part of the Annual Report.

CHANGE OF NAME OF THE COMPANY

The Board of Directors of the Company at its meeting held on 26th May, 2008 have decided not to pursue the matter further at present regarding the change of name of the Company from Himachal Futuristic Communications Ltd. to Dynamic Infotel Ltd.

ACKNOWLEDGEMENTS

The Directors thank the Central Government, Government of Himachal Pradesh, Government of Goa, Industrial Development Bank of India, State Bank of India, Oriental Bank of Commerce, Unit Trust of India, Punjab National Bank, Bank of Baroda, Union Bank of India, Centurian Bank of Punjab Ltd. and other Banks and Institutions for all co-operation, facilities and encouragement they have extended to the Company. Your Directors acknowledge the continued trust and confidence you have reposed in this Company. The Directors also place on record their deep appreciation for the services rendered by the officers, staff and workers of the Company at all levels and for their dedication and loyalty.

For and on behalf of the Board

Place : New Delhi **M P Shukla**
Date : 11th August, 2008 **Chairman**

ANNEXURE - I TO THE DIRECTORS' REPORT

INFORMATION AND EXPLANATION ON QUALIFICATIONS/ OBSERVATIONS IN THE AUDITORS' REPORT

A. OBSERVATIONS IN THE MAIN AUDITORS' REPORT

Auditors' Observations:

1. Para 5:

(a) *As stated in Note 10 of Schedule 19, the Company has, in terms of the CDR Package, provided for interest on ballooning basis @ 4.5% per annum instead of on YTM basis i.e. @ 8.5% per annum, whereby the loss for the year is lower by Rs. 79,317,839/- (cumulative amount Rs. 308,719,243/-)*

Reply:

The provision of interest has been made according to CDR Package approved by the CDR Empowered Group. The Contingency of charging of interest on YTM basis would arise only if the Company makes pre-payment of debts.

2. Para 5:

(b) *As stated in Note 19 of Schedule 19, with regard to the sundry debtors outstanding for a long period, pending confirmations/reconciliation, we are unable to comment on the extent of realisability and consequently on the provision for doubtful debts made by the Company.*

Reply:

The Company has made adequate provisions for doubtful debts based on its assessment.

3. Para 5:

(c) *Note no. 24 of Schedule 19, regarding balances of some of the sundry debtors, creditors, lenders and loans and advances are subject to confirmations, reconciliation and adjustments, if any.*

Reply:

The Company obtains the confirmations in ordinary course of business from time to time and no major variations found.

4. Para 5:

(d) *As stated in Note 4 of Schedule 19, the Company has paid remuneration to managerial personnel during the year for which approval of central government is yet to be obtained.*

The effect of items mentioned at paragraph 5(b), (c) and (d) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the year, assets, liabilities and reserves is unascertainable. If the observation at paragraph 5(a) above had been considered, the loss for the *year would have been higher by Rs. 79,317,839/- and accumulated debit balance in profit and loss account and the liabilities and provisions would have been higher by Rs. 30,87,19,243/-*

Reply:

The Company has already filed the necessary applications with Central Government seeking their approval for the payment of managerial remuneration.

B. OBSERVATIONS IN ANNEXURE TO THE AUDITORS' REPORT

5. Para (vii):

The Company is having internal audit system which needs to be strengthened further to make it commensurate with size of the Company and nature of its business.

Reply:

The management will take necessary measures in future to make the internal control and internal audit system more extensive and effective, commensurate to the operations of the Company.

6. Para (ix):

(a) *According to the information and explanations given to us and records examined by us, the Company has not been regular in depositing undisputed statutory dues with the appropriate authorities in respect of provident fund, employees' state insurance, income tax deducted at source, income tax, wealth tax, excise duty, service tax, sales tax/works contract tax and Fringe Benefit Tax. As at the year end undisputed arrears of statutory dues outstanding for a period of more than six months from the date they became payable, are as follows:-*

Sr. No.	Particulars	Outstanding for more than 6 months
1.	Income Tax deducted at source	22,988,579
2.	Fringe Benefit Tax	5,028,992
3.	Income Tax	47,197,646
4.	Wealth tax	103,592

Reply:

Due to acute financial crunch, the statutory dues could not be deposited in time. In future, the management will make all efforts to deposit the same in time.

7. Para (x):

The accumulated losses of the Company are more than fifty percent of its net worth at the end of the financial year. The Company has incurred cash loss during the year. In the immediately preceding financial year, the Company had not incurred cash loss.

Reply:

As accumulated losses as on 31.03.2008 have resulted in erosion of fifty percent of its peak net worth during the immediately preceding four financial years, the Company shall continue to be a Potentially Sick Company as defined under Section 23 of Sick Industrial Companies (Special Provisions) Act, 1985. The Company has already placed before its shareholders a Report of the Directors on erosion of more than fifty percent of the Company's peak net worth during the immediately preceding four financial years at its Extraordinary General Meeting (EGM) held on 25th February, 2008 as required under Section 23 of The Sick Industrial Companies (Special Provisions) Act, 1985.

8. Para (xi):

According to the information and explanations given to us and records examined by us, the Company has defaulted in repayment of dues to financial institutions or banks in respect of the following:-

Name of Lender	*Nature of the Dues*	*Period of Default/ delay*	*Over due amount as on 31.03.2008 (Rs.)*
ARCIL (ICICI)	*Principal*	*April, 2007 to March, 2008*	*35,315,000*
ARCIL (ICICI)	*Interest*	*April, 2005 to March, 2008*	*80,389,582*
OBC (eGTBL)	*Principal*	*April, 2007 to March, 2008*	*14,649,008*
OBC (eGTBL)	*Interest*	*February,2004 to March, 2008*	*75,281,980*
J & K BANK	*Principal*	*April, 2007 to March, 2008*	*2,515,182*
J & K BANK	*Interest*	*April, 2007 to March, 2008*	*2,287,265*
IDBI	*Principal*	*April, 2007 to March, 2008*	*40,915,998*
IDBI	*Interest*	*April, 2007 to March, 2008*	*13,538,888*
Bank of Baroda	*Interest*	*April, 2007 to March, 2008*	*6,198,224*

Reply:

Due to liquidity crisis, the repayments to the Financial Institutions/Banks could not be made in time.

9. Para (xix) :

The Company has not issued any secured debentures during the year. The Company has created securities / charges in respect of 15,704,000 Zero Coupons Premium Bonds (ZCPBs) of Rs.100/- each issued under the CDR package approved on 6th April, 2004. *However, no securities / charges is created in respect of 10,937,000 ZCPBs of Rs. 100/- each issued under the said CDR package as the status-quo on the existing security is maintained by each lender for its exposure.*

Reply:

Since the lenders have agreed among themselves to maintain the status quo on the existing securities, the Company is not required to create further charge / security.

ANNEXURE - II TO THE DIRECTORS' REPORT

INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31.03.2008

S. No.	Name	Remuneration Received (in Rs.)	Nature of Employment	Other Terms & Conditions	Designation/ Nature of Duties	Qualifications & Experience	Date of Commencement of employment	Age (Years)	Last employment held and Designation
Employed throughout the year									
1.	Mr. Ashok Kumar Sharma	3,383,880	Contractual	As per Service Rules of the Co.	President	MBA, LLB 27 years	03.07.2000	53	YKM Holdings Pvt. Ltd. Crop. Exe. Director
2.	Mr. P C Bhandari	2,565,257	Contractual	-do-	Sr. Vice President	AMIE 40 years	27.06.1993	60	Keshari Steels General Manager (Co-ordination)

Notes :

(i) The remuneration shown above comprises Salary, Allowances, Perquisites, Exgratia, Gratuity, Medical, Company's contribution to Provident Fund and all other reimbursements, if any.

(ii) None of the employees is related to any director of the Company.

(iii) The remuneration paid to Shri Mahendra Nahata, Dr. R M Kastia and Shri Arvind Kharabanda, wholetime directors of the Company as shown under item no. 3.2 of Report on Corporate Governance is subject to approval from the Central Government for which necessary applications have already been made. However, the amount paid to them towards remuneration has not been charged to profit & loss account this year which shall be done after receipt of approval from the Central Government.

ANNEXURE-III TO THE DIRECTORS' REPORT

INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

CONSERVATION OF ENERGY

The Company's operation involves low energy consumption. Nevertheless, energy conservation measures have already been taken wherever possible. Efforts to conserve and optimise the use of energy through improved operational methods and other means will continue.

ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT

As required under Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the details pertaining to technology absorption are as under :

RESEARCH AND DEVELOPMENT (R&D)		
1.	Specific Area in which R&D carried out by the Company	: Development of fixed wireless terminals (FWT) systems
2.	Benefits derived as a result of the above R&D	: Indegenisation of the products
3.	Future plan of action	: Derivatives of this product at Low Cost.
4.	Expenditure on R&D	
	(a) Capital	: Rs. NIL
	(b) Recurring (excluding depreciation)	: Rs. 131.90 Lacs
	(c) Total	: Rs. 131.90 Lacs
	(d) Total R&D expenditure as a percentage of total turnover	: 0.37%
TECHNOLGOY ABSORPTION, ADAPTATION AND INNOVATION		
1.	Efforts, in brief, made towards technology absorption, adaptation and innovation.	: The Technology of the products have been absorbed substantially.
2.	Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.	: As a result of technology absorption, Company has been able to reduce product cost and save foreign exchange flow.
3.	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:	
	(a) Technology Imported	: i) SDH Optical Transmission System ii) Digital Loop Carrier System iii) Digital Microwave Radio iv) CDMA based terminals
	(b) Year of Import	: 2002-2007
	(c) Has Technology been fully absorbed	: Technology has been absorbed almost in all the areas of the Company's operation.
	(d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of actions.	: –

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review the Company had made an export of Rs. 4.17 Crore. No fresh initiatives were undertaken by the Company to increase and develop new export market for products and services as there is hardly any scope of export for the products and services in which the Company is engaged. The details of foreign exchange earnings and outgo are as under :

(Rs. in Crore)

Total foreign exchange earnings and outgo	Financial Year Ended 31st March, 2008	Financial Year Ended 31st March, 2007
FOB Value of Exports	4.17	30.93
CIF Value of Imports	32.65	176.23
Expenditure in foreign currency	1.01	3.06

For and on behalf of the Board

Place : New Delhi — **M P Shukla**
Date : 11th August, 2008 — **Chairman**

AUDITORS' REPORT

To,

THE MEMBER OF,

HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED

1. We have audited the attached Balance Sheet of **Himachal Futuristic Communications Limited** as at 31st March, 2008, 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. We draw attention to note 9 of Schedule 19 to the financial statement. The Company has accounted for the impact of modified CDR package after complying with most of the terms and conditions stipulated therein. However, compliance of some of them are still in process.

5. *a) As stated in Note 10 of Schedule 19, the Company has, in terms of the CDR package, provided for interest on ballooning basis @ 4.5% per annum instead of on YTM basis i.e. @ 8.5% per annum, whereby the loss for the year is lower by Rs.79,317,839/- (Cumulative amount Rs. 308,719,243/-).*

   b) As stated in Note 19 of Schedule 19, with regard to the sundry debtors outstanding for a long period, pending confirmations/reconciliation, we are unable to comment on the extent of realisability and consequently on the provision for doubtful debts made by the Company.

   c) Note no 24 of Schedule 19, regarding balances of some of the sundry debtors, creditors, lenders and loans and advances are subject to confirmations, reconciliation and adjustments, if any.

   d) As stated in Note 4 of Schedule 19, the Company has paid remuneration to managerial personnel during the year for which approval of central government is yet to be obtained.

   The effect of items mentioned at paragraph 5(b), (c) and (d) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the year, assets, liabilities and reserves is unascertainable. If the observation at paragraph 5(a) above had been considered, the loss for the year would have been higher by Rs 79,317,839/-. and accumulated debit balance in profit and loss account and the liabilities and provisions would have been higher by Rs. 308,719,243/-.

6. 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, 2008 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;

   f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts *subject to para 5* above and 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, 2008;

(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)

Place: New Delhi — Partner
Dated: 30th June, 2008 — Membership No: 103490

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report of even date to the Members of HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED on the accounts for the year ended 31st March, 2008;

(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 any 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 and from companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (a), (b), (c) and (d) of the Order are 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.

(vii) *The Company is having internal audit system which needs to be strengthened further to make it commensurate with the size of the Company and nature of its business.*

(viii) The Central Government has prescribed maintenance of the cost records under section 209(1)(d) of the Companies Act, 1956 in respect of one of the product of the Company. We have broadly reviewed the accounts and records of the Company in this connection and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of the records.

(ix) (a) *According to the information and explanations given to us and records examined by us, the Company has not been regular in depositing undisputed statutory dues with the appropriate authorities in respect of provident fund, employees' state insurance, income tax deduced at source, income tax, wealth tax, excise duty, service tax, sales tax/ works contract tax and Fringe Benefit Tax. As at the year end undisputed arrears of statutory dues outstanding for a period of more than six months from the date they became payable, are as follows:-*

Sr. No.	Particulars	Outstanding for more than 6 months
1.	Income Tax deducted at source	22,988,579
2.	Fringe Benefit Tax	5,028,992
3.	Income Tax	47,197,646
4.	Wealth tax	103,592

(b) According to the records of the Company, the dues of Sales tax and additional custom duty, which have not been deposited on account of disputes and the forum where the dispute is pending, are as under:

Name of the Statute	Nature of the dues	Amount in Rs.	Period to which the amount relates	Forum where dispute is pending
1. Sales Tax Act	Sales Tax	18,742,719	1997-1998 &1998-1999	Hon'ble High Court of Punjab & Haryana.
2. Custom Tariff Act	Additional Custom Duty	12,883,115	2002-2003 & 2003-2004	CESTAT, New Delhi and Hon'ble Supreme Court of India
	Total	**31,625,834**		

(x) *The accumulated losses of the Company are more than fifty percent of its net worth at the end of the financial year. The Company has incurred cash loss during the year. In the immediately preceding financial year, the Company had not incurred cash loss.*

(xi) *According to the information and explanations given to us and records examined by us, the Company has defaulted in repayment of dues to financial institutions or banks in respect of the following:-*

Name of Lenders	*Nature of the Dues*	*Period of Default/ delay*	*Overdue Amount as on 31.03.08 (Rs)*
ARCIL (ICICI)	*Principal*	*April, 2007 to March, 2008*	*35,315,000*
ARCIL (ICICI)	*Interest*	*April, 2005 to March, 2008*	*80,389,582*
OBC (eGTBL)	*Principal*	*April, 2007 to March, 2008*	*14,649,008*
OBC (eGTBL)	*Interest*	*February, 2004 to March,2008*	*75,281,980*
J & K Bank	*Principal*	*April, 2007 to March, 2008*	*2,515,182*
J & K Bank	*Interest*	*April, 2007 to March, 2008*	*2,287,265*
IDBI	*Principal*	*April, 2007 to March, 2008*	*40,915,998*
IDBI	*Interest*	*April, 2007 to March, 2008*	*13,538,888*
Bank of Baroda	*Interest*	*April, 2007 to March, 2008*	*6,198,224*

(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 has maintained proper records of transactions and contracts in respect of trading in shares, securities, debentures and other investments and timely entries have been made therein. All shares, debentures and other investments have been held by the Company in its own name.

(xv) Based on our examination of the records and information and explanations given to us, the Company has given corporate/counter guarantees for loans taken by group companies, from banks and financial institutions. As one of the businesses of the Company is to promote the companies and also the long term involvement with those companies, the guarantees have not been considered prima facie, prejudicial to the interest of the Company.

(xvi) Based on our examinations of the records and information and explanations given to us during the year no term loan with repayment period beyond 36 months has been obtained. However, during the year the Company has raised inter corporate loans which on an overall basis, have been applied for the purposes for which they were obtained.

(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.

(xviii) The Company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under section 301 of the Act.

(xix) The Company has not issued any secured debentures during the year. The Company has created securities/charges in respect of 15,704,000 Zero Coupon Premium Bonds (ZCPBs) of Rs. 100/- each issued under the CDR package approved on 6th April, 2004. *However, no securities/charges is created in respect of 10,937,000* ZCPBs *of Rs. 100/- each issued under the said CDR package, as the status-quo on the existing security is maintained by each lender for its exposure.*

(xx) The Company has not raised any money by public issue during the year ended March 31, 2008.

(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: 30th June, 2008

BALANCE SHEET

As at 31st March, 2008

	Schedule No.		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
I SOURCES OF FUNDS				
1. Shareholders' funds				
(i) Capital	1	**5,232,905,920**		5,232,905,920
(ii) Reserves & surplus	2	**11,315,060,539**		11,586,363,539
			16,547,966,459	16,819,269,459
2 Loan funds				
(i) Secured loans	3	**8,337,671,629**		8,381,341,246
(ii) Unsecured loans	4	**2,993,977,633**		1,699,020,779
			11,331,649,262	10,080,362,025
			27,879,615,721	26,899,631,484
II APPLICATION OF FUNDS				
1 Fixed assets	5			
(i) Gross block		**4,673,099,143**		4,593,164,658
(ii) Less :Depreciation/Impairment		**2,307,084,323**		2,055,306,011
(iii) Net block		**2,366,014,820**		2,537,858,647
(iv) Capital work-in-progress		**96,251,040**		118,847,890
(v) Technical know-how fees		**4,357,831**		15,482,845
			2,466,623,691	2,672,189,382
2 Investments	6		**7,251,716,726**	7,308,761,122
3 Current Assets, loans and advances				
(i) Inventories	7	**807,778,599**		748,090,484
(ii) Sundry debtors	8	**6,806,216,644**		7,949,167,901
(iii) Cash and bank balances	9	**279,120,765**		361,732,230
(iv) Other current assets	10	**67,722,549**		106,271,745
(v) Loans and advances	11	**998,768,877**		818,784,859
		8,959,607,434		9,984,047,219
Less : Current liabilities and provisions				
(i) Current Liabilities	12	**2,423,292,610**		3,191,332,075
(ii) Provisions	13	**107,299,801**		95,282,826
Net Current Assets			**6,429,015,023**	6,697,432,318
4 Profit and Loss Account			**11,732,260,281**	10,221,248,662
			27,879,615,721	26,899,631,484
Notes forming part of the Accounts	19			

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 30th June, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla — *Chairman*
Mahendra Nahata — *Managing Director*
Dr. R M Kastia — *Wholetime Director*
Arvind Kharabanda — *Director (Finance)*

New Delhi, 30th June, 2008

PROFIT AND LOSS ACCOUNT

For The Year Ended 31st March, 2008

	Schedule No.		2007-2008 Rs.	2006-2007 Rs.
INCOME				
Sales and services		**3,579,182,269**		11,432,096,702
Less: Excise Duty		**83,263,736**		41,227,734
			3,495,918,533	11,390,868,968
Other income	14		**18,733,574**	56,678,132
Increase/(decrease) in stock	15		**(28,407,513)**	(106,455,680)
			3,486,244,594	11,341,091,420
EXPENDITURE				
Materials consumed/cost of goods sold	16		**2,698,111,425**	8,471,948,474
Manufacturing and other expenses	17		**858,464,076**	754,354,418
Finance charges	18		**693,726,742**	396,029,943
Depreciation			**255,614,493**	252,400,644
Loss on sale of pledged/other investments (net)			**2,275,000**	-
Provision for doubtful debts			**497,216,948**	243,034,470
Bad debts written off			**4,802,013**	3,364,301
Payment towards guarantee/contract obligation			**18,966,612**	11,157,000
Loss on sale of fixed assets			**262,598**	4,976,797
			5,029,439,907	10,137,266,047
PROFIT /(LOSS) BEFORE TAXES			**(1,543,195,313)**	1,203,825,373
Provision for taxation :				
Current tax			**81,408**	82,600,000
Fringe Benefit tax			**4,363,626**	3,083,204
PROFIT /(LOSS) FOR THE YEAR			**(1,547,640,347)**	1,118,142,169
Prior period adjustments			**(42,155,016)**	17,634,982
Income tax for earlier years			**-**	(7,094)
			(1,505,485,331)	1,100,514,281
Balance brought forward from previous year		**(10,221,248,662)**		(11,321,762,943)
Add: Charge on account of transitional liability for employees benefits under AS 15 (Revised)		**(5,526,288)**		**-**
(Refer note no.B-23 of Schedule 19)				
			(10,226,774,950)	(11,321,762,943)
Balance carried to Balance Sheet			**(11,732,260,281)**	(10,221,248,662)
Earning per share (Face value of Rs.10/- each)				
Basic (Rs.)			**(3.52)**	2.57
Diluted (Rs.)			**(3.52)**	2.57
Notes forming part of the Accounts	19			

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 30th June, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla	*Chairman*
Mahendra Nahata	*Managing Director*
Dr. R M Kastia	*Wholetime Director*
Arvind Kharabanda	*Director (Finance)*

New Delhi, 30th June, 2008

SCHEDULES FORMING PART OF THE ACCOUNTS

1.SHARE CAPITAL		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
Authorised :			
500,000,000	(Previous year 500,000,000) Equity shares of Rs.10/- each	**5,000,000,000**	5,000,000,000
25,000,000	(Previous year 25,000,000) Redeemable preference shares of Rs.100/- each	**2,500,000,000**	2,500,000,000
		7,500,000,000	7,500,000,000
Issued and Subscribed :			
442,793,697	(Previous year 442,793,697) Equity shares of Rs.10/- each (Note-1)	**4,427,936,970**	4,427,936,970
7,000,000	(Previous year 7,000,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each (Note-2)	**700,000,000**	700,000,000
1,050,000	(Previous year 1,050,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each (Note-2)	**105,000,000**	105,000,000
		5,232,936,970	5,232,936,970
Paid Up :			
442,793,697	(Previous year 442,793,697) Equity shares of Rs.10/- each, fully paid up (Note-1)	**4,427,936,970**	4,427,936,970
	Less : Calls in arrears	**31,050**	31,050
		4,427,905,920	4,427,905,920
7,000,000	(Previous year 7,000,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up (Note-2)	**700,000,000**	700,000,000
1,050,000	(Previous year 1,050,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up (Note-2)	**105,000,000**	105,000,000
		5,232,905,920	5,232,905,920

NOTES :

1 Of the above Equity shares :

(i) 346180 (Previous year 346,780) shares represent Global Depository Receipts.

(ii) 14,550,000 (Previous year 14,550,000) shares issued for consideration other than cash pursuant to the amalgamation of erstwhile Himachal Telematics Ltd. with the Company.

2 8,050,000 6.5% CRPS of Rs.100/- each are redeemable in the financial year 2017-18 and 2018-19 in terms of the modified CDR package.(Refer note no B-9b(ii) and 9(c) of Schedule 19)

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

2. RESERVES & SURPLUS		**As at 31.03.2008 Rs.**	As at 31.03.2007 Rs.
Capital Reserve			
As per last Balance Sheet			
Central investment subsidy	**1,000,000**		1,000,000
Gain on foreign exchange fluctuation	**244,753,082**		244,753,082
D.G. set subsidy	**13,911**		13,911
Amount paid on warrants forfeited	**46,000,000**		46,000,000
		291,766,993	291,766,993
Securities Premium Account			
As per last Balance Sheet	**10,807,625,246**		9,840,938,640
Add : Addition during the year	**-**		1,249,719,398
	10,807,625,246		11,090,658,038
Less : Calls in arrears	**12,000**		12,000
	10,807,613,246		11,090,646,038
Less :Premium on redemption of bonds and debentures	**271,303,000**		271,303,000
Less : Securities issue expenses written off	-		11,729,792
		10,536,310,246	10,807,613,246
Amalgamation Reserve	**97,000,000**		97,000,000
Less : Proportionate calls in arrears	**16,700**		16,700
		96,983,300	96,983,300
Capital Redemption Reserve		**140,000,000**	140,000,000
Debenture Redemption Reserve		**250,000,000**	250,000,000
		11,315,060,539	11,586,363,539

3.SECURED LOANS

(Refer note no.B-9 of Schedule 19)		
Zero coupon premium bonds	**2,664,100,000**	2,664,100,000
Working capital loans from banks	**1,281,311,392**	1,579,073,002
Term loans from financial institutions and banks	**2,247,040,286**	2,274,317,646
Funded interest term loans	**780,569,890**	780,569,890
Other loans	**59,261,566**	67,778,043
Premium payable on redemption of bonds and debentures	**1,068,306,030**	841,857,530
Interest accrued and due	**237,082,465**	173,645,135
	8,337,671,629	8,381,341,246

NOTES :

Secured loans comprising :-

1 12,804,000 (Previous year 12,804,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.791,042,605 (Previous year Rs.818,319,965) from financial institution and Funded interest term loan of Rs.443,289,272 (Previous year Rs. 443,289,272) are secured on pari passu basis by way of first charge on all the immovable properties, both present and future, by way of equitable mortgage and first charge on the entire sales proceeds of the contracts covered under the above said loan to be credited to the Escrow/designated account.

2 10,937,000 (Previous year 10,937,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.706,300,000

(Previous year Rs.706,300,000) from financial institution and Funded interest term loan of Rs.230,624,958 (Previous year Rs. 230,624,958) are required to be secured by way of first charge on all the immovable properties, both present and future, on pari-passu basis, by way of equitable mortgage and hypothecation of moveable assets, both present and future, subject to the prior charge of the Company's bankers on specified moveable assets for securing the borrowings for working capital requirements. Term loan is further secured by way of pledge of certain shares.

3 2,900,000 (Previous year 2,900,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.259,477,196 (Previous year Rs.259,477,196) from a bank and Funded interest term loan of Rs.106,655,660 (Previous year Rs. 106,655,660) are secured by way of pledge of shares/Bonds/Units.

4 Term loan of Rs.175,220,485 (Previous year Rs.175,220,485) from bank is secured/ to be secured by way of pledge of shares.

5 Term loan of Rs.315,000,000 (Previous year Rs.315,000,000) from a bank is secured/ to be secured by way of first charge on all the immovable properties, both present and future, by way of equitable mortgage on pari-passu basis.

6 Working capital loans from banks aggregating to Rs.1,230,824,291/- (Previous year Rs. 1,528,585,901) are secured on pari passu basis by way of hypothecation of stocks of raw materials, finished and semi- finished goods, stores and spares, book debts etc. as well as by way of second charge on immovable properties pertaining to Wireline, Wireless and Cable divisions of the Company.

7 Working capital loans from banks aggregating to Rs.50,487,101 (Previous year Rs.50,487,101) are secured on pari passu basis by way of hypothecation of current assets of the Company relating to specific order.

8 Other loans amounting to Rs.4,261,566/- (Previous year Rs.4,405,157) are secured by way of hypothecation of assets under hire purchase agreements. Installments of loans falling due for repayment within one year Rs.1,750,387/- (Previous year Rs. 1,641,010). Loans of Rs. 55,000,000 (Previous year Rs. 63,321,500) are secured by way of pledge of shares.

9 All the secured loans except as stated in 3 & 8 above are also personally guaranteed by some of the directors of the Company.

10 26,641,000 (Previous year 26,641,000) ZCPBs are to be redeemed in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a. by way of premium.

11 Term loans from financial institutions and banks include overdue loans of Rs.175,220,485 (Previous year Rs.175,220,485). Term Loans repayable within one year Rs.89,204,858/- (Previous year Nil).

4. UNSECURED LOANS

(Refer note no.B-9 of Schedule 19)	**As at 31.03.2008 Rs.**	As at 31.03.2007 Rs.
Zero coupon premium bonds	**527,700,000**	527,700,000
Term loans from banks	**208,000,886**	210,516,068
Loans from bodies corporate	**1,823,254,840**	680,821,279
Funded interest term loans	**91,377,566**	91,377,566
Premium payable on redemption of bonds	**197,793,537**	152,939,037
Interest accrued & due	**145,850,804**	35,666,829
	2,993,977,633	1,699,020,779

NOTES :

1 Term loans from banks are personally guaranteed by some of the directors of the Company. Term Loans repayable within one year Rs.6,705,512/- (Previous year Nil).

2 5,277,000 (Previous year 5,277,000) Zero coupon premium bonds of Rs.100/- each are personally guaranteed by some of the directors of the Company. These are to be redeemed in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a. by way of premium.

3 Loans from bodies corporate repayable within one year Rs.9,92,200,000 (Previous year Rs. 20,000,000)

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

5. FIXED ASSETS

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 31.03.2007	Additions	Deductions	**As at 31.03.2008**	Up to 31.03.2007	For the year	Deductions	**Up to 31.03.2008**	**As at 31.03.2008**	As at 31.03.2007
	Rs.	Rs.	Rs.	**Rs.**	Rs.	Rs.	Rs.	**Rs.**	**Rs.**	Rs.
1. Land - Leasehold	8,221,386	-	-	**8,221,386**	1,034,150	86,540	-	**1,120,690**	**7,100,696**	7,187,236
- Freehold	7,272,296	308,000	-	**7,580,296**	-	-	-	-	**7,580,296**	7,272,296
2. Buildings-Leasehold	14,500,411	-	-	**14,500,411**	4,526,403	-	-	**4,526,403**	**9,974,008**	9,974,008
- Freehold	137,505,634	6,839,200	-	**144,344,834**	46,802,021	5,164,170	-	**51,966,191**	**92,378,643**	90,703,613
- Leasehold Improvements	30,309,507	-	-	**30,309,507**	30,309,507	-	-	**30,309,507**	**-**	-
3. Plant & machinery	4,084,491,762	70,673,679	99,614	**4,155,065,827**	1,709,992,505	238,421,567	568	**1,948,413,504**	**2,206,652,323**	2,374,499,257
4. Electrical installation	49,519,060	118,566	-	**49,637,626**	40,922,465	1,654,657	-	**42,577,122**	**7,060,504**	8,596,595
5. Furniture & fixtures	38,299,162	1,162,558	1,119,057	**38,342,663**	31,387,069	1,912,196	440,259	**32,859,006**	**5,483,657**	6,912,093
6. Office equipments	172,806,865	4,691,689	506,313	**176,992,241**	151,532,048	5,178,627	290,943	**156,419,732**	**20,572,509**	21,274,817
7. Vehicles	49,702,344	2,049,564	4,183,787	**47,568,121**	38,270,116	3,288,045	3,197,673	**38,360,488**	**9,207,633**	11,432,228
8. Moulds & dies	536,231	-	-	**536,231**	529,727	1,953	-	**531,680**	**4,551**	6,504
Total	4,593,164,658	85,843,256	5,908,771	**4,673,099,143**	2,055,306,011	255,707,755	3,929,443	**2,307,084,323**	**2,366,014,820**	2,537,858,647
Previous year	5,189,377,884	65,786,379	661,999,605	4,593,164,658	2,095,021,821	252,400,644	292,116,454	2,055,306,011	2,537,858,647	2,737,836,859
Capital work-in progress									**96,251,040**	118,847,890

NOTES :-

1. Out of the depreciation for the year an amount of Rs.93,262/- (Previous year Rs Nil) has been transferred to prior period adjustment account.

2. Gross block and Net block of fixed assets is net of provision for impairment made in Financial Year 2004-05 in respect of Plant & Machinery Rs.342,833,202, Electrical Installation Rs.1,245,295 and Office Equipments Rs.12,440,707.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

6. INVESTMENTS

	Face value per share/ debenture	As at 31.03.2008 No.of shares/ debentures	**Amount Rs.**	**Amount Rs.**	As at 31.03.2007 No.of shares/ debentures	Amount Rs.
A. LONG TERM INVESTMENTS (AT COST)						
(i) **TRADE INVESTMENTS**						
IN EQUITY SHARES (FULLY PAID UP)						
Unquoted						
Microwave Communications Ltd. (MCL) *	10	12,187,440	**-**		12,187,440	-
Himachal Exicom Communications Ltd.	10	2,127,663	**146,367,664**		2,127,663	146,367,664
HFCL Kongsung Telecom Ltd.	10	620,100	**-**		620,100	-
Consolidated Futuristic Solutions Ltd.	10	9,592,600	**-**		9,592,600	-
HFCL Satellite Communications Ltd. (HSCL) **	10	2,400,000	**-**		2,400,000	-
HFCL Dacom Infochek Ltd. (HDIL)	10	1,409,500	**-**		1,409,500	-
HFCL Bezeq Telecom Ltd.	10	100	**-**		100	-
WPPL Ltd.	10	10	**-**		10	-
Platinum EDU Ltd.	10	400	**-**		400	-
Westel Wireless Ltd.	10	89,700	**-**		89,700	-
Pioneer.net Pvt Ltd.	10	5,200,000	**-**		5,200,000	-
Pagepoint Services (India) Pvt. Ltd.	10	49	**490**		49	490
Cleave Global e-Services Ltd.	10	300,000	**-**		300,000	-
Fascel Limited	10	100	**1,000**		100	1,000
Apex Enterprises (India) Limited	10	39,999	**2**		39,999	2
AB Corp Ltd.$	10	13,300,000	**1,650,000,000**		13,300,000	1,650,000,000
Gujarat Pickers Industries Ltd.	10	500,000	**-**		500,000	-
D L M Construction Pvt. Ltd.	10	150,000	**-**		150,000	-
Ja Ra Investments Pvt. Ltd.	100	15,000	**-**		15,000	-
Sant Lal Jain & Sons Pvt. Ltd.	100	10,000	**-**		10,000	-
Softline Leasing & Finance Ltd.	10	150,000	**-**		150,000	-
Midas Communication Technologies Pvt. Ltd.	10	2,642	**3,000,000**		300,000	3,000,000
Etco Telecom Ltd	10	1,200,000	**36,000,000**		1,200,000	36,000,000
Creative Properties Pvt. Ltd.	100	19,800	**19,800,000**		19,800	19,800,000
				1,855,169,156		1,855,169,156
* shares pledged with IDBI as a security for the term loan given by IDBI to MCL.						
** shares pledged with IFCI as a security for the term loan given by IFCI to HSCL.						
$ 6,500,000 shares are pledged as security for the term loan given by OBC to HSCL and the Company. 6,800,000 shares are pledged as security for the term loan given by ICICI Bank to the Company.						
(ii) **INVESTMENT IN SUBSIDIARY COMPANIES**						
IN EQUITY SHARES (FULLY PAID UP)						
Unquoted						
HFCL Infotel Ltd. (HIL) # (Formerly known as The Investment Trust of India Limited)	10	325,205,000	**3,252,050,000**		330,160,000	3,301,600,000
HTL Ltd. (Refer note no. B-12 of Schedule 19)	100	1,110,000	**553,710,000**		1,110,000	553,710,000
Moneta Finance Pvt. Ltd.	10	300,000	**3,700,000**		300,000	3,700,000
# 163,000,000 shares pledged with IDBI as a security for the term loan given by IDBI to HIL and 47,500,000 shares pledged with other lenders as a security for the loans to the Company.				**3,809,460,000**		3,859,010,000
IN 2% (7.5%) CUMULATIVE REDEEMABLE PREFERENCE SHARES (FULLY PAID UP)						
Unquoted						
HFCL Infotel Ltd. (HIL)	100	6,500,000		**650,000,000**	6,500,000	650,000,000

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

	Facevalue pershare/ debenture	As at 31.03.2008 No.of shares/ debentures	**Amount Rs.**	**Amount Rs.**	As at 31.03.2007 No.of shares/ debentures	Amount Rs.
(iii) IN 0% OPTIONALLY FULLY CONVERTIBLE DEBENTURES						
Unquoted						
Amrit Sales Promotion Pvt. Ltd.	100	11,906,150	**597,215,000**		11,906,150	597,215,000
Apex Enterprises (India) Limited	100	24,175,860	**607,612,984**		24,175,860	607,612,984
Apurva Vanijya Pvt. Ltd.	100	420,000	**42,000,000**		420,000	42,000,000
Authentic Finance Pvt. Ltd.	100	58,061,080	**1,259,108,000**		58,061,080	1,259,108,000
APJR Traders & Commission Agent Pvt. Ltd.	100	100,000	**10,000,000**		100,000	10,000,000
Bachhawat Share Broking Pvt. Ltd.	100	147,000	**14,700,000**		147,000	14,700,000
Basant Marketing Pvt. Ltd.	100	2,000,000	**200,000,000**		2,000,000	200,000,000
Database Software & Technology Pvt. Ltd.	100	4,500,000	**450,000,000**		4,500,000	450,000,000
Etco Telecom Ltd.	100	3,000,000	**300,000,000**		3,000,000	300,000,000
Etisha Finance & Investment Pvt. Ltd.	100	685,000	**68,500,000**		685,000	68,500,000
Igloo Commerce Pvt. Ltd.	100	734,000	**51,800,000**		734,000	51,800,000
Lexus Infotech Ltd.	100	5,130,000	**513,000,000**		5,130,000	513,000,000
Shyam Basic Infrastructure Projects (P) Ltd. (formerly known as Shyam Telecommunications Pvt. Ltd.)	100	6,434,000	**643,400,000**		6,434,000	643,400,000
Telelink Finance Pvt. Ltd.	100	2,113,000	**91,100,000**		2,113,000	91,100,000
Vaibhav Credit & Portfolio Pvt. Ltd.	100	2,104,000	**649,136,058**		2,104,000	649,136,058
VSB Investment Pvt. Ltd.	100	225,000	**22,500,000**		225,000	22,500,000
Wonderland Finance Pvt. Ltd.	100	-	-		75,000	7,500,000
Westel Wireless Ltd.	100	126,000	**12,600,000**		126,000	12,600,000
			5,532,672,042			5,540,172,042
Less: Provision for diminution in value			**4,597,472,042**			4,597,472,042
				935,200,000		942,700,000
B. CURRENT INVESTMENTS						
(AT LOWER COST AND FAIR VALUE)						
OTHER INVESTMENTS						
IN EQUITY SHARES (FULLY PAID UP)						
Quoted						
Sumedha Fiscal Services Ltd	10	18,200	**159,978**		18,200	161,616
Indo Vanilion Ltd	10	50,000	**35,000**		50,000	35,000
Valiant Communications Ltd	10	8,700	**87,000**		8,700	87,000
Shrachi Securities Ltd	10	91,700	**1,375,500**		91,700	1,375,500
				1,657,478		1,659,116
Unquoted						
The Greater Bombay co-op Bank Ltd.	25	4,000		**100,000**	4,000	100,000
IN UNITS (FULLY PAID UP)						
Quoted						
Mutual Fund - Cash Management Dividend	10	12,839		**130,092**	12,132	122,850
				7,251,716,726		7,308,761,122

NOTES :

	As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
1. Aggregate book value of investments		
-Quoted	**1,787,570**	1,781,966
-Unquoted	**7,249,929,156**	7,306,979,156
2. Aggregate market value of quoted investments	**10,676,883**	5,858,883

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

	As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
7. INVENTORIES		
(As Certified and valued by the management)		
Stores & spare parts	**8,913,163**	9,726,228
Loose tools	**1,846,648**	2,486,977
Raw materials	**330,858,495**	309,765,030
Raw materials in transit	**107,211,597**	38,915,730
Stock in trade - securities *	**75,070,534**	74,862,784
Packing materials	**653,178**	493,488
Work in process**	**276,465,806**	304,435,810
Finished goods	**6,759,178**	7,404,437
	807,778,599	748,090,484
*(Refer note no.B-7 of Schedule 19)		
**(Refer note no.B-8 of Schedule 19)		
8. SUNDRY DEBTORS		
(Unsecured)		
Debts outstanding for a period exceeding six months		
Considered good *	**5,253,768,673**	4,735,186,476
Considered doubtful	**740,251,418**	243,034,470
Other debts *- considered good	**1,552,447,971**	3,213,981,425
	7,546,468,062	8,192,202,371
Less: Provision for doubtful debts	**740,251,418**	243,034,470
	6,806,216,644	7,949,167,901
* Includes receivable from subsidiaries : Debts outstanding for a period exceeding six months Rs.105,284,216/- (Previous year Rs128,532,948/-), Other debts Rs.646,464/- (Previous year Rs.41,650,385/-)		
9. CASH & BANK BALANCES		
Cash on hand	**2,572,646**	575,244
Cheques in hand	**4,032,235**	987,003
Balances with Scheduled banks in		
Current accounts	**54,156,160**	39,845,033
Fixed deposit accounts *	**218,359,724**	320,324,950
	279,120,765	361,732,230
(* includes fixed deposit receipts pledged with banks as margin money/under lien Rs.218,339,724 previous year Rs.320,308,589)		
10. OTHER CURRENT ASSETS		
Interest receivable	**12,919,600**	22,019,222
Security deposits	**52,335,683**	78,669,514
Insurance claim receivable	**2,467,266**	5,583,009
	67,722,549	106,271,745
11. LOANS AND ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Loans to others	**75,342,066**	73,242,949
Advances recoverable in cash or in kind or for value to be received	**361,774,765**	372,102,620
Advances to vendors	**423,757,720**	272,247,848
Balances with Central excise & Customs authorities	**48,687,278**	45,659,073
Advance payment of Income tax	**89,207,048**	55,532,369
	998,768,877	818,784,859

SCHEDULES FORMING PART OF THE ACCOUNTS ....contd.

		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
12. CURRENT LIABILITIES			
Sundry creditors		**1,560,739,851**	2,205,860,096
Unclaimed dividends *		**-**	1,558,690
Other liabilities		**274,587,319**	144,944,680
Advances from customers		**587,965,440**	838,968,609
		2,423,292,610	3,191,332,075
* These figures do not include any amounts, due and outstanding, to be credited to Investor Education and Protection Fund.			
13. PROVISIONS			
Provision for Tax		**90,113,986**	85,668,952
Provisions for employees' retirement benefits		**17,185,815**	9,613,874
		107,299,801	95,282,826
14. OTHER INCOME			
		2007-2008 Rs.	2006-2007 Rs.
Interest (Gross)			
On fixed deposits	**13,413,418**		20,904,435
(TDS Rs.4,065,568 ; previous year Rs.3,587,838)			
On loans and advances	**4,807**		6,897
Others	**2,923,133**		2,974,234
		16,341,358	23,885,566
Appreciation/(Diminution) in value of investments (to the extent of cost price)		**(1,638)**	107,016
Profit on sale of investments (net)		**-**	31,439,706
Dividends on investments (Gross)		**92,187**	456,857
Miscellaneous income		**2,301,667**	788,987
		18,733,574	56,678,132
15. INCREASE/(DECREASE) IN STOCK			
Opening stock			
Finished goods		**7,404,437**	9,798,929
Stock in trade - securities		**74,862,784**	93,088,204
Work in process		**304,435,810**	390,271,578
		386,703,031	493,158,711
Closing stock			
Finished goods		**6,759,178**	7,404,437
Stock in trade - securities		**75,070,534**	74,862,784
Work in process		**276,465,806**	304,435,810
		358,295,518	386,703,031
Increase/(Decrease) in Stock		**(28,407,513)**	(106,455,680)
16. MATERIALS CONSUMED/COST OF GOODS SOLD			
Opening stock		**309,765,030**	259,052,902
Add : Purchases during the year *		**2,719,204,890**	8,529,396,216
		3,028,969,920	8,788,449,118
Less : Sales of Raw material		-	6,735,614
Less : Closing stock		**330,858,495**	309,765,030
		2,698,111,425	8,471,948,474

* includes goods purchased for resale amounting to Rs.1,770,001,441 (Previous year Rs.4,751,749,816)

SCHEDULES FORMING PART OF THE ACCOUNTS...contd.

		2007-2008 Rs.	2006-2007 Rs.
17. MANUFACTURING AND OTHER EXPENSES			
Payments to and provisions for employees			
Salaries, wages and bonus	**200,740,066**		209,041,283
Contribution to provident & other funds	**13,858,868**		14,532,256
Welfare expenses	**24,145,230**		24,440,497
		238,744,164	248,014,036
Operating and other expenses			
Consumption of packing material	**19,112,891**		11,234,620
Consumption of stores and spare parts	**16,553,392**		13,476,913
Loose tools written off	**711,745**		958,544
Power, fuel and water charges	**17,130,441**		14,741,943
Repairs to buildings	**1,427,839**		1,929,384
Repairs to machinery	**3,206,572**		13,819,267
Other repairs	**19,229,767**		6,277,240
Rent	**35,967,702**		35,259,646
Rates and taxes	**11,835,658**		9,142,892
Insurance charges	**11,763,960**		18,809,725
Auditors remuneration			
Audit fees	**2,471,920**		2,247,200
In other capacity	**1,402,253**		1,116,788
Out of pocket expenses	**138,053**		109,975
Legal and professional charges	**35,517,560**		71,070,808
Communication expenses	**16,304,219**		14,535,422
Traveling, conveyance and vehicle expenses	**63,303,451**		56,720,994
Labour and service charges	**297,686,039**		104,790,465
Directors fees	**190,000**		181,000
Charity & Donation	**321,818**		258,856
Increase/(decrease) in excise duty on finished goods	**28,055**		335,952
Foreign exchange fluctuation	**(5,379,109)**		(29,766,714)
Other expenses	**12,877,932**		43,494,558
		561,802,158	390,745,478
Royalty		**-**	29,899,382
Liquidated Damages		**13,477,742**	28,537,744
Selling and distribution expenses		**28,432,199**	48,795,222
Technical know-how fee written off		**16,007,813**	8,362,556
		858,464,076	754,354,418
18. FINANCE CHARGES			
Interest and upfront fee on debentures and fixed loans		**143,967,922**	91,578,806
Interest on other loans (net) (Refer note no. B-6 of Schedule 19)		**510,892,316**	238,517,170
Discounting & bank charges		**38,866,504**	65,933,967
		693,726,742	396,029,943

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

19. NOTES FORMING PART OF THE ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Method of Accounting

(a) The financial statements are prepared on the historical cost convention and in accordance with the Generally Accepted Accounting Principles ('GAAP').

(b) The Company follows accrual system of accounting in the preparation of accounts except where otherwise stated.

(c) The preparation of the financial statements in conformity with GAAP requires that the management of the Company makes estimates and assumptions that affect the reported accounts of income and expenses of the period, reported values of assets and liabilities and disclosures relating to contingent assets and liabilities as of date of the financial statements. Examples of such estimates include provision for doubtful debts, provision for doubtful loans and advances, provisions for diminution in value of investments, estimated period of utility of software package, provision for value of obsolete/non moving inventories etc. Actual results may differ from these estimates.

2. Fixed Assets

(a) Fixed Assets are stated at actual cost less accumulated depreciation and impairment loss. Actual cost is inclusive of freight, installation cost, duties, taxes and other incidental expenses for bringing the asset to its working conditions for its intended use but net of CENVAT.

(b) Capital Work-in-Progress

All expenses incurred for acquiring, erecting and commissioning of fixed assets including interest on long term loans utilized for meeting capital expenditure and incidental expenditure incurred during construction of the projects are shown under capital work-in-progress and are allocated to the fixed assets on the completion of the respective projects. The advances given for acquiring fixed assets are also shown along with capital work in progress.

(c) Intangible Assets- Revenue expenditure of specialized R&D including its depreciation incurred for development and improvement of technology, products and designs etc. which will generate probable future economic benefits are recognised as intangible assets.

3. Leases

(a) Finance Lease or similar arrangements, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized and disclosed as leased assets. Finance charges are charged directly against income.

(b) Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account or on a basis, which reflect the time pattern of such payment appropriately.

4. Depreciation, Amortisation and Impairment

(a) Depreciation is provided for on Buildings (including buildings taken on lease) and Plant & Machinery on straight line method and on other fixed assets on written down value method at the rates prescribed in the Schedule XIV of the Companies Act,1956.

(b) Depreciation due to increase or decrease in the liability on account of exchange fluctuation or on account of rollover charges on forward exchange contract is provided prospectively over the residual life of the assets.

(c) On assets acquired on lease (including improvements to the leasehold premises), depreciation has been provided for on Straight Line Method at the rates as per Schedule XIV of the Companies Act, 1956 or at the rates worked out on the basis of remaining useful life of the assets, whichever is higher.

(d) Premium on leasehold land is amortised over the period of lease.

(e) The Technical Know-how fees is written off over a period of six years from the year of the commencement of commercial production of the respective projects. Where the production has not commenced and the benefit of know- how is unlikely to accrue, the fee paid therefore is fully written off in the year in which it is so determined.

(f) Intangible assets are amortised over a period of five years or life of the product considered at the end of each financial year whichever is earlier. Amortisation commences when the asset is available for use.

(g) At the balance sheet date, an impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

5. Investments

(a) The cost of an investment includes incidental expenses like brokerage, fees and duties incurred prior to acquisition.

(b) Long term investments are shown at cost. Provision for diminution is made only if, in the opinion of the management such a decline is other than temporary.

(c) Investments which are intended to be held for less than one year are classified as current investments and are carried at lower of cost and fair value determined on an individual investment basis.

(d) Advance against share application money are classified under the head "Investments".

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

6. Inventories

(a) Raw Materials, Materials in transit, Packing Materials, Stores & Spares and Components	At cost or net realizable value whichever is lower.
(b) Finished Goods and Work-in-Process	At lower of cost and net realizable value
Note : Cost of Inventories is ascertained on First in First out (FIFO) basis.	
(c) Stock in trade - Quoted	At lower of cost and market value
- Unquoted	At lower of cost and break up value
(d) Contract Work in Progress	At cost
(e) Loose Tools	After write-off at 27.82% p.a.

7. Revenue Recognition

(a) Sales & services include sales during trial run and excise duty recoverable. Liquidated damages are accounted for as and when they are ascertained.

(b) Revenue in respect of long term turnkey works contracts is recognised under percentage of completion method subject to such contracts having progressed to a reasonable extent. Revenue in respect of other works contracts and services is recognised on completed contract method.

(c) Insurance claims are accounted for as and when admitted by the concerned authority.

8. Foreign Currency Transactions

(a) Transactions denominated in foreign currency are normally recorded at the exchange rate prevailing at the time of the transactions.

(b) Monetary items denominated in foreign currency at the year end and not covered under forward exchange contracts are translated at the year end rates.

(c) Any income or expense on account of exchange difference between the date of transaction and on settlement or on translation is recognised in the profit and loss account as income or expense.

(d) In case of forward exchange contracts, the premium or discount arising at the inception of such contracts, is amortised as income or expense over the life of the contract, further exchange difference on such contracts i.e. difference between the exchange rate at the reporting /settlement date and the exchange rate on the date of inception of contract/the last reporting date, is recognized as income/ expense for the period except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

9. Provisioning/Write off of Doubtful Debts

The sundry debtors which are outstanding for more than three years from their respective due dates are written off to profit and loss account. The debtors which are outstanding for more than two years but less than three years are provided for at 100% whereas debtors outstanding for more than one year but less than two years are provided for at 30% of the amount outstanding. No write off or provisions are made for specific cases where management is of the view that the amounts are recoverable even if falling under the ageing as mentioned above.

10. Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset are capitalized as part of cost of such asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

11. Excise and Customs Duty

Excise duty payable on production is accounted for on accrual basis. Provision is made in the books of account for customs duty on imported items on arrival and lying in bonded warehouse and awaiting clearance.

12. CENVAT Credit

The CENVAT credit available on purchase of raw materials, other eligible inputs and capital goods is adjusted against excise duty payable on clearance of goods produced. The unadjusted CENVAT credit is shown under the head “Loans and advances”.

13. Employees Benefits

(Effective April 1, 2007, the Company has adopted the Revised Accounting Standard – 15(Revised-2005) ‘Employee Benefits’. The relevant policies are:

Short Term Employee Benefits

Short term employee benefits are recognised in the period during which the services have been rendered.

Long Term Employee Benefits

(a) Defined Contribution plan

(i) Provident Fund and employees’ state insurance schemes

All employees of the Company are entitled to receive benefits under the Provident Fund, which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan at a predetermined rate (presently 12%) of the employees’ basic salary. These contributions are made to the fund administered and managed by the Government of India. In addition, some employees of the Company are covered under the employees’ state insurance schemes, which are also defined contribution schemes recognized and administered by the Government of India.

The Company’s contributions to both these schemes are expensed in the Profit and Loss Account. The Company has no further obligations under these plans beyond its monthly contributions.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

(ii) Gratuity

The Company provides for gratuity obligations through a defined benefit retirement plan (the 'Gratuity Plan') covering all employees.

The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee salary and years of employment with the Company. The Company provides for the Gratuity Plan based on actuarial valuations in accordance with Accounting Standard 15 (revised), "Employee Benefits" The Company makes annual contributions to the HDFC Standard Life Insurance Company Ltd for the Gratuity Plan in respect of employees. The present value of obligation under gratuity is determined based on actuarial valuation using Project Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

(b) Other long term benefits

Leave Encashment The Company has provided for the liability at period end on account of unavailed earned leave as per the actuarial valuation as per the Projected Unit Credit Method.

(c) Actuarial gains and losses are recognized as and when incurred.

14. Preliminary, Securities issue expenses and Redemption premium

Preliminary, Securities issue expenses and Redemption premium on bonds and debentures are adjusted against securities premium account.

15. Research & Development Costs

Revenue expenditure on research phase is charged to Profit & Loss Account in the year in which it is incurred. Capital Expenditure is added to the cost of fixed assets.

16. Taxes on Income

Tax expense comprises both current and deferred taxes. Current tax is provided for on the taxable profits of the year at applicable tax rates. Deferred taxes on income reflect the impact of 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 recognized only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

17. Segment Reporting

Segments are identified in line with the Accounting Standard on Segment Reporting (AS-17) taking into account the organization structure as well as the differential risk and returns of the segments. The unallocable items include income and expenses items which are not directly identifiable to any segment and therefore not allocated to any business segment.

18 Earnings Per Share

In determining earnings per share, the Company considers the net profit after tax and includes the post-tax effect of any extra ordinary items. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period.

19. Contingent Liabilities

No provision is made for liabilities which are contingent in nature but if material, the same are disclosed by way of notes to the accounts.

B. OTHER NOTES	**As at 31.03.2008 Rs.**	As at 31.03.2007 Rs.
1 Contingent Liabilities not provided for in respect of :		
(a) Unexpired Letters of Credit (margin money paid Rs.4,554,544 ; Previous year Rs.69,049,887)	**34,679,788**	368,993,840
(b) Guarantees given by banks on behalf of the Company (margin money kept by way of fixed deposits Rs.153,700,542 ; Previous year Rs.191,291,064)	**834,176,692**	1,582,574,688
(c) Counter Guarantees given by the Company to the financial institutions/banks for providing guarantees on behalf of companies promoted by the Company. (margin money kept by the banks by way of fixed deposits Rs.Nil ; Previous year Rs. Nil)	**7,225,671,621***	7,225,671,621

*This excludes Company's counter guarantees of Rs.56.70 crore in respect of guarantees provided by the banks and institutions on behalf of HFCL Bezeq Telecom Ltd. for bid bonds to Department of Telecommunications (DoT) towards tender for operation of basic telephone services as the guarantees have already expired and the Hon'ble Delhi High Court vide its order dated 19.09.97 granted permanent

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
	injunction restraining the DoT from invoking the said guarantees. The appeal filed by DoT against this also stands dismissed. The DoT has filed application for restoration of appeal before the Double Bench of the Hon'ble High Court of Delhi which has been allowed and matter is now pending for decision.		
	(d) Arrears of Dividend on Cumulative redeemable preference shares (net of advances)	**543,856,325**	491,531,325
2	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	**18,318,194**	19,564,006
3	a) Claims against the Company towards sales tax, income tax and others in dispute not acknowledged as debt	**33,514,747**	31,625,834
	b) Other claims against the company not acknowledge as debt	**65,114,438**	-

4 Directors remuneration including Managing Director (excluding provision for gratuity)

	2007-2008 * Rs.	2006-2007 Rs.
(i) Salaries	-	9,390,000
(ii) Contribution to provident fund	-	1,126,800
(iii) Perquisites and allowances	-	8,736,630
	-	19,253,430

* As the Company has no profits to pay remuneration to a managerial personnel's, the appointment of and remuneration of the managerial personnel's required approval of Central Government. Pending the approval of the Central Government, the remuneration of Rs.18,204,389 paid to the managerial personnel's during the year 2007-08 was shown as recoverable from them as at 31st March, 2008.

5 Advances recoverable in cash or in kind or for value to be received include the following interest free advances to its other promoted companies: :

	As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
HFCL Satellite Communications Ltd	**-**	58,612,831

6 Interest income from loans and advances and others is net of interest charges amounting to Rs.782,875/- (Previous year Rs.816,645/-) on loans raised and utilised for the purpose.

7 Stock in trade - Securities include equity shares of the following companies:

	As at 31.03.2008		As at 31.03.2007	
	Qty	**Amount(Rs.)**	Qty	Amount(Rs.)
Adinath Bio Labs Ltd.	**640,800**	**14,738,400**	640,800	14,738,400
Granules India Ltd.	**100,000**	**3,200,000**	100,000	3,200,000
Manvens Biotech Ltd.	**1,700**	**230,219**	1,700	230,219
Media Matrix Worldwide Ltd.	**4,750**	**25,745**	4,750	23,750
Optimates Textile Ltd.	**1,302,500**	**9,703,625**	1,302,500	9,703,625
Rashel Agrotech Ltd.	**478,500**	**1,205,820**	478,500	1,000,065
Sahara India Media and Entertainment Ltd.	**250,950**	**45,966,725**	250,950	45,966,725
		75,070,534		74,862,784

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

8. The disclosures as per the Accounting Standard 7 on 'Construction Contracts' issued by Institute of Chartered Accountants of India are as under

	As at 2007-2008 Rs.	As at 2006-2007 Rs.
Contract revenue recognized as revenue in the year	**848,646,800**	452,659,289
Aggregate amount of costs incurred and recognized profit up to the reporting date on the contract under progress	**120,869,342**	147,746,890
Advance received on contract under progress	**56,519,367**	21,427,427
Retention amounts on contract under progress	**NIL**	NIL
Gross amount due from customers for the contract work as on assets	**122,008,765**	278,910,357
Gross amount due to the customers for contract work as a liability	-	65,648,438

9. a The Company had approached its lenders viz. Banks and Financial Institutions for financial restructuring and a financial restructuring package, has been approved under the Corporate Debt Restructuring (CDR) mechanism by the CDR Empowered Group of lenders vide letter dated 6th April, 2004. Subsequently the CDR Empowered Group in its meeting held on 8th June, 2005 has approved modifications to the aforesaid CDR package with the cut off date as 1st April, 2005 and communicated to the company vide their letter No. BY CDR(ALB)/No 404 dated 24.06.2005. The modification in the CDR package include, inter-alia, reduction of interest rate on loans with effect from new cut off date, reschedulement of repayment of loans and Cumulative Redeemable Preference Shares (CRPS) and conversion of certain loan amounts into Zero Coupon Premium Bonds (ZCPBs) . The said CDR package also stipulates conditions to be complied with by the Company and arrangement of additional infusion of working capital from existing or new lenders.

b The Company has complied with most of the conditions as stipulated in CDR package and Master Restructuring Agreement (MRA) has been signed with the lenders. Pursuant to the modified CDR package :

i) Interest to banks and financial institutions has been accounted for at the rates specified in the said package.

ii) The Cumulative Redeemable Preference Shares (CRPS) aggregating to Rs. 805,000,000 shall be redeemed at the rate of 25% and 75% of the face value in the financial years ending 31st March, 2018 and 31st March, 2019, respectively and will carry the coupon rate of 9% from old cut off date till new cut off date and 6.50% from new cut off date. (Also refer Note no.9(c) below)

iii) The Company has issued 23,600,000 and 8,318,000 Zero Coupon Premium Bonds (ZCPBs) of Rs.100 each on 30th October, 2004 and 8th October, 2005 respectively in lieu of the part of term loans and debentures from financial institutions and banks. ZCPBs are to be redeemed in 48 monthly installments, from 30th April, 2011 and ending 31st March, 2015 on ballooning basis to ensure yield of 8.5% p.a.on simple interest basis by way of premium payable in 36 monthly interest free installments commencing from 30th April, 2015 till 31st March, 2018.

iv) Secured and unsecured working capital loans from banks amounting to Rs. 315,000,000 and Rs. 76,405,937 respectively have been converted into working capital term loans to be repaid in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a.on simple interest basis.

v) The outstanding principal amount of secured and unsecured term loans (after conversion into OFCDs and ZCPBs) amounting to Rs.1,756,819,801 (Previous year Rs.1,784,097,161) and Rs.131,594,949 (Previous year Rs.134,110,131) respectively from financial institutions and banks have been rescheduled so as to be repaid on ballooning basis in monthly installments commencing from 30th April, 2007 till 31st March, 2013. The installments fallen due/repayable during the year amounted to Rs.61,927,498 and 4,190,330 which have not been paid respectively for Secured and unsecured loans.

vi) Funded Interest Term Loan (FITL) amounting to Rs.871,947,456 (Previous year Rs.871,947,456) is repayable in twenty four monthly installments commencing from 30th April, 2017 till 31st March, 2019 and shall not carry any interest.

vii) The Company is required to open and operate Trust and Retention Account and the rights, title and interest in all bank accounts have to be assigned to the lenders by way of first ranking security interest.

viii) The Company has to create securities as stipulated by the CDR Empowered Group.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

c Some of the Cumulative Redeemable Preference Share (CRPS) shareholders have disputed the modified terms of redemption and rate of dividend as per CDR package on the ground that they have not agreed to any of the restructuring granted by CDR empowered group and hence original terms and conditions of 12% CRPS continues to be in force and accordingly are insisting for redemption and dividend as per the original terms of the issue of CRPS.

The management has requested the said CRPS shareholders to accord their approval to revised package in view of the present financial position of the company. One of the shareholders, has, however filed case against the company for recovery which is being contested.

d The company is in process of reconciliation of balances with some of the lenders i.e. financial institutions and banks. Adjustments, if any, on account of interest/ principal will be made when the same are confirmed by them.

10. In terms of the modified CDR package, Company has to pay interest on term loans on ballooning basis over the period 2006 to 2013 at the ballooning rates of interest from 2% to 15.5% p.a. . The Company accounts for interest at the rate it is required to pay during the respective year in terms of the aforesaid package, which is 4.5% p.a. on monthly rests for this year, in place of @ 8.50% p.a. i.e. on YTM basis. Had the interest been provided for on YTM basis, the loss for the year would have been higher by Rs.79,317,839/- and the accumulated debit balance in the Profit and Loss Account would have been higher by Rs.308,719,243/-.

11. Advances recoverable in cash or in kind or for value to be received includes an amount of Rs.22,170,704 (Previous year Rs.22,170,704) on account of work contract undertaken by the Company which was terminated by the customer on the ground of non completion in the agreed time. The Company had disputed the same and took the dispute in arbitration for decision. The Arbitral Tribunal has given the award in favour of the Company. However, the other party has appealed against the award in the Hon'ble High Court at Delhi which is still pending for decision by the High Court.

    Pending final outcome of the appeal, the above amount is shown under the head advances recoverable and the loss, if any, arising therefrom shall be adjusted/accounted for on receipt of the order of the High Court.

12. Pursuant to the disinvestment by the Government of India, the Company had acquired 1,110,000 equity shares of Rs.100/- each of HTL Limited representing 74% of its equity capital at total consideration of Rs. 550,000,000 in terms of Shareholders Agreement dated 16.10.2001. The above consideration paid by the Company is subject to post closing adjustments on account of difference in net worth of HTL Limited as on 31.03.2001 and as on the date of purchase of shares in terms of Share Purchase Agreement dated 16.10.2001. The Company has submitted its claim on account of Closing Date Adjustment to the Government in respect of such reduction in net assets of HTL Limited which has not been settled by the Government. Due to this, the Company has invoked the provisions of the Share Purchase Agreement for settlement of dispute by Arbitration. The Hon'ble Arbitral Tribunal has since given the award in favour of the company on 10th October, 2007 upholding the claim of the company on account of the above to the extent of Rs. 550,000,000/- and interest from the date of award.

    Since the Government of India has gone in appeal against the above arbitral award which is yet to be decided by the Hon'ble High Court, no adjustment has been made in the accounts in respect of above award. It shall be made as and when the appeal is decided finally.

13. The Company had made a payment of Rs.113,375,183 to certain cumulative preference shareholders as per contractual obligations in the earlier years. The said amounts paid have been treated as "advances" to be adjusted against future expected liability of dividend on cumulative preference shares.

14. The investments and securities in stock in trade of erstwhile HFCL Trade Invest Ltd., which amalgamated with the Company with effect from 31st March, 2003, have since been registered in the name of the Company.

15. One of the lenders has transferred 3,455,000 equity shares of Rs.10/- each of HFCL Infotel Ltd, which were placed with them as security, in their name as beneficial owner. During the year the lender has sold these shares and adjusted the realised amount against outstanding loans.

16. In view of the Companies (Accounting Standards) Rule, 2006 issued by the Ministry of Corporate Affairs vide notification dated 7th December, 2006, the Company has changed its accounting policy with effect from. Ist April, 2007, relating to recognition of foreign exchange fluctuation on repayment and conversion of liability pertaining to loans for fixed assets acquired from a country outside India. Consequently, such foreign exchange fluctuation is now being charged / credited to the Profit and Loss Account instead of being adjusted to carrying value of respective fixed assets. Pursuant to this change, foreign exchange fluctuation gain for the year of Rs. 3,389/- (net) has been credited to Profit and Loss Account. Due to this change, loss for the year is lower by Rs. 1,320/- (net of higher depreciation of Rs. 2,069/- for the year).

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

17. In earlier year, one of the banks has transferred 30,000,000 equity shares of Rs.10/- each of HFCL Infotel Ltd, which were pledged with them as security against loan, in their name as beneficial owner and adjusted their loan amount against the value of those shares. The difference between the cost of the said securities and loan outstanding has been accounted for in earlier year as loss on sale of investment. Adjustment, if any, on account of actual realisation of securities by the bank shall be made as and when the same are disposed off.

18. The Accumulated losses of the company as at the end of the financial year have resulted in erosion of more than fifty per cent of its peak net worth during the immediately preceding four financial years. The Company, has reported the fact of such erosion to the BIFR and such erosion was considered by the shareholders in the Extra Ordinary General Meeting held on 25/02/2008, in compliance with the provisions of section 23 of the Sick Industrial Companies (Special Provision) Act, 1985.

19. Sundry debtors include debtors outstanding for more than two years amounting to Rs 2,718,495,501/-. The Company is making efforts to liquidate these dues and is also working on different modalities of recovery including assignment of its debtor outstanding for long period. Pending outcome of such exercise, an additional provision of Rs 497,216,948/- has been made during the year, which in the opinion of the management is adequate.

20. Excise duty on sales has been deducted from gross sales on the face of profit and loss account and 'Increase/(decrease) in excise duty on finished goods' has been shown under the head ' manufacturing and other expenses in schedule 17 as required by Accounting Standard - 9, 'Revenue Recognition' read with Accounting Standard Interpretation 14 (Revised) "Disclosure of Revenue from Sales Transactions."

21. The Company, during the year, has adopted Accounting Standard 15 (Revised) "Employees Benefits" issued by the ICAI.

During the year, Company has recognised the following amounts in the financial statements:

a) Defined Contribution Plan

Contribution to Defined Contribution Plan, recognised are charged off for the year are as under :

	Amount (Rs.)
Employer's Contribution to Provident Fund	7,854,432
Employer's Contribution to Pension Scheme	3,962,776

b) Defined Benefit Plan

The employees' gratuity fund scheme managed by HDFC Standard Life Insurance Company Limited a defined benefit plan. The present value of obligation is determined based on actuarial valuation using the Projected Unit Credit Method, which recognises each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation and the obligation for leave encashment is recognised in the same manner as gratuity.

Particulars		**Amount (Rs.)**
	Gratuity (Funded)	**Leave Encashment**
Actuarial assumptions :		
Motility Table (HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy)		
Discount rate (per annum)	8.00%	8.00%
Rate of increase in Compensation levels	5.00%	8.00%
Rate of Return on plan assets	8.00%	N.A.
Average remaining working lives of employees (Years)	-	20.05
Table showing changes in present value of obligations :		
Present value of obligation as at the beginning of the year	22,157,345	14,787,484
Acquisition adjustment	Nil	Nil
Interest Cost	1,764,376	1,186,241
Past service cost	Nil	Nil
Current Service Cost	2,785,074	2,376,348
Curtailment cost / (Credit)	Nil	Nil
Settlement cost /(Credit)	Nil	Nil
Benefits paid	(5,775,450)	(2,338,695)
Actuarial (gain)/ loss on obligations	3,258,508	842,130
Present value of obligation as at the end of the period	24,189,853	16,853,508

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

Table showing changes in the fair value of plan assets :		
Fair value of plan assets at beginning of the year	119,038	Nil
Acquisition adjustments	Nil	Nil
Actual return of plan assets	775,051	N.A.
Employer contribution	12,456,824	Nil
Benefits paid	(5,775,450)	Nil
Actuarial gain/ (loss) on obligations	(1,075,673)	Nil
Fair value of plan assets at year end	6,499,790	Nil
Table showing actuarial gain /loss - plan assets :		
Actual return of plan assets	(300,622)	Nil
Expected return on plan assets	775,051	Nil
Excess of actual over estimated return on plan assets	Nil	Nil
Actuarial (gain)/ loss-plan assets	(1,075,673)	Nil
Actuarial Gain / loss recognised		
Actuarial (gain) / loss for the period - Obligation`	3,258,508	842,130
Actuarial (gain) / loss for the period - Plan assets	1,075,673	Nil
Total (gain) / loss for the period	4,334,181	842,130
Actuarial (gain) / loss recognized in the period	4,334,181	843,130
Unrecognised actuarial (gains) / losses at the end of the period	Nil	Nil
The amounts to be recognized in Balance Sheet and statement of Profit and Loss:		
Present value of obligation as at 31st March, 2008	24,189,853	16,853,508
Fair value of plan assets as at 31st March, 2008	6,499,790	Nil
Funded Status	(17,690,063)	(16,853,508)
Unrecognised actuarial (gains) / losses	Nil	Nil
Net asset / (liability) recognised in Balance Sheet	(17,690,063)	(16,853,508)
Expenses recognised in statement of Profit and Loss :		
Current service cost	2,785,074	2,376,348
Past service cost	Nil	Nil
Interest Cost	1,764,376	1,186,241
Expected return on plan assets	(775,051)	Nil
Curtailment and settlement cost /(credit)	Nil	Nil
Net Actuarial (gain)/ loss recognised in the period	4,334,181	842,130
Expenses recognised in the statement of Profit and Loss	8,108,580	4,404,719
Investment Details		
HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy	6,499,790	-

Note-1: The estimates of rate of escalation in salary considered in actuarial valuation, take into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market. The above information is certified by the actuary. This being the first year of implementation, previous year figures have not been given.

Note-2: The disclosure requirements and accounting treatment as required under Accounting Standard 15 (Revised 2005) are being first time implemented accordingly the difference amounting to Rs.5,526,287/- between existing provisions for employees benefits (Rs.9,261,197/-, as per erstwhile company policy) and provision for employees benefits in terms of AS-15(R) as at 01/04/2007 (Rs.14,787,484/-), have been added with accumulated Losses as at 01/04/2007.

22 In the opinion of the Board, the Current Assets, loans and advances are approximately, of the value stated, if realised in the ordinary course of business.

23 Lease payments under cancellable operating leases have been recognised as an expense in the profit & loss account. Maximum obligation on lease amount payable as per rentals stated in respective agreements are as follows:-

Amount (Rs.)

	2007-2008	2006-2007
Not later than one year	**14,306,392**	13,656,651
Later than one year but not later than five years	**13,176,126**	3,230,397

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

24. Balances of some of the sundry debtors, creditors, lenders ,loans and advances are subject to confirmations from the respective parties and consequential adjustments arising from reconciliation, if any. The Management, however is of the view that there will be no material adjustments in this regard.
25. As required by Accounting Standard 18 "Related Party Disclosures"

A. Name of related parties and description of relationship:

	Relationship	Related Party
(a)	Subsidiaries:	HFCL Infotel Ltd. HTL Ltd. CBSL Cable Networks Ltd. (formerly known as Connect Broadband Services Ltd.) Moneta Finance Pvt. Ltd.
(b)	Associates:	Consolidated Futuristic Solutions Ltd (in liquidation) HFCL Bezeq Telecom Ltd HFCL Dacom Infochek Ltd Infotel Business Solutions Ltd.(formely known as HFCL Internet Services Ltd) HFCL Kongsung Telecom Ltd HFCL Satellite Communications Ltd Himachal Exicom Communications Ltd Investment Trust of India Limited Microwave Communications Ltd. Pagepoint Services (India) Pvt. Ltd. Platinum EDU Ltd Westel Wireless Ltd WPPL Ltd
(c)	Key management personnel :	Mr. Mahendra Nahata Dr. R M Kastia Mr. Arvind Kharabanda
(d)	Relatives of key management personnel : (with whom transactions have taken place during the year)	Mrs. Kamala Kastia

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

B. Nature of transactions - The transactions entered into with the related parties during the year alongwith related balances as at 31st March, 2008 are as under :-

Particulars	Related parties referred above in		Amount (Rs.)
	1(a)	1(b)	1(d)
Purchases/receiving of			
Goods and materials	**2,060,000**	**1,498,874**	**-**
	(-)	(19,331,114)	(-)
Sales/rendering of *			
Goods and materials	**31,714,502**	**70,902,551**	**-**
	(60,648,017)	(391,415,119)	(-)
Services	**1,019,689**	**18,581,423**	**-**
	(2,942,071)	(102,257,483)	(-)
Expenses			
Rent/other expenses	**5,063,035**	**-**	**2,268,000**
	(503,000)	(-)	(1,890,000)
Interest on loans	**-**	**464,040**	**-**
	(-)	(-)	(-)
Finance (net)			
Advances given	**-**	**-**	**-**
	(21,707,000)	(3,972,600)	(-)

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

Particulars	Related parties referred above in		Amount (Rs.)
	1(a)	1(b)	1(d)
Loans given	**-**	**-**	**-**
	(5,000,000)	(-)	(-)
Advance Received	**20,200,000**	**289,472**	**-**
Outstanding (net)			
Payables	**-**	**12,767,860**	**-**
	(-)	(44,648,332)	(-)
Receivables	**159,155,375**	**385,338,730**	**-**
	(175,183,333)	(561,065,477)	(-)
Guarantees and collaterals	**5,766,340,621**	**1,459,331,000**	**-**
	(5,766,340,621)	(1,459,331,000)	(-)

Details of remuneration to directors are disclosed under note B-4

Figure in brackets represent the previous year figures

26. Segment Reporting

(a) Primary segment information

The Company's operations primarily relates to manufacturing of telecom products, executing turnkey contracts and providing services relating thereto. Accordingly segments have been identified in line with Accounting Standard on Segment Reporting 'AS-17' .Telecom products and Turnkey contracts and services are the primary business segments whereas Others constituting less than 10% of the segment revenue/results/assets have been considered as other business segments and are disclosed in the financial statements. Details of business segments are as follows:

Amount(Rs.)

Particulars	2007-2008	2006-2007
Segment Revenue		
a. Telecom Products	**1,759,842,922**	5,470,367,303
b. Turnkey Contracts and Services	**1,736,075,611**	5,641,641,558
c. Others	**-**	278,524,155
Total	**3,495,918,533**	11,390,533,016
Less:Inter segment revenue	**-**	-
Turnover/Income from Operations	**3,495,918,533**	11,390,533,016
Segment Results		
a. Telecom Products	**(866,859,601)**	362,679,107
b. Turnkey Contracts and Services	**107,857,729**	1,149,975,630
c. Others	**-**	7,847,712
Total	**(759,001,872)**	1,520,502,449
Less: i. Interest and Finance charges	**693,726,742**	396,029,943
ii. Other un-allocable expenditure net off un-allocable income	**48,311,683**	(61,717,885)
Profit/(Loss) before Tax	**(1,501,040,297)**	1,186,190,391
Capital Employed		
a. Telecom Products	**3,033,131,297**	3,914,643,435
b. Turnkey Contracts and Services	**925,497,131**	992,218,109
c. Others	**-**	54,195,920
Total capital employed in segments	**3,958,628,428**	4,961,057,464
Add: Un-allocable corporate assets less liabilities	**857,077,750**	1,636,963,333
Total capital employed in Company	**4,815,706,178**	6,598,020,797

(b) Secondary segment information

The Company caters mainly to the needs of Indian market and the export turnover being 1.16% (Previous year 2.67%) of the total turnover of the Company, there are no reportable geographical segments.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

27. Deferred Tax

The break up of net deferred tax liability is as under:

Amount (Rs.)

	2007-2008		2006-2007	
Particulars	**Deferred tax liability**	**Deferred tax asset**	Deferred tax liability	Deferred tax asset
Depreciation	**510,827,158**	**-**	538,909,254	-
Others	**-**	**5,605,786**	-	4,285,230
Unabsorbed losses (to the extent of liability only) *	**-**	**505,221,372**	-	534,624,024
	510,827,158	**510,827,158**	538,909,254	538,909,254
Net deferred tax liability		**Nil**		Nil

* On conservative basis the company recognises deferred tax asset only to the extent of deferred tax liability and excess of the deferred tax assets has not been given effect to in the Balance Sheet.

28. Discloser required under Micro, Small and Medium Enterprises Development Act, 2006 (the Act) are given as follows :

	Particulars	**Amount (Rs.) 2007 - 2008**
a.	Principal amount due	**1,071,539**
	Interest due on above	**207,835**
b.	Interest paid during the period beyond the appointed day	**Nil**
c.	Amount of interest due and payable for the period of delay in making payment without adding the interest specified under the Act.	**Nil**
d.	Amount of interest accrued and remaining unpaid at the end of the period	**Nil**
e.	Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to small enterprises for the purpose of disallowance as a deductible expenditure under Sec.23 of the Act	**Nil**

Note: 1. The above informations and that are given in schedule-12 ‘ Current Liabilities’ regarding Micro, Small and Medium Enterprises has been determine on the basis of information available with the Company and has been relied upon by the auditors.
Note: 2. The previous year figures are not provided as the company was in the process identifying the creditors under the Micro, Small and Medium Enterprises .

29. Earning per Share - In accordance with the Accounting Standard (AS-20)

Amount (Rs.)

		2007-2008	2006-2007
(a)	Basic Earning per share		
	Profit /(Loss) after tax	**(1,505,485,331)**	1,100,514,281
	Less: Preference dividend	**52,325,000**	52,325,000
	Profit attributable to ordinary shareholders	**(1,557,810,331)**	1,048,189,281
	Weighted average number of ordinary shares	**442,793,697**	408,099,052
	Nominal value of ordinary share	**10**	10
	Earning per share	**(3.52)**	2.57
(b)	Diluted Earning per share		
	Profit /(Loss) after tax	**(1,505,485,331)**	1,100,514,281
	Less: Preference dividend	**52,325,000**	52,325,000
	Profit attributable to ordinary shareholders	**(1,557,810,331)**	1,048,189,281
	Weighted average number of ordinary shares	**442,793,697**	408,099,052
	Nominal value of ordinary share	**10**	10
	Earning per share*	**(3.52)**	2.57

(*Ignored as the effect of potential equity shares is anti dilutive)

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

30. Details of loans and advances in nature of loans outstanding from Subsidiary for the year ended 31st March, 2008 - Disclosure required by Clause 37 of the Listing Agreement. Amount (Rs.)

Subsidiary Company	Outstanding as at		Maximum amount outstanding during the year	
	31.03.2008	31.03.2007	**31.03.2008**	31.03.2007
HFCL Infotel Ltd	**-**	-	**-**	20,000,000
HTL Ltd	**-**	6,670,000	**-**	-
Moneta Finance (P) Ltd.	**107,950**	50,000	**107,950**	50,000

31. Previous year's figures have been regrouped/reclassified wherever necessary and the figures have been rounded off to the nearest rupee.

32. Additional information pursuant to Paragraphs 3,4C and 4D of Part-II of the Schedule VI to The Companies Act, 1956 (Previous year's figures are in brackets unless otherwise shown in separate columns)

(A) Licenced and installed capacity and actual production

Product	Unit	Licenced * capacity	Installed capacity	Actual production
Analog subscriber carrier system	Lines	**N.A**	**20,000**	**-**
		(N.A)	(20,000)	(-)
Coils **	Nos	**N.A**	**600,000**	**-**
		(N.A)	(600,000)	(-)
30 CH-PCM	Nos	**N.A**	**2,028**	**-**
		(N.A)	(2,028)	(-)
Optical line terminal	Nos	**N.A**	**480**	**-**
equipment (OLTE)-systems #		(N.A)	(480)	(-)
OLTE terminals #	Nos	**N.A**	**1,200**	**-**
		(N.A)	(1,200)	(-)
STM ##	Nos	**N.A**	**1,200**	**-**
		(N.A)	(1,200)	(-)
Digital Cross Connection (DXC) ##	Nos	**N.A**	**225**	**-**
		(N.A)	(225)	(3)
D L C	Nos	**N.A**	**240**	**-**
		(N.A)	(240)	(-)
Dense Wavelength Digital Multiplexer (DWDM)	Nos	**N.A**	**150**	**-**
		(N.A)	(150)	(-)
Microwave communications equipments	Nos	**N.A**	**1,700**	**-**
		(N.A)	(1,700)	(-)
CorDECT (Infra/FWT)	Lines	**N.A**	**350,000**	**-**
		(N.A)	(350,000)	(-)
CDMA (Infra/FWT)	Lines	**N.A**	**650,000**	**-**
		(N.A)	(650,000)	(4,560)
Digital Satellite Phone Terminals (DSPT)	Nos	**N.A**	**12000**	**485**
		(N.A)	(12,000)	(-)
Optical fiber cables @	Kms	**N.A**	**25,704**	**-**
		(N.A)	(25,704)	(18,632)
Software	N.A	**N.A**	**N.A**	**Not**
		(N.A)	(N.A)	**ascertainable**

Notes

* As none of the Company's products are covered under licensing requirements of the new Industrial Policy, the licenced capacity is being treated and disclosed as 'N.A' i.e. Not Applicable. Installed capacity is taken as certified by the management being a technical matter.

** Coils are mainly used for captive consumption.

The installed capacity for OLTE is 480 nos. of systems. It will be equivalent to 960 nos. for fully equipped terminals or 1440 nos. for a product mix of fully equipped terminals and regenerators.

The installed capacity of STM/DXC is either 1200 nos. of STM-1 or 900 nos. of STM-16 or 225 nos.of DXC.

@ The installed capacity of optical fibre cable is based on number of fibre in the cable and is calculated on 12 Fibre Unitube cable.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

(B) Opening and closing stock of finished goods

Product	Unit	Opening stock Qty	Opening stock Value (Rs.)	Closing stock Qty	Closing stock Value (Rs.)
OLTE - terminals	Nos	**3**	**2,844,615**	**3**	**2,844,615**
		(3)	(2,844,615)	(3)	(2,844,615)
STM Cards	N.A.	**-**	**3,416,776**	**-**	**3,416,776**
		(-)	(3,416,776)	(-)	(3,416,776)
Optical fibre cables	Kms	**13**	**1,143,046**	**13**	**497,787**
		(13)	(3,537,538)	(13)	(1,143,046)
	Total		**7,404,437**		**6,759,178**
			(9,798,929)		(7,404,437)

(C) Sales and services

Product	Unit	Qty	Value (Rs)
Optical Fibre Cables	Kms	**28,287**	**615,842,350**
		(18,632)	(284,892,777)
Turnkey contracts and services	N.A.	**N.A.**	**1,736,075,611**
		(N.A.)	(5,641,641,558)
Job charges & annual maintenance charges	N.A.	**N.A.**	**95,545,140**
		(N.A.)	(168,433,131)
FWT	Nos	**55,600**	**70,902,551**
		(669,340)	(1,250,253,217)
CDMA (Infra)	N.A.	**N.A.**	**-**
		(N.A.)	(12,940,851)
Digital Satellite Phone Terminals (DSPT) with accessories	Nos	**485**	**37,555,375**
		(-)	(-)
Components and others *	N.A.	**N.A.**	**1,023,261,242**
(*In view of various items of different nature and specifications		(N.A.)	(4,073,935,168)
the quantitative details are not furnished)	Total		**3,579,182,269**
			(11,432,096,702)

(D) Material Consumed/Cost of goods sold

	Unit	2007-2008 Qty	2007-2008 Value(Rs.)	2006-2007 Qty	2006-2007 Value(Rs.)
PCBs	**Nos**	**7,105**	**2,837,804**	22,790	314,247
ICs	**Nos**	**225,536**	**37,628,854**	99,854	16,309,509
Optical fibre	**Kms**	**480,347**	**177,479,171**	133,383	51,794,929
Nylon-12	**Kgs**	**62,125**	**16,898,452**	62,760	17,708,698
FRP Rod	**Kms**	**151**	**364,392**	6,517	4,116,777
FWT	**Nos**	**55,600**	**69,663,146**	669,340	1,234,965,462
WLL CorDect components	**N.A.**	**-**	**-**	-	57,115,873
DSPT (Digital Satellite Phone Terminals)*	**N.A.**	**-**	**34,116,274**	-	107,231,363
CDMA - Infra/FWT systems	**N.A.**	**-**	**-**	-	9,140,578
For turnkey contracts and services	**N.A.**	**-**	**1,217,328,602**	-	4,239,193,823
Components and others*	**N.A.**	**-**	**1,141,794,730**	-	2,734,057,215
			2,698,111,425		8,471,948,474

*It is not practicable to furnish quantitative information of components consumed in view of the considerable number of items diverse in size and nature.

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

(E) Value of imported and indigenous raw material and stores & spares consumed

Particulars	2007-2008 %	2007-2008 Value (Rs.)	2006-2007 %	2006-2007 Value (Rs.)
(a) Raw materials				
Imported	**15**	**257,680,785**	11	180,448,354
Indigenous	**85**	**1,493,741,170**	89	1,457,115,165
	100	**1,751,421,955**	100	1,637,563,519
(b) Component purchased				
Imported	**1**	**12,536,343**	22	1,492,637,530
Indigenous	**99**	**934,153,127**	78	5,341,747,425
	100	**946,689,470**	100	6,834,384,955
(c) Stores & spares				
Imported	**30**	**4,915,535**	56	7,543,183
Indigenous	**70**	**11,637,857**	44	5,933,730
	100	**16,553,392**	100	13,476,913

	2007-2008	2006-2007
(F) Value of Imports on CIF Basis		
Raw material & components	**280,426,235**	1,762,263,198
Stores & spares	**2,902,588**	533,246
Capital goods	**43,228,723**	21,109,705
(G) Expenditure in foreign currency		
(On payment basis)		
Technical Know how fee	**4,297,955**	2,275,644
Others	**5,831,700**	28,277,730
(H) Earnings in foreign currency		
FOB Value of export	**41,746,545**	309,253,617

33. BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details		
Registration No.	:	7466
State Code	:	06
Balance Sheet Date	:	31.03.2008
II. Capital raised during the year (Amount in Rupees Thousands)		
Public Issue	:	-
Right Issue	:	-
Bonus Issue	:	-
Private Placement	:	-
III. Position of Mobilisation and Deployment of Funds		
(Amount in Rupees Thousands)		
Total Liabilities	:	27,879,616
Total Assets	:	27,879,616
Sources of Funds		
Paid-up Capital	:	5,232,906
Reserves & Surplus	:	11,315,061
Secured Loans	:	8,337,722
Unsecured Loans	:	2,993,927

SCHEDULES FORMING PART OF THE ACCOUNTS ......contd.

Application of Funds		
Net Fixed Assets	:	2,466,624
Investments	:	7,251,717
Net Current Assets	:	6,429,015
Accumulated Losses		11,732,260
IV. Performance of Company (Amount in Rupees Thousands)		
Turnover including other income	:	3,597,917
Total Expenditure including prior period adjustments	:	5,098,957
Loss before tax	:	1,501,040
Loss after tax	:	1,505,485
Earning per equity share (in Rupees)	:	(3.52)
Dividend rate (%)-On equity share capital	:	-
V. Generic names of four Principal Products / Services of Company (as per monetary terms)		
Product Description		Item Code (ITC Code)
(a) Optical Line Terminal Equipment (OLTE)	:	85.17
(b) Microwave Communication/WLL Equipment	:	85.25
(c) Software	:	85.24
(d) Optical Fibre Cable	:	85.44

As per our report of even date attached

For Khandelwal Jain & Co.
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 30th June, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla *Chairman*
Mahendra Nahata *Managing Director*
Dr. R M Kastia *Wholetime Director*
Arvind Kharabanda *Director (Finance)*

New Delhi, 30th June, 2008

CASH FLOW STATEMENT

For the year ended 31st March 2008

PARTICULARS		Year ended 31.3.2008 (Rs.)	Year ended 31.3.2007 (Rs.)
A. Cash Flow from Operating Activities :			
Net Profit before taxes		**(1,543,195,313)**	1,203,825,373
Adjustments for :			
Depreciation	**255,614,493**		252,400,644
Loss /(Profit) on sale of pledged/other investments	**2,275,000**		(31,439,706)
Provision for diminution in value of investments	**1,638**		(107,016)
Interest & finance charges	**693,726,742**		396,029,943
Interest income	**(16,341,358)**		(23,885,566)
Dividend income	**(92,187)**		(456,857)
Technical knowhow fee written off	**16,007,813**		8,362,556
Loss/(Profit) on sale of fixed assets	**262,598**		4,976,797
Bad Debts written off	**4,802,013**		3,364,301
Payment towards guarantee obligation	**18,966,612**		11,157,000
		975,223,364	620,402,096
Operating Profit before working capital changes		**(567,971,949)**	**1,824,227,469**
Adjustments for :			
Trade and other receivables	**970,405,257**		(2,622,522,021)
Inventories	**(59,688,115)**		39,781,661
Trade payables	**(764,722,283)**		(722,768,769)
		145,994,859	(3,305,509,129)
Cash generated from operations		**(421,977,090)**	**(1,481,281,660)**
Income tax for earlier years		**-**	7,094
Prior period adjustments		**42,248,278**	(17,634,982)
Net Cash used in operating activities		**(379,728,812)**	**(1,498,909,548)**
B. Cash flow from investing activities			
Purchase of fixed assets		**(67,817,474)**	(75,202,806)
Sale of fixed assets		**1,716,730**	8,387,150
Purchase of investments		**(7,242)**	(12,707,226)
Sale/disposal of investments		**7,500,000**	44,113,506
Disposal of investment in subsidiary		**47,275,000**	20,000,000
Loans and advances		**(1,781,639)**	100,268,508
Interest paid (net)		**(179,721,790)**	(12,496,478)
Dividend received		**92,187**	456,857
Net Cash used in investing activities		**(192,744,228)**	**72,819,511**
C. Cash flow from financing activities			
Proceed from issue of share capital including premium (net of issue expenses)		**-**	479,939,986
Proceeds from long term/short term borrowings			
Secured	**-**		553,893,714
Unsecured	**1,247,200,000**		426,266,439
		1,247,200,000	980,160,153
Repayment of long term/short term borrowings			
Secured	**(333,555,447)**		(20,000,000)
Unsecured	**(107,281,621)**		-
		(440,837,068)	(20,000,000)
Interest paid (net)		**(314,942,667)**	(283,190,826)
Net Cash from financing activities		**491,420,265**	**1,156,909,313**
Net increase in cash & cash equivalents		**(81,052,775)**	**(269,180,724)**
Cash & cash equivalents (Opening Balance)		**360,173,540**	**629,354,264**
Cash & cash equivalents (Closing Balance)		**279,120,765**	**360,173,540**

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

(Akash Shinghal)
Partner
New Delhi, 30th June, 2008

For and on behalf of the Board
M P Shukla — *Chairman*
Mahendra Nahata — *Managing Director*
Dr. R M Kastia — *Wholetime Director*
Arvind Kharabanda — *Director (Finance)*

Manoj Baid
Company Secretary

New Delhi, 30th June, 2008

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO COMPANY'S INTEREST IN SUBSIDIARY COMPANIES

Particulars	Name of the Subsidiary Company			
	HTL Ltd.	**Moneta Finance Pvt. Ltd.**	**HFCL Infotel Ltd. (HITL)**	**CBSL Cable Networks Ltd. (formerly known as Connect Broadband Services Limited)**
1 The Financial Year of the Subsidiary ended on	31.03.2008	31.03.2008	31.03.2008	31.03.2008
2 Shares of the Subsidiary held by the Company on the above date				
(a) Number and face value	1,110,000 equity shares of Rs.100/- only	300,000 equity shares of Rs.10/- only	3,252,050,000 equity shares of Rs.10/- only	90,50,000 equity shares of Rs.10/- only
(b) Extent of Holding	74%	100%	61.88%	99.99% (Held by HITL)
3 Net aggregate of profits /(losses) of the subsidiary for the above financial year so far as they concern members of the Company (Rs in Lakhs)				
(a) Dealt with in the accounts of the Company for the year ended 31st March, 2008	Nil	Nil	Nil	Nil
(b) Not dealt with in the accounts of the Company for the year ended 31st March, 2008	(4,518.96)	(3.41)	(14,253.58)	(761.60)
4 Net aggregate of profits /(losses) of the subsidiary for the previous financial year, since it became a subsidiary so far as they concern members of the Company (Rs in Lakhs)				
(a) Dealt with in the accounts of the Company for the year ended 31st March, 2008	Nil	Nil	Nil	Nil
(b) Not dealt with in the accounts of the Company for the year ended 31st March, 2008	(23,943.28)	3.28	(77,256.65)	(889.25)

For and on behalf of the Board

M P Shukla — *Chairman*
Mahendra Nahata — *Managing Director*
Dr. R M Kastia — *Wholetime Director*
Arvind Kharabanda — *Director (Finance)*

Manoj Baid
Company Secretary

New Delhi, 11th August, 2008

AUDITORS' REPORT

To,

THE BOARD OF DIRECTORS,

HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED

1. We have audited the attached Consolidated Balance Sheet of **Himachal Futuristic Communications Limited (the company) and its subsidiaries** as at 31st March 2008, the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the year then ended. These Consolidated Financial Statements (CFS) are the responsibility of the Himachal Futuristic Communications Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets (Net) of Rs. 4,438,172,942**/-** as at 31st March 2008, total revenue of Rs. 2,664,253,491/- and net cash flow of Rs. (1,390,872/-) for the year then ended. These financial statements and other financial information of the subsidiaries have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries, is based solely on the reports of the other auditors.

4. We report that the CFS have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements and AS 23, Accounting for Investments in Associates, issued by the Institute of the Chartered Accountants of India and on the basis of the separate audited financial statements of Himachal Futuristic Communications Limited and its subsidiaries included in the CFS.

5. In the case of holding company HFCL, attention is drawn to note C5 of Schedule 21 to the CFS, the Company has accounted for the impact of modified CDR package, after complying with most of the terms and conditions stipulated therein. However, compliance of some of them are still in process.

6. *In the case of holding company HFCL, attention is invited to:*

   a) *Note C6 of Schedule 21, regarding the Company has, in terms of the CDR package, provided for interest on ballooning basis @ 4.5% per annum instead of on YTM basis i.e. @ 8.5% per annum, whereby the loss of the year is lower by Rs. 79,317,839/-(Cumulative amount Rs. 308,719,243/-).*

   b) *Note C11 of Schedule 21, regarding the sundry debtors outstanding for a long period, pending confirmations/ reconciliation, we are unable to comment on the extent of realisability and consequently on the provision for doubtful debts made by the Company.*

   c) *Note C13 of Schedule 21, regarding balances of some of the sundry debtors, creditors, lenders and loans and advances being subject to confirmation / reconciliation and adjustments, if any.*

   d) *Note C4 of Schedule 21, regarding the Company has paid remuneration to managerial personnel during the year for which approval of central government is yet to be obtained.*

   The effect of items mentioned at paragraph 5(b), (c) and (d) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the year, assets, liabilities and reserves is unascertainable. If the observation at paragraph 5(a) above had been considered, the loss for the year would have been higher by Rs 79,317,839/- and accumulated debit balance in profit and loss account and the liabilities and provisions would have been higher by Rs. 308,719,243/-.

7. Further to our comments as above, we report that:

   a) In the case of the subsidiary, HFCL Infotel Ltd. (Formerly known as The Investment Trust of India limited) attention is drawn to following notes appearing in Schedule 21 of Notes forming part of CFS:-

   (i) Without qualifying the opinion, attention is drawn to Note No. C14(A) (ii) regarding the Group has incurred a loss of Rs 1,508,728,989 during the year (accumulated loss of Rs 9,341,318,694) resulting into complete erosion of its net-worth, and has a net current liability of Rs 3,275,225,644 (after considering provision for interest amounting to Rs 962,496,986 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, 2008. 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. Further the Subsidiary has paid Rs 1,517,500,000 towards alternate technology, which has been currently funded through an advance. The ability of the Subsidiary 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 launch the alternate technology operations as well as increase subscriber growth. The management is in the process of arranging funds and it is confident of generating cash flows and to fund the operating and capital requirements of the Subsidiary in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on a going concern basis.

   (ii) *Attention is drawn to Note No. C14(A)(vi) regarding Subsidiary's investment of Rs 717,670,900 (Rs 18,000,000 as equity and Rs 699,670,900 as unsecured convertible OFCD) in an associate company, The Investment Trust of India Limited ('ITI'). ITI has incurred a net loss of Rs 68,331091 during the year and has a negative net worth of Rs 81,556,150 as on March 31, 2008. The Auditors of ITI have in their audit report dated May 21, 2008 without qualifying their opinion drawn attention towards financial statements of ITI having been prepared as a going concern, which depends on its ability to generate income from* *its 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 Subsidiary, 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.*

(iii) *Attention is drawn to Note No. C14(A)(vii) regarding the Subsidiary has obtained advance of Rs. 1,517,500,000 from a non shareholder Company/Promoter to fund the entry fee for using alternate technology under existing Unified Access Service License (UASL) for Punjab Service Area. The terms and conditions with respect to tenure, interest, rights and obligations etc. are yet to be finalised, hence we are unable to comment on the carrying value and thereby its impact on the profit and loss for the year.*

b) In the case of the subsidiary, HTL Ltd. attention is drawn to following notes appearing in Schedule 21 of Notes forming part of CFS:

(i) without qualifying the opinion, attention is drawn to Note No.C14(B)(i), the Subsidiary incurred a net loss of Rs. 451,896 thousands during the year and has accumulated losses of Rs 2,846,224 thousands as at March 31, 2008, which has resulted in negative net worth of Rs. 2,700,673 thousands. The Subsidiary's current liabilities have exceeded its current assets by Rs1,187,815 thousands as at that date. Further, the Subsidiary has overdrawn borrowings from banks by Rs. 530,940 thousands and also has overdue loans from Government of India amounting to Rs 60,420 thousands together with interest accrued and due thereon of Rs. 151,527 thousands. The turnover during the current year is only Rs 43,494 thousands. These factors along with other matters as set forth in the above note raise substantial doubt that the Subsidiary will be able to continue as a going concern. The Subsidiary's plans to raise fund are dependent on resolution of various uncertainties and litigation involving the sale of land as referred to in the above note. The Subsidiary is hopeful of a successful outcome in the litigation. The Subsidiary has also received orders for supply of new products. In expectation the successful outcome of this, the financials statements have been prepared on a going concern basis.

(ii) without qualifying the opinion, attention is drawn to Note No.C14(B)(viii), the financial statements regarding the requirement of previous approval of Central Government in respect of appointment of Chief Operating Officer at a remuneration in excess of the limits prescribed under section 309 of the Companies Act. The Subsidiary is in process of obtaining necessary approvals and condonation for delay. Pending final determination of the outcome in the matter, no adjustments have been considered in these financial statements.

8. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Himachal Futuristic Communications Limited and its aforesaid subsidiaries, in our opinion, the CFS together with notes thereon and also read along with comment in Para 5, 7(a)(i) and 7(b)(i) and (ii) above and *subject to Para 6, 7(a)(ii) and 7(a)(iii) above*, give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at 31st March, 2008;

(b) in the case of the Consolidated Profit and Loss Account, of the loss for the year ended on that date; and

(c) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For KHANDELWAL JAIN & CO.,
Chartered Accountants,
(Akash Shinghal)

Place: New Delhi — Partner
Dated: 11th August, 2008 — Membership No: 103490

Consolidated Balance Sheet

As at 31st March, 2008

	Schedule No.		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
I SOURCES OF FUNDS				
1 Shareholders' funds				
(i) Share Capital	1	5,232,905,920		5,232,905,920
(ii) Advance against share application money		867,431,181		880,541,768
(iii) Reserves & surplus	2	11,529,353,041		11,787,770,364
			17,629,690,142	17,901,218,052
2 Minority Interest			600	600
3 Loan funds				
(i) Secured loans	3	15,980,791,408		15,857,124,378
(ii) Unsecured loans	4	4,692,131,340		2,665,962,826
			20,672,922,748	18,523,087,204
			38,302,613,490	36,424,305,856
II APPLICATION OF FUNDS				
1 Fixed assets	5			
(i) Gross block		18,607,319,891		16,438,378,685
(ii) Less :Depreciation/ Impairment		8,447,706,438		7,246,892,471
(iii) Net block		10,159,613,453		9,191,486,214
(iv) Capital work-in-progress		220,911,241		260,203,987
(v) Technical know-how fees		4,357,831		15,482,845
			10,384,882,525	9,467,173,046
2 Investments	6		3,620,619,464	3,582,527,501
3 Goodwill (on consolidation of subsidiaries)			490,996,051	486,258,042
4 Current Assets, loans and advances				
(i) Inventories	7	900,413,778		794,468,335
(ii) Sundry debtors	8	7,942,889,178		10,007,031,356
(iii) Cash and bank balances	9	692,853,857		708,955,836
(iv) Other current assets	10	230,752,400		267,653,921
(v) Loans and advances	11	1,135,006,573		905,945,613
		10,901,915,786		12,684,055,061
Less : Current liabilities and provisions				
(i) Current Liabilities	12	8,694,743,407		8,034,686,894
(ii) Provisions	13	238,408,596		251,501,919
Net Current Assets			1,968,763,783	4,397,866,248
5 Miscellaneous expenditure (to the extent not written off or adjusted)	14		4,449,196	9,393,196
6 Profit & Loss Account			21,832,902,471	18,481,087,823
			38,302,613,490	36,424,305,856
Notes forming part of consolidated financial statements	21		-	-

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 11th August, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla *Chairman*
Mahendra Nahata *Managing Director*
Dr. R M Kastia *Wholetime Director*
Arvind Kharabanda *Director (Finance)*

New Delhi, 11th August, 2008

Consolidated Profit & Loss Account

For the year ended 31st March, 2008

	Schedule No.		2007-2008 Rs.	2006-2007 Rs.
INCOME				
Sales and services		6,056,594,543		14,270,676,736
Less: Excise Duty		85,979,986		45,536,348
			5,970,614,557	14,225,140,388
Profit/(Loss) on dilution of investments in subsidiary			52,237,915	23,179,870
Profit/(Loss) on sale of fixed assets			(25,106,568)	90,662,396
Other income	15		51,194,426	95,415,389
Increase/(decrease) in stock	16		(28,363,296)	(87,298,410)
			6,020,577,034	14,347,099,633
EXPENDITURE				
Materials consumed/cost of goods sold	17		2,710,401,049	8,480,446,400
Cost of traded goods sold	18		(207,750)	18,225,420
Manufacturing and other expenses	19		1,880,036,795	1,865,140,900
Impact of price revision of sales of earliers			(7,757,338)	193,615,525
Network operation expenditure			1,150,464,770	1,176,337,495
Depreciation			1,287,170,055	1,272,571,346
Finance charges	20		1,686,139,239	1,340,346,864
Provision for diminution in value of investments			1,638	-
Provision for doubtful debts and advances			532,777,539	380,624,078
Bad Debts written off			160,566,004	181,321,197
Research & Development expenses written off			2,346,725	595,368
Payment towards guarantee contract/obligation			18,966,612	11,157,000
			9,420,905,338	14,920,381,593
PROFIT/(LOSS) BEFORE TAXES			(3,400,328,304)	(573,281,960)
Provision for taxation :				
Current tax			152,648	82,682,482
Fringe Benefit Tax			12,307,906	11,473,360
Share of results of Associates			(43,038,359)	98,165,855
PROFIT/(LOSS) FOR THE YEAR BEFORE MINORITY INTEREST			(3,369,750,499)	(765,603,657)
Prior period adjustments			23,462,139	(33,408,948)
Income tax for earlier years			-	(52,484)
PROFIT/(LOSS) AFTER MINORITY INTEREST			(3,346,288,360)	(799,065,089)
Add : Balance brought forward from previous year			(18,481,087,823)	(17,682,022,734)
Add : Charge on account of transitional under AS-15			(5,526,288)	-
Balance carried to Balance Sheet			(21,832,902,471)	(18,481,087,823)
Earning per share (Face value of Rs.10/- each)				
Basic (Rs.)			(7.68)	(2.09)
Diluted (Rs.)			(7.68)	(2.09)
Notes forming part of consolidated financial statements	21			

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 11th August, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla *Chairman*
Mahendra Nahata *Managing Director*
Dr. R M Kastia *Wholetime Director*
Arvind Kharabanda *Director (Finance)*

New Delhi, 11th August, 2008

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. SHARE CAPITAL		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
Authorised :			
500,000,000 (Previous year 500,000,000) Equity shares of Rs.10/- each		5,000,000,000	5,000,000,000
25,000,000 (Previous year 25,000,000) Cumulative redeemable preference shares of Rs.100/- each		2,500,000,000	2,500,000,000
		7,500,000,000	7,500,000,000
Issued & Subscribed :			
442,793,697 (Previous year 442,793,697) Equity shares of Rs.10/- each		4,427,936,970	4,427,936,970
7,000,000 (Previous year 7,000,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each		700,000,000	700,000,000
1,050,000 (Previous year 1,050,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each		105,000,000	105,000,000
		5,232,936,970	5,232,936,970
Paid Up :			
442,793,697 (Previous year 442,793,697) Equity shares of Rs.10/- each, fully paid up		4,427,936,970	4,427,936,970
Less : Calls in arrears		31,050	31,050
		4,427,905,920	4,427,905,920
7,000,000 (Previous year 7,000,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up		700,000,000	700,000,000
1,050,000 (Previous year 1,050,000 9%) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up		105,000,000	105,000,000
		5,232,905,920	5,232,905,920
2. RESERVES & SURPLUS			
Capital Reserve			
Central investment subsidy	1,000,000		1,000,000
Consolidation of Associates	189,281,915		189,506,825
Gain on foreign exchange fluctuation	244,753,082		244,753,082
Share Warrants forfeited	46,000,000		46,000,000
D.G. set subsidy	13,911		13,911
		481,048,908	481,273,818
Securities Premium Account			
Opening balance	10,807,613,246		9,840,926,642
Add : Addition during the year	13,110,587		1,249,719,396
Less: Premium payable on redemption of bonds & debentures	271,303,000		271,303,000
Less : Securities issue expenses written off	-		11,729,792
		10,549,420,833	10,807,613,246
Amalgamation Reserve		96,983,300	96,983,300
Capital Redemption Reserve		140,000,000	140,000,000
Debenture Redemption Reserve		250,000,000	250,000,000
Statutory Reserve		11,900,000	11,900,000
		11,529,353,041	11,787,770,364

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

3. SECURED LOANS	As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
Optionally fully convertible debentures	-	-
Zero coupon premium bonds	2,664,100,000	2,664,100,000
Working capital loans from banks	2,222,341,643	2,579,307,394
Term loans from financial institutions and banks	8,297,040,286	8,324,317,646
Funded Interest term loan	780,569,890	780,569,890
Other loans	70,571,633	81,170,694
Premium payable on redemption of bonds and debentures	1,068,306,030	841,857,530
Interest accrued and due	877,861,926	585,801,224
	15,980,791,408	15,857,124,378

4. UNSECURED LOANS		
Term loans from banks	208,000,886	210,516,068
Funded interest term loans	91,377,566	91,377,566
Loans from bodies corporate	2,733,495,558	747,821,279
Foreign Currency Convertible Bonds	-	-
Loans from Govt. of India	62,420,000	62,420,000
Vendor Finance Facilities	403,252,347	527,470,715
Zero coupon premium bonds	527,700,000	527,700,000
Optionally Fully Convertible Debentures	166,776,100	166,776,100
Premium payable on redemption of bonds	197,793,537	152,939,037
Interest accrued and due	301,315,346	178,942,061
	4,692,131,340	2,665,962,826

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

5. FIXED ASSETS

Description	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 31.03.2007	Additions/ Adjustments	Deductions/ Adjustments	As at 31.03.2008	Upto 31.03.2007	For the year	On Sales/ Adjustments	Upto 31.03.2008	As at 31.03.2008	As at 31.03.2007
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1. Land - Leasehold	17,361,797	-	-	17,361,797	1,775,008	178,190	-	1,953,198	15,408,599	15,586,789
- Freehold	24,002,469	308,000	-	24,310,469	-	-	-	-	24,310,469	24,002,469
2. Buildings-Leasehold	14,456,746	-	-	14,456,746	4,029,729	-	-	4,029,729	10,427,017	10,427,017
- Freehold	372,321,829	7,223,755	1,215,906	378,329,678	100,136,110	10,091,895	366,748	109,861,257	268,468,421	272,185,719
- Leasehold Improvements	118,347,565	5,736,028	4,122,263	119,961,330	74,763,247	9,050,985	1,507,605	82,306,627	37,654,703	43,584,318
3. Plant & machinery	4,504,524,092	73,734,068	207,623	4,578,050,537	2,088,561,999	247,832,020	108,375	2,336,285,644	2,241,764,893	2,415,962,093
4. Network Equipment	3,141,755,858	422,127,190	16,031,953	3,547,851,095	1,473,636,195	370,180,013	15,992,067	1,827,824,141	1,720,026,954	1,668,119,663
5. Optical Fibre Cable & Copper Cable	4,114,320,302	50,676,614	15,034	4,164,981,882	1,404,398,477	289,257,877	1,679	1,693,654,675	2,471,327,207	2,709,921,825
6. Telephone Instruments at Customers Premises	931,657,077	137,693,895	77,431,928	991,919,044	546,906,936	156,306,486	57,168,371	646,045,051	345,873,993	384,750,141
7. Electrical installation	49,519,060	118,566	-	49,637,626	40,922,465	1,654,657	-	42,577,122	7,060,504	8,596,595
8. Furniture & fixtures	93,527,499	2,031,695	1,553,906	94,005,288	73,260,830	5,429,758	644,029	78,046,559	15,958,729	20,266,669
9. Office equipments	615,082,097	59,280,061	6,528,496	667,833,662	456,568,832	50,020,786	3,986,845	502,602,773	165,230,889	158,513,265
10. Vehicles	88,307,460	9,112,771	9,494,328	87,925,903	58,256,739	11,203,409	6,673,631	62,786,517	25,139,386	30,050,721
11. Moulds & dies	536,231	-	-	536,231	529,727	1,953	-	531,680	4,551	6,504
<u>Intangible Assets</u>										
12. Licence entry fees	2,352,658,603	1,517,500,000	-	3,870,158,603	923,146,177	136,055,288	-	1,059,201,465	2,810,957,138	1,429,512,426
TOTAL	16,438,378,685	2,285,542,643	116,601,437	18,607,319,891	7,246,892,471	1,287,263,317	86,449,350	8,447,706,438	10,159,613,453	9,191,486,214
Previous year	16,595,116,545	644,849,742	801,587,602	16,438,378,685	6,387,835,952	1,272,571,346	413,514,827	7,246,892,471	9,191,486,214	9,850,761,389

NOTES :-

1. Out of the depreciation for the year an amount of Rs.93,262/- (Previous year Rs Nil) has been transferred to prior period adjustment account.

2. Gross block and Net block of fixed assets is net of provision for impairment made in Financial Year 2004-05 in respect of Plant & Machinery Rs.342,833,202, Electrical Installation Rs.1,245,295 and Office Equipments Rs.12,440,707.

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
6.	**INVESTMENTS**		
A.	LONG TERM INVESTMENTS (at cost)		
	(a) Trade Investments - Unquoted		
	In equity shares (fully paid up)	1,708,801,002	1,708,801,002
	(b) Investments in Associates - Unquoted		
	In equity shares (fully paid up)	974,730,892	929,144,533
	(c) 0% Fully Optionally Convertible Debentures - Unquoted	935,200,000	942,700,000
B.	CURRENT INVESTMENTS		
	(At lower of cost and fair value)		
	(a) In equity shares (fully paid up)		
	(i) Quoted	1,657,478	1,659,116
	(ii) Unquoted	100,000	100,000
	(b) In units (fully paid up)		
	Quoted	130,092	122,850
C.	Advance against Share application money	-	-
		3,620,619,464	3,582,527,501
7.	**INVENTORIES**		
	(As Certified and valued by the management)		
	Stores & spare parts	34,943,044	15,760,269
	Loose tools	1,846,648	2,486,977
	Raw materials	555,813,579	501,018,276
	Raw materials in transit	107,211,597	38,915,730
	Packing materials	653,178	493,488
	Work in process	379,889,243	407,582,740
	Finished goods	18,494,424	19,164,223
	Stocks in trade (Securities)	75,070,534	74,862,784
	Less: Provision for Non Moving	(273,508,469)	(265,816,152)
		900,413,778	794,468,335
8.	**SUNDRY DEBTORS**		
	Debts outstanding for a period exceeding six months		
	- Secured considered good	679,966	5,433,385
	- Unsecured considered good	5,964,358,133	6,320,509,053
	- Unsecured considered doubtful	1,196,695,121	649,593,004
	Debts outstanding for a period less than six months		
	- Secured considered good	28,692,519	21,004,171
	- Unsecured considered good	1,949,158,560	3,660,084,747
	- Unsecured considered doubtful	22,279,934	36,748,929
		9,161,864,233	10,693,373,289
	Less : Provision for doubtful debts	1,218,975,055	686,341,933
		7,942,889,178	10,007,031,356
9.	**CASH AND BANK BALANCE**		
	Cash on hand	4,173,154	1,927,621
	Cheques in hand	13,782,961	11,030,712
	Balances with Scheduled banks in		
	Current accounts	89,367,305	77,732,655
	Fixed deposit / Margin money account	585,530,437	618,264,848
		692,853,857	708,955,836

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

	As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
10. OTHER CURRENT ASSETS		
Interest receivable	24,229,692	31,713,110
Discarded assets held for sale	1,374,424	1,374,424
Security deposits	115,871,018	142,173,378
Insurance claim receivable	89,277,266	92,393,009
	230,752,400	267,653,921
11. LOANS AND ADVANCES		
(Unsecured, considered good unless otherwise stated)		
Loans	80,063,650	78,158,903
Advances recoverable in cash or in kind or for value to be received	646,602,539	604,611,951
Advances to vendors	403,557,720	272,247,848
Balances with Central excise & Customs authorities	80,972,335	70,249,285
Advance payment of Income tax (net of provisions)	103,970,093	61,013,882
	1,315,166,337	1,086,281,869
Less : Provision for doubtful advances	180,159,764	180,336,256
	1,135,006,573	905,945,613
12. CURRENT LIABILITIES		
Sundry creditors	4,442,839,567	5,409,586,020
Acceptances	34,991,472	3,084,715
Unclaimed dividends	520,779	2,079,469
Unclaimed deposits	802,574	966,145
Other liabilities	702,730,025	811,242,926
Interest accrued but not due	997,882,895	781,915,372
Advances from customers	2,514,976,095	1,025,812,247
	8,694,743,407	8,034,686,894
13. PROVISIONS		
Provisions for tax	90,185,226	113,635,843
Provisions for employees' retirement benefits	148,223,370	137,866,076
	238,408,596	251,501,919
14. MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
Voluntary Retirement Scheme Expenditure		
Opening Balance	9,392,839	2,234,874
Add: Incurred during the year	357	13,350,483
Less: Written off during the year	4,944,000	6,192,161
	4,449,196	9,393,196

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

		As at 31.03.2008 Rs.	As at 31.03.2007 Rs.
15. OTHER INCOME			
Interest (Gross)			
On fixed deposits	38,571,924		33,345,486
On loans and advances	60,798		269,137
Others	3,362,711		2,999,912
		41,995,433	36,614,535
Appreciation in value of investments (to the extent of cost price)		-	107,016
Profit on sales of Investments (net)		-	31,439,706
Dividends on investments (Gross)		92,187	456,857
Liquidated Damages Recovered		-	13,314,528
Excess Liabilities Written Back		464,685	443,733
Miscellaneous income		8,642,121	13,039,014
		51,194,426	95,415,389
16. INCREASE/ (DECREASE) IN STOCK			
Opening stock			
Finished goods		19,164,223	21,628,904
Work in process		407,582,740	492,416,469
		426,746,963	514,045,373
Closing stock			
Finished goods		18,494,424	19,164,223
Work in process		379,889,243	407,582,740
		398,383,667	426,746,963
Increase/(Decrease) in Stock		(28,363,296)	(87,298,410)
17. MATERIALS CONSUMED/COST OF GOODS SOLD			
Opening stock		501,018,276	466,758,031
Add : Purchases during the year		2,765,196,352	8,585,032,347
		3,266,214,628	9,051,790,378
Less : Sale of raw material		-	6,735,614
Less : Closing stock		555,813,579	501,018,276
		2,710,401,049	8,544,036,488
Less : Raw material consumed for fixed assets		-	63,590,088
		2,710,401,049	8,480,446,400
18. COST OF TRADED GOODS SOLD			
Opening stock		74,862,784	93,088,204
Less : Closing stock		75,070,534	74,862,784
		(207,750)	18,225,420

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS ......contd.

19. MANUFACTURING AND OTHER EXPENSES

		2007-2008 Rs.	2006-2007 Rs.
Payments to and provisions for employees			
Salaries, wages and bonus	763,005,676		773,653,811
Contribution to provident & other funds	62,379,379		60,704,087
Welfare expenses	59,330,804		65,312,243
		884,715,859	899,670,141
Operating and other expenses			
Consumption of packing material	19,112,891		11,234,620
Consumption of stores and spare parts	16,756,002		13,618,359
Loose tools written off	1,437,483		1,002,338
Power, fuel and water charges	39,312,798		37,726,536
Repairs to buildings	4,380,676		5,924,286
Repairs to machinery	3,210,842		13,825,843
Other repairs	34,200,186		21,418,054
Rent	65,231,835		56,731,906
Rates and taxes	16,283,967		16,879,800
Insurance charges	20,595,303		27,222,066
Auditors remuneration			
Audit fees	5,595,528		5,313,490
In other capacity	2,133,026		1,697,186
Out of pocket expenses	491,040		436,884
Legal and professional charges	84,790,128		115,632,151
Communication expenses	21,928,187		22,383,306
Travelling, conveyance and vehicle expenses	138,575,817		138,974,368
Labour and service charges to sub-contractors	289,304,204		104,790,465
Directors fees	470,940		568,700
Charity & Donation	321,818		259,856
Foreign exchange fluctuation	(172,501,458)		(37,541,368)
Commission to PC Operators	68,496,295		65,907,866
Provision for Inventories	7,692,317		(6,482,671)
Increase/(decrease) in excise duty of finished goods	28,055		-
Other expenses	33,598,352		67,717,017
		701,446,232	685,241,058
Royalty		-	29,899,382
Liquidated Damages		35,955,556	46,744,105
Selling and distribution expenses		133,305,201	109,741,940
Customer acquisition cost		103,662,134	79,289,557
Technical know-how fee written off		16,007,813	8,362,556
Deferred revenue expenses written off		4,944,000	6,192,161
		1,880,036,795	1,865,140,900

20. FINANCE CHARGES

Interest and upfront fee on debentures and fixed loans	757,225,342	683,073,618
Interest on other loans	864,644,363	571,215,768
Discounting & bank charges	64,269,534	86,057,478
	1,686,139,239	1,340,346,864

21. NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS

A. Principles of Consolidation

1. The Consolidated financial statements (CFS) relate to Himachal Futuristic Communications Limited (the Company) and its majority owned subsidiary companies. The Consolidated Financial Statements have been prepared on the following basis:-

i) The financial statements of the Company and its subsidiary companies have been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expense. The intra-group balances and intra-group transactions and unrealized profits and losses are fully eliminated.

ii) The results of operations of a subsidiary with which Parent - Subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship.

iii) The excess of cost to the Company of its investment in the subsidiary, over its share of equity at the dates on which the investment in the subsidiary is made, is recognized as ‘Goodwill’ being an asset in the Consolidated Financial Statements. The excess of Company’s share of equity in the subsidiary as at the date of its investment is treated as Capital Reserve.

iv) Minority interest in the net assets of consolidated subsidiaries consists of the amount of equity attributable to the minority shareholders at the dates on which investments are made by the Company in the subsidiary companies and further movements in their share in the equity, subsequent to the dates of investments as stated above.

v) In case of Associate where the Company directly or indirectly through subsidiary holds 20% or more of the equity, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Investments in associates are accounted for using equity method in accordance with Accounting Standard (AS) – 23 “Accounting of Investments in Associates in Consolidated Financial Statement” issued by the Institute of Chartered Accountants of India.

vi) The Company accounts for its share in the change in the net assets of the associates, post acquisition, after eliminating unrealized profit and losses resulting from transaction between the company and its associates to the extent of its share, through its profit and loss account to the extent such change is attributable to the associates’ profit and loss accounts and through its reserves for the balance, based on the available information.

vii) The difference between the cost of investment in the associates and the share of net assets at the time of acquisition of the share in the associates is identified in the financial statements as goodwill or capital reserve as the case may be.

viii) As far as possible, the Consolidated Financial Statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the company’s separate financial statements.

ix) Investments other than in subsidiaries and associates have been accounted for as per Accounting Standard 13 (AS-13) “Accounting for Investments” issued by the Institute of Chartered Accountants of India.

2. Significant Accounting Policies and Notes to these consolidated financial statements are intended to serve as a means of informative disclosure and guide to better understanding the consolidated position of the companies. Recognising this purpose, only such policies and notes from the individual financial statements, which fairly present the needed disclosures have been disclosed. Lack of homogeneity and other similar considerations made it desirable to exclude some of them, which in the opinion of the management, could be better viewed, when referred from the individual financial statements.

B. Significant Accounting Policies

1. Method of Accounting

(a) The financial statements are prepared on the historical cost convention and in accordance with the Generally Accepted Accounting Principles (‘GAAP’).

(b) The Company follows accrual system of accounting in the preparation of accounts except where otherwise stated.

(c) The preparation of the financial statements in conformity with GAAP requires that the management of the Company makes estimates and assumption that affect the reported accounts of income and expenses of the period, reported values of assets and liabilities and disclosures relating to contingent assets and liabilities as of date of the financial statements. Examples of such estimates include provision for doubtful debts, provision for doubtful loans and advances, provisions for diminution in value of investments, estimated period of utility of software package, provision for value of obsolete/non moving inventories etc. Actual results may differ from these estimates.

2. Fixed Assets

(a) Fixed Assets are stated at actual cost less accumulated depreciation and impairment loss. Actual cost is inclusive of freight, installation cost, duties, taxes and other incidental expenses for bringing the asset to its working conditions for its intended use but are net of CENVAT.

(b) Capital Work-in-Progress

All expenses incurred for acquiring, erecting and commissioning of fixed assets including interest on long term loans utilized for meeting capital expenditure and incidental expenditure incurred during construction of the projects are shown under capital work-in-progress and are allocated to the fixed assets on the completion of the respective projects. The advances given for acquiring fixed assets are also shown along with capital work-in-progress.

(c) Intangible Assets – Revenue expenditure of specialized R&D including its depreciation incurred for development and improvement of technology, products and designs etc. which will generate probable future economic benefits are recognised as intangible assets.

(d) Telephone sets lying with deactivated customers for more than 90 days since disconnections are written off.

3. Leases

a) Finance Lease or similar arrangements, which effectively transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized and disclosed as leased assets. Finance charges are charged directly against income.

b) Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are recognized as an expense in the profit and loss account or on a basis, which reflect the time pattern of such payment appropriately.

4. Depreciation, Amortization and Impairment

a) Depreciation is provided for on Buildings (including buildings taken on lease) and Plant & Machinery on straight-line method and on other fixed assets on written down value method at the rates prescribed in the Schedule XIV of the Companies Act, 1956.

In one of the subsidiaries, depreciation on all the fixed assets is provided for on straight-line method except as follows:-

i) Optical Fiber Cable and Copper Cable: over the period of 15 years.

ii) Testing Equipments (included in Network Equipments) and Telephone Instruments: over a period of five years except for instruments costing less than Rs.5000/- each.

iii) Furniture and Fixtures & Office equipments: Over the period of 10 years, Vehicles: Over the period of 4 years.

iv) Intangible Assets: Billing and Allied Software: over a period of five years.

b) Depreciation due to increase or decrease in the liability on account of exchange fluctuation or on account of rollover charges on forward exchange contract is provided prospectively over the residual life of the assets.

c) On assets acquired on lease (including improvements to the leasehold premises), depreciation has been provided for on Straight Line Method at the rates as per schedule XIV to the Companies Act, 1956 or at the rates worked out on the basis of remaining useful life of the assets, whichever is higher.

d) Premium on leasehold land is amortised over the period of lease.

e) The Technical know-how fees is written off over a period of six years from the year of the commencement of commercial production of the respective projects. Where the production has not commenced and the benefits of know- how is unlikely to accrue, the fee paid therefore is fully written off in the year in which it is so determined.

f) Intangible assets are amortised over a period of five years or life of the product considered at the end of each financial year whichever is earlier. Amortisation commences when the asset is available for use.

g) At the balance sheet date, an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

5. Licence Fees

(i) Licence Entry Fee

The Licence Entry Fee 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. 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 February 15, 2008, the TRAI has issued an amendment to IUC Regulation 2006, requiring to pay additional 0.75 per cent of AGR towards access deficit charge. Further on March 28, 2008 the same was abolished. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

6. 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.

7. Investments

(a) The cost of an investment includes incidental expenses like brokerage, fees and duties incurred prior to acquisition.

(b) Long term investments are shown at cost. Provision for diminution is made only if, in the opinion of the management such a decline is other than temporary.

(c) Investments, which are intended to be held for less than one year, are classified as current investments and are carried at lower of cost and fair value determined on an individual investment basis.

(d) Advance against share application money is classified under the head "Investments".

8. Inventories

(a)	Raw Materials, Materials in transit, Packing Materials, Stores & Spares and Components	At cost or net realizable value whichever is lower.
(b)	Finished Goods and Work-in-Process	At lower of cost and net realizable value.

Note: Cost of Inventories is ascertained on First In First Out (FIFO) basis.

(c)	Contract Work in Progress	At cost
(d)	Loose Tools	After write-off at 27.82% p.a.
(e)	Securities as stock in trade	At lower of cost or market rate

9. Revenue Recognition

(a) Sales and services include Sales during trial run and excise duty recoverable. Liquidated damages are accounted for as and when they are ascertained.

(b) Revenue in respect of long term turnkey works contracts is recognised under percentage of completion method subject to such contracts having progressed to a reasonable extent. Revenue in respect of other works contracts and services is recognised on completed contract method.

(c) 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').

(d) 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.

(e) Insurance claims are accounted for as and when admitted by the concerned authority.

10. Provisioning/Write-off of Doubtful Debts

The sundry debtors which are outstanding for more than three years from their respective due dates are written off to profit and loss account. The debtors which are outstanding for more than two years but less than three years are provided for at 100% whereas debtors outstanding for more than one year but less than two years are provided for at 30% of the amount outstanding. No write off or provisions is made for specific cases where management is of the view that the amounts are recoverable even if falling under the ageing as mentioned above.

11. Foreign Currency Transactions

(a) Transactions denominated in foreign currency are normally recorded at the exchange rate prevailing at the time of the transactions.

(b) Monetary items denominated in foreign currency at the year-end and not covered under forward exchange contracts are translated at the year-end rates.

(c) Any income or expense on account of exchange difference between the date of transaction and on settlement or on translation is recognised in the profit and loss account as income or expense except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.

(d) In case of forward exchange contracts, the premium or discount arising at the inception of such contracts, is amortised as income or expense over the life of the contract, further exchange difference on such contracts i.e. difference between the exchange rate at the reporting /settlement date and the exchange rate on the date of inception of contract/the last reporting date, is recognized as income/expense for the period except where the foreign currency liabilities have been incurred in connection with fixed assets acquired up to March, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

12. Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset are capitalized as part of cost of such asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

13. Excises and Customs Duty

Excise Duty payable on production is accounted for on accrual basis. Provision is made in the books of account for customs duty on imported items on arrival and lying in bonded warehouse and awaiting clearance.

14. CENVAT Credit

The CENVAT credit available on purchase of raw materials, other eligible inputs and capital goods is adjusted against excise duty payable on clearance of goods produced. The unadjusted CENVAT credit is shown under the head "Loans and advances".

15. Retirement Benefits

Effective April 1, 2007, the Company has adopted the Revised Accounting Standard – 15(Revised-2005) 'Employee Benefits'. The relevant policies are:

Short Term Employee Benefits

Short term employee benefits are recognised in the period during which the services have been rendered.

Long Term Employee Benefits

a) Defined Contribution plan

(i) Provident Fund and employees' state insurance schemes

Contributions to both these schemes are expensed in the Profit and Loss Account.

These contributions are made to the fund administered and managed by the Government of India. In addition, some employees of the Company are covered under the employees' state insurance schemes, which are also defined contribution schemes recognized and administered by the Government of India. The Company has no further obligations under these plans beyond its monthly.

(ii) Gratuity

Gratuity obligations provides for through a defined benefit retirement plan (the 'Gratuity Plan') covering all employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment based on the respective employee salary and years of employment with the Company. The Company provides for the Gratuity Plan based on actuarial valuations in accordance with Accounting Standard 15 (revised), "Employee Benefits" Liability is provided by way of premium to the HDFC Standard Life Insurance Company Ltd. And Life Insurance Company Limited under group gratuity scheme in respect of employees. The present value of obligation under gratuity is determined based on actuarial valuation using Project Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

b) Other long term benefit

Provision for leave encashment has provided for the liability at period end on account of unavailed earned leave as per the actuarial valuation as per the Projected Unit Credit Method.

c) Actuarial gains and losses are recognized as and when incurred.

16. Miscellaneous Expenditure

Preliminary, Securities issue expenses and redemption premium on bonds and debentures are adjusted against balance in securities premium account, where available.

In one of the subsidiary preliminary expenditure are written off in the year of the commencement of commercial operations. Voluntary Retirement Scheme expenses are amortized over a period of three years.

17. Research & Development Expenditure

Revenue expenditure is charged to profit & loss account (in the year in which it is incurred). Capital expenditure is added to the cost of fixed assets.

18. Income Tax

Tax expense comprises both current and deferred taxes. Current tax is provided for on the taxable profits of the year at applicable tax rates. Deferred income taxes reflect the impact of 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 recognized only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

19. Segment Reporting

Segments are identified in line with the Accounting Standard on Segment Reporting (AS-17) taking into account the organization structure as well as the differential risk and returns of the segments. The unallocable items include income and expenses items, which are not directly identifiable to any segment and therefore not allocated to any business segment.

20. Earnings Per Share

In determining earnings per share, the Company considers the net profit after tax and includes the post-tax effect of any extra ordinary items. The number of shares used in computing basic earnings per share is the weighted average number of shares outstanding during the period.

21. Contingent Liabilities

No provision is made for liabilities, which are contingent in nature, but if material, the same are disclosed by way of notes to the accounts.

C. OTHER NOTES

1 **(a) Information of subsidiary companies**:

The following is the list of all subsidiary companies along with the proportion of voting power held. Each of them is incorporated in India.

	Percentage of Holding
HFCL Infotel Limited ("HITL")	61.88%
CBSL Cable Networks Limited earlier Connect Broadband Services Limited ("CBSL")	99.99% By HITL (w.e.f 02.07.2004)
HTL Limited ("HTL")	74%
Moneta Finance (P) Ltd.	100%

(b) Information of Associate Companies:

The Following is the list of significant associate Companies considered in the CFS along with proportion of voting power held. Each of them is incorporated in India.

(i)

Name of the Associate Company	Proportion of Ownership
Himachal Exicom Communications Ltd.	49.71%
HFCL Satellite Communications Ltd.	30.00%
Page Point Services (India) Pvt. Ltd.	49.00%
Microwave Communications Ltd.	32.50%
HFCL Kongsung Telecom Ltd.	21.13%
Consolidated Futuristic Solutions Ltd.	47.96%
HFCL Dacom Infocheck Ltd.	29.99%
Westel Wireless Ltd.	28.94%
The Investment Trust of India Limited ("ITIL")	46.67%

(ii) Name of Associates in which the company is holding less than 20% of voting power, however having significant influence.

HFCL Bezeq Telecom Ltd.

WPPL Ltd

Platinum EDU Ltd.

2. Contingent Liabilities not provided for in respect of:

		As at 31.03.2008	As at 31.03.2007
(a)	Unexpired Letters of Credit	82,578,339	425,028,419
(b)	Guarantees given by banks on behalf of the company	1,152,835,242	1,852,169,320
(c)	Counter Guarantees given by the Company to the financial institutions/banks for providing guarantees on behalf of companies promoted by the Company *	7,225,671,621	7,225,671,621

(*)This excludes Company's counter guarantees of Rs.56.70 crore in respect of guarantees provided by the banks and institutions o behalf of HFCL Bezeq Telecom Ltd. for bid bonds to Department of Telecommunications (DoT) towards tender for operation of basic telephone services as the guarantees have already expired and the Hon'ble Delhi High Court vide its order dated 19.09.97 granted permanent injunction restraining the DoT from invoking the said guarantees. The appeal filed by DoT against this also stands dismissed. The DoT has filed application for restoration of appeal before the Double Bench of the Hon'ble High Court of Delhi which is yet to be allowed.

(d)	Arrears of Dividend on Cumulative redeemable preference shares (net of advances)	543,856,325	491,531,325
(e)	Claims against the Company towards sales tax , income tax, excise duty demand and others in dispute not acknowledged as debt	546,317,635	492,398,861

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs.118,778,168 (Previous year Rs .92,548,783).

4. Directors remuneration including Managing Director:

(Excluding provision for gratuity)

		2007 – 2008	Amount (Rs.) 2006 – 2007
(i)	Salaries	4,144,952	13,178,000
(ii)	Contribution to provident fund	376,955	1,487,520
(iii)	Perquisites and allowances	5,968,890	13,340,259
	Total	10,490,797	28,005,779

* As the Company has no profits to pay remuneration to a managerial personnel's, the appointment of and remuneration of the managerial personnel's required approval of Central Government. Pending the approval of the Central Government, the remuneration of Rs.18,204,389 paid to the managerial personnel's during the year 2007-08 was shown as recoverable from them as at 31st March,2008.

5. (a) The Company had approached its lenders viz. Banks and Financial Institutions for financial restructuring and a financial restructuring package, has been approved under the Corporate Debt Restructuring (CDR) mechanism by the CDR Empowered Group of lenders vide letter dated 6th April ,2004. Subsequently the CDR Empowered Group in its meeting held on 8th June, 2005 has approved modifications to the aforesaid CDR package with the cut off date as 1st April 2005 and communicated to the company vide their letter No. BY CDR(ALB)/No 404 dated 24.06.2005.The modification in the CDR package include, inter-alia, reduction of interest rate on loans with effect from new cut off date, reschedulement of repayment of loans and Cumulative Redeemable Preference Shares (CRPS) and conversion of certain loan amounts into Zero Coupon Premium Bonds (ZCPBs) . The said CDR package also stipulates conditions to be complied with by the Company and arrangement of additional infusion of working capital from existing or new lenders.

(b) The Company has already complied with most of the conditions as stipulated in CDR package and Master Restructuring Agreement (MRA) has been signed with the lenders. Pursuant to the modified CDR package:

i) Interest to banks and financial institutions has been accounted for at the reduced rates of interest as per the said package.

ii) The Cumulative Redeemable Preference Shares (CRPS) aggregating to Rs. 805,000,000 shall be redeemed at the rate of 25% and 75% of the face value in the financial years ending 31st March 2018 and 31st March, 2019, respectively and will carry the coupon rate of 9% from old cut off date till new cut off date and 6.50% from new cut off date.

iii) On 30th October 2004, Company had issued 2,000,000 zero percent Optionally Fully Convertible Debentures (OFCDs) of Rs. 100 each in lieu of a part of the secured term loans from a financial institution OFCDs are to be converted into equity alongwith premium to give yield of 11% p.a. The Company had received the notice for conversion of OFCDs into equity shares on 27th February 2006. Accordingly, during the year 2,000,000 OFCD were converted into 11,802,739 equity shares of the face value of Rs.10/- at a premium of Rs.11.90 per equity share and Rs.140,452,594 has been transferred to share premium account.

iv) The Company has issued 23,600,000 and 8,318,000 Zero Coupon Premium Bonds (ZCPBs) of Rs.100 each on 30th October,2004 and 8th October, 2005 respectively in lieu of the part of term loans and debentures from financial institutions and banks.ZCPBs are to be redeemed in 48 monthly installments, from 30th April 2011 and ending 31st March 2015 on ballooning basis to ensure yield of 8.5% p.a.on simple calculation basis by way of premium payable in 36 monthly interest free installments commencing from 30th April, 2015 till 31st March, 2018.

v) Secured and unsecured working capital loans from banks amounting to Rs. 315,000,000 and Rs. 76,405,937 respectively have been converted into working capital term loans to be repaid in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a.on simple interest basis.

vi) The outstanding principal amount of secured and unsecured term loans (after conversion into OFCDs and ZCPBs) amounting to Rs.1,756,819,801 (Previous year Rs.1,784,097,161) and Rs.131,594,949 (Previous year Rs.134,110,131) respectively from financial institutions and banks have been rescheduled so as to be repaid on ballooning basis in seventy two monthly installments commencing from 30th April 2007 till 31st March 2013. The installments fallen due/ repayable during the year amounted to Rs.61,927,498 and 4,190,330 which have not been paid respectively for Secured and unsecured loans.

vii) Funded Interest Term Loan (FITL) amounting to Rs.871,947,456 (Previous year Rs.871,947,456) is repayable in twenty four monthly installments commencing from 30th April 2017 till 31st March 2019 and shall not carry any interest.

viii) The Company is required to open and operate Trust and Retention Account and the rights, title and interest in all bank accounts have to be assigned to the lenders by way of first ranking security interest.

ix) The Company has to create securities as stipulated by the CDR Empowered Group.

c) Cumulative Redeemable Preference Share (CRPS) shareholders have disputed the modified terms of redemption and rate of dividend as per CDR package on the ground that they have not agreed to any of the restructuring granted by CDR empowered group and hence original terms and conditions of 12% CRPS continues to be in force and accordingly are insisting for redemption and dividend as per the original terms of the issue of CRPS. The management has requested the said CRPS shareholders to accord their approval to revised package in view of the present financial position of the company. One of the shareholders, has, however filed case against the company for recovery which is being contested.

d) The company is in process of reconciliation of balance with some of the lenders i.e. financial institutions and banks. Adjustments, if any, on account of interest/ principal will be made when the same are confirmed by them.

6. In terms of the modified CDR package, Company has to pay interest on term loans on ballooning basis over the period 2006 to 2013 at the ballooning rates from 2% to 15.5% . The company accounts for interest at the rate it is required to pay during the respective year in terms of the aforesaid package, which is 4.5% p.a. on monthly rests for this year and not @ 8.50% p.a. i.e. on YTM basis. Had the interest been provided for on YTM basis, the loss for the year would have been higher by Rs.79,317,839/- and the accumulated debit balance in the Profit and Loss Account would have been higher by Rs.308,719,243/-.

7. Pursuant to the disinvestment by the Government of India, the Company had acquired 1,110,000 equity shares of Rs.100/- each of HTL Limited representing 74% of its equity capital at total consideration of Rs. 550,000,000 in terms of Shareholders Agreement dated 16.10.2001. The above consideration paid by the Company is subject to post closing adjustments on account of difference in net worth of HTL Limited as on 31.03.2001 and as on the date of purchase of shares in terms of Share Purchase Agreement dated 16.10.2001.The Company has submitted its claim on account of Closing Date Adjustment on the Government in respect of such reduction in net assets of HTL Limited which has not been settled by the Government. Due to this, the Company has invoked the provisions of the Share Purchase Agreement for settlement of dispute by Arbitration. The Hon'ble Arbitral Tribunal has since given the award in favour of the company on 10th October, 2007 up holding the claim of the company on account of the above to the extent of Rs.550,000,000/- and interest from the date of award. Since the Government of India has gone in appeal against the above arbitral award which is yet to be decided by the Hon'ble High Court, no adjustment has been made in the accounts in respect of above award. It shall be made as and when the appeal is decided finally.

8. The Company had made a payment of Rs.113,375,183 to certain cumulative preference shareholders as per contractual obligations in the earlier years. The said amounts paid have been treated as "advances" to be adjusted against future expected liability of dividend on cumulative preference shares.

9. The investments and securities in stock in trade of erstwhile HFCL Trade Invest Ltd., which amalgamated with the Company with effect from 31st March, 2003, have since been registered in the name of the Company.

10. The Accumulated losses of the company as at the end of the financial year have resulted in erosion of more than fifty per cent of its peak net worth during the immediately preceding four financial years. The Company, has reported the fact of such erosion to the BIFR and such erosion was considered by the shareholders in the Extra Ordinary General Meeting held on 25/02/2008, in compliance with the provisions of section 23 of the Sick Industrial Companies (Special Provision) Act, 1985.

11. Sundry debtors include debtors outstanding for more than two years amounting to Rs 2,718,495,501/-. The Company is making efforts to liquidate these dues and is also working on different modalities of recovery including assignment of its debtor outstanding for long period. Pending outcome of such exercise, an additional provision of Rs 497,216,948/- has been made during the year, which in the opinion of the management is adequate.

12. In the opinion of the Board, the Current Assets, loans and advances are approximately, of the value stated, if realised in the ordinary course of business.

13. Balances of some of the sundry debtors, creditors, lenders, loans and advances are subject to confirmations from the respective parties and consequential adjustments arising from reconciliation, if any. The Management, however is of the view that there will be no material adjustments in this regard.

14. In respect of subsidiaries company, the following additional notes to accounts are disclosed: -

(A) HFCL INFOTEL LIMITED

i) Nature of business and ownership

HFCL Infotel Limited ('the Subsidiary' 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, 2008, the Subsidiary has an active subscriber base of over 4.46 lakhs.

The HIL is a subsidiary of Himachal Futuristic Communications Limited ('the Company' or 'HFCL'). The Subsidiary 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'ble 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 Subsidiary) ('*erstwhile* HFCL

Infotel') was merged with the Subsidiary with effect from September 1, 2002. As per the Scheme envisaged the Subsidiary'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 Subsidiary (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 HIL with effect from September 30, 2003, due to allotment of fresh equity by Rajam Finance to other investors.

The Subsidiary, 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 HIL has incorporated a subsidiary in the name of Connect Broadband Services Limited ('CBSL') with the main object to carry on the business as service provider and operator for distribution of cable television network. During the previous year, the Subsidiary 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. On March 26th 2008, the Subsidiary has entered into an agreement with CBSL and has sold its entire share holding in the Company to Digicable Networks (India) Ltd for a consideration of Rs. 90,500,000. The actual sale was executed on April 16, 2008; therefore the amount of Rs 79,900,000 received from Digicable Networks (India) Ltd has been shown as advance against Investment in CBSL under current liabilities

ii) Project Financing

The subsidiary'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 approved, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the subsidiary, upward revision 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 subsidiary 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 percent per annum monthly compounding. The secured OFCD shall be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ended March 31, 2006.

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

During the year, the subsidiary has incurred losses of Rs 1,508.73 million resulting into accumulated loss of Rs 12,842.63 million as at March 31, 2008 which has substantially eroded its net-worth and has a net current liability of Rs 3,858.40 Million including capital liability of Rs. 95.47 million and subscriber security deposits of Rs. 129.93 million (after considering provision for interest amounting to Rs 962.50 million 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, 2008, the subsidiary has arranged Rs. 14,380 million and is in advanced stage of discussions for the arrangement of Rs 1,090 million by way of terms loans / buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the subsidiary 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 subsidiary in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on going concern basis.

(iii) 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 transferred OFCDs of Rs 755,117,800 and OFCDs premium of Rs 119,873,594 into equity shares. However, pending clarifications on the conversion price, the Company, with the consent of the lenders, converted the convertible amount into Advance Against Equity Share Application Money on March 31, 2006. During the year ended March 31, 2007, the Company had further transferred Rs 5,550,374 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. During the year ended March 31, 2008, the Company obtained additional conformations from lenders regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006. The Company has accordingly reduced an amount of Rs 13,110,587 from the OFCD premium and taken back the equivalent amount to securities premium account. Pending clarification on conversion price of such OFCDs (including premium) from SEBI, the Company is yet to allot equity shares in lieu of Advance Against Equity Share Application Money.

(iv) Secured Loans

i) 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 subsidiary 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 subsidiary 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 the Company, to the tune of Rs 5225 million. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the subsidiary has entered into amendatory Master Restructuring Agreement and Amendatory Security Trustship Agreement ('STA') on March 9, 2006, whereby Centurian Bank of Punjab has also appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

ii) 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 subsidiary in relation thereto and in terms with MRA and STA entered into between the lenders and ITSL.

iii) Vehicle Loans of Rs 11.31 million (2007 – Rs 13.39 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 subsidiary. These loans are repayable in monthly installments and shall be repaid by 2010. Vehicle loans repayable within one-year amounts to Rs 6.34 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 to 36 months.

(v) Unsecured Loans

a) On October 16, 2004, the subsidiary 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, 2008 (2007 – Rs 3.93 million) is yet to be remitted.

c). On February 8, 2005, the subsidiary 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, 2008, the subsidiary has utilized Rs 527.47 million (US$ 12.06 million) of this facility. The facility is secured by a financial Bank guarantee of Rs 108.82 million and by a Corporate Guarantee of Rs 544.13 million given by the Company, on pari passu basis with other lenders.

d). The Company in terms of the agreement dated May 1, 2007 has taken convertible loan to facilitate expansion and development of businesses amounting to Rs 499,499,886 (outstanding at year end Rs 499,499,886, previous year Rs Nil) from Infotel Digicomm Private Limited. The convertible loan is interest free and is repayable on demand, Infotel Digicomm Private Limited shall have an option to convert the Loan into Equity Shares, subject to getting necessary approvals subject to applicable pricing guidelines as per SEBI and other laws and regulations.

e). The Company in terms of the agreement dated May 1, 2007 has taken buyer's credit facility to facilitate funding of the telecom project amounting to Rs 410,740,832 (outstanding at year end Rs 410,740,832, previous year Rs 62,000,000) from Infotel Business Solutions Limited. The loan carries 6% interest and is repayable on demand. Infotel Business Solutions Private Limited has the option to convert the loan including interest accrued into equity shares, subject to applicable pricing guidelines as per SEBI and other laws and regulations.

f). The Company has obtained advance of Rs 1,517,500,000 to fund the entry fee for using GSM Technology under the existing Unified Access Services License (UASL) for Punjab Service Area. The amount of aforesaid advance is adjustable or refundable on such terms and conditions as may be mutually agreed.

(vi) Investments

a) As more fully discussed in note 1(a) of schedule 23 the amalgamated balance sheet of the Subsidiary 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 67.93 million for the year ended March 31, 2008 and has a negative net worth of Rs 81.56 million as on March 31, 2008. 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. The Subsidiary, therefore, believes that no provision is required on account of any diminution in the value of these long-term investments.

b) During the year, the Subsidiary was allotted 5,500,000 equity shares of Rs 10 each on February 27th 2008 against the contribution of Rs 55,000,000 towards Advance Against Equity Share Capital of CBSL Cable Networks Limited (erstwhile Connect Broadband Services Limited) 'CBSL'. During the year, the Company has further incurred certain cost for its subsidiary, CBSL amounting to Rs 11,541,879. The Company holds 9,050,000 equity shares of Rs 10 each amounting to Rs 90,500,000 (99.9994 % of entire paid up capital of CBSL). During the year the Subsidiary has entered into a share purchase agreement with Digicable Networks (India) Private Ltd 'DNPL' on March 26, 2008 for sale of shares of CBSL and accordingly DNPL paid an amount of Rs 79,900,000 as advance consideration towards the purchase of shares. The transfer of shares has been completed on April 16, 2008. The advance consideration of Rs 79,900,000 has been disclosed under Schedule 14 of the financial statements.

(vii) Licensing

During the year, the Subsidiary has deposited the entry fee of Rs 1,517,500,000 with The Department of Telecommunication ('DOT') for the use of GSM Technology in addition to CDMA technology being used under the existing Unified Access Services Licence ('UASL') for the Punjab Service Area. The UASL has since been amended to incorporate the license for use of GSM technology on January 15, 2008 vide DOT's letter number F.No.10-15/2004/BS.II/HITL/ Punjab/17 dated January 15, 2008. However the allocation of radio spectrum is still awaited

B. HTL LIMITED

i). The Subsidiary has incurred loss of Rs. 4,518.96 Lacs (Previous year Rs.6,240.71 Lacs) during the current year and has accumulated losses of Rs.28,462.24 Lacs (Previous year: Rs 23,943.28 Lacs) as at March 31, 2008, resulting in negative net worth of Rs. 27,006.73 Lacs (Previous year Rs.22,537.21 lacs). The Subsidiary's current liabilities exceed its current assets by Rs.11,878.15 Lacs as of that date. Further, the Subsidiary has overdrawn borrowings from banks by Rs.5,309.40 Lacs (Previous year Rs 5,830.08 Lacs) and also has overdue loans from Government of India amounting to Rs 604.20 Lacs (Previous year: Rs 564.20 Lacs) together with interest accrued and due thereon of Rs.1,515.27 Lacs (Previous year: Rs 1,368.14 lacs). Due to lack of orders for existing products from BSNL during the year and the shortfall in working capital required to diversify into new telecom products, the operations of the Subsidiary have been substantially curtailed during the year. The turnover during the current year has reduced to Rs.434.94 Lacs (Previous year: Rs.1,073.69 Lacs). The Subsidiary has already made reference to Board for Industrial and Financial Reconstruction under Section 15 (1) of the Sick Industrial Companies (Special Provisions) Act, 1985, in an earlier year for being declared as a Sick Industrial Subsidiary.

The Subsidiary's ability to continue as going concern in spite of the present losses is dependent upon infusion of funds for its operations. The Ministry of Communications and Information Technology has approved the Subsidiary's request to sell freehold land of 11.02 acres ('the land') situated in the Developed plot in Thiru Vi Ka Industrial Estate, Guindy Chennai in previous year. The land was offered for sale in the previous year by e-auction at a consideration of Rs. 27.10 crores per acre.

However, based on the request of Small Industrial Development Corporation ('SIDCO'), the Government of Tamil Nadu has decided to take back the land and to pay market value prevailing on the date of the relinquishing of the land. SIDCO has informed that the Subsidiary did not obtain the permission from the Department of Industries & Commerce as per the condition laid down in the Assignment Deed before the auction.

The Subsidiary approached the High Court of Madras with the Writ Petition against the Government Order and has been granted interim stay till 30/07/2008. The Company is hopeful of winning the case and also to complete the other formalities of sale during the current year. The Subsidiary has also received substantial orders for erection of Telecom Towers and is also expecting further orders for Telecom Towers and Integrated Fixed Wireless Terminals. In addition, the Company is also having plans to diversify into manufacture of ADSL modems and other related products to strengthen its manufacturing base.

In expectation of the successful outcome of the above proposals, the accounts have been prepared on a going concern basis.

ii) Secured loans from banks and interest accrued and due include Rs. 3,220.52 lacs on account of dues to IndusInd Bank. IndusInd bank has assigned the loan to Pegasus Assets Reconstruction Private Limited (an Asset Management Company).

iii). a). Out of the total land in possession of the Subsidiary at Guindy Industrial Area, Chennai, land measuring 35.89 acres is held by the Subsidiary in the capacity of assignee in terms of assignment deed dated 3.12.1968 executed by Government of Tamil Nadu for Industrial Development of Guindy Industrial Area, Chennai. In order to give title of the above assigned land in favour of the Subsidiary, the Government of Tamil Nadu had required the Subsidiary to surrender back 4.90 acres of unutilised land to the Small Industries Department, Chennai. The Subsidiary had surrendered the vacant land measuring 4.90 acres to the Small Industries Department, Chennai in earlier years. In respect of the land measuring 27.30 acres, the name of the Subsidiary has been entered in the revenue records of the Government of Tamil Nadu. Other necessary formalities to transfer the land in favour of the Subsidiary are in progress. In respect of the balance land of 3.69 acres, the name of the Subsidiary has not been entered in the revenue records of Government of Tamil Nadu.

b) During the year, the National Highways Authority of India (NHAI) has paid a compensation of Rs.6.83 lacs towards the structure situated at the land acquired by NHAI in the previous year.

c) The Subsidiary has 15.09 acres of land at Hosur District, Tamil Nadu, which was acquired by the Subsidiary from State Industries Promotion Corporation of Tamil Nadu Limited under lease cum sale transaction in 1983. The Subsidiary is yet to sign formal agreement with the State Industries Promotion Corporation of Tamil Nadu Limited after fulfilling the necessary terms and conditions of allotment of land.

iv). (a) As at 1.04.2007, aggregate Sales amounting to Rs.13,959.45 lacs, inclusive of Excise Duty and Sales Tax (as certified by the management) was pending fixation of final price from Bharat Sanchar Nigam Limited (BSNL) (formerly Department of Telecom Services) and had been accounted for on provisional price basis in earlier years. Out of the same, provisional sales of Rs.365.68 lacs was firmed up during the year on receipt of firm price orders by the subsidiary and the balance Sales of Rs.13,593.77 lacs are still pending for firm price fixation. Adjustments on account of firm price orders received subsequent to the close of the year in respect of provisional sales affected up to March 31, 2008, have been made in the accounts. The impact of the firm price orders, which can be higher or lower than the provisional price, will be reflected in the books as and when such firm price is fixed by BSNL. There are no sale made at provisional prices in the current year.

(b) From May 11, 2002 onwards, against the sales made to BSNL and MTNL, Central Sales Tax at the concessional rate of 4% has been charged against C Forms to be received from them. The subsidiary has started receiving C Forms from BSNL/ MTNL and it is fully hopeful of receiving all the above C Forms.

v) (a) Sundry Debtors include Rs.1,341.85 Lacs (Previous year Rs.1341.85 Lacs) debited to BSNL in an earlier year pertaining to differential sales tax over and above 4 % in respect of purchase orders where scheduled delivery falls after 30.09.2000 and where actual delivery was executed subsequent to 30.09.2000 and upto 31.03.2001. Upto the close of the year, only Rs.32.42 Lacs (Previous year Rs.32.42 Lacs) have been received out of the total debit notes of Rs.95.44 Lacs (Previous year Rs.95.44 Lacs) raised on BSNL so far against the above recoverable amount. However, no provision is considered necessary against the outstanding balance as the management is fully hopeful of recovery of the entire amount.

(b) (i) During an earlier year, the Subsidiary had raised debit notes amounting to Rs.754.27 Lacs on MTNL towards differential sales tax over and above 4% payable against 'C' Form on supplies made during the period 1993-94 to 1997-98. Upto the close of the current year, the Subsidiary has received 'C' forms from MTNL for Rs.739.17 Lacs (Previous year Rs.739.17 Lacs). However, no adjustment for the sales tax forms received has been made in books. The Subsidiary has submitted the 'C' forms and the matter is pending for verification of the forms by the Sales Tax Authorities. Further, no provision for the balance amount of Rs.15.10 Lacs (Previous year Rs.15.10 Lacs) is considered necessary, as the management is fully hopeful of receiving the sales tax forms for the same.

(ii) Interest liability on the delay in payment of differential sales tax as above, has not been provided for in the books in terms of circular no. Acts Cell-IV/45217/2000/04.11.2000 issued by Commissioner of Commercial Taxes, where it is clarified that "Where ever no penal interest was levied for the belated payment of tax and penalty under the Central Sales Tax Act, 1956 upto 11.05.2000, no penal interest need to be levied now. The assessing officer can resort to levy of penal interest for the payments made on or after 12.05.2000, the date of publication of Gazette of India". In view of above clarification, the management considers that interest liability, if any, after 11.05.2000 is contingent in nature.

vi). The Management has identified obsolete/unusable inventory of Materials & Components, Stores & Spares, Work in Progress and Finished Goods on the basis of technical evaluation and the current orders in hand. Accordingly, an aggregate provision amounting to Rs.2,735.08 lacs (Previous year Rs.2,658.16 lacs) have been made in the books, which is adequate in the opinion of the management.

vii). Claims receivable includes Rs.347.00 Lacs receivable from BSNL against the compensation approved by Telecom Commission letter No. U-37012/3/97-FAC dated 1st May, 2001 for pre-closure of ETP project. Department of Telecommunications (DoT) vide letter No.U-37012-3/97-FAC dated 02.12.2003 conveyed the decision of the competent authorities to adjust the above said amount against the interest portion of the outstanding Government of India Loan. In reply, the Subsidiary requested DoT vide letter no.43.12 ETP dated 08.12.2003 to adjust the compensation amount of Rs.34,700 thousands against the principal amount of loan outstanding as on 01.05.2001, the date on which the compensation was approved. The Govt. of India has rejected this request and reiterated the adjustment of Rs.34,700 thousands compensation receivable by HTL in case of ETP claim against the interest portion of the outstanding in respect of GOI Loan while making payment of outstanding Govt. of India Loan with accrued interest thereon.

viii) The Chief Operating Officer of the Subsidiary Mr. Chidambaram has resigned w.e.f May 15, 2007. The Board has appointed Mr. D. P. Gupta as the Chief Operating Officer of the Subsidiary in the Board meeting held on June 29, 2007. The Subsidiary has filed the necessary application and is in the process of getting approval from the Central Government for the appointment of and payment of remuneration to Mr. D.P Gupta as the Chief Operating Officer of the Subsidiary.

15. (a) In case of subsidiary HFCL INFOTEL LIMITED, depreciation is charged on Straight Line Method on Computers, Office equipments, Furniture & fixtures and Vehicles, whereas, the Company calculates it on written down value method. The gross value of such assets is Rs.535,650,688 (Previous year Rs. 485,363,387) and depreciation charged for the year is Rs.55,568,865 (Previous year Rs. 63,534,736).

(b) In case of subsidiary HTL Limited, depreciation on Fixed Assets is charged on Straight Line Method, based on the useful lives of the assets as estimated by the management. Depreciation is charged for the full year in respect of additions during the year, which is not in line with the accounting policy of the Company. The gross value of such assets is Rs.5,216.98 Lacs (Previous year Rs. 5,193.16 Lacs) and depreciation charged for the year is Rs.117.35 Lacs (Previous year Rs179.91 Lacs)

16. In case of subsidiary, HTL Limited, inventory of raw materials, components and stores & spares amounting to Rs.719.67 lacs are valued at cost which is arrived at on quarterly weighted average basis, which is not in line with the accounting policy of the company i.e. FIFO basis.

17. The break up of goodwill shown as net off with capital reserve arising on consolidated of subsidiaries with the holding company is as under :

HTL Ltd.	Goodwill	741,730,139
Moneta Finance (P) Ltd.	Goodwill	475,090
HFCL Infotel Ltd.*	Capital reserve	(251,209,178)
*(consolidated with its subsidiary CBSL Cable Network Ltd.)		490,996,051

18. Figures pertaining to the subsidiary companies have been reclassified wherever necessary to bring them in line with the company's financial statements.

19. Segment Reporting

(a) Primary segment information

The Company and its subsidiaries operations primarily relates to manufacturing of telecom products, providing turnkey solutions relating thereto and providing basic telephony & ISP services. Accordingly segments have been identified in line with Accounting Standard on Segment Reporting 'AS - 17' Telecom products, Turnkey contracts & services and Basic telephony & ISP are the primary business segments whereas others constituting less than 10% of the segment revenue/results/assets have been considered as other business segments and are disclosed in the financial statements accordingly. The details of business segments for the year-ended 31.03.2008 are as follows:

(b) Secondary segment information

Amount (Rs.)

Particulars	2007-2008 Inter segment	2007-2008 Total	2006-2007 Inter segment	2006-2007 Total
Segment Revenue				
a. Telecom Products	30,895,633	1,800,620,873	63,590,088	5,573,763,361
b. Turnkey Contracts and Services		1,736,075,611		5,641,641,558
c. Basic Telephony and ISP		2,464,813,706		2,794,801,402
d. Others		-		278,524,155
Total	30,895,633	6,001,510,190	63,590,088	14,288,730,476
Less:Inter segment revenue		30,895,633		63,590,088
Turnover/Income from Operations		5,970,614,557		14,225,140,388
Segment Results				
a. Telecom Products		(980,105,225)		48,382,268
b. Turnkey Contracts and Services		107,857,729		1,168,340,185
c. Basic Telephony and ISP		(824,415,293)		(642,413,176)
d. Others		(265,369)		8,092,758
Total		(1,696,928,158)		582,402,035
Less: i. Interest and Finance charges		1,686,139,239		1,340,346,175
ii. Other un-allocable expenditure net off un-allocable income		(49,239,591)		(53,034,893)
Profit/(loss) before Tax		(3,333,827,806)		(704,909,247)

Capital Employed

a.	Telecom Products	1,791,595,641	5,193,302,849
b.	Turnkey Contracts and Services	925,497,131	2,592,218,109
c.	Basic Telephony and ISP	(2,395,711,329)	(886,982,340)
d.	Others	-	54,195,920
Total capital employed in segments		321,381,443	6,952,734,538
Add: Un-allocable corporate assets less liabilities		(4,203,317,875)	(7,541,997,505)
Total capital employed in Company		(3,881,936,432)	(589,262,967)

The Company caters mainly to the needs of Indian market and the export turnover being insignificant of the total turnover of the company, there are no reportable geographical segments.

20. Deferred Tax

The break up of net deferred tax liability as on 31st March, 2008 is as under:

				Amount (Rs.)
	2007-2008		2006-2007	
	Deferred tax liability	Deferred tax assets	Deferred tax liability	Deferred tax assets
Provision for diminution in value of investments	-	-	-	-
Depreciation	510,827,158		538,909,254	-
Provision for doubtful Loans and Advances	-	-	-	-
Others	-	5,605,786	-	4,285,230
Unabsorbed Losses (to the extent of liability only)*	-	505,221,372	-	534,624,024
	510,827,158	510,827,158	538,909,254	538,909,254
Net deferred tax liability		Nil		Nil

* On conservative basis the company recognises deferred tax assets only to the extent of deferred tax liabilities and excess of the deferred assets has not been given effect to in the Balance Sheet.

21. Related Party Disclosures

1. Name of related parties and description of relationship:

(a) Associates:

Consolidated Futuristic Solutions Ltd. (in Liquidation)
HFCL Bezeq Telecom Ltd
HFCL Dacom Infochek Ltd (HDIL)
Infotel Business Solutions Ltd.(formely known as HFCL Internet Services Ltd)
HFCL Kongsung Telecom Ltd
HFCL Satellite Communications Ltd
Himachal Exicom Communications Ltd
Investment Trust of India Limited
Microwave Communications Ltd.
Pagepoint Services (India) Pvt. Ltd
Platinum EDU Ltd
Westel Wireless Ltd
WPPL Ltd

(b) Key management personnel:

a) Mr. Mahendra Nahata
b) Dr. R M Kastia
c) Mr. Arvind Kharabanda
d) Mr. Surendra Lunia
e) Mr. S. Chidambaram (up to May 15, 2007)
f) Mr. D. P. Gupta (w.e.f. June 25, 2007)

(c) Relatives of key management personnel: Mrs. Kamala Kastia

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

2. Nature of transactions: The transaction entered into with the related parties during the year alongwith related balances as at March 31, 2008 are as under

Amount (Rs.)

Particulars	Related parties referred above in 1(a)	1(c)
Purchases/receiving of		
Goods and materials	7,712,496	-
	(9,523,629)	(-)
Services	1,486,542	
	(109,883,265)	(-)
Fixed assets	460,514,216	-
	(913,264)	(-)
Sales/rendering of *		
Goods and materials	70,902,551	-
	(391,469,119)	(-)
Services	146,694,430	-
	(102,257,483)	(-)
*including sales tax.		
Expenses		
Rent	-	2,268,000
	(-)	(1,890,000)
Interest on loans	464,040	-
	(-)	(-)
Income		
Rent	128,000	-
	(-)	(-)
Finance		
Advances given	-	-
	(3,972,600)	(-)
Loans taken/repayment of loans given	111,773,384	-
Outstanding		
Payables	483,073,416	-
	(69,096,386)	(-)
Receivables	394,327,320	-
	(570,432,712)	(-)
Guarantees and collaterals	1,459,331,000	-
	(1,459,331,000)	(-)

Figures in brackets represent previous year's amounts.

Notes: Details of remuneration to directors are disclosed under note 4.

		2007-2008	Amount (Rs.) 2006-2007
22.	**(a) Basic Earning per Share**		
	Profit/(Loss) after tax and minority interest	(3,346,288,360)	(799,065,089)
	Less: preference dividend	52,325,000	52,325,000
	Profit/(Loss) attributable to ordinary share holders	(3,398,613,360)	(851,390,089)
	Weighted average number of ordinary shares	442,793,697	408,099,052
	Nominal value of ordinary share	10	10
	Earning per Share	(7.68)	(2.09)
	(b) Diluted Earning per Share		
	Profit/(Loss) after tax and minority interest	(3,346,288,360)	(799,065,089)
	Less: preference dividend	52,325,000	52,325,000
	Profit/(Loss) attributable to ordinary share holders	(3,398,613,360)	(851,390,089)
	Weighted average number of ordinary shares	442,793,697	408,099,052
	Nominal value of ordinary share	10	10
	Earning per Share*	(7.68)	(2.09)

(* Ignored as the effect of potential equity shares is anti dilutive)

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 11th August, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla *Chairman*
Mahendra Nahata *Managing Director*
Dr. R M Kastia *Wholetime Director*
Arvind Kharabanda *Director (Finance)*

New Delhi, 11th August, 2008

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2008

	Particulars		Year ended 31.03.2008 (Rs.)	Year ended 31.03.2007 (Rs.)
A.	**Cash Flow from Operating Activities :**			
	Net Profit before taxes		(3,400,328,304)	(573,281,960)
	Adjustments for :			
	Depreciation	1,287,170,055		1,272,571,346
	Loss /(Profit) on sale of investments	-		(31,439,706)
	Diminution in value of investments	1,638		(107,016)
	Interest & finance charges	1,686,139,239		1,340,346,864
	Interest income	(41,995,433)		(36,614,535)
	Dividend income	(92,187)		(456,857)
	Technical knowhow fee written off	16,007,813		8,362,556
	Loss/(Profit) on sale of fixed assets	25,106,568		(90,662,396)
	Loss/(Profit) on sale of Investment in Subsidiary	(52,237,915)		(23,179,870)
	Unpaid/ Unrealised exchange difference	(133,376,383)		(31,067,793)
	Bad debts written off	160,566,004		181,321,197
	Payment towards guarantee contract/obligation	18,966,612		11,157,000
	Provision for doubtful debts / advances	63,521,463		380,624,078
			3,029,777,474	2,980,854,868
	Operating Profit before working capital changes		**(370,550,830)**	**2,407,572,908**
	Adjustments for :			
	Trade and other receivables	1,641,787,436		(2,589,910,871)
	Inventories	(105,945,443)		48,840,250
	Trade and other payables	663,996,624		(783,515,393)
			2,199,838,617	(3,324,586,014)
	Cash generated from operations		**1,829,287,787**	**(917,013,106)**
	Income tax for earlier years		(45,144,199)	(52,484)
	Prior period adjustments		23,555,401	(33,408,948)
	Net Cash used in operating activities		**1,807,698,989**	**(950,474,538)**
B.	**Cash flow from investing activities**			
	Purchase of fixed assets		(2,394,529,074)	(580,551,241)
	Sale of fixed assets		4,942,603	137,908,631
	Miscellaneous expenditure		4,944,000	(7,158,600)

CASH FLOW STATEMENT

Particulars	Year ended 31.03.2008 (Rs.)	Year ended 31.03.2007 (Rs.)
Purchase of investments	(2,555,242)	(12,906,226)
Sale/disposal of investments	54,775,000	44,113,507
Loans and advances	(1,781,639)	100,275,782
Interest received (net)	(156,034,849)	(2,032,516)
Dividend received	92,187	456,857
Net Cash used in investing activities	**(2,490,147,014)**	**(319,893,806)**
C. Cash flow from financing activities		
Proceed from issue of share capital including premium (net of issue expenses)	-	479,939,986
Proceeds from long term/short term borrowings - Secured/ Unsecured	2,022,579,043	1,083,925,606
Repayment of long term/short term borrowings - Secured/ Unsecured	(514,675,268)	(152,389,000)
Interest paid (net)	(839,849,353)	(568,496,425)
Repayment of Public deposit	(149,686)	(207,925)
Dividends paid (including dividend tax)	-	(47,770)
Net Cash from financing activities	**667,904,736**	**842,724,472**
Net increase in cash & cash equivalents	**(14,543,289)**	**(427,643,872)**
Cash & cash equivalents (Opening Balance)	**706,876,367**	**1,134,520,239**
Cash & cash equivalents (Closing Balance)	**692,333,078**	**706,876,367**

As per our report of even date attached

For **Khandelwal Jain & Co.**
Chartered Accountants

(Akash Shinghal)
Partner
New Delhi, 11th August, 2008

Manoj Baid
Company Secretary

For and on behalf of the Board

M P Shukla — *Chairman*
Mahendra Nahata — *Managing Director*
Dr. R M Kastia — *Wholetime Director*
Arvind Kharabanda — *Director (Finance)*

New Delhi, 11th August, 2008

STATEMENT PURSUANT TO EXEMPTION RECEIVED UNDER SECTION 212 (8) OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

Particulars	Name of Subsidiary companies			
	HTL Limited	**HFCL Infotel Limited (HITL)**	**CBSL Cable Networks Ltd (formerly known as Connect Broadband Services Limited)**	**Moneta Finance Pvt Ltd.**
Capital	150,000,000	6,772,602,701	90,500,600	3,000,000
Reserves	(2,846,224,000)	(9,168,315,068)	(165,084,281)	(12,743)
Total Assets	1,462,378,000	9,351,085,774	199,897,304	3,213,683
Total Liabilities	4,158,602,000	11,746,798,141	274,480,985	226,426
Investment other than Investment in Subsidiary	-	-	-	-
Turnover	43,494,000	2,464,813,706	21,668,490	55,991
Profit Before Taxation	(451,093,000)	(1,501,588,644)	76,033,969	(269,399)
Provision for Taxation/ FBT (Including for earlier years)	803,000	7,141,383	125,714	71,240
Profit after Taxation	(451,896,000)	(1,508,730,027)	75,908,255	(340,639)
Proposed dividend	-	-	-	-

For and on behalf of the Board

M P Shukla *Chairman*
Mahendra Nahata *Managing Director*
Dr. R M Kastia *Wholetime Director*
Arvind Kharabanda *Director (Finance)*

Manoj Baid
Company Secretary

New Delhi, 11th August, 2008

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.

Regd. Office: 8, Electronics Complex, Chambaghat, Solan - 173 213 (Himachal Pradesh)

ATTENDANCE SLIP

21st Annual General Meeting

PLEASE COMPLETE THIS ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE VENUE.

I/We hereby record my/our presence at the Annual General Meeting of the Company held on Monday, the 29th day of September, 2008 at 03:00 P.M. at Mushroom Centre, Chambaghat, Solan - 173 213, Himachal Pradesh.

Folio No.		
DP ID No.		
Client ID No.		
Full name of the Shareholder (In Block Letters)		**Signature**
Full Name of Proxy (In Block Letters)		**Signature**

PROXY

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.

Regd. Office: 8, Electronics Complex, Chambaghat, Solan - 173 213 (Himachal Pradesh)

I/We ______________________________

of ____________________ being a member / members of Himachal Futuristic Communications Ltd., hereby appoint

____

of ____________________ or failing him ____________________

of ____________________ or failing him ____________________

of ____________________ as my / our proxy in my / our absence to attend and vote for me / us on my / our behalf at the

Annual General Meeting of the Company to be held on Monday, the 29th day of September, 2008 at 03:00 P.M.

Signed this ____________ day of September, 2008

Affix a 15 Paise Revenue Stamp

Folio No.	:
DP ID No.	:
Client ID No.	:
No. of Shares.	:

Signature ________________

Note:

The proxy form must be deposited at the Registered Office of the Company at 8, Electronics Complex, Chambaghat, Solan - 173 213, Himachal Pradesh, not less than 48 hours before the time fixed for holding the Meeting.