ANNUAL REPORT
2007-08

HFCL Infotel Limited

CONNECT

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CORPORATE INFORMATION

Board of Directors
Mr. Mahendra Nahata (Chairman)
Mr. S.Lakshmanan
Mr. R.K.Bansal
Mr. M.P. Shukla
Dr. Ranjeet Mal Kastia
Mr. K. B. Lal

Manager & Chief Executive Officer
Mr. Surendra Lunia

Audit Committee
Mr. S. Lakshmanan (Chairman)
Mr. Mahendra Nahata
Mr. R. K. Bansal
Mr. M. P. Shukla

Share Transfer & Investors Grievance Committee
Dr. Ranjeet Mal Kastia (Chairman)
Mr. K. B. Lal
Mr. M.P.Shukla

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

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

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

Internal Auditors
Khandelwal Jain & Co., Chartered Accountants

Compliance Officer
Mr. Kapil Bhalla
Company Secretary

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

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

Registrar & Share Transfer Agents
Cameo Corporate Services Ltd.
Unit:- HFCL Infotel Ltd.
"Subramaniam Building", No.1,
Club House Road, Anna Salai, Chennai- 600 002.
Tel: 044- 28460390 (5- lines)
Fax: 044 - 28460129
E-mail: cameo@cameoindia.com

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NOTICE

NOTICE is hereby given that the **SIXTY FIRST ANNUAL GENERAL MEETING** of HFCL Infotel Ltd. will be held on Tuesday, the 30th day of September, 2008, at 12.00 Noon at the Registered Office of the Company situated at B-71, Phase – VII, Industrial Focal Point, Mohali -160055, Punjab, to transact the following business: -

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as at March 31, 2008, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon;

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

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

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

   "**RESOLVED THAT** pursuant to the provisions under Sections 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, M/s S. R. Batliboi & Associates, Chartered Accountants, Gurgaon and M/s Atul Kulshrestha & Co., Chartered Accountants, New Delhi be and are hereby appointed as Auditors of the Company, to hold office from the conclusion of this meeting up to the conclusion of the next Annual General Meeting of the Company on remuneration as may be decided by the Board of Directors".

SPECIAL BUSINESS

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

   "**RESOLVED THAT** pursuant to the applicable provisions of the Companies Act, 1956, and subject to the provisions of the Memorandum and Articles of Association, Listing Agreements entered into by the Company with Stock Exchanges and subject to such other approvals / consents/permissions/sanctions as may be required and prescribed / imposed by the Stock Exchanges / SEBI / any other appropriate authorities while granting such approvals / consents / permissions / sanctions and in modification of the Special Resolution passed at the 57th Annual General Meeting of the Company held on 30th September 2004, consent of the Company be and is hereby accorded to the Board of Directors of the Company (which shall include a committee thereof) for the issue and allotment of 8,67,43,116 equity shares of Rs.10/- each, ("the said shares"),fully paid up, of an aggregate value of Rs. 86,74,31,160 to be issued at par, to the Financial Institutions and Banks, as per details given below, in compliance with the terms and conditions of the revised package approved by the Corporate Debt Restructuring Cell established under the aegis of the Reserve Bank of India, which shares are to be issued consequent upon the conversion of 75,51,178 - 0% Secured Optionally Fully Convertible Debentures of Rs.100/- each ("OFCDs") (along with yield thereon as per the revised package approved by CDR Cell).

   i. 1,07,72,205 Equity Shares to Life Insurance Corporation of India aggregating Rs. 107722050.

   ii. 5,73,98,531 Equity Shares to Industrial Development Bank of India Limited aggregating Rs. 57,39,85,310.

   iii. 1,08,06,054 Equity Shares to Oriental Bank of Commerce aggregating Rs.10,80,60,540.

   iv. 43,45,838 Equity Shares to ING Vysya Bank Limited aggregating Rs. 4,34,58,380.

   v. 34,20,488 Equity Shares to State Bank of Patiala aggregating Rs. 3,42,04,880.

   RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to accept the terms, conditions and stipulations as may be specified by the Government Authorities / SEBI / Stock Exchanges while granting their approval to the company for the issue of Equity Shares as considered appropriate.

   RESOLVED FURTHER THAT the above said shares shall rank pari-passu in all respects with the existing equity shares.

   RESOLVED FURTHER THAT the Board of Directors of the Company be and is authorized to do all acts, deeds, matters and things as may be deemed necessary and expedient for the issue and allotment of the said shares, at par, pursuant to the conversion of the OFCDs, to the above said Financial Institution(s) / Banks, notwithstanding that the same are to be issued and allotted at par and not at the price determined in accordance with SEBI (Disclosure and Investor Protection) Guidelines, as approved at the 57th Annual General Meeting held on 30th September 2004".

By Order of the Board
for HFCL INFOTEL LIMITED

PLACE : New Delhi
DATED : July 31, 2008

KAPIL BHALLA
COMPANY SECRETARY

Notes:

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

2. The Register of Members and the Transfer Books of the Company will remain closed from September 26, 2008 to September 30, 2008 (both days inclusive).

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

4. Members who hold shares in dematerialised form are requested to notify immediately any change of address

to their Depository Participants (DPs) and those who hold shares in physical form are requested to write to the Company's Registrar & Share Transfer agents, ***M/s. Cameo Corporate Services Ltd., "Subramaniam Building", No.1,Club House Road, Anna Salai, Chennai - 600 002.***

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

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

7. Pursuant to the provisions of Section 205A of the Companies Act, 1956 the amount of dividend which remains unclaimed for a period of 7 years from the date of declaration would be transferred to the "Investor Education and Protection Fund" (IEPF) established by the Government and in terms of Section 205C of the Companies Act, 1956, no claim shall lie against the Company or the said fund after the said transfer. As such, shareholders who have not yet encashed their dividend warrants for the year 2001-02 are requested in their own interest to write to the Company immediately for claiming the outstanding dividends paid by the Company during the year 2001-02.

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

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

10. In terms of the provisions of section 173 (2) of the Companies Act, 1956, the Explanatory Statement in respect of Item No.5 is annexed hereunder.

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

Item No. 5

Your Company had availed credit facilities from Industrial Development Bank of India Ltd. (**"IDBI"**), Life Insurance Corporation of India (**"LIC"**), Global Trust Bank Ltd. [since merged with Oriental Bank of Commerce (**"OBC"**)], ING Vysya Bank Ltd. (**"ING Vysya"**) and State Bank of Patiala (**"SBoP"**) for implementation of Company's project of providing access telecom services in Punjab Telecom Circle under the Unified Access Services License granted by the Government of India.

At the request of the Company, the Corporate Debt Restructuring ("CDR") Cell, constituted under the aegis of the Reserve Bank of India ("RBI"), had vide its letter dated 10th March, 2004 and later amended by its letter dated 24th June 2005 approved the debt restructuring proposal. The debt restructuring proposal, inter-alia, provided for conversion of interest dues for the period from January 1, 2004 to March 31, 2005 into 0% Secured Optionally Fully Convertible Debentures of Rs.100/- each ("OFCDs"), which were to be converted into equity shares during the year 2005 - 2006. In terms of the debt restructuring proposal approved by the CDR Cell on 10th March 2004, the *price of equity shares to be issued on conversion of OFCDs into equity shares would be at par subject to then prevailing SEBI Guidelines and provisions of the Companies Act 1956.*

At the 57th Annual General Meeting ("AGM") of the Company held on 30th September 2004, the Members of the Company passed a Special Resolution, by which the Members accorded their consent, inter-alia, for the offer, issue and allotment of such number of equity shares of Rs.10/- each of the Company on conversion of said OFCDs then proposed to be issued to Life Insurance Corporation of India, Industrial Development Bank of India Limited, Oriental Bank of Commerce ,ING Vysya Bank Ltd and State Bank of Patiala. The shares were to be issued in terms of the debt-restructuring package approved by CDR Cell. In the Explanatory Statement annexed to the Notice convening the 57th AGM it was mentioned that the price at which the equity shares to be issued on conversion of OFCDs will be determined as per the SEBI Guidelines. However, subsequent to allotment of the OFCDs, the CDR Cell, modified the restructuring package approved on 10th March 2004. In terms of the modified restructuring package, the OFCDs were required to be converted into equity shares at par, subject to the then applicable provisions of SEBI Guidelines.

The CDR Cell had obtained an independent legal opinion with regard to the conversion price of the OFCDs and based on the said opinion, the OFCD holders advised the Company that the equity shares to be allotted on conversion of OFCDs (along with the yield) must be issued at par. The holders of the OFCDs also gave notice of conversion of the amount due under OFCDs along with the yield, into equity shares at par. Pending resolution of the pricing issue, for which the Company had twice sought informal opinion from SEBI under SEBI (Informal Guidance) Scheme, 2003, the Company had transferred the amount of the OFCDs along with yield to 'Advance against equity/share application money account' so that the condition regarding conversion of the OFCDs is complied before the deadline of March 31, 2006.

During the year the company obtained confirmations from its lenders regarding the yield accrued on 0% OFCD till March 31, 2006. Based on the confirmation, an amount of Rs.1,31,10,587 from the OFCD premium has been taken back to the securities premium account. Based on the opinion obtained by the CDR Cell with regard to the 'conversion price' of the OFCDs (including yield), the Company proposes to convert 75,51,178 OFCDs of Rs.100/- each alongwith the yield calculated @ 9.1% aggregating Rs.86,74,31,161/- which is lying as Advance against Share Application Money into 8,67,43,116 equity shares of Rs.10/- each, ("the said shares") at par.

The Special Resolution seeks the approval of the members for issue of the said shares at par, which are to be issued consequent to the conversion of the amount due under the OFCDs along with the yield into equity shares of the Company. Accordingly the Special Resolution set out under item No.5 of the Notice is submitted to the meeting for approval.

Information as per SEBI (Disclosure and Investor Protection Guidelines) 2000

1. **Objects of the Issue:**

   In order to overcome the short term liquidity problem and in order to avail the benefit of reduced interest rates in line with the falling interest rate regime, the Company had submitted its restructuring plan to the CDR Cell and the CDR cell has approved the said plan and further amended the plan vide their approval dated June 24, 2005 to approve redemption of 0% Secured OFCDs issued to the lenders by way of conversion of OFCDs into equity shares along with the yield of 9.1%.

2. **Intention of Promoters / Directors / Key Management persons to subscribe to equity shares.**

The said shares are proposed to be issued in compliance with the revised CDR Package approved by the CDR Cell and consequent to the exercise of the option by the holders of OFCDs to convert the amount due to them under the OFCDs along with the yield into equity shares. Consequently, neither the promoters nor Directors nor any of the Key Management persons of the Company would be issued any equity shares.

3. **Terms of the Issue**

In compliance with the terms of the CDR package, the said shares are being issued at par.

4. **Pre-Issue and Post-Issue Shareholding Pattern:**

Category of Shareholder	Pre-Issue		Post-Issue	
	Total No of Shares	Total Share -holding in (%)	Total No. of Shares	Total Share-holding in (%)
PROMOTER AND PROMOTER GROUP				
Indian Promoters				
-Bodies Corporate (HFCL)*	325705000	61.9779	325705000	53.197
-Foreign	0	0	0	0
-Persons Acting in Concert	0	0	0	0
Total Shareholding (A)	325705000	61.9779	325705000	53.197
Public Shareholding				
Institutions				
-Mutual Funds/UTI	0	0	0	0
-Financial Institutions / Banks	83072231	15.8077	169815347	27.736
-Central Governments/State Governments	0	0	0	0
-Venture Capital Funds	0	0	0	0
-Insurance Company	0	0	0	0
-FII	200000	0.038	200000	0.0327
-Foreign Venture Capital	0	0	0	0
-Any Other				
Sub Total (B)(1)	83272231	15.8457	170015347	27.768
Non Institutions				
Bodies Corporate	98455909	18.735	98455909	16.081
Individuals				
I Individual Shareholders holding nominal Share Capital upto Rs. 1 Lakh	4704472	0.8952	4704472	0.7684
II Individual Shareholders holding nominal Share Capital in excess of Rs. 1 Lakh	12474795	2.3738	12474795	2.0375
Any other				
-Clearing Members	55578	0.0105	55578	0.0091
-HUF	440557	0.0838	440557	0.072
-NRIs	43751	0.0083	43751	0.0071
-Overseas Corporate Bodies	364859	0.0694	364859	0.0596
Sub-Total (B)(2)	116539921	22.1762	116539921	19.034
Total Public Shareholding (B) = (B)(1)+(B)(2)	199812152	38.022	286555268	46.803
Total Shareholding	525517152	100.00	612260268	100.00

* HFCL - Himachal Futuristic Communications Limited (Holding Company)

5. **Proposed time limit within which the allotment shall be made**

The allotment is proposed to be made within 15 days of obtaining all such approvals as may be necessary.

6. **Identity of the proposed allottees and the percentage of post preferential issue capital that would be held by the Allottees**

Name of the Allottee	Offer Price Per Equity Share (Rs.)	Pre-Issue share-holding (No. of shares), if any	Pre-Issue Holding, If any (%)	No.of Equity Shares to be allotted	Post Issue Share-holding (No. Of Shares)	Post Issue share Holding (%)
Industrial Development Bank of India Limited (IDBI)	10/-	6,33,73,110	12.06	5,73,98,531	12,07,71,641	19.72
Oriental Bank of Commerce	10/-	1,21,71,778	2.31	1,08,06,054	2,29,77,832	3.75
ING Vysya Bank Limited	10/-	75,25,200	1.43	43,45,838	1,18,71,038	1.94
Life Insurance Corporation of India (LIC)	10/-	Nil	Nil	1,07,72,205	1,07,72,205	1.76
State Bank of Patiala	10/-	Nil	Nil	34,20,488	34,20,488	0.55

7. **Face value of the Securities**

The face value of the equity shares is Rs.10/- each.

8. **Pricing**

The CDR Cell had obtained an independent legal opinion with regard to the 'conversion price' of the OFCDs and based on the legal opinion, the OFCDs holders have written to the company that the equity shares to be issued on conversion of OFCDs must be issued at par. Consequently, the said shares are proposed to be issued at par and not at the price as per SEBI Guidelines as was approved earlier by the members at the 37th AGM.

9. **Controlling Interest:**

Consequent upon the allotment of these shares to the Financial Institutions / Banks, the Promoters' stake would stand reduced from 61.79% to 53.19%, although the Promoters would still continue to hold the majority stake.

10. **Interest of Directors**

Mr. R. K. Bansal and Mr. S. Lakshmanan are interested in the proposed resolution in their capacity as the Nominee Directors respectively of Industrial Development Bank of India Limited (IDBI) and the Life Insurance Corporation of India (LIC) to the extent of the shares to be allotted to IDBI and LIC. None of the Directors other than Mr. R. K. Bansal and Mr. S. Lakshmanan are interested in the proposed resolution.

Your Directors recommend the proposed resolution for the approval of the members by way of a Special Resolution.

By order of the Board
For HFCL INFOTEL LIMITED

Place : New Delhi
Dated : July 31, 2008

KAPIL BHALLA
COMPANY SECRETARY

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

Name	Mr. Krishna Behari Lal	Dr. Ranjeet Mal Kastia
Date of Birth	02.01.1944	10.10.1941
Date of Appointment	29.10.2003	19.06.2004
Qualification	B.E.(Hons), M.B.A	Ph.D, FBIM (London)
Expertise in specific functional areas	Over all Management Mr. K. B. Lal has around 32 years of experience in Telecom Industry. He has worked as Director(Switching) in center for development of Telematics for about 5 years	Over all Management He has been a pioneer in the manufacturing of entire range of high-tech telecom equipments. He has played a pivotal role in developing a vast base for the indigenous telecom equipment manufacturing industry in the country.
Directorships in other Public Companies	None	1. Himachal Futuristic Communications Limited 2. HTL Limited
Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	1. HFCL Infotel Ltd - STIG* Committee - Member - PMRC** - Member	1. HFCL Infotel Limited - Remuneration Committee - Member - STIG* Committee - Chairman 2. Himachal Futuristic Communications Limited - STIG Committee - Member

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

DIRECTORS' REPORT

To the Members,

Your Directors take pleasure in presenting the Sixty First Annual Report of your Company together with the Audited Accounts for the year ended 31st March, 2008.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2008 are as under: -

Particulars	(Rs. in millions) 2008	2007
Gross Income - Service Revenue - Other Income	 2488.83 10.95	 2759.00 6.34
Total	2499.78	2765.34
Operating Profit before Finance Charges, Depreciation, Amortisation and Loss on sold/discarded fixed Assets	261.34	550.19
Loss on sold/discarded Fixed Assets and Capital work in progress	17.69	28.35
Finance Cost	655.12	635.13
Depreciation and Amortisation	1038.80	1021.80
Loss for the year before prior period Expenditure and Tax	1399.65	1135.10
Prior period Expenditure (net)	18.69	21.83
Loss for the year before Tax	1418.34	1156.94
Provision for taxation for earlier years	-	-
Fringe Benefits tax	7.02	6.31
Loss for the year from ordinary and extraordinary activities	**1425.36**	**1163.25**
Loss brought forward from previous year	**7725.66**	**6562.40**
Loss carried to the Balance Sheet	**9151.02**	**7725.66**

PERFORMANCE

During the year under review, there has been a drop in the telecom service revenue from Rs. 2765.34 million to Rs. 2499.78 million primarily because of drop in Fixed Line revenues due to increased penetration of mobile services. Operating Profits from telecom services (before finance charges, depreciation, amortisation and loss on sold / discarded fixed assets) is Rs. 261.34 million compared to the previous year's figure of Rs. 550.19 million.

In the Broadband DSL-high-speed Internet product, the subscriber base has shown a growth of over 58 %, during the year, which correspond to almost 52,316 subscribers as compared to about 33,987 subscribers during the preceding year. The Company has launched CDMA mobile services in Punjab Telecom Circle in September, 2007. The mobile subscriber base has reached to 2,32,769 compared to 71,000 subscribers at the beginning of the year showing a growth of 227.8%.

The Department of Telecommunications (DoT) has permitted the Company to offer GSM Services in Punjab Service Area under the existing Unified Service License for which the Company deposited Rs.151.75 crore as license fee in December 2007. The Company is awaiting allotment of spectrum and proposes to launch GSM mobile services in Punjab. Your Company has also taken steps for securing Unified Access Service Licenses in other service areas.

Your Company's endeavor would be to expand the operations geographically apart from offering a wider bouquet of services to its subscribers using the existing infrastructure.

DIVIDEND

The Company has accumulated losses and your Directors, therefore, are not in a position to recommend any dividend for the financial year 2007-08.

TRANSFER TO RESERVES

During the year under review, no amount has been transferred to reserves.

MATERIAL CHANGES AND COMMITMENTS OCCURRED BETWEEN THE END OF FINANCIAL YEAR AND THE DATE OF THE REPORT

The Company entered into share purchase agreement dated March 26, 2008 with M/s. Digicable Networks (India) Private Limited for sale of shares of CBSL Cable Networks Limited and accordingly the shares were transferred on April 16, 2008 at par.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORBPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

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

During the year, there were no foreign exchange earnings and total foreign exchange outgo was to the tune of Rs. 318.01 million, which was on account of travel, finance and other expenses.

SHARE CAPITAL/OFCDs

The Corporate Debt Restructuring (CDR) cell, constituted under the aegis of the Reserve Bank of India, approved the revised CDR package for the Company in June, 2005 and as per the revised Package the secured Optionally Fully Convertible Debentures (OFCDs) are to be converted into shares at par, subject to the applicable provisions of SEBI guidelines and other relevant Acts during the Financial year 2005-06. As per the approved revised CDR package, your Company had approached the lenders, the holders of OFCDs, for conversion of OFCDs into equity shares. The Company has transferred the amount of OFCDs along with premium to advance against equity/share application money account pending resolution of the pricing issue with lenders. During the year the company obtained confirmations from the lenders regarding the premium accrued on the OFCDs up till March 31, 2006. Based on the confirmation, an amount of Rs 13,110,587 from the OFCD premium has been taken back to the securities premium account.

DIRECTORS

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. Krishna Behari Lal and Dr. Ranjeet Mal Kastia retire by rotation in the ensuing AGM and being eligible offer themselves for re-appointment to the office of Director on the Board of your Company.

PARTICULARS OF EMPLOYEES

The details of employees drawing remuneration in excess of the monetary ceiling in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, during the financial year 2007-08, is annexed to this report as Annexure 'A'.

DIRECTORS' RESPONSIBILITY STATEMENT

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

(i) that in the preparation of the annual accounts for the financial year ended 31st March, 2008, the applicable accounting standards have been followed along with proper explanations relating to material departures;

(ii) that the Directors have selected appropriate accounting policies and applied them consistently, made changes wherever required, disclosed the same in the financial statements wherever applicable and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2008 and of the loss of the Company for the said period;

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

(iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2008 on a going concern basis.

SUBSIDIARY

The wholly owned subsidiary of the company, CBSL Cable Networks Limited (Formerly Connect Broadband Services Limited) was formed on 2nd July, 2004 to undertake the business of distribution of Video and Cable TV services. The Company has commercially started its operations in October 2005. Information on subsidiary companies required under Section 212 of the Companies Act, 1956 is provided in Annexure to this report. The Company entered into share purchase agreement with M/s. Digicable Networks (India) Private Limited for sale of shares of CBSL Cable Networks Limited and accordingly the shares were transferred on April 16, 2008 at par. CBSL has thus ceased to be a subsidiary of the company.

CONSOLIDATED FINANCIAL STATEMENTS

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

FIXED DEPOSITS

The Company has not accepted / renewed any deposits from the public under section 58A of the Companies Act, 1956 during the year. The Company had discontinued the NBFC business in the year 2004 and transferred the outstanding amounts to an Escrow Account maintained with Oriental Bank of Commerce. Certain requests for release of matured deposits received from the investors, which were duly paid out of the said Escrow account and certain amounts which were overdue for a period of seven years or above have been transferred to Investor Education and Protection Fund (IEPF) under section 205C of the Companies Act, 1956 out of said Escrow Account. An amount of Rs. 18.43 lacs remains unclaimed for payment.

AUDITORS & AUDITORS' REPORT

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

The Statutory auditors of the Company have submitted Auditors' Report on the accounts of the Company for the accounting period ended 31st March, 2008, which is self-explanatory.

MANAGEMENT'S EXPLANATION TO THE AUDITORS' OBSERVATIONS:

1. Company had invested Rs. 717.67 million in an associate company, The Investment Trust of India Limited ('ITI') in the year 2002-03. As at March 31st, 2008, ITI has incurred a Net Loss of Rs. 67.93 million and has a negative Net worth of Rs. 81.55 million. The Auditors of ITI have, in their Audit Report dated May 21, 2008 have qualified that the ability of ITI to continue as a going concern, depends on its ability to generate income on their investment Business Segment. The management of ITI is, however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company believes that no provision is required to be made on account of any diminution in the value of the investments.

2. The Company has obtained an advance of Rs. 1,517.50 million from a non-shareholder Company to meet the payment of License Fee to DoT for starting the GSM services under the Company's Unified Access Service License for the Punjab Service

Area. The terms and conditions of the aforesaid advance are to be mutually agreed and finalized.

3. There have been occasional delays in deposit of service tax and withholding tax by the Company. The delays were on account of temporary cash flow mismatch and the dues have been paid subsequently along with applicable interest.

4. The accumulated losses of the Company as at March 31, 2008, are more than fifty percent of its net worth as at that date. The management acknowledges the erosion of net worth as stated by the Auditors. The cash loss in the current year and cash profit in the previous year are matters of fact flowing from the audited financial statements. The losses are due to declining market of the fixed line business and the Company has therefore decided to enter the GSM mobile segment to reverse this trend.

5. There have been delays in interest payments payable to financial institutions and banks due to the tight cash flow situation being faced by the Company. The due dates and the actual dates of payments are tabulated in the Audit Report at para number 11. The Company is in the process of arranging long term funds to manage this situation and to enter the GSM mobile segment for improving the cash flow situation.

6. The company has used short term funds of Rs 2,187,412,661 for purchase of fixed assets pending mobilization of equity capital and long term debt for funding expansion. Please refer to line item "net cash generated from operating activities (A) and net cash generated from / (used in) financing activities (C)" in the Cash Flow Statement)

CORPORATE GOVERNANCE

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

HUMAN RESOURCE (HR) DEVELOPMENT

The Company's HR policies and processes are continuously aimed at intellectual growth and orientation in order to effectively motivate the employees at all levels in the drive for growth and expansion of the Organization's business. Regular innovative programmes for learning and development are drawn up in order to create an encouraging work environment for empowering the employees at all levels and maintaining well structured reward and recognition mechanism. The Company encourages its employees to strengthen their entrepreneurial skills in order to enhance the Organization's productivity and creativity.

ACKNOWLEDGEMENTS

Your Directors wish to express their gratitude for the wholehearted support received throughout the year from the Shareholders, Subscribers, Business Associates, Financial Institutions, Banks and the various State Governments and Central Government Department.

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

for and on behalf of the Board

Date : July 31, 2008 (Mahendra Nahata)
Place: New Delhi Chairman

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

1.	Name of the Company	CBSL Cable Networks Limited (Formerly) Connect Broadband Services Limited
2.	Financial Year ended on	31.03.2008
3.	Shares of the Subsidiary held by the Company on the above date	
	(a) Number and Face Value	*90,50,000 equity shares of Rs.10/- each
	(b) Extent of Holding	100% (rounded off)
4.	Net aggregate of profits/(losses) of the subsidiary for the above financial year so far as they concern members of the Company (Rs.)	
	(a) dealt within the accounts of the Holding Company for the year ended on March 31, 2008	(7,61,59,683)
	(b) not dealt within the accounts of the Holding Company for the year ended on March 31, 2008	N.A.
5.	The net aggregates of profits or (losses) of the Subsidiary Company for its previous financial year since it became a subsidiary so far as they concern the members of the Company	
	(a) dealt with in the accounts of the Holding Company for the period ended March 31, 2008	(8,89,24,598)
	(b) not dealt with in the accounts of the Holding Company for the period ended March 31, 2008	N.A

* The Company has entered into share purchase agreement with M/s. Digicable Networks (India) Private Limited for sale of shares of CBSL Cable Networks Limited and accordingly the shares were transferred on April 16, 2008 at par.

Annexure 'A' to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956, as amended, read with the Companies (Particulars of Employees) rules, 1975 and forming part of the Directors Report for the year ended 31st March, 2008

A) Employed throughout the year and were in receipt of the remuneration in aggregate of not less than Rs.24,00,000 per annum

Name of the employee	Designation/Nature of duties	Remuneration received (in Rs.)	Qualification	Experience (Years)	Date of Commencement of employment	Age (Years)	Designation & Last employment
Surendra Lunia	Manager & Chief Executive Officer	75,14,165	B.Com , M.Com, C.A., C.S.	22	April 15, 2000	45	Vice President-Finance, South Asian Petrochem Limited.
Gurdial Singh	Chief Operating Officer	46,14,809	B.E.'91	17	December 2, 2002	38	Vice President SAB Infotech Limited.
S K Garg	Chief Project Officer	41,97,352	B.Sc; BE; M.Tech	20	April 1, 2007	57	Senior Vice President, Himachal Futuristic Communications Ltd.
Sannjay Suchdeva	Vice President (Operations-Punjab West)	29,46,277	B.Com, PGDBM, DIP.Mgmt.	23	February 7, 2002	46	Vice President, Modi Telecommunications Ltd.
Satish Shukla	Director-Operations (Cable Business)	24,51,880	B.Sc	29	June 7, 2005	50	Vice President Amtrinity Platco Ltd.

B) Employed for the part of the year and were in receipt of the remuneration at the rate of not less than Rs.2,00,000 per month

Name of the employee	Designation/Nature of duties	Remuneration received (in Rs.)	Qualification	Experience (Years)	Date of Commencement of employment	Age (Years)	Designation & Last employment
Surendra Nath	Chief Technical Officer	40,88,564	BE	22	September 27, 2004	44	General Manager, Tata Teleconmunications Ltd.
Atul Agarwal	General Manager (Information Technology)	20,34,602	BE(E&C)	11	July 2, 2007	38	Deputy General Manager Bharti Airtel Ltd.
Ajay Sharma	Vice President (Technical)	19,30,912	DIP; AMIE	26	July 16, 2007	46	Senior General Manager Videsh Sanchar Nigam Limited (VSNL)
Kapil Dev Kumar	Vice President (New Projects)	22,83,255	B.Tech; PGDM	17	September 1, 2007	39	Associate Vice President Bharti Airtel Limited.
Sanjay Jain	Chief Technical Officer (New Projects)	16,54,856	AMIE	19	August 22, 2007	40	Integrated Technical Service Manager(ITSM) IBM India Pvt. Ltd.

Notes:

1. Remuneration includes Salary, Allowances, Value of perquisites, Company's contribution to Provident Fund but excludes contribution made for gratuity and leave encashment during the year based on actuarial valuation
2. None of the employees above is a relative of any Director and Manager of the Company.
3. Nature of Employment in all cases is contractual
4. None of the employees mentioned above have shareholding in the Company.

Place : New Delhi
Date : July 31, 2008

for and on behalf of the Board

(Mahendra Nahata)
Chairman

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2007-08

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

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

1. Company's Philosophy and Principles on Corporate Governance

Philosophy

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

Principles

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

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

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

a) Strategic supervision by the Board of Directors.
b) Various Committees of the Board of Directors.
c) Reporting and disclosures.

2. Board of Directors

(A) Composition

The Board consists of Six Directors including two Nominee Directors nominated by the Industrial Development Bank of India Limited and the Life Insurance Corporation of India, the term lenders of the company. All the Board Members possess adequate experience, expertise and skills. The Board oversees the overall business operations with the day-to-day affairs being managed by the Chief Executive Officer and Manager appointed under Section 269 of the Companies Act, 1956, of the Company in consultation with the senior Management team.

The non-executive directors and independent Directors constitute 50% of the strength of the Board. The Company has a non-executive Chairman.

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

None of the directors are members in more than ten Committees nor Chairman of more than five Committees across all companies in which they are directors.

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

Name of the Director	Date of appointment	Category	No. of other Directorships	Committee Membership	Committee chairmanship*
Mr.Mahendra Nahata	29.04.2003	(C/NED /PD)	4	2	0
Mr.R.K.Bansal (Nominee of IDBI)	29.04.2005	(NED/ID/ Nominee)	2	4	0
Mr. S.Lakshmanan (Nominee of LIC)	17.06.2003	(NED/ID/ Nominee)	0	3	2
Mr. M.P.Shukla	29.04.2003	(NED/ID)	2	4	1
Mr. K.B. Lal	29.10.2003	(NED/NID)	0	2	0
Dr. Ranjeet Mal Kastia	19.06.2004	(NED/NID)	3	3	1

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

Note:

**Includes Membership / Chairmanship in HFCL Infotel Ltd.; excludes private companies; includes membership acquired after 31st March, 2008; Committees considered are Remuneration Committee, Audit Committee, Share Transfer & Investors' Grievance Committee and Project Management Review Committee.*

No Director is related to any other Director on the Board in terms of the definition of relative' given under the Companies Act, 1956,

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

Board meets at least once in every quarter to review and discuss the operating results and other items of agenda. The Company Secretary while preparing the Agenda, Notes on Agenda, Minutes. of the meeting(s), is responsible for and is required to ensure adherence to all the applicable laws, rules and regulations including the Companies Act, 1956 read with the Rules issued there under and the Secretarial Standards recommended by the Institute of Company Secretaries of India.

Additional meetings are held whenever required. During the period 01.04.2007 to 31.03.2008, the Board met 4 times on the following dates viz. 12th June, 2007, 31st July, 2007, 31st October, 2007 and 31st January, 2008.

The 60th Annual General Meeting of your Company was held on September 28, 2007.

Attendance of Directors at the Board Meetings held during the year 2007-08 and at the last Annual General Meeting is as under:

Attendance of the Directors in the Financial Year 2007-08

S. No.	Name of the Director	Board Meetings		Last AGM attended
		held	Attended	
1.	Mr.Mahendra Nahata	4	4	No
2.	Mr. S. Lakshmanan	4	4	No
3.	Mr. R. K. Bansal	4	4	No
4.	Mr. M. P. Shukla	4	4	Yes
5.	Mr.K.B.Lal	4	3	No
6.	Dr. R. M. Kastia	4	3	No

(C) Information Placed before the Board

Incomplance, with clause 49 of the listing agreement pertaining to Corporate Governance following matters are regularly placed before the Board in addition to the matters, which statutorily require the Board's approval:

a. Minutes of all Committee Meetings;

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

c. Annual Operating Plans, Budgets and updates thereon;

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

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

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

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

h. Details of any joint venture or collaboration agreement;

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

j. Legal Compliance reports and Certificates.

k. Accounts of the Subsidiary Company.

3. Committees of the Board

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

(A) Audit Committee

The Audit Committee comprised of:

- Mr. S Lakshmanan, (Chairman)
- Mr. Mahendra Nahata
- Mr. R. K. Bansal
- Mr. M. P. Shukla

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

The Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreement with Stock Exchanges read with Section 292A of the Companies Act, 1956 and comprise of three independent Directors. The Committee meets regularly and the Statutory Auditors, the Internal Auditors, Chief Executive Officer and other Senior Officers are invitees to the meetings. The quorum for the Audit Committee is two independent members.

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

- Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to Statutory Auditors
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:

a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956

b. Changes, if any, in accounting policies and practices and reasons for the same

c. Major accounting entries involving estimates based on the exercise of judgment by management

d. Significant adjustments made in the financial statements arising out of audit findings

e. Compliance with listing and other legal requirements relating to financial statements

f. Disclosure of any related party transactions

g. Qualifications in the draft audit report.

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

The Audit Committee has been mandatory authorized to review of following Information:

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

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

12th June, 2007, 31st July, 2007, 31st October, 2007 and 31st January, 2008.

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

Meetings and the attendance of the Directors for the FY 2007-08

S. No.	Name of the Members	No.of Meetings held during the tenure	No. of Meetings Attended
1	Mr. S. Lakshmanan	4	4
2	Mr. Mahendra Nahata	4	4
3	Mr. M. P. Shukla	4	4
4	Mr. R. K. Bansal	4	4

(B) Remuneration Committee

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

During the year the Remuneration Committee comprised of:

- Mr. S Lakshmanan, Chairman
- Mr. M. P. Shukla
- Dr. R. M. Kastia

The Committee is responsible for overseeing the following matters:

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

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

The Committee met once during the last financial year i.e on 12th June 2007. Mr. S. Lakshmanan and Mr. M.P. Shukla attended the meeting and leave of absence was granted to Dr. Ranjeet Mal Kastia.

(C) Share Transfer and Investors' Grievance Committee

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

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

1. Dr. R. M. Kastia, Chairman
2. Mr. K. B. Lal
3. Mr. M. P. Shukla

Mr. S. Prabhakar, Company Secretary & Head-Legal & Regulatory was the Compliance officer till October 31, 2007 and now Mr. Kapil Bhalla, Company Secretary is the Compliance officer since November 26, 2007.

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

During the year under review, the STIG Committee consisting of Board Members met twice on 18th April, 2007 and 31st July, 2007 and the attendance of the Members at the meetings was as under:

Name of Member	No.of Meetings held	No.of Meetings Attended
Dr. R. M. Kastia	2	2
Mr. K. B. Lal	2	2
Mr. M.P.Shukla	2	2

Besides the aforesaid Committee consisting of the Board Members, another Committee known as the Share Transfer In-House Committee has also been constituted comprising of Chief Executive office & Manager, Company Secretary and Heads of Corporate Finance & & Accounts.

The Share Transfer In-House Committee is empowered to approve transfer / transmission / transposition / issue duplicate share certificates up to 5000 shares only. A meeting of this Committee is held fortnightly. This Committee is not empowered to issue duplicate shares in case of loss of share certificate and is only authorized to handle issue of duplicate certificate only in the case of mutilated / torn / partially burnt shares etc. During the year-ended 31st March, 2008, 23 meetings of In-House Share Transfer Committee were held.

Total number of complaints received and replied to the satisfaction of shareholders during the year was 2. There were no unresolved complaints as on 31st March, 2008.

(D) Project Management Review Committee (PMRC)

Project Management Review Committee comprised of

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

Scope of Review of the Committee includes:

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

Powers of the Committee:

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

During the year under review, the PMR Committee consisting of Board Members has not met as the issues were discussed in the Board Meetings.

(E) Sitting fee paid to the Directors

The Company pays sitting fees to all the Non-Executive Directors at the rate of Rs.5000/- for each Board / Committee Meeting. The details of sitting fee paid to Directors during the FY 2007-08 are as under: -

S. No.	Name of the Director	Sitting Fee (in Rs.)					Total Sitting fee paid
		Board Meeting	Audit Committee meeting	Remuneration committee	Project management Review committee	STIG Committee	
1	Mr Mahendra Nahata	20000	20000	Nil	Nil	Nil	40000
2	Mr. R.K. Bansal	20000	20000	Nil	Nil	Nil	40000
3	Mr.S.Lakshmanan	20000	20000	5000	Nil	Nil	45000
4	Mr M P Shukla	20000	20000	5000	Nil	10000	55000
5	Mr.K.B.Lal	15000	Nil	Nil	Nil	10000	25000
6	Dr. R. M. Kastia	15000	Nil	Nil	Nil	10000	25000

*Besides sitting fee Mr. R. K. Bansal has been paid Rs. 860/- per Board Meeting to cover their reimbursement expenses being a nominee Director of Industrial Development Bank of India Limited.

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

4. **General Body Meetings**

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

Year	AGM No.	Location	Date	Time
2004-2005	58	B-71, Industrial Area, Phase-VII, Mohali	29.09.2005	12.00 Noon
2005-2006	59	B-71, Industrial Area, Phase-VII, Mohali	29.09.2006	12.00 Noon
2006-2007	60	B-71, Industrial Area, Phase-VII, Mohali	28.09.2007	12.00 Noon

No Extraordinary General Meeting was held during 2007–08:

Postal Ballot

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

Special Resolutions

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

  Public or private offerings in the domestic and/or one or more international markets, Equity Shares Preference Shares / Equity Shares through Global Depositary Receipts (GDRs)/Convertible Notes/ Securities, with or without detachable warrants/ any securities convertible into equity shares whether optionally or otherwise / Euro Convertible Bonds (ECBs) / Foreign Currency Convertible Bonds (FCCBs) / American Depositary Receipts (ADRs) / Secured Premium Notes (SPNs).

- In the Annual General meeting held on 29th September, 2006 no special resolution was passed.
- In the Extra ordinary General Meeting held on 27th February, 2006, special resolutions were passed for: -
  - i) Obtaining approval for issue of equity shares / preference shares/equity shares through Global Depository Receipts (GDRs) / Amercian Depository Receipts (ADRs)
  - ii) Obtaining approval for Employee Stock Option Scheme
  - iii) Alteration of Memorandum and Articles of Association to increase the authorized capital to Rs 1300 crores
- In the last Annual General meeting held on 28th September, 2007, Special Resolution was passed for: -

  Re-appointment of Mr. Surendra Lunia as Manager under the Companies Act, 1956 and remuneration payable to him in terms with the provisions of Section(s) 198, 269,385, 386, 387 and 388 read with Section 2(24) and schedule XIII of the Companies Act, 1956.

5. **Disclosures**

a. **Related Party Transactions**

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

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

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

b. **Code of Conduct**

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

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

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

The Company has obtained from all the members of the Board and Senior Management an affirmation that they have complied with the Code of Conduct in financial year 2007-08.

c. **Risk Management**

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

d. **Non-Compliance by the Company, penalties, and strictures imposed on the Company by Stock Exchanges or SEBI or any other statutory authority on any matter related to capital markets during the last three years.**

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

e. **Secretarial Audit**

A qualified practicing Company Secretary carries out secretarial audit every quarter to reconcile the total admitted capital with National Securities

Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the total issued/paid up capital is in agreement with the total number of shares in physical form and the total number in dematerialized shares held with NSDL and CDSL.

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

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

6. **Whistle blower Policy**

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

7. **Means of Communication**

A. The Quarterly, Half Yearly and Annual results are published in "The Financial Express" - English daily and "Desh Sevak" - vernacular language paper and forwarded to Stock Exchanges immediately. Press releases are also issued simultaneously.

B. The Company's official website www.hfclconnect.com, contains a separate dedicated section 'Investor Relations' where shareholders information is available. The Annual Report of the Company is also available on the website in a user-friendly and downloadable form.

C. All material information about the Company is promptly sent through facsimile to the Stock Exchanges where the shares of the Company are listed.

D. Annual Report: Annual Report containing, inter alia, Audited Annual Accounts, Consolidated Financial Statements, Directors' Report, Auditors' Report and other important information is circulated to members and others entitled thereto. The Management Discussion and Analysis (MD&A) Report forms part of the Annual Report.

E. SEBI EDIFAR : Annual Report, Quarterly Results, Shareholding Pattern, etc. of the Company are also posted on the SEBI EDIFAR website www.sebiedifar.nic.in.

8. **Management Discussion and Analysis Report**

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

9. **General Shareholder Information**

a. **Company Registration Details** :The Company is registered in the State of Punjab, India. The Corporate Identity Number (CIN) allotted to the Company by the Ministry of Corporate Affairs (MCA) is **L00000PB1946PLC026718.**

b. **61st Annual General Meeting**

Date	:	30th September, 2008
Time	:	12.00 Noon
Venue	:	B-71, Industrial Focal Point, Phase VII, Mohali

c. **Financial Year and Financial Calendar**

Financial Year : 1st April to 31st March

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

Results for the Qtr ending 30th June, 2008	Last week of July 2008
Results for the Qtr ending 30th September, 2008	Last week of October 2008
Results for the Qtr ending 31st December, 2008	Last week of January 2009
Results for the year ending 31st March,2009 (un-audited)	Last week of April 2009
Annual General Meeting	In September, 2009

e. **Dates of Book Closure**

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

The Financial year covers the period from 1st April, 2008 to 31st March, 2009.

f. **Dividend payment date :**

The Board recommended no dividend for the financial year 2007-08

g. **Registered Office**

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

0172 - 5090000 (Epbax)

0172 – 5091275 (Fax)

e-mail:*secretarial@hfclconnect.com*

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

Company's shares are listed at Mumbai and Chennai stock exchanges

The post-merger paid up, subscribed and issued equity share capital of the Company consists of 52,55,17,152 equity shares of Rs.10/- each. Out of this, 1,04,46,814 equity shares i.e., pre-merger 87,16,000 equity shares and 17,30,814 equity shares allotted pursuant to conversion of warrants issued to the shareholders of ITI as per the Scheme of Amalgamation, are listed on the Bombay Stock Exchange (BSE) and Madras Stock Exchange (MSE).

43,20,00,250 equity shares of Rs. 10 each allotted to the shareholders of erstwhile HFCL Infotel Limited pursuant to the scheme of amalgamation and 8,30,70,088 equity shares of Rs. 10 each allotted to the lenders viz. Industrial Development Bank of India (IDBI), Oriental Bank of Commerce (OBC), ING Vysya Bank on 16th October, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring (CDR) mechanism, are yet to be listed on BSE and MSE.

The Company had approached the BSE for listing of 43,20,00,250 equity shares issued pursuant to the merger. The BSE laid a condition that these shares would be considered for listing after the Company undertakes an "Offer for Sale" to raise the shareholding of non-promoters to the minimum level required as per the SEBI (DIP) Guidelines. The Company has informed the BSE that pursuant to the allotment of Equity Shares to the Institutions/ Banks in terms of the Corporate Debt Restructuring package approved for the Company, the non-promoters holding in the Company has increased substantially and has gone much beyond 25%. However, the BSE has reiterated it's earlier stand that the Company should come out with "Offer for Sale". The Company filed an appeal against the decision of the BSE in the Hon'ble SAT and the appeal was finally disposed off with the mutual consent of BSE and HFCL Infotel, wherein the Hon'ble SAT advised the BSE to take up the matter in their Listing Committee. Based on the directions of the Listing Committee, BSE, vide its letter Ref No. DCS/SMG/ RCG/2005/511116 dated 2nd November, 2005 agreed for listing of HFCL Infotel's shares subject to certain conditions, which includes promoter to divest atleast 1.33% of the paid up share capital to the Indian public by 5th April, 2006 by way of an offer for sale or the Company to undertake public offer in the domestic market to raise the non promoter holding to 25%. Therefore, the offer for sale is being made as per the direction of Hon'ble SAT / BSE.

The offer document was filed with SEBI Delhi on 23rd December, 2005. Certain queries were raised by BSE and SEBI, which were responded to their complete satisfaction. Sebi vide its order dated 7th March, 2007 directed that communication of observations on the draft offer for sale document filed by HFCL Infotel Limited be withheld till the proceedings under Section 11B of the SEBI Act are disposed off. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007 and sought immediate relief of setting aside the order of SEBI and direct SEBI to offer its observations in the pending draft offer document. The appeal was taken up for hearing on October 18, 2007. After hearing the arguments by counsels on both sides, the Hon'ble Tribunal inter alia allowed Company's appeal and directed SEBI to proceed with the letter of offer presented by the company, in accordance with law, and issue a letter of observations in terms of the guidelines within six weeks from the date of the receipt of copy of the order. On December 1, 2007, SEBI directed the Company to file the revised draft OFS, while the Company is in process of compiling information and getting its restated accounts audited for 5 years for updating the draft offer for sale document.

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

i. **Stock Code**

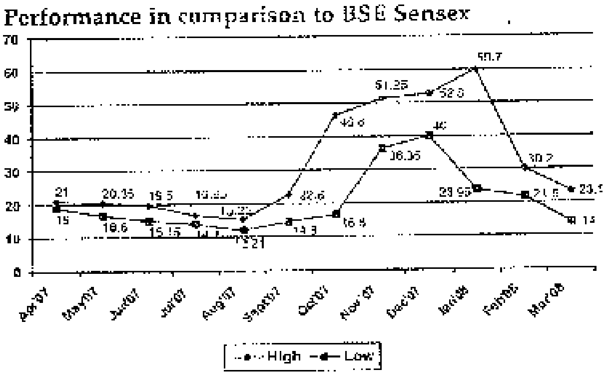
- The Stock Exchange, Mumbai – 511116
- Madras Stock Exchange Ltd. – ITR

j. **Stock Price Data**

The reported high and low closing prices of the Company's shares traded during the fiscal 2007-2008 on the Stock Exchange, Mumbai are given below:

Month	High	Low
Apr'07	21.00	19.00
May'07	20.35	16.60
Jun'07	19.50	15.15
Jul'07	16.65	14.10
Aug'07	15.25	12.21
Sept'07	22.60	14.80
Oct'07	46.60	16.80
Nov'07	51.25	36.35
Dec'07	52.80	40.00
Jan'08	59.70	23.95
Feb'08	30.20	21.50
Mar'08	23.10	14.00

Performance in comparison to BSE Sensex



k. Registrar & Share Transfer Agents

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

l. Registrars for Public Deposits

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

m. Share Transfer System

Trading in Equity Shares of the Company is permitted only in dematerialized form. Shares sent for transfer in physical form are registered and returned within a period of 21 days from the date of receipt of the documents, provided all documents are valid and complete in all respects. In accordance with SEBI guidelines, the Company offers the facility of transfer-cum-demat to shareholders after share transfers are affected in physical form.

With a view to expediting the process of share transfers, a Committee known as the Share Transfer In-House Committee is authorized to approve transfers / transmissions / issue of duplicate share certificates in cases where number of shares involved is below 5000 in number. In the case of request is received to issue of duplicate shares in lieu of the lost share certificate, a Board level Committee known as Share Transfer and Investors' Grievance Committee (STIG) is authorized and the Share Transfer In-House Committee does not have any power. The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider the other transfer proposals and attend to shareholder grievances.

n. Distribution of Shareholding as on 31st March, 2008

No. of Equity Shares Held	Shareholders No.	Shareholders %	Shareholding No.	Shareholding %
10 - 5000	10333	82.5451	17121720	0.3258
5001 - 10000	1095	8.7471	9363100	0.1781
10001 - 20000	530	4.2339	8361270	0.1591
20001 - 30000	155	1.2382	4001140	0.0761
30001 - 40000	75	0.5991	2713410	0.0516
40001 - 50000	81	0.6470	3885000	0.0739
50001 - 100000	125	0.9985	9867530	0.1877
100001- and Above	121	0.9905	5199858350	98.9474
Total :	12515	100.0000	5255171320	100.0000

o. Shareholding Pattern as on 31st March 2008

A	Category	Shares	%
	Promoters Holding		
1	Indian Promoters	325705000	61.9780
	Foreign Promoters	-	Nil
2	Persons Acting in concert	-	Nil
	Sub Total	325705000	61.9780
B	Non-Promoters Holding		
3	Institutional Investor		
a	Mutual Funds & UTI	-	Nil
b	Bank, Financial Institutions		
	Insurance Companies (Central/State Government Institutions/Non-Government Institutions)	83072231	15.8078
c	Foreign Institutional Investors	200000	0.038
	Sub Total	83272231	15.8458
4	Others		
a	Private Corporate Bodies	98124806	18.6720
b	Indian Public	17470316	3.3244
c	NRI's	40144	0.0076
d	Any Other - Clearing Member	74852	0.0142
	HUF	459944	0.0875
	Overseas Corporate Bodies	369859	0.0703
	Sub Total	116539921	22.1762
	Grand Total	525517152	100.0000

Top Ten Shareholders of the Company as on 31.03.2008

S. No.	Name of the Shareholders	Number of Shares	% of total Share holdings
1	INDUSTRIAL DEVELOPMENT BANK OF INDIA LTD	63373110	12.0591
2	ORIENTAL BANK OF COMMERCE	12171778	2.3161
3	MKJ ENTERPRISES LTD	10000000	1.9028
4	MANTU HOUSING PROJECTS LTD	20000000	3.8057
5	ING VYSYA BANK LIMITED	7525200	1.4319
6	SANTOSH INDUSTRIES LTD	12500000	2.3786
7	MASITIA CAPITAL SERVICES LTD	15000000	2.8543
8	AUGUST TRADING PRIVATE LIMITED	10000000	1.9028
9	LINEAR COMMERCIAL PRIVATE LIMITED	10000000	1.9028
10	MOOLSONS HOLDINGS PRIVATE LIMITED	10000000	1.9028
	TOTAL	170570088	32.4573

o. Dematerialization of Shares

62.01% of the issued Equity Share Capital is held in dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on 31st March, 2008. In respect of 43,20,00,250 shares allotted to the erstwhile shareholders of HFCL Infotel Limited, in the Exchange Ratio as per the Scheme of Amalgamation, and 8,30,70,088 equity shares allotted to the lenders Industrial Development Bank of India, Oriental Bank of Commerce, and ING Vysya on 16th October, 2004, pursuant to the Corporate Debt Restructuring package approved under Corporate Debt Restructuring mechanism, the Corporate Action for Dematerialization of 31,62,00,000 equity shares out of the said 43,20,00,250 equity shares has been taken but these shares are yet to be listed. The Company had filed the application for listing these shares with the Mumbai and Madras Stock Exchanges.

p. Unclaimed Dividends

The unpaid balance in the unclaimed dividend account has been transferred to investor Education and Protection Fund.

q. Outstanding GDR/ADR or Warrants

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

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

There was no-consensus as to the pricing at which these OFCDs were to be converted into equity. Lenders were of view that the same shall be converted at par whereas the company was of view that the same shall be converted into equity at a price calculated as per SEBI formula. Pending clarifications of the conversion pricing, the company, with the consent of the lenders, converted the amount of OFCDs along with the agreed premium into Advance against equity/share application account so that the condition of conversion gets fulfilled before the deadline of 31st March, 2006. The Company has transferred the amount of OFCDs along with premium to Advance against equity/share application money account. 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 scheduled bank. During the year ended March 31, 2008 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. In order to ensure utmost possible diligence the Company has sought advice from its legal advisor.

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

r. Head Office

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

s. Address for Correspondence

Shareholders may correspond on all matters relating to transfer / dematerialization of shares and any other query relating to shares of the Company.

For Shares held in Physical form
Cameo Corporate Services Ltd.
Unit : HFCL Infotel Limited
"Subramaniam Building,
No.1, Club House Road
Anna Salai, Chennai-600 002
Telephone Nos. : 044-2846 0390 (5 lines)
Email: ***cameo@cameoindia.com***

For Shares/Debentures held in Demat form

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

Any query on Annual Report

Mr. Kapil Bhalla,
Company Secretary
HFCL Infotel Limited
B-71, Industrial Area, Phase-VII,
Mohali- 160055, Pb.
E-mail: secretarial@hfclconnect.com

t. Compliance Officer Shri Kapil Bhalla is the Compliance Officer for complying with the requirements of SEBI Regulations and the Listing Agreements with the Stock Exchanges in India.

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

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

Formulation of Risk assessment and minimization is still under process.

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

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

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

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

DECLARATION

As provided under Clause 49 of the Listing Agreement with the Stock Exchange (s), it is hereby declared that all the Board members and senior management personnel of the Company have affirmed compliance with the Code of conduct for the year ended 31st March, 2008

SURENDRA LUNIA
Manager and
Chief Executive Officer

Place: New Delhi
Date: 31st July, 2008

CEO/CFO CERTIFICATION

To,

The Board of Directors

HFCL Infotel Ltd.

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

We, Surendra Lunia, Manager & CEO appointed in terms of the Companies Act, 1956 and Vikash Agarwal, AVP -Corporate Finance & CFO certify to the Board that:

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

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

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

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

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

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

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

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

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

VIKASH AGARWAL
AVP - Corporate Finance &
Chief Financial Officer

SURENDRA LUNIA
Manager and
Chief Executive Officer

Place: New Delhi
Date: 31st July, 2008

CERTIFICATE BY PRACTISING COMPANY SECRETARY

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

To
The Members of
HFCL Infotel Limited

We have examined the compliance of conditions of Corporate Governance by **HFCL Infotel Limited**, for the year ended on 31st March, 2008, as stipulated in clause 49 of the Listing Agreement of the said Company with the Stock exchanges.

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

In our opinion and to best of our information and according to the explanations given to us, subject to the laying down of detailed formal framework for risk assessment and minimization procedures by the Company in process, we certify that the Company has complied with the conditions of the Corporate Governance as stipulated in the above-mentioned Listing Agreement.

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

For A. Arora & Co.
Company Secretaries

Sd/-
Ajay Arora
Membership No. F-2191
C.P. No. 993
Place : Chandigarh
Date : July 31, 2008

MANAGEMENT DISCUSSION & ANALYSIS REPORT

OVERVIEW

HFCL Infotel Ltd ("Infotel" or "the Company") is an Unified Access Services Licensee in Punjab Telecom Circle, which comprises of Punjab, the Union Territory of Chandigarh and Panchkula (a town in Haryana). The Company started its operations in September 2000 as a fixed line service provider under the brand name "CONNECT". In September 2007 the Company launched its CDMA based full mobility services in Punjab circle under the brand name of "PING". At the end of the financial year (i.e. March 31, 2008), the Company had 4,46,404 telephony subscribers, including - 2,13,635 in fixed-line segment and 2,32,769 in mobile segment. In addition, the Company had 52,316 Broadband Internet Access subscribers.

The Company with its extensive optic fiber cable network of over 3800 km, provides services in over 150 cities/ towns covering 52 of the 55 Short Distance Charging Areas ("SDCA") of Punjab Telecom Circle, as defined by the Department of Telecommunications, Government of India.

Key Business and Financial highlights for the financial year are:

- Subscriber base of Broadband Internet Access services on ADSL grew by 54% from about 33,987 at the end of March 2007 to 52,316 at the end of March 2008.
- The Company launched full mobility services in Punjab and Mobile Subscriber base grew by 227.8% from about 71,000 at the end of March 2007 to 2,32,769 at the end of March 2008.
- Fixed Voice Subscriber base reduced by 14.11 % from about 248K at the end of March 2007 to 213K at the end of March 2008
- Gross Revenue declined by 9.6% from Rs. 276.53 Crore for FY 2006-07 to Rs.249.98 Crore for Financial Year 2007-08.
- Operating Profit (EBIDTA) declined by 52.05% from Rs 55.02 Crore for FY 2006-07 to Rs. 26.13 Crore for FY2007-08.

INDUSTRY STRUCTURE

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

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

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

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

KEY INDUSTRY DEVELOPMENTS

Growth & Market Trends

<u>Telecom Services</u>

During the FY 2007-2008, Indian Telecom Services sector continued its high growth trajectory, mainly driven by intense competition and aggressive pricing. The mobile segment continued to grow at a very high rate in comparison to the Fixed-line segment. The number of subscriber accessing Internet through 'always on' High speed Broadband segment has grown 58.53 % over the previous year and is expected to show tremendous growth in future with the increase in PC penetration. Segmental growth of subscribers is shown below:

Segment	March 07 (in million)	March 08 (in million)
Mobile Voice	166.05	261.08
Fixed Wireline+Wireless	40.78	39.42
Broadband	2.46	3.90

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

- Increasing Household incomes as the economy grows
- Increased coverage by network operators – reaching out to untapped markets
- Higher affordability through lower tariffs as regulatory and equipment costs decline
- India's booming economy would further drive growth

- Sectors such as IT Services and IT enabled Services are growing sharply
- Services such as banking, insurance, hospitality, etc. are showing growth with increased demand and competitive activity.
- As Multinational Corporations increase their presence in India and Indian Companies expand overseas, India will integrate with the global economy giving further impetus to telecom growth
- As Companies organize their operations using ERPs and expand their networks for SCM, CRM, etc., the need for telecom services expands sharply.

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

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

Regulatory Developments/Changes

During the current year under review regulatory authorities i.e Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT), undertook certain policy measures. The following are the key regulatory changes and developments undertaken by the TRAI and DoT.

- TRAI has done away with the Access Deficit Charge (ADC) w.e.f April 01, 2008. TRAI has recommended the continuation support to BSNL through Universal Service Obligation Fund (USOF) instead of ADC. ADC on incoming international calls would be Rs.0.50 per minute for the period 01.04.2008 to 30.09.2008. ADC paid in the form of percentage of Adjusted Gross Revenue (AGR)" has been done away w.e.f. Ist April, 2008 and ADC charges on the rural revenue of operators had already been abolished in order to motivate penetration of telecom services in rural areas.
- Press note was issued by Department of Telecommunications (DoT) wherein after the payment of requisite entry fee (as prescribed for obtaining new UAS Licence) the licensees were allowed to use alternative technology (CDMA/ GSM) under the same license. Further, Under the open policy, the DoT issued approx. 120 new UAS Licences in the current financial year.
- The DoT issued guidelines for sharing of infrastructure; except the sharing of spectrum sharing of other infrastructure is permitted viz Tower, Node etc.

Data Services

For Data services broadband holds a very promising future with number of subscribers projected to reach around 20 mn by 2010.

To increase the penetration of broadband services, the Government had announced a Broadband Policy in 2004, which encouraged the private service providers to spread the optical fiber broadband network to the rural areas.

- Giving a high priority to the owners of copper loop in view of the fact that they would be critical as key drivers in the Broadband service market using DSL.
- Giving freedom to the Access providers for entering into commercial arrangements for utilisation of available copper loop for the expansion of broadband services.
- Allowing the Cable TV network to be used as franchisee network of the service provider for provisioning Broadband services.
- Encourage the VSAT and DTH services for penetration of Broadband and Internet services especially being suitable means for serving the remote and inaccessible areas.

Future Perspective

- Broadband subscriber base to touch 18-20 mn by 2009-10
- Broadband is expected to become a dominant internet access media and by 2009-10 about 73% of the Internet subscribers are expected to be on broadband, especially in view of the ever increasing PC penetration and PC based education spreading across the schools all over India.
- DSL will continue to have an edge over all other delivery mechanisms for the next 4-5 years and any incumbent wireline operator will have an edge over standalone broadband service providers.

OPPORTUNITIES AND THREATS

Opportunities

During the year, the Company further expanded the reach of its wireline voice services to smaller towns and currently has presence in over 150 towns of Punjab. In the Mobile voice segment, the Company expanded its wireless network footprint to the whole of the Punjab Circle so that full mobile services can be offered to subscribers.

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

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

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

Threats

The competitive intensity in Punjab is high with seven operators offering their services. All the seven operators offer mobile telephony services. Four of these offer fixedline services as well.

High level of competition causes pressure on new customer acquisitions, retention of existing customers and tariffs.

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

OUTLOOK

The Company foresees high degree of competition in the years to come, especially in the mobile telephony segment. The Company during the financial year 2007-08 had expanded the wireless network footprint to most parts of Punjab. In terms of subscriber base, all existing mobile operators are showing a healthy growth pattern and none of the major operators holds sway over the market. The market and segments within will be shared by 5-6 operators enjoying 15-20% share.

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

- The planned expansion of wireless services into Pan Punjab, at low incremental capital cost and low incremental operating cost will help improve the overall asset utilization and profitability ratios.
- With the right to offer full mobile services under the Unified Access Services Licence, the Company expects its subscriber base to grow faster as the mobile telephony segment is growing significantly faster than the fixedline segment.
- With equipment becoming cheaper in recent times, the Company has started offering very affordable tariff packages for broadband internet access services. Increasing demand for high-speed Internet access would be a key driver for the Company's copper based wireline service.

RISKS & CONCERNS

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

1. *Financing Risks*

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

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

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

2. *Market and Competition Risk*

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

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

3. *Regulatory Risks*

In the ordinary course of business, the Company is required to obtain various regulatory approvals, which mostly are recurring in nature viz., SACFA/ WPC approval for frequency allocation, Right of Way for laying network cables, testing approval for interconnection with BSNL, TRAI approval for interconnection agreements and tariffs etc. The Company's long term plan for expansion of wireless services Pan India is subject to availability of spectrum.

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

4. *Risk of rapid technological changes*

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

5. *Dependence on key personnel*

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

INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

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

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

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

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

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

It has been Company's endeavor to expand the operations geographically and also in terms of providing new value added services. During the year 2007-08, the Company has expanded its wireline services to 150 cities / towns of Punjab and widened its wireless footprint to cover the whole of Punjab by introducing the wireless mobile services under the brand name of "Ping". Due to sluggish market conditions in fixedline segment and delay in tie up of external funds, the Fixed line subscribers' base has shown a negative growth of about 14.11 % which correspond, to almost 213 lacs subscribers as compared to 248 lacs subscribers during the preceding year. However, the Company has shown a growth of 227.8 % in mobile segment over 71K subscriber during the preceding year.

The revenue from telecom service decreased from Rs. 276.53 Crore in the last year to Rs.248.88 Crore during this year mainly because of declining ARPUs. This impacted the Operating Profits, i.e. Earnings Before Interest, Depreciation, Extra Ordinary Items and Tax stood at Rs 26.13 Crore as compared to the previous year's figure of Rs. 55.02 Crores.

(Rs. in Crore)

Revenue at glance are as follows:

Parameter	FY 2007-08	FY 2006-07
Unified Access Services	182.90	224.10
Internet Services	46.04	31.02
Inter connect Usage Charges	14.04	16.89
Infrastructure Services	5.13	3.89
Other Income	1.10	0.63
Total	249.98	276.53

FINANCIAL PERFORMANCE

Key Financial Indicators

Telecom Business

(Rs. in Crore)

Parameter	FY 2007-08	FY 2006-07
Revenue from Telephony Service	248.88	275.90
EBIDTA	26.13	55.02

On Gross Basis

(Rs. In Core)

Parameter	FY 2007-08	FY 2006-07
Gross Income	249.98	276.53
Operating Profit	26.13	55.02
Loss after Tax	142.53	116.33

Major Expenses at a glance are as follows:

(Rs in Crore)

Parameter	FY 2007-08	FY 2006-07
Network Operations Expenditure	113.85	115.48
Personnel Cost	47.95	46.17
Sales & Marketing Expenditure	19.51	13.11
Administration & Other Expenditure	42.53	46.75
Finance Cost	65.51	63.51
Total	289.35	285.02

Share Capital

The share capital of the company comprises of Equity Shares and Cumulative Redeemable Preference Shares. Pursuant to Corporate Debt Restructuring ('CDR') scheme the company has issued 8,30,70,088 equity shares of Rs. 10/- each. Out of the above 1,96,96,978 equity shares were issued at premium of Re 0.50 per equity share in line with the SEBI guidelines on October 16, 2004. In addition to above 65,00,000 7.5% Cumulative Redeemable Preference Shares (CRPS) of Rs. 100/- each were allotted to M/s Himachal Futuristic Communication Limited (Holding Company) on October 16, 2004. There are no share allotments during the year. However, pending allotment of equity shares, the Company has converted secured 0% Optionally Fully Converted Debenture along with yield @9.1% into Advance against share application money aggregating Rs. 88.05 Crore, in terms of the revised CDR package. During the year ended March 31, 2008 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 in process of allotting equity shares in lieu of Advance Against Equity Share Application Money. In order to ensure utmost possible diligence the Company has sought advice from its legal advisor.

Secured Loans

The Secured loans of the company have been increased from Rs. 626.32 Crore on March 31, 2007 to Rs. 629.05Crore on March 31, 2008 pursuant to increase in interest accrued and due on the term loans, vehicle loans and bank overdraft during the year.

Unsecured Loans

Unsecured Loans Increased from Rs. 76.27 Crore on March 31, 2007 to Rs 148.42 Crore on March 31, 2008 mainly on account of foreign exchange fluctuations and Short-term loan taken to fund the expansion of mobile network and interest accrued on the same during the year.

Fixed Assets

The company made net addition of Rs. 48.50 Crore in the Gross Block during the year 2006-07. However, net block has decreased from Rs.523.99 Crore on March 31, 2007 to Rs.491.64 Crore on March 31, 2008. The Capital Work in Progress is Rs 12.24Crore on March 31, 2008 as compared to Rs. 14.14 Crore on March 31, 2007.

Intangible assets

The intangible assets (net) have been increased from Rs. 146.03 Crore on March 31, 2007 to Rs. 284.68Crore on March 31, 2008, mainly as a result of yearly amortization.

Investments

During the year ended 31.03.2008 erstwhile subsidiary of the company, namely, "CBSL Cable Networks Limited (formerly known as Connect Broadband Services Limited) issued 55,00,000 equity shares to the Company by way of conversion of outstanding loans & advances.

Current Liabilities and Provisions

The Current liabilities and Provisions of the company stood at Rs. 385.84 Crore on March 31, 2008 as compared to Rs. 201.63 Crore on March 31, 2007. This increase is mainly due to increase in provision for interest by Rs. 21.60 Crore and advance of Rs.151.75 crore received to meet the License fee for use of GSM technology.

Current Assets

The current assets of the company stood at Rs 73.40 Crore as on March 31, 2007 as compared to Rs. 61.23 Crore as on March 31, 2007. These mainly include cash & bank balances, loans and advances and sundry Debtors.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

The company strongly believes that human capital is the key resource in achieving company's growth and business success. The year ended on March 31, 2008 witnessed employee strength of 671, with an average age of employees being less than 30 yrs. The company has a professionally qualified work force out of which more than 70% are Engineers, MBA's, C.A / C.S. etc.

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

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

CAUTIONARY STATEMENT

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

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

Auditors Report

To

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached Balance Sheet of HFCL INFOTEL LIMITED, as at March 31, 2008, and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

4. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 22 to the financial statements, the Company has incurred a loss of Rs 1,425,357,719 during the year (accumulated loss of Rs 9,151,022,826) resulting into complete erosion of its net-worth, and has a net current liability of Rs 3,124,495,538 (after considering provision for interest amounting to Rs 962,496,896 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 Company has achieved profitability at the 'Earnings before interest and depreciation/amortisation' level, and is also able to generate cash from operations since previous financial year. Further the Company has paid Rs 1,517,500,000 towards alternate technology, which has been currently funded through an advance. The ability of the Company to continue as a going concern is significantly dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements and 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 Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on a going concern basis.

5. *Attention is invited to :*

a) *Note 12 of Schedule 23 of the financial statements regarding Company'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 68,331,091 during the year and has a negative net worth of Rs 31,556,150 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 Company, therefore, believes that no provision is required on account of any diminution in the value of the investments. Considering the uncertainty involved in the generation of income on investments, we are unable to comment on the carrying value or the realisability of such investments and thereby its impact on the profit and loss for the year.*

b) *Note 10(f) of Schedule 23 of the financial statements wherein the Company 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 finalized, hence we are unable to comment on the carrying value and thereby its impact on the profit and loss for the year.*

6. Further to our comments in annexure referred to above, we report that:

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

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

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

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

(e) On the basis of written representations received from the directors, as on March 31, 2008 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2008 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

(f) *Subject to matters stated in paragraph 5 above consequential effect whereof is not ascertainable,* in our opinion and to the best of our information and according to the explanations given to us, the said accounts, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

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

S.R. BATLIBOI & ASSOCIATES	ATUL KULSHRESTHA & CO.
Chartered Accountants	Chartered Accountants
per Prashant Singhal	per Anil Kumar Aggarwal
Partner	Partner
Membership No: 93283	Membership No. 91720
Place: Gurgaon	Place: New Delhi
Date: June 28, 2008	Date: June 28, 2008

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

Re: HFCL INFOTEL LIMITED

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

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

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

2. (a) The management has conducted physical verification of inventory of network maintenance consumables at reasonable intervals during the year.

   (b) The 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 and no material discrepancies were noticed on physical verification.

3. As informed, the Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

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

5. According to the information and explanations provided to us, there are no transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and aggregating during the year to rupees five lakh or more.

6. As more fully discussed in Note 21 on Schedule 23, the Company had surrendered its NBFC licence to the Reserve Bank of India ('RBI') and foreclosed the fixed deposits and deposited the amount in an escrow account as directed by the RBI. The Company has not accepted any deposits from the public in the current year within the meaning of Sections 58A and 58AA of the Act and the rules framed there under. Therefore, in our opinion, clause (vi) of Para 4 of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company for the current year.

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

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

9. (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, sales-tax, wealth tax, custom duty, excise duty and cess have generally been regularly deposited with the appropriate authorities except *there have been certain undue delays in few cases in respect of deposit of service tax and withholding tax.*

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

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

Name of the statute	Nature of dues	Amount (Rs.)	Amount Paid (Rs.)	Net Amount (Rs.)	Financial Year	Forum where dispute is pending
Income Tax Act, 1961	Interest tax	4,263,188	1,750,000*	2,513,188	1992 - 93	Commissioner of Income Tax (Appeal)
Income Tax Act, 1961	Interest tax	5,464,879		5,464,879	1993 - 94	Commissioner of Income Tax (Appeal)
Income Tax Act, 1961	Interest tax	7,272,129		7,272,129	1994 - 95	Commissioner of Income Tax (Appeal)
Income Tax Act, 1961	Income Tax	9,316,234		9,316,234	2000 - 01	Income Tax Appellate Tribunal

*Paid under protest

10. *The accumulated losses of the Company as at March 31, 2008, are more than fifty percent of its net worth as at that date. The Company, before considering interest provision on yield basis of Rs 203,769,587, has made a cash loss of Rs 155,157,544. After considering this interest provision and loss on fixed assets sold/discarded, the Company has incurred a cash loss of Rs 360,845,430. The Company had made cash profit during the immediately preceding financial year after considering provision of interest amounting Rs 385,459,761 and loss on fixed assets sold/discarded amounting Rs 24,209,192.*

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

Lender Name	Due Date	Interest Amount	Date of Payment
		In INR	
IDBI, ING, SBOP, OBC, LIC	1-May-07	30,340,515	June 18,2007 / June 20,2007 / June 18,2007 / June 18, 2007 / June 19, 2007
IDBI, ING, SBOP, OBC, LIC	1-Jun-07	31,485,307	July 07,2007 / July 11,2007 / July 07,2007 / July 07,2007, July 10,2007
IDBI, ING, SBOP, OBC, LIC	1-Jul-07	30,443,749	August 03,2007 / August 06,2007 / August 03,2007 / August 03,2007/ August 06,2007
IDBI, ING, SBOP, OBC, LIC	1-Aug-07	31,239,871	September 28,2007 / September 28,2007 / September 28,2007 / September 28,2007 / September 30,2007
IDBI, ING, SBOP, OBC, LIC	1-Sep-07	31,244,616	October 05,2007 / October 01,2007 / September 28,2007 / October 29,2007 / October 29, 2007
IDBI, ING, SBOP, OBC, LIC	1-Oct-07	33,482,991	December 26,2007 / December 26, 2007 & December 27, 2007/ December 24,2007 / December 24,2007 / December 27,2007
IDBI, ING, SBOP, OBC, LIC	1-Nov-07	31,337,480	January 25,2008 / January 25,2008 / January 25,2008 / January 25,2008 / January 29,2008
IDBI, ING, SBOP, OBC, LIC	1-Dec-07	31,261,392	February 22,2008 / February 26,2008 & February 27,2008/ February 23,2008 / February 22,2008 / February 25,2008 / March 19,2008
IDBI, ING, SBOP, OBC, LIC	1-Jan-08	31,865,483	March 26,2008 / March 27,2008 & March 29,2008 / March 26,2008 / March 26,2008 / March 26,2008
IDBI, ING, SBOP, OBC, LIC	1-Feb-08	31,816,553	April 25,2008 / April 26,2008 / April 25,2008 / April 25,2008 / April 25,2008 / April 25,2008
IDBI, ING, SBOP, OBC, LIC	1-Mar-08	31,120,138	May 28,2008 / May 27,2008 /May 27,2008 /May 29,2008 /May 27,2008
IDBI, ING, SBOP, OBC, LIC	1-Apr-08	31,724,541	June 24,2008 / June 24,2008 /June 24,2008 /June 24,2008 /June 24,2008
Total		377,362,636	

Due to the delays above, the Company has paid Rs 13,223,957 and accrued Rs 6,657,443 as penal interest to be paid to the financial institution and banks.

12. According to the information and explanations given to us and based on the records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
14. In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
15. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
16. Based on the information and explanations given to us by the management, the term loans were applied for the purpose for which the loans were obtained.
17. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that at the year end, the Company has used *short term funds of Rs 2,187,412,661 for purchase of fixed assets.*
18. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956 during the year.
19. The Company has not issued any debentures during the year and the securities / charge has been created during the earlier years for 7,551,178 Zero per cent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each.
20. The Company has not raised any money by public issue.
21. Based on the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Place: Gurgaon
Date: June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place: New Delhi
Date: June 28, 2008

HFCL INFOTEL LIMITED
BALANCE SHEET AS AT MARCH 31, 2008

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

PARTICULARS	SCHEDULE	For the year ended March 31, 2008 (Rs.)	For the Year ended March 31, 2007 (Rs.)
			Schedule 23, Note 26
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	867,431,181	880,541,768
Reserves and Surplus	3	173,004,664	159,894,077
		6,945,607,365	6,945,607,365
Loan Funds			
Secured Loans	4	6,290,487,239	6,263,152,090
Unsecured Loans	5	1,484,206,907	762,708,541
		7,774,694,146	7,025,860,631
		14,720,301,511	13,971,467,996
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		9,511,129,842	9,026,056,715
Less: Accumulated Depreciation		(4,594,764,149)	(3,786,093,632)
Net Block		4,916,365,693	5,239,963,083
Capital Work-In-Progress (Includes capital advances for Rs 893,564 (2007 - Rs 5,777,267)		122,445,449	141,356,097
		5,038,811,142	5,381,319,180
Intangible Assets, net	7	2,846,792,281	1,460,291,666
Investments	8	808,170,900	808,170,900
Current Assets, Loans and Advances			
Inventory	9	20,667,816	-
Sundry Debtors	10	406,638,000	403,010,617
Cash and Bank Balances	11	113,414,210	119,917,712
Other Current Assets	12	8,884,139	5,418,441
Loans and Advances	13	184,296,618	83,949,072
		733,900,783	612,295,842
Less: Current Liabilities and Provisions	14		
Current Liabilities		3,835,124,772	2,000,399,044
Provisions		23,271,649	15,875,655
		3,858,396,421	2,016,274,699
Net Current Liabilities		3,124,495,638	1,403,978,857
Profit and Loss Account		9,151,022,826	7,725,665,107
		14,720,301,511	13,971,467,996
Significant Accounting Policies	22		
Notes to Accounts	23		

The Schedules referred to above and the Notes to Accounts form an integral part of the Balance Sheet.
As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants	ATUL KULSHRESTHA & CO. Chartered Accountants	For and on behalf of the Board	
per Prashant Singhal Partner Membership No. 93283	per Anil Kumar Aggarwal Partner Membership No: 91720	Mahendra Nahata Director	M. P. Shukla Director
		Surendra Lunia Chief Executive Officer	Vikash Agarwal AVP - Finance
Place : Gurgaon Date : June 28, 2008	Place : New Delhi Date : June 28, 2008	Place : New Delhi Date : June 28, 2008	Kapil Bhalla Company Secretary

HFCL INFOTEL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008

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

PARTICULARS	SCHEDULE	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
INCOME			
Service Revenue	15	2,488,827,969	2,758,993,605
Other Income	16	10,952,505	6,347,093
		2,499,780,474	2,765,340,698
Expenditure			
Network Operation Expenditure	17	1,138,467,401	1,154,848,753
Personnel Expenditure	18	479,529,738	461,677,452
Sales and Marketing Expenditure	19	195,127,940	131,114,102
Administrative and Other Expenditure	20	425,320,075	467,507,969
		2,238,445,154	2,215,148,277
Operating Profit before Finance Charges, Depreciation, Amortization and Loss on Sold / Discarded Fixed Assets		261,335,320	550,192,421
Loss on Fixed Assets Sold / Discarded		17,689,380	28,358,867
Finance Charges	21	655,121,753	635,134,517
Foreign exchange (Gain) / Loss		(50,630,383)	
Depreciation	6	890,670,356	868,531,886
Amortisation	7	148,133,387	153,275,592
Loss for the year before Prior Period Expenditure and Tax		1,399,649,173	1,135,108,441
Prior Period Expenditure (Net)	23 Note 23	18,692,877	21,838,478
Loss for the year before Tax		1,418,342,050	1,156,946,919
Provision for Taxation			
Fringe Benefit Tax		7,015,669	6,309,606
Loss for the year		1,425,357,719	1,163,256,525
Loss, brought forward from previous year		7,725,665,107	6,562,408,582
Loss carried to the Balance Sheet		9,151,022,826	7,725,665,107
Loss per share (equity shares, par value of Rs 10 each)			
Basic (in Rs)	23 Note 17	2.71	2.21
Diluted (in Rs)		2.71	2.21
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	525,517,152
Diluted		525,517,152	525,517,152
Significant Accounting Policies	22		
Notes to Accounts	23		

The Schedules referred to above and the Notes to Accounts form an integral part of the Profit & Loss Account.
As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

Vikash Agarwal
AVP - Finance

Place : New Delhi
Date : June 28, 2008

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 1: Authorised Share Capital [See Schedule 23, Note 7]		
1,300,000,000 (2007 - 1,300,000,000 equity shares of Rs 10 each (2007 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (2007 - 20,000,000) preference shares of Rs 100 each (2007 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	15,000,000,000
Issued, Subscribed and Paid up		
525,517,152 (2007 - 525,517,152) equity shares of Rs 10 each (2007 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (2007 - 6,500,000) 2 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	5,905,171,520	5,905,171,520

(a) Of the above

(i) 490,750 (2007 - 490,750) equity shares of Rs 10 each, were allotted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 325,705,000 (2007 - 325,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).

(iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme.[See Schedule 22, Note 1 (c)] Out of these, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share as per provisions of applicable law.

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

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

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

(c) 6,500,000 (2007 - 6,500,000) 7.5 per cent CRPS were allotted to Himachal Futuristic Communications Limited ('HFCL') (Holding Company) on October 16, 2004, Pursuant to the CDR Scheme [See Schedule 22, Note 1(c)], the specified part of the amount due to HFCL by the Company has been converted into 7.5 per cent CRPS redeemable after the repayment of Rupee Term Loan (i.e. July 1, 2013). Prior approval of the lenders is required to declare dividend on the 7.5 per cent CRPS and all the voting rights attached to the CRPS to be assigned in favour of the term lenders. On June 24, 2005, as per revised CDR Scheme, the dividend percentage is reduced to 2 per cent from 7.5 per cent with effect from date of issuance of CPRS.

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the yea March 31 (Rs.)
Schedule 2: Advance Against Share Application Money [See Schedule 23, Note 8]		
Advance Against Equity Share Application Money	867,431,181	880,541,7
	867,431,181	880,541,7
Schedule 3: Reserves and Surplus		
Capital Reserve	34,032,776	34,032,7
Securities Premium [See Note (a), (b) & (c) below]		
Balance, beginning of the year	9,523,145	9,523,1
Adjusted during the year	13,110,587	
Less: Utilised during the year		
	22,633,732	9,523,1
Statutory Reserve [See Note (d) below]	11,900,000	11,900,0
General Reserve [See Note (e) below]	104,438,156	104,438,1
	173,004,664	159,894,0

(a) There are no share allotments during the year. Securities premium includes an amount of Rs 9,848,489 received on a of 19,696,978 equity shares of Rs 10 each on October 16, 2004 at a premium of Rs 0.50 per equity share [See Schedul 1(a) (iii)]

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

(c) During the year 2007-08, the Company based on the lenders confirmation, has written back the securities premu 13,110,587

(d) As more fully discussed in Schedule 22, Note 1(a), the Company (*formerly* The Investment Trust of India Limited) was Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 1 Further, as more fully discussed in Schedule 23, Note 21, the Company has surrendered its CoR with the Reserve Bank ('RBI'). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain stricture balance in the escrow account is settled .

(e) General Reserve represents the amount carried forward in accordance with the Scheme of Amalgamation as mo discussed in Schedule 22, Note 1(a)

Schedule 4: Secured Loans [See Schedule 23, Note 9]		
Term Loans		
From Financial Institution	750,000,000	750,000,00
From Banks	5,300,000,000	5,300,000,00
Interest accrued & due on term loans from Banks and financial institution	61,387,079	32,532,98
Vehicle loans	11,310,067	13,392,65
Bank overdraft	167,790,093	167,226,45
	6,290,487,239	6,263,152,09
Amounts repayable within a year		
- Vehicle Loan	6,344,285	6,937,97
- Financial Institutions	13,750,000	-
- Banks	97,166,667	-
Schedule 5: Unsecured Loans [See Schedule 23, Note 10]		
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	3,937,742	3,937,742
Buyers Credit Facility (Loan from foreign bank)	403,252,347	527,470,715
Buyers Credit Facility (Loan from Infotel Business Solutions Limited)	410,740,832	62,000,000
Short term Loan from Infotel Digicomm (P) Limited	499,499,886	-
Interest accrued & due on short term loan	-	2,523,984
	1,481,206,907	762,708,541
Amounts repayable within a year - Buyer Credit Facility (Loan from foreign bank)	161,550,219	80,413,250

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

(Amount in Rs.)

Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31,2007	Additions For the year	Sale/ Adjustment For the year	As at March31,2008	As at March 31,2007	Depreciation for the year	On Sale/ Adjustment	As at March 31,2008	As at March 31,2008	As at March 31,2007
Land - Freehold	16,142,623	-	-	16,142,623	-	-		-	16,142,623	16,142,623
Land - Leasehold	8,896,419	-	-	8,896,419	740,858	91,650		832,508	8,063,911	8,155,561
Building	188,994,559	384,555	178,906	189,200,208	22,345,601	3,623,078	21,748	25,946,931	163,253,277	166,648,958
Leasehold Improvements	88,038,058	5,736,028	4,122,263	89,651,823	44,453,740	9,050,985	1,507,605	51,997,120	37,654,703	43,584,318
Network Equipment	3,182,098,045	415,688,596	76,631,548	3,521,155,093	1,504,995,717	376,133,140	15,992,276	1,865,136,581	1,656,018,512	1,677,102,328
Optical Fibre Cable and Copper Cable	4,271,977,074	50,731,614	15,034	4,322,693,654	1,471,107,974	301,979,703	1,679	1,773,085,998	2,549,607,656	2,800,869,100
Telephone Instruments at Customers Premises	939,039,756	137,693,895	77,431,928	999,301,723	547,309,395	156,306,486	57,168,371	646,447,510	352,854,213	391,730,361
Computers	211,248,914	33,355,627	4,126,058	240,478,483	130,329,381	26,797,703	2,747,376	154,379,708	86,098,775	80,919,533
Office Equipment	43,471,465	3,442,839	1,807,950	45,106,354	19,852,832	5,461,186	887,357	24,426,661	20,679,693	23,618,633
Furniture & Fixture	39,391,204	977,870	376,876	39,992,198	26,609,703	3,311,060	197,469	29,923,294	10,068,904	12,581,501
Vehicles	36,758,598	7,063,207	5,310,541	38,511,264	18,148,431	7,915,365	3,475,958	22,587,838	15,923,426	18,610,167
TOTAL	**9,026,056,715**	**655,074,231**	**170,001,104**	**9,511,129,842**	**3,786,093,632**	**890,670,356**	**81,999,839**	**4,594,764,149**	**4,916,365,693**	**5,239,963,083**
Previous Year	*8,601,513,150*	*562,816,884*	*138,273,319*	*9,026,056,715*	*3,038,211,512*	*868,531,886*	*120,549,766*	*3,786,093,632*	*5,239,963,083*	*5,563,401,638*

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at March 31,2007	Additions For the year	Sale/ Adjustment For the year	As at March31,2008	As at March 31,2007	Amortisation for the year	On Sale/ Adjustment	As at March 31,2008	As at March 31,2008	As at March 31,2007
Computer Software	154,428,383	17,134,002	-	171,562,385	123,649,143	12,078,098	-	135,727,241	35,835,143	30,779,240
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	923,146,177	136,055,289	-	1,059,201,466	1,293,457,137	1,429,512,426
Licence Entry Fees GSM	-	1,517,500,000	-	1,517,500,000	-	-	-	-	1,517,500,000	
TOTAL	**2,507,086,986**	**1,534,634,002**	**-**	**4,041,720,988**	**1,046,795,320**	**148,133,387**	**-**	**1,194,928,707**	**2,846,792,281**	**1,460,291,666**
Previous Year	*2,491,170,156*	*15,916,830*	*-*	*2,507,086,986*	*893,519,728*	*153,275,592*	*-*	*1,046,795,320*	*1,460,291,666*	*1,597,650,428*

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year er March 31, 20 (Rs.)
SCHEDULE 8 : INVESTMENTS (Non Trade - Long Term) [See Schedule 23, Note 12]		
Subsidiary company		
Long Term (at cost)		
Unquoted		
9,050,000 [2007 - 3,550,000] equity shares of Rs 10 each fully paid in CBSL Cable Networks Limited (erstwhile Connect Broadband Services Limited ('CBSL')	90,500,000	35,500,(
Advance Against Share Application Money in CBSL Cable Networks Limited ('CBSL')	-	55,000,(
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2007 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')	18,000,000	18,000,(
6,996,709 [2007- 6,996,709] Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,!
	808,170,900	808,170,!
	808,170,900	808,170,!

Note:

(a) The Company has incorporated a wholly owned subsidiary named CBSL Cable Networks Limited (er Connect Broadband Services Limited) ('CBSL') to carry on the business of distribution of Cable Television N and all other connected services . During the year, 5,500,000 shares of Rs 10 each at par has been allotted b

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

(c) The Company has acquired OFCDs in ITI in the year 2002-03. Terms and conditions associated with debentu

(i) The OFCDs of Rs 100 each are convertible into 10 equity shares (with pari passu right with the existing shares in terms of the present Articles of Association of the Company) of Rs 10 each after three year option of the holder. The Company has not exercised this option as on March 31, 2008

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

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

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 9: Inventory		
Consumable Stores	20,667,816	-
	20,667,816	-
Schedule 10: Sundry Debtors		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	5,110,376	5,373,924
Unsecured and Considered Good	-	5,102,880
Unsecured and Considered Doubtful	116,017,176	88,778,602
Debts outstanding for a period less than six months:		
Secured and Considered Good	25,813,385	13,172,457
Unsecured and Considered Good	375,714,239	379,361,356
Unsecured and Considered Doubtful	22,279,934	36,748,929
	544,935,110	528,538,148
Less: Provision for Doubtful Debts	138,297,110	125,527,531
	406,638,000	**403,010,617**

Notes:

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

b) Includes Rs 111,541,969 (2007 - Rs 128,624,731) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2008 [See Schedule 22, Note 2.10]

c) Debtors includes amount due from HFCL Satellite Communication Limited, the company under the same management, amounting to Rs 7,838,591 (2007 - Rs 4,539,954)

Maximum amount outstanding during the year Rs 9,330,004 (2007 - Rs 9,330,004).

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 11: Cash and Bank Balances		
Cash in Hand	1,437,015	855,436
Cheques in Hand	9,750,726	10,043,709
Balances with Scheduled Banks		
In Current Accounts	26,992,545	30,036,984
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 73,390,554, (2007 - Rs. 77,068,875)]	73,390,554	77,068,875
In Escrow Account [See note below]	1,843,370	1,912,708
	113,414,210	**119,917,712**

Notes:

The balance with scheduled banks in Escrow account is towards public deposits payable by the Company [See Schedule 23, Note 21]

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 12: Other Current Assets		
Interest Accrued on Fixed Deposits	8,884,139	5,418,441
	8,884,139	**5,418,441**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year er March 31, 20 (Rs.)
SCHEDULE 13: Loans and Advances		
(Unsecured , considered good except otherwise stated)		
Advances Recoverable in cash or in kind or for value to be received		
Considered Good	78,170,263	29,475,:
Considered Doubtful [See Schedule 23, Note 1(f)]	134,859,908	134,859,9
Due from CBSL Cable Networks Ltd - Wholly owned Subsidiary (Maximum outstanding balance during the year Rs 46,796,885, 2007 - Rs 43,814,174)	46,610,850	4,460,(
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999, 2007 - Rs 1,149,999)	1,149,999	1,149,9
Due from HTL Limited - Company under the same management (Maximum outstanding balance during the year Rs 119,784, 2007 - Rs 119,784)	119,784	119,7
Security Deposits		
Considered Good	22,511,027	19,547,9
Considered Doubtful	1,211,265	1,211,2
Tax deducted at source recoverable	4,812,923	5,421,6
Balance with Customs and Excise	30,921,772	23,774,4
	320,367,791	220,020,2
Less: Provision for Doubtful Advances	136,071,173	136,071,1
	184,296,618	83,949,0

Notes:

Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 500,000, 2007 - Rs 650,000)	350,000	500,0C
Other Advances (Maximum amount outstanding during the year Rs 862,933, 2007 - Rs 963,737)	33,158	93,57

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 14: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors [See Schedule 23, Note 16]		
Capital Goods	95,468,070	239,176,512
Expenses	188,685,821	118,777,893
Interconnection Usage Charges ('IUC') payable to other operators	97,550,269	153,007,910
Expenses Payable	197,192,213	187,089,552
Book Overdraft	8,815,116	26,231,655
Advance Against Booking	325,525	777,830
Advance From Customers and Unaccrued Income***	424,501,265	184,531,853
Advance against sale of Investment in CBSL Cable Networks Limited	79,900,000	-
Advance for GSM Licence Entry Fee	1,517,500,000	-
Security Deposits		
From Subscribers	99,845,721	154,552,466
From Others	30,079,433	23,574,873
Investor Education and Protection Fund*		
Unclaimed Dividends	520,779	520,779
Unclaimed Deposits from Public	700,963	850,649
Interest accrued and due on Public Deposits	101,611	115,496
Other Liabilities	96,143,858	129,364,971
Provision for interest**	997,794,128	781,826,605
	3,835,124,772	**2,000,399,045**

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

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 962,496,986 (2007 - Rs 762,300,000) to be adjusted from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs 31,724,541 (2007 - Rs 15,216,844) and interest accrued but not due on unsecured loan amounting to Rs 35,72,601 (2007 - Rs 4,309,761)

*** Includes Rs. 277,783,003 (2007 Rs 163,180,267 pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which range from year 2004 to 2019.

Provisions		
Wealth Tax	31,123	37,175
Leave Encashment / Availment	12,750,944	9,327,742
Gratuity	10,489,582	6,510,738
	23,271,649	**15,875,655**
	3,858,396,421	**2,016,274,700**

Notes:

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

(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,617 (2007 - Rs 523,617) towards repayment of public deposits under the NBFC CoR [See Schedule 23, Note 21]

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 15: Service Revenue		
Revenue		
From Unified Access Services	1,828,963,887	2,240,915,825
From Interconnection Usage Charge	140,444,750	168,918,924
From Infrastructure Services	51,281,795	38,935,188
From Internet Services	468,137,537	310,223,668
	2,488,827,969	**2,758,993,605**
Schedule 16: Other Income		
Interest Income (Tax deduction at source Rs Nil, 2007 Rs Nil)	5,040,505	4,391,094
Excess Provision written back	-	443,733
Miscellaneous Income	5,912,000	1,512,266
	10,952,505	**6,347,093**
Schedule 17: Network Operation Expenditure		
Interconnect Usage Charges	534,688,724	651,412,560
Other Value Added Service charges	7,673,793	4,175,815
Port Charges	24,818,550	29,559,179
Testing and Technical Survey Expenses	2,225,090	177,000
Licence Fees on Revenue Share Basis	113,368,154	146,740,536
Royalty and Licence fees to Wireless Planning Commission	10,038,030	14,731,151
Stores and Spares Consumed	29,738,183	70,512,507
Rent	39,877,340	31,587,873
Infrastructure Sharing Expenses	88,437,485	4,148,224
Electricity and Water	58,404,373	52,357,540
Security Charges	1,909,603	3,241,021
Repair & Maintenance - Network	82,713,132	87,533,586
Bandwidth Charges	144,574,944	58,671,762
	1,138,467,401	**1,154,848,753**
Schedule 18: Personnel Expenditure		
Salaries, Wages and Bonus [See Schedule 23, Note 24]	435,592,418	417,226,703
Employer's Contribution to Provident and Other Funds [See Schedule 23, Note 24]	21,163,162	17,432,070
Staff Welfare Expenses	12,085,100	14,796,820
Recruitment & Training Expenses	10,689,058	12,221,859
	479,529,738	**461,677,452**

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS		For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 19: Sales and Marketing Expenditure			
Sales and Business Promotion		13,509,200	9,047,335
Advertisement Expenses		77,956,606	42,777,210
Customers Acquisition Costs		103,662,134	79,289,557
		195,127,940	131,114,102
Schedule 20: Administrative and Other Expenditure			
Legal and Professional Expenses		27,381,588	25,256,609
Travelling and Conveyance		65,263,116	59,077,528
Communication Expenses		4,494,316	6,458,175
Rent		28,641,374	20,241,301
Security Charges		5,138,260	3,239,338
Repairs and Maintenance - Building		358,604	1,445,243
Repairs and Maintenance - Others		13,356,504	12,791,627
Electricity and Water		15,215,521	13,557,993
Insurance		7,098,285	6,375,005
Rates and Taxes		1,934,326	5,742,569
Freight & Cartage		8,667,853	6,870,889
Printing and Stationary		7,260,628	6,850,326
Billing and Collection Expenses		68,496,295	65,907,866
Software Expenses		37,001	14,877
Directors' Fees		233,440	335,200
Bad Debts Written off		153,382,407	177,956,896
Provision for Doubtful Debts	41,025,390		
Less: Transferred to Bad Debts Written off	(28,255,811)	12,769,579	50,507,261
Wealth Tax		31,123	37,175
Miscellaneous Expenses		5,559,855	4,842,091
		425,320,075	467,507,969
Schedule 21: Finance Charges			
Interest on Term Loans**		598,544,126	591,494,812
Interest to Others		41,414,087	30,617,856
Bank Guarantee Commission		9,280,098	7,583,444
Trustees Fee		1,000,000	1,000,000
Other Finance Charges		4,883,442	4,438,405
		655,121,753	635,134,517

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 200,196,986 (2007 - Rs 381,150,000) as per CDR Scheme.

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2008

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

SCHEDULE 22:

BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services Licensee for Punjab Circle (including Chandigarh and Panchkula), is providing a full gamut of telecommunication services, which includes voice telephony, both wireline and fixed wireless, CDMA based mobile, internet services, broadband data services and a wide range of value added service viz., centrex, leased lines, VPNs, voice mail, video conferencing etc. The services were commercially launched in October 2000 and as on March 31, 2008, the Company has an active subscriber base of over 446,404.

The Company is a subsidiary company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). The Company was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited (ITI) which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a Scheme of amalgamation (the Scheme), approved by the Hon' able High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively, whereby the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor Company) ('*erstwhile* HFCL Infotel') was merged with the Company with effect from September 1, 2002. As per the Scheme envisaged, the Company's then existing business of hire purchase, leasing and securities trading was transferred by way of slump sales to its wholly owned subsidiary, Rajam Finance & Investments Company (India) Limited ('Rajam Finance') with effect from September 1, 2002. Rajam Finance was renamed as The Investment Trust of India Limited with effect from June 17, 2003 and it ceased to be the subsidiary of the Company with effect from September 30, 2003, due to allotment of fresh equity by Rajam Finance to other investors.

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

On July 2, 2004, the Company incorporated a subsidiary company in the name of Connect Broadband Services Limited, which has been changed to CBSL Cable Networks Limited ('CBSL' or 'Subsidiary') with effect from February 5, 2008. The main object of the Company is to carry on the business as service provider and operator for distribution of cable television network. During the previous year, the Company 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 Company 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

(b) License Fees

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

Fixed license fees of Rs 1,775,852,329 paid under the old license fee regime from inception till July 31, 1999, were considered as the License Entry Fees of the Punjab circle (including Chandigarh and Panchkula) as part of the migration package to NTP 1999.

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

During the year, the Company 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 USAL 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.

(c) *Project Financing*

The Company's project was initially appraised by Industrial Development Bank of India ('IDBI') during the year ended March 31, 2000 for an estimated peak fund requirement of Rs 11,800,000,000. The appraised means of finance for the project was to be funded by way of equity capital of Rs 5,240,000,000 and debt of Rs 6,560,000,000.

Pursuant to the migration to UASL regime, the consortium of lenders, led by IDBI, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company and thereby revised the peak funding requirements from Rs 11,800,000,000 to Rs 13,450,000,000 up to March 31, 2006, with peak funding gap of Rs 1,650,000,000.

Further, the CDR Empowered Group has approved the proposal of the Company for expansion of services, change in the scope of the project, cost of project and means of finance and restructuring of debt as per the letter dated June 24, 2005. As per the said proposal, the peak funding requirement has been further revised to Rs 15,470,000,000 and the principal repayment of existing term loan was rescheduled and the same will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, secured OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD were to be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ended March 31, 2006.

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

During the year, the Company has incurred losses of Rs 1,425,357,719, resulting into accumulated loss of Rs 9,151,022,826 as at March 31, 2008 which has completely eroded its net worth and has a net current liability of Rs 3,124,495,638 including capital liability of Rs 95,468,070 and subscriber security deposits of Rs 129,925,154 (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 at March 31, 2008, the Company has arranged Rs 14,353,607,927 and is in advanced stage of discussions for the arrangement of Rs 1,116,392,073 by way of term loans / buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the Company to continue as a going concern is substantially dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on going concern basis.

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

2.1 Basis of preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by The Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year except for the change in accounting policy mentioned in note 2.3, 2.12 and 2.14 below. The significant accounting policies are as follows:

2.2 Fixed Assets

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

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

2.3 **Inventory**

With effect from April, 2007, the Company has valued inventory of material and supplies of network maintenance consumables based on physical verification and changed its earlier policy of charging the same to the Profit and Loss Account, as and when purchased. Inventory is valued at cost or net realisable value which ever is low. Cost for the purchase is worked out on FIFO basis

2.4 **Depreciation**

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

Asset	Useful life(in years)
Leasehold Land Buildings	Over the primary period of the lease Office Building 30 years Others 61 years
Leasehold Improvements:	10 years or over the primary period of the lease, whichever is lower
Network Equipment	9.67 years
Testing Equipments (included in Network Equipments)	5 years
Optical Fibre Cable and Copper Cable	15 years
Telephone Instruments	5 years
Computers	6.17 years
Software	5 years
Office Equipments	10 years, except in case issued to employees where asset is depreciated in 5 years
Furniture and Fixture	10 years, except in case issued to employees where asset is depreciated in 5 years
Vehicles	4 years
Fixed Assets costing less than Rs 5,000 (other than Telephone Instruments)	Fully depreciated when they are ready to use.

(ii) Depreciation rates derived from the above are n less than the rates prescribed under Schedule X of the Companies Act, 1956.

(iii) Depreciation on the amount capitalized on u gradation of the existing assets is provided ov the balance life of the original asset.

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

2.5 **Impairment**

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

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

2.6 **Intangibles**

All expenditure on intangible items are expens as incurred unless it qualifies as an intangible as as defined in Accounting Standard 26. The carryi value of intangible assets is assessed f recoverability by reference to the estimated futu discounted net cash flows that are expected to generated by the asset. Where this assessme indicates a deficit, the assets are written down the market value or fair value as computed abo

For accounting policy related to Licence Entry Fe see note 2.7(i), below.

2.7 **Licence Fees**

(i) Licence Entry Fee

The Licence Entry Fee [See Note 1 (b)] has be recognised as an intangible asset and is amortis over the remainder of the licence period of 20 yea from the date of commencement of commerc operations [Refer Note 1 (a)]. Licence entry fe includes interest on funding of licence entry fe foreign exchange fluctuations on the loan tak upto the date of commencement of commerc operations.

The carrying value of license entry fees are assess for recoverability by reference to the estimat future discounted net cash flows that are expect 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 15th 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 28th 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.

2.8 Investments

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

2.9 Provisions

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

2.10 Revenue Recognition

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

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

2.11 Interconnection Usage Revenue and Charges

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

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

2.12 Foreign Currency Transactions

Initial Recognition

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

Conversion

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

Exchange Differences

Exchange differences arising on the settlement or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year. Effective April 1, 2007, the Company has adopted the guidelines as per the notification issued by the Ministry of Company Affairs dated December 7, 2006 prescribing the Companies (Accounting Standards) Rules 2006, with respect to its policy relating to recognition of foreign exchange fluctuation on fixed assets. Instead of capitalizing / decapitalizing such fluctuation, as per policy hitherto followed, the Company has, with effect from April 1, 2007, charged/credited such fluctuations directly to the Profit & Loss Account.

2.13 Borrowing Costs

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

2.14 Employee Benefits

Effective April 1, 2007, the Company has adopted the Revised Accounting Standard - 15 '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

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.

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.

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 valuation in accordance with Accounting Standard 15 (revised), "Employee Benefits " The Company makes annual contributions to the LIC for the Gratuity Plan in respect of employees. The present value of obligation under gratuity is determined based on actuarial valuation at period end 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.

a) Short term compensated absences are provided for on based on estimates.

b) Actuarial gains and losses are recognized as and when incurred

2.15 Income-Tax

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

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised.

2.16 Operating Leases

Where the Company is the lessee

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

Where the Company is the lessor

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

2.17 Loss Per Share

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

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

2.18 Segment Reporting

Identification of segments:

The primary reporting of the Company has been performed on the basis of business segments. The analysis of geographical segments is based on the areas in which the Company's products are sold or services are rendered.

Allocation of common costs:

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

Unallocated items:

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

2.19 Cash & Cash Equivalents

Cash & cash equivalents in the Balance Sheet comprise cash in hand and at bank.

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2008

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

SCHEDULE 23:

NOTES FORMING PART OF THE ACCOUNTS

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

S. No.	Description	For the year ended March 31, 2008	For the year ended March 31, 2007
I.	**Estimated Value of Contracts remaining** To be executed on capital account and not provided for net of capital advances Rs. 893,564 (2007- Rs 3,526,218)	100,459,974	73,984,777
II.	**Contingent Liabilities and Commitments**		
	Financial Bank Guarantees (refer Note (a) below)	260,349,628	266,944,632
	Performance Bank Guarantees (refer Note (a) below)	55,658,922	56,357,806
	Counter guarantee given to HFCL, the Holding Company (refer Note (a) below)	5,225,000,000	5,225,000,000
III.	**Open Letters of Credit** (Margin deposit for above Rs.4,789,855 (2007-Rs 6,305,000)	47,398,551	56,034,579
IV.	**Income-tax matters under Appeal** (refer Note (b) below)	24,566,429	38,873,322
V.	**Claims against the Company not acknowledged as debts** mainly representing various miscellaneous claims filed on the Company which are subject matter of litigation	4,227,065	4,973,508
VI.	Others(refer Note (c, d and e) below)	280,329,956	282,131,197
	Total	5,998,490,325	6,003,299,821

(a) Financial bank guarantees as at March 31, 2008 of Rs 260,349,628 (2007 — Rs 266,944,632) and performance bank guarantees of Rs 55,658,922 (2007 — 56,357,806) are secured. The details of security created are detailed out in note no. 9 (a) below. Further, the financial bank guarantee given by Punjab National Bank ('PNB') to The Export Import Bank of China of Rs 108,825,514 are not secured by the Consolidate Corporate Bank Guarantee of Rs 5,225,000,000 by HFCL, the Holding Company.

(b) The Company has certain income tax related matters pending with Income Tax Appellate Tribunal for the Assessment Year 2001-02 aggregating to Rs 9,316,234 and interest tax related matters pending with Income Tax Authorities for the Assessment Year 1993-94 to 1995-96 aggregating to Rs 15,250,195. The said demands pertain to the NBFC business of the *erstwhile* Investment Trust of India Limited (the Company before the merger with the *erstwhile* HFCL Infotel Limited).

(c) The Wireless Finance Division of Department of Telecommunications has claimed an outstanding of Rs 29,585,211 towards the Spectrum Charges dues from year 2001 to year 2005 vide their letter 1020/48/2005-WFD dated October 7, 2005. The Company has submitted its reply to the department on October 25, 2005 confirming the total due of Rs 29,472 only and paid the said amount. The Wireless Finance Division of Department of Telecommunications has subsequently claimed Rs 39,310,176 vide letter number 1020/48/2005-WFD dated September 13, 2006 towards the Spectrum Charges dues from year 2001 to year 2006. The Company has submitted a detailed reply on October 31, 2006. During the year ended March 31, 2008, out of the above demand, the Company has deposited Rs 1,801,241 under protest towards the interest due till August 31, 2006. Based on the legal opinion obtained, the Company is confident that no liability would accrue regarding the same in future.

(d) During the year ended March 31, 2007, Bharat Sanchar Nigam Limited ('BSNL') has raised supplementary bill dated August 10, 2006 for Rs 167,614,241 towards Inter-connect Usage Charges ('IUC') and Access Deficit Charges ('ADC') for the period November 14, 2004 to August 31, 2005 on the Company in accordance with HQ Letter No. 460-1/2006-RECLN dated May 22, 2006. BSNL further raised invoices to the tune of Rs 99,346,533 on similar grounds for the period September 1, 2005 to February 28, 2006.These charges are on account of unilateral declaration of Company's Fixed Wireless and Wire line Phone services as Limited Mobility Services by BSNL. The Company has submitted its reply to BSNL on August 23, 2006 asking for the calculation/basis for the additional amount raised towards IUC and ADC by BSNL for Rs 167,614,241. Subsequently, BSNL issued a disconnection notice on August 26, 2006 which required the payment of Rs 208,236,569 (including Rs 167,614,241). The Company has submitted details to BSNL for payments already made for Rs 40,622,328. The Company has approached Hon'ble TDSAT on the subject matter and a stay order was granted against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JL/HFCL/75 dated March 20, 2007 for Rs 5,206,780, to which the

Company has submitted its reply on March 23, 2007 intimating that the matter being sub-judice and pending decision by the Hon'ble TDSAT, no coercive action be taken against the Company. The subsequent hearing has been adjourned to August 7, 2008. The Company, based on expert legal opinion, believes that there would be no financial liability against such bills and accordingly, has not recorded any liability towards the IUC and ADC supplementary bills during the year ended March 31, 2007 and the year ended March 31, 2008.

(e) The Company is in receipt of Show Cause Notice dated June 4, 2007 from Department of Telecommunications ('DoT') for non fulfilment of first year's roll-out obligations of Unified Access Service License ('UASL') Agreement for Punjab Service Area, where in the licensee as per the terms of the license agreement was required to ensure that at least 10% of the District Headquarter / Towns are covered in the first year of the date of migration to UASL which commences from the date of Test Certificate issued by Telecom Engineering Centre ('TEC'). As stated by DoT in the Show Cause Notice issued, the Company has violated the conditions of UASL and accordingly Liquidated Damages of Rs 70,000,000 has been imposed and DoT has also sought explanation within 21 days as to why they should not take action against the Company under the UASL Agreement. The Company, based on expert legal advice, believes that there would be no financial liability against such claims of DoT and accordingly, has not recorded any liability towards the Liquidated Damages during the year.

(f) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134,070,240. The Company had made payments in earlier years to EIL for takeover of certain accounted and unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel. EIL has failed to settle the dues with the respective parties and the Company has filed a winding up petition u/s 434 of the Companies Act, 1956 with Honourable Court of Mumbai. This petition has been dismissed vide Order dated March 24, 2005. Subsequently, the Company has filed an appeal before the division bench of the Honourable High Court against the order dated March 24, 2005 and also sent a notice to EIL invoking arbitration proceedings. The Honourable High Court disposed off the appeal as no case for interference in the impugned order vide its order dated November 1, 2005. However, the Honourable High Court referred the dispute to the sole Arbitrator of Justice Mr D.R. Dhanuka. The Company has filed the statement of claim on May 15, 2006 before the sole arbitrator and subsequent date of hearing is fixed for August 06, 2008. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

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

	For the year ended March 31, 2008	For the year ended March 31, 2007
Travel expenses [include expenses transferred to CBSL Rs 4,62,823 (2007 - 8,335,092)]	2,813,044	8,995,817
Finance charges [include expenses transferred to CBSL Rs 5,996,298 (2007 – 5,996,298)]	101,148,000	28,421,639
Others	214,051,000	203,619
Total	**318,012,044**	**37,621,075**

3. **Managerial remuneration**

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

	For the year ended March 31, 2008	For the year ended March 31, 2007
Salary	2,282,952	2,031,000
Employer's contribution to provident fund	273,955	243,720
Perquisites/ Allowances	3,839,510	3,351,797
Ex-gratia/ Performance linked incentive	1,387,380	1,112,832
Total	7,783,797	6,739,349

The above managerial remuneration does not inclued provision of gratuity of Rs. 287,241 (2007 - Rs. 285,537) and leave encashment of Rs. 645,742 (2007- Rs. 425,174), as these provisions are computed on the basis of an acturial valuation done for the Company as a whole and are provided in the financials (Refer Schedule 14).

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

The Company during the year ended March 31, 2008 had re-appointed Mr. Surendra Lunia as manager of the Company for a term of three years on September 28, 2007 with effect from July 25, 2007 under section 269 of the Companies Act 1956, in the Annual General Meeting of shareholders. The Company had applied to Central Government for approval which has been granted vide letter no 12/878/2007-CL.VII dated June 25, 2008.

4. **Payments to auditors (excluding service tax)**

	For the year ended March 31, 2008	For the year ended March 31, 2007
Audit fees	2,000,000	2,000,000
Tax audit fee	350,000	325,000
Certification charges	100,000	-
Other services	-	250,000
Reimbursement of out-of-pocket expenses	300,834	249,672
Total	**2,750,834**	**2,824,672**

5. **CIF value of imports**

	For the year ended March 31, 2008	For the year ended March 31, 2007
Import of capital equipment (other than telephone instruments)	99,542,553	114,609,464
Import of telephone instruments	96,510,977	56,368,183
Others	5,908,766	8,905,277
Total	201,962,296	179,882,924

6. **Consumption of Stores & Spares**

	For the year ended March 31, 2008		For the year ended March 31, 2007	
	Value	%	Value	%
Indigenous	25,445,562	85.57	62,685,516	88.90
Imported	4,292,621	14.43	7,826,991	11.10
Total	29,738,183	100.00	70,512,507	100.00

7. **Share Capital**

Equity shares

On September 30, 2004, the Company obtained the approval from the shareholders for de-listing the shares listed in the Calcutta Stock Exchange Association Limited ('CSE') and complied with all the necessary requirements for delisting and submitted its application in CSE. Despite repeated reminders, the Company has not yet received CSE's approval in this regard.

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 equity shares are yet to be listed on any of the recognized stock exchanges in India. As a pre-condition to the listing of the aforesaid shares of the Company on the Bombay Stock Exchange ('BSE'), the Company and BSE had reached to a settlement under the order of Security Appellate Tribunal ('SAT') dated October 17, 2005 whereby the Company has agreed to undertake a public offer for sale ('OFS') of 8,000,000 shares i.e. 1.52% of the total share capital, held by the promoter. Accordingly, the Company has filed the draft OFS with the Securities and Exchange Board of India ('SEBI') on December 23, 2005, thereby offering 8,000,000 shares (1.52 percent) shares held by promoter to the public. Since the Company has served a notice under section 11(4)(b) and 11 B of SEBI Act, 1992. SEBI has passed an order dated March 7, 2007 directing that the communication of observations on the draft offer for sale document filed by the Company be withheld till the proceedings under Section 11B of the SEBI Act are disposed off. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007 and sought immediate relief of setting aside the order of SEBI and direct SEBI to offer its observations in the pending draft offer document. The appeal was taken up for hearing on October 18, 2007. After hearing the arguments by counsels on both sides, the Hon'ble Tribunal inter alia allowed Company's appeal and directed SEBI to proceed with the letter of offer presented by the Company, in accordance with law, and issue a letter of observations in terms of the guidelines within six weeks from the date of the receipt of copy of the order. On the December 1, 2007, SEBI directed the Company to file the revised draft OFS. The Company is in the process of compiling information and getting its restated accounts audited for 5 years for updating the draft offer for sale document.

8. **Advance Against Share Application Money**

As per the restructuring package approved under CDR mechanism, on October 16, 2004, the Company had issued 7,551,178 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from financial institution and banks from January 1, 2004 to March 31, 2005. Pursuant to the revised CDR scheme dated June 24, 2005, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, the Company 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.

9. **Secured Loans**

(a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 24, 2005, the Lenders have signed Master Restructuring Agreement ('MRA') for restructuring of their Debts and Security Trusteeship Agreement, whereby the Lenders have entered into an agreement and appointed IDBI Trusteeship Services Limited (herein after referred as "ITSL") as their custodian of security. On November 11, 2005, the charges were registered in favour of the ITSL for Rupee Term Loans, for providing Specific Credit Facility, for Working Capital Assistance and Zero percent Secured OFCDs. The same are secured by first pari passu charge on immovable properties of the Company situated at Kandivali (East), Mumbai and properties situated at Mohali & Jalandhar under equitable mortgage, first pari passu charge of hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future. Further, the same are also secured by assignment of all rights, title, benefits, claims and interest in, under the project documents, insurance policies, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. These arrangements/loans are further secured by consolidated corporate guarantee given by HFCL, the Holding Company, to the tune of Rs 5,225,000,000. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the Company has entered into amendatory Master Restructuring Agreement and amendatory Security Trusteeship Agreement ('STA') on March 9, 2006, whereby Centurion Bank of Punjab has also joined as one of the lenders and has agreed to appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

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

(c) Vehicle Loans of Rs 11,310,067 (2007 – Rs 13,392,651) are secured by way of exclusive hypothecation charge in favour of bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly instalments and shall be repaid by 2010. Vehicle loans repayable within one-year amounts to Rs 6,344,285. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan is 36 months.

10. Unsecured Loans

(a) On October 16, 2004, the Company issued 1,667,761 zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from a financial institution and a bank for the period April 1, 2003 to December 31, 2003. The OFCDs earlier redeemable at par on March 31, 2014, are now redeemable at par on March 31, 2016 after repayment of the term loans as per revised CDR Scheme effective from April 1, 2005.

(b) Interest payable on vendor finance facilities amounting to Rs 3,937,742 as at March 31, 2008 (2007 – Rs 3,937,742) is yet to be remitted.

(c) On February 8, 2005, the Company has entered into a buyer's credit loan agreement with The Export Import Bank of China to facilitate payment to one of its equipment supplier for a total amount of Rs 544,131,662 (US$ 12,134,961). As on March 31, 2008, the Company has utilized Rs 527,470,587 (US$ 12,061,985) of this facility. The facility is secured by financial Bank guarantee of Rs 108,825,514 and by a Corporate Guarantee of Rs 544,131,662 given by HFCL, the Holding 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 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 1,317,500,000 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.

11. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 23,818,282 (2007 - Rs 14,302,307).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange gain of Rs Nil, (2007 – foreign exchange gain of Rs 15,418,804).

(c) As on March 31, 2008, telephone instruments aggregating to a net book value of Rs 227,894,157 (2007 – Rs 317,221,792) and other assets aggregating to net book value of Rs 190,673,090 (2007 – Rs 29,436,071) are located at customer premises and at other operators sites, respectively.

(d) During the year ended March 31, 2008, the Company has sold Cable TV Networks Equipment at written down value to its subsidiary CBSL Cable Networks Limited 'CBSL' (formerly known as Connect Broadband Services Limited) aggregating to Rs 66,322,792 as per agreement dated March 26, 2008.

12. Investments

(a) As more fully discussed in note 1(a) of schedule 23, balance sheet of the Company includes investments of Rs 717,670,900 (Rs 18,000,000 as equity and Rs 699,670,900 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, incurred a net loss of Rs 68,331,091for the year ended March 31, 2008 and has a negative net worth of Rs 81,556,150 as on March 31, 2008. The management of ITI, is however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of these long-term investments.

(b) During the year, the Company 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 Company 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.

13. **Licensing**

During the year, the Company 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.

14. **Inventory**

During the year ended March 31, 2008, the Company has reinstated inventory of network maintenance consumables in the books of account amounting to Rs 20,667,816 based on the physical verification of stocks. The stocks have been valued at cost on a first in first out basis and the losses have reduced to this extent. The quantity and valuation of inventory is taken as physically verified, valued and certified by the management at the end of the year.

15. **Deferred Taxes**

During the year, the Company has incurred losses of Rs 1,425,357,719 (accumulated losses of Rs 9,151,022,826) resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Income-tax Act, 1961. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

16. **Current liabilities and Provisions**

There are no transactions with Micro and Small Enterprises. Sundry Creditors include amount payable to Micro and Small Enterprises as at March 31, 2008 of Rs Nil (2007 - Rs Nil) (based on the information, to the extent available with the Company, and as certified by the management).

17. **Loss per share**

The calculation of loss per share are based on the loss for the year and number of shares is shown below.

	For the year ended March 31, 2008	For the year ended March 31, 2007
Loss for the year (in Rs)	1,425,357,719	1,163,256,525
Weighted average number of shares	525,517,152	525,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share – basic and diluted (in Rs)	2.71	2.21

18. **Operating leases**

Company as a Lessee

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2008 is Rs 68,518,714 (March 31, 2007 — Rs 51,829,174).

(b) The Company has entered into site sharing agreements with other operators for sharing of their infrastructure sites. During the year, the Company has incurred Rs 88,437,485 (2007 – Rs 4,148,224) towards site sharing cost.

Company as a Lessor

(c) The Company has entered into site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 15,512,519.00 (2007 – Rs 8,390,676) towards site sharing revenue.

19. **Segmental Reporting**

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

20. Related Party Transactions

Relationship	Holding Company		Wholly owned Subsidiary		Companies Under Common Control		Fellow Subsidiary		Associate		Company Under Key Management Personnel		Total	
Nature of transaction	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007
Assets														
Purchase of Equity Shares	-	-	-	-	-		-	-	-	-	-	-	-	
Advance against equity			55,000,000	55,000,086		-				-		-	55,000,000	55,203,000
Purchase of Capital Goods	5,037,781	52,076,307	-	5,440,128	-	185,518		-		-	460,314,210	727,746	465,001,476	64,454,391
Purchase of Capital Services		-		-		-		-					-	-
Payments against Capital Purchases / Services	59,652,900	35,009,596		5,445,570	8,306,599	-				-			68,959,405	49,514,210
Liabilities													-	-
Amount received by Company	-	53,399	221,124,074	4,069,727		-		-		-		100,000	221,103,174	2,252,626
Loan Received By Company				-		-		-		-		67,900,000	-	62,350,000
Balance - Payable	306,310	30,779,116				-				-	461,336,417	17,292,056	413,294,710	77,470,172
Balance - Receivable			46,889,850	1,660,954	7,650,439	7,995,236	116,234	116,776	1,149,575	1,149,595		-	55,551,272	13,725,025

Relationship	Holding Company		Wholly owned Subsidiary		Companies Under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personnel		Total	
Nature of transaction	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007
Income /Receipt														
Services Provided	-	-		-		-	-	-	-	-	-		-	-
Sale of Material	7,060,980	-	91,259,750				-	-			-	-	98,319,760	
Expenses/Payments														
Interest expense on ICD's received		-		-	-	-					-	-	-	-
Bank Guarantee Commission	-					-	-				-			-
Debit Notes raised on us (Expenses)	44,206,384	693,340	35,000	2,796,572		991,060		-		-	15,916,470	5,492,156	56,479,354	33,265,256
Debit Notes raised by us (Expenses)	910,392	410,712	230,259,115	47,582,496	4,906,464	4,139,840		-		-	41,997,845	474,441	264,440,589	58,425,418
Purchase of Consumables/Goods/ Repair & Maintenance	1,019,807	1,651,979	-	511,496	7,790,165	237,321		-		-		-	8,759,454	2,653,325
Purchase of Services (Expenditure Nature)		-	-	-		-	-	-		-	155,115,857	56,492,760	155,113,257	58,412,080
Reimbursement of expenses incurred on behalf of subsidiary companies													-	-
Payment made agst. purchase of Goods / Services (Expenditure Nature)														-
Payments made on our behalf		20,030,006		-		-		-		-		-	-	20,030,006
Payment received on our behalf		-		-		-		-		-		-		-
Payments received by us		-		-	5,747,667	4,200,000				-		-	5,747,667	4,200,000
Repayment of Loan		-		-		-		-			111,773,384	-	111,773,384	-
Payments made by the Company	45,618,535	22,747,322	5,750,000	14,362,346		-		-		-	68,178,111	81,031,571	120,546,994	127,594,540
Others														
Corporate													-	
Consolidated Corporate Guarantee / Individual Corporate													-	
Guarantee given to Banks on behalf of the Company		5,759,111,662											-	5,759,111,662
Counter Guarantee given by Company		5,225,000,000											-	5,225,000,000

a. Disclosure of Material Transactions with Related Parties

<u>HFCL Satellite Communication Limited</u>

- Payments received by the company Rs 5,747,667 (2007-Rs 4,200,000) and debit notes raised by the Company Rs 4,906,464 (2007- Rs 4,139,840).
- Balance receivable is Rs 7,838,591 (2007- Rs 8,679,794).

<u>Himachal Exicom Communications Limited</u>

- Purchase of capital goods by the Company Rs Nil (2007- Rs 185,518), purchase of consumables / services Rs 319,564 (2007- Rs 237,321) and payments made by the Company Rs 388,201 (2007- Nil).
- Balance payable is Rs 604,680 (2007- Rs 680,558).

<u>Microwave Communication Limited</u>

- Purchase of Services by the Company of Rs Nil (2007- Rs Nil) and payment made by the Company of Rs Nil (2007- Rs Nil).

<u>Advances given to Key Managerial Personnel (Chief Executive Officer)</u>

Interest Free Housing loan Rs 350,000 (2007 – 500,000), other advances Rs 93,573 (2007 – Rs 93,573)

- Holding Company: Himachal Futuristic Communications Limited.
- Wholly owned subsidiary: CBSL Cable Network Limited (*erstwhile* Connect Broadband Services Limited).
- Companies under common control: HFCL Satellite Communication Limited, Himachal Exicom Communications Limited and Microwave Communication Limited.
- Fellow subsidiary: HTL Limited.
- Associate enterprise includes The Investment Trust of India Limited.
- Company under Key Managerial Personnel: Infotel Business Solutions Limited (*erstwhile* HFCL Internet Services Limited).
- Key managerial personnel Mr Surendra Lunia (CEO) for the year ended March 31, 2008 (Refer Schedule 23, Note 3).
- Related parties with whom the Company does not have any transactions are:

<u>Companies under common control</u>

HFCL Bezeq Telecom Limited, Consolidated Futuristic Solutions Limited, WPPL Limited, HFCL Dacom Infocheck Limited, HFCL Kongsung Telecom Limited, Platinum EDU Limited, Westel Wireless Limited, Pagepoint Services Pvt. Limited, India Card Technology Pvt. Ltd., Moneta Finance Pvt. Ltd.

21. Unclaimed deposit from public

During the year ended March 31, 2004, the Company surrendered its licence granted by Reserve Bank of India ('RBI') to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date, and the same have been transferred to the Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with, pending completion of which, the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. [See Schedule 10 & 13 and Schedule 21, Note 1(a))]. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. Further, the Company submitted a letter dated July 7, 2004 for compliance and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised the Company to follow certain instructions till the balance in the escrow account is settled. The Registrar of Companies, Jalandhar, is yet to register the resolution of the shareholders due to delay in filing of the documents, for which the Company has moved an application to Central Government for condonation of delay. Ministry of Company Affairs vide letter no 17/23/2005-CL.V dated 07th July, 2005 has granted a condonation for filing of form 23, which was submitted to Registrar of Companies, Jalandhar vide letter No. HITL/C&L/S-31/05/347 dated July 13, 2005 and the registration certificate is yet to be obtained.

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

• Unclaimed Deposits From Public	Rs 700,963
• Interest accrued and due on public deposits upto September 15, 2003	Rs 101,611
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs 498,067
• Cheques outstanding beyond 6 months	Rs 523,617
• Others (Under reconciliation)	Rs 19,112
	Rs 1,843,370
Balances with Scheduled banks in Escrow account	Rs 1,843,370

22. Debenture redemption reserve

Pursuant to the CDR scheme on October 16, 2004, the Company has issued OFCDs aggregating to Rs 166,776,100 repayable as on March 31, 2016. As per section 117C (1) of the Companies Act, 1956, a debenture redemption reserve ('DRR') is to be created to which adequate amounts are to be credited out of the profits of each year until such debentures are redeemed.

During the year, the Company has incurred loss of Rs 1,425,357,719. Hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

23. Prior period expenditure (net)

Description	For the year ended March 31, 2008	For the year ended March 31, 2007
Revenue from Unified Access Services	(1,345,260)	-
Revenue from Internet Services	(918,966)	-
Revenue From Infrastructure Services	(1,214,033)	-
Interconnect Usage Charges	14,541,245	-
Other Finance Charges	2,286,040	-
Port Charges	2,995,612	-
Interest to Others	1,670,353	365,427
Fringe Benefit Tax	-	307,639
Sick Leave	-	1,598,942
Licence Fee on Revenue Share Basis	-	17,860,705
Royalty and licence fees to Wireless	-	513,684
Customers Acquisition Costs	-	39,936
Travelling and Conveyance	1,234	564,439
Legal & Professional Charges	303,029	-
Staff Welfare Expenses	9,490	-
Repair & Maintenance - Network	234,373	-
Rent	30,097	287,706
Insurance	277,425	-
Electricity and Water - Admin	22,218	-
Total	18,692,377	21,838,478

24. Employee Benefits

(a) During the year, the Company has recognized the following amounts in the Profit and Loss Account

Defined Contribution Plans

Particulars	For the year ended March 31, 2008	For the year ended March 31, 2007
Employer's Contribution to Provident Fund *	16,010,073	14,439,298
Employer's Contribution to ESI *	353,855	272,283

* Included in Employer's Contribution to Provident and Other Funds

Defined Benefit Plans

The employee's gratuity fund scheme managed by Life Insurance Corporation of India and ICICI Lombard General Insurance Company Limited is a defined benefit plan. The present value of obligation 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. The obligation for leave encashment is recognized in the same manner as gratuity

Particulars	Gratuity #	Leave Encashment #
Current service cost	3,413,003	2,968,077
Interest cost	727,036	459,669
Expected Return on plan assets	(206,177)	-
Actuarial (gain) / loss	863,372	(1,370,429)
Past service cost	-	-
Curtailment and Settlement cost / (credit)	-	-
Net cost	4,797,234	2,057,318

Included in the Salaries, Wages and Bonus

(b) The assumptions used to determine the benefit obligations are as follows:

Particulars	Gratuity #	Leave Encashment #
Discount Rate	8.00%	8.00%
Expected Rate of increase in Compensation levels	5.00%	5.00%
Expected Rate of Return on Plan Assets	8.00%	8.00%
Expected Average remaining working lives of employees (years)	26 Years	26 Years

(c) Reconciliation of opening and closing balances of benefit obligations and plan assets

Particulars	Gratuity #	Leave Encashment #
Change in Projected Benefit Obligation (PBO)		
Projected benefit obligation at beginning of year	9,087,951	5,745,868
Current service cost	3,413,003	2,968,077
Interest cost	727,036	459,669
Benefits paid	(2,026,296)	
Past service cost	-	-
Actuarial (gain) / loss	884,467	(1,370,429)
Projected benefit obligation at year end Change in plan assets :	12,086,161	7,803,185
Fair value of plan assets at beginning of year	2,577,213	-
Expected return on plan assets	206,177	-
Actuarial gain / (loss)	21,095	-
Employer contribution	-	-
Contribution by plan participants	818,390	-
Settlement cost	-	-
Benefits paid	(2,026,296)	-
Fair value of plan assets at year end	1,596,579	-
Net funded status of the plan	(10,489,582)	(7,803,185)
Net amount recognized	(10,489,582)	(7,803,185)

d) The expected rate of return on plan assets was based on the average long-term rate of return expected to prevail over the next 15 to 20 years on the investments made by the LIC. This was based on the historical returns suitably adjusted for movements in long-term government bond interest rates. The discount rate is based on the average yield on government bonds of 20 years.

e) The Company made annual contributions to the LIC of an amount advised by the LIC. The Company was not informed by LIC of the investments made by the LIC or the break-down of plan assets by investment type.

f) The estimates of rate of escalation in salary considered in actuarial valuation , taken into account inflation, seniority, promotion and other relevant factors including demand and supply 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.

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

26. **Prior year comparatives**

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

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES Chartered Accountants per Prashant Singhal Partner Membership No. 93283	ATUL KULSHRESTHA & CO. Chartered Accountants per Anil Kumar Aggarwal Partner Membership No. 91720
Place : Gurgaon Date : June 28, 2008	Place : New Delhi Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata Director	M. P. Shukla Director	Surendra Lunia Chief Executive Officer
Vikash Agarwal AVP - Finance	Kapil Bhalla Company Secretary	

Place : New Delhi
Date : June 28, 2008

HFCL INFOTEL LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2008

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

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,418,342,050)	(1,156,946,919)
Adjustments for:		
Depreciation and Amortisation	1,038,803,743	1,021,807,478
Prior Period Expense / (Income) (Net)	18,692,877	21,838,478
Foreign exchange gain	(50,630,383)	-
Excess Provision Written Back	-	(443,733)
Loss on Fixed Assets Sold / Discarded	17,689,380	28,358,867
Bad Debts Writen Off	153,382,407	177,956,896
Provision for Doubtful Debts	12,769,379	50,507,261
Finance Expenses	655,121,753	635,134,517
Interest Income	(5,040,505)	(4,391,094)
Operating profit before working capital changes	422,446,801	773,321,750
Movement in working capital:		
(Increase) / Decrease in debtors	(169,779,369)	(225,364,315)
(Increase) / Decrease in Loans and advances	(100,956,290)	8,892,430
(Increase)/Decrease in Inventory	(20,667,816)	-
Increase / (Decrease) in Current liabilites and provisions	1,776,351,476	155,111,622
Cash generated from operations	1,907,394,802	712,261,487
Direct Taxes paid (Net)	(6,438,049)	(3,191,242)
Prior Period Expense / (Income) (Net)	(18,692,877)	(21,838,478)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	1,882,263,876	687,231,767
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,314,506,026)	(503,018,435)
Proceeds from sale of fixed assets	70,311,885	5,057,506
Purchase of investments in Shares	-	(55,000,000)
Purchase of investments in fixed deposits	3,678,322	(5,182,860)
Wealth tax	31,123	37,175
Interest Received	1,574,807	1,252,110
NET CASH USED IN INVESTING ACTIVITIES (B)	(2,238,909,889)	(558,854,504)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	7,551,575	18,098,388
Repayment of Secured Loan	(9,070,522)	(7,805,281)
Repayment of Public Deposits	(149,686)	(207,925)
Proceeds from Unsecured loan	767,827,467	93,472,346
Interest paid	(412,338,002)	(235,933,989)
Dividend paid	-	(47,770)
NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES (C)	353,820,832	(132,424,230)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	(2,825,181)	(4,046,967)
Cash and Cash Equivalents at the beginning of the year	42,848,837	46,895,804
Cash and Cash Equivalents at the end of the year	40,023,656	42,848,837

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. Finance Expenses Includes interest accrued on secured loan as difference between the interest paid and interest accurred on yeild basis amounting to Rs 200,196,986 (Py 381,150,000) as per CDR Scheme.
4. Previous year figures have been regrouped and recast wherever necessary to confirm to current year classification.
5. Cash & Cash Equivalents include :

Cash in Hand	1,437,015	855,436
Cheques in Hand	9,750,726	10,043,709
Balances with Scheduled Banks	-	-
- In Current Account	26,992,545	30,036,984
- In Escrow Account	1,843,370	1,912,708
	40,023,656	42,848,837

6. Cash and cash equivalents does not include fixed deposits with Sheduled Banks (Receipts pledged with Banks as margin money for bank guarantees and LC issued) Rs. 73,390,554, (2007-Rs. 77,068,875)

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

Vikash Agarwal
AVP - Finance

Place : New Delhi
Date : June 28, 2008

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED

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

BALANCE SHEET ABSTRACT AND COMPANYS GENERAL BUSINESS PROFILE

I	REGISTRATION DETAILS	
	Registration No.	26718
	State Code	16
	Balance Sheet	March 31, 2008
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	9,427,675,106
	Total Assets	9,427,675,106
	SOURCE OF FUNDS	
	Shareholders' Funds	6,772,602,701
	Reserves & Surplus	173,004,664
	Secured Loans	6,290,487,239
	Unsecured Loans	1,484,206,907
	APPLICATION OF FUNDS	
	Net Fixed Assets (Including Intangible Asset)	7,885,603,423
	Accumulated Losses	9,151,022,826
	Investments	808,170,900
	Net Current Liabilities	3,124,495,638
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,499,780,474
	Total Expenditure	3,918,122,524
	Profit /(Loss) Before Tax	(1,418,342,050)
	Profit /(Loss) After Tax	(1,425,357,719)
	Earning Per Share	(2.71)
	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS / SERVICES OF THE COMPANY	
	Item Code No(ITC Code)	N.A.
	Product Description	Unified Access Services

For and on behalf of the Board of Directors

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

Place : New Delhi
Date : June 28, 2008

Vikash Agarwal
AVP-Finance

Kapil Bhalla
Company Secretary

Auditors' Report

To

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached consolidated Balance Sheet of HFCL INFOTEL LIMITED ('the company'), its subsidiary Connect Broadband Services Limited and its associate The Investment Trust of India Limited (together referred as 'the Group') as described in schedule 23. Note 1(a), as at March 31, 2008, and also the consolidated Profit and Loss Account and consolidated Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 23 to the financial statements, 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 Company has paid Rs 1,517,500,000 towards alternate technology, which has been currently funded through an advance. The ability of the Company to continue as a going concern is significantly dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements and 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 Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on a going concern basis.

4. *Attention is invited to :*

   a) *Note 8 of Schedule 24 of the financial statements regarding Company'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 67,929,145 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 Company, therefore, believes that no provision is required on account of any diminution in the value of the investments. Considering the uncertainty involved in the generation of income on investments, we are unable to comment on the carrying value or the realisability of such investments and thereby its impact on the profit and loss for the year.*

   b) *Note 9 of Schedule 24 of the financial statements wherein the Company 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.

5. We did not audit the financial statements of The Investment Trust of India Limited, whose financial statements reflect the total assets of Rs. 921,213,467 (which represents 6.26 % of consolidated assets) as at March 31, 2008 and the loss for the year of Rs. 68,331,091 (which represents 4.53 % of consolidated net loss) for the year ended on that date. These financials statements have been audited by another auditor whose report has been furnished to us and our opinion insofar as it relates to the amount included in respect of the associate, is based solely on the report of other auditors and the financial statements of Connect Broadband Services Limited, whose financial statements reflect the total assets of Rs. 90,500,600 (which represents 0.61% of consolidated assets) as at March 31, 2008. These financials statements have been audited by other auditors whose reports have been furnished to us and our opinion insofar as it relates to the amounts included in respect of the associate and subsidiary are based solely on the report of other auditors.

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

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

   (a) in the case of the consolidated balance sheet, of the state of affairs of the Group as at 31stMarch 2008;

   (b) in the case of the consolidated profit and loss account, of the profit (or 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.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Place : Gurgaon
Date : June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place : New Delhi
Date : June 28, 2008

HFCL INFOTEL LIMITED
CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2008

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

PARTICULARS	SCHEDULE	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs)
			Schedule 24, Note 22
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share Application Money	2	867,431,181	880,541,768
Reserves and Surplus	3	173,004,664	159,894,077
		6,945,607,365	6,945,607,365
Loan Funds			
Secured Loans	4	6,290,487,239	6,263,152,090
Unsecured Loans	5	1,484,206,907	762,708,541
		7,774,694,146	7,025,860,631
		14,720,301,511	13,971,467,996
APPLICATION OF FUNDS			
Fixed Assets	6		
Gross Block		9,578,168,033	9,026,121,538
Less: Accumulated Depreciation		(4,595,416,202)	(3,786,097,493)
Net Block		4,982,751,831	5,240,024,045
Capital Work-In-Progress (Includes capital advances for Rs 893,564 (2006 - Rs 3,777,267)		122,445,449	141,356,097
		5,105,197,280	5,381,380,142
Intangible Assets, net	7	2,846,792,281	1,460,291,666
Investments	8	702,218,900	699,670,900
Current Assets, Loans and Advances			
Inventory	9	20,667,816	-
Sundry Debtors	10	409,517,134	410,901,792
Cash and Bank Balances	11	113,730,515	121,554,263
Other Current Assets	12	8,884,139	5,418,441
Loans and Advances	13	144,078,747	87,461,473
		696,878,351	625,335,969
Less: Current Liabilities and Provisions	14		
Current Liabilities		3,948,832,346	2,011,848,805
Provisions		23,271,649	15,951,580
		3,972,103,995	2,027,800,385
Net Current Liabilities		3,275,225,644	1,402,464,416
Profit and Loss Account		9,341,318,694	7,832,589,705
		14,720,301,511	13,971,467,996
Significant Accounting Policies	23		
Notes to Accounts	24		

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

As per our report of even date.

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

Vikash Agarwal
AVP - Finance

Place : New Delhi
Date : June 28, 2008

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2008

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

PARTICULARS	SCHEDULE	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
INCOME			
Service Revenue	15	2,464,813,706	2,794,801,402
Other Income	16	11,082,794	6,405,180
		2,475,896,500	2,801,206,582
Expenditure			
Network Operation Expenditure	17	1,150,464,770	1,176,337,495
Cost of Good Sold	18	-	6,439,504
Personnel Expenditure	19	493,178,206	483,638,835
Sales and Marketing Expenditure	20	195,127,940	131,114,102
Administrative and Other Expenditure	21	451,122,390	508,896,895
		2,289,893,306	2,306,426,831
Operating Profit before Finance Charges, Depreciation, Amortization and Loss on Sold / Discarded Fixed Assets		186,003,194	494,779,751
Loss on Fixed Assets Sold / Discarded		24,946,549	28,360,282
Finance Charges	22	655,121,753	635,134,517
Foreign exchange (Gain) / Loss		(50,630,383)	-
Depreciation	6	891,326,617	868,535,712
Amortisation	7	148,133,387	153,275,592
Loss for the year before Prior Period Expenditure and Tax		1,482,894,729	1,190,526,352
Prior Period Expenditure (Net)	24 Note 19	18,692,877	21,838,478
Loss for the year before Tax		1,501,587,606	1,212,364,830
Provision for Taxation			
Fringe Benefit Tax		7,141,383	6,715,561
Loss for the year before Share of Associate's Losses		1,508,728,989	1,219,080,391
Share of Profit/ (Loss) of Associate's Company		-	(65,182,863)
Loss for the year		1,508,728,989	1,284,263,254
Loss, brought forward from previous year		7,832,589,705	6,548,326,451
Loss carried to the Balance Sheet		9,341,318,694	7,832,589,705
Loss per share (equity shares, par value of Rs 10 each)	24 Note 13		
Basic (in Rs)		2.87	2.32
Diluted (in Rs)		2.87	2.32
Weighted average number of shares used in computing earnings per share			
Basic		525,517,152	525,517,152
Diluted		525,517,152	525,517,152
Significant Accounting Policies	23		
Notes to Accounts	24		

The Schedules referred to above and the Notes to Accounts form an integral part of the Profit.
As per our report of even date.

S.R. BATLIBOI & ASSOCIATES Chartered Accountants	ATUL KULSHRESTHA & CO. Chartered Accountants	For and on behalf of the Board	
per Prashant Singhal Partner Membership No. 93283	per Anil Kumar Aggarwal Partner Membership No: 91720	Mahendra Nahata Director	M. P. Shukla Director
		Surendra Lunia Chief Executive Officer	Vikash Agarwal AVP - Finance
Place : Gurgaon Date : June 28, 2008	Place : New Delhi Date : June 28, 2008	Place : New Delhi Date : June 28, 2008	Kapil Bhalla Company Secretary

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 1: Share Capital [See Schedule 24, Note 3]		
Authorised:		
1,300,000,000 (2007 - 1,300,000,000) equity shares of Rs 10 each (2007 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (2007 - 20,000,000) preference shares of Rs 100 each (2007 - Rs 100 each)	2,000,000,000	2,000,000,000
	15,000,000,000	15,000,000,000
Issued, Subscribed and Paid up		
525,517,152 (2007 - 525,517,152) equity shares of Rs 10 each (2007 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (2007 - 6,500,000) 2 per cent Cumulative Redeemable Preference Shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	5,905,171,520	5,905,171,520

(a) Of the above

(i) 490,750 (2007 - 490,750) equity shares of Rs 10 each, were allotted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

(ii) 325,705,000 (2007 - 325,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).

(iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme.[See Schedule 23, Note 1 (c)] Out of these, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share as per provisions of applicable law.

(b) As more fully discussed in Schedule 23, Note 1(a), in accordance with the scheme of amalgamation approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively under sections 391 and 394 of the Companies Act, 1956, the erstwhile HFCL Infotel Limited (name earlier allotted to the transferor company), amalgamated with HFCL Infotel Limited ('HIL' or 'the Company'), (formerly The Investment Trust of India Limited). Subsequent to the approved amalgamation:

(i) 432,000,230 equity shares of Rs 10 each were allotted to the shareholders of erstwhile HFCL Infotel Limited on June 17,2003.

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

(c) 6,500,000 (2007 - 6,500,000) 7.5 per cent CRPS were allotted to Himachal Futuristic Communications Limited ('HFCL') (Holding Company) on October 16, 2004, Pursuant to the CDR Scheme [See Schedule 23, Note 1(c)], the specified part of the amount due to HFCL by the Company has been converted into 7.5 per cent CRPS redeemable after the repayment of Rupee Term Loan (i.e. July 1, 2013). Prior approval of the lenders is required to declare dividend on the 7.5 per cent CRPS and all the voting rights attached to the CRPS to be assigned in favour of the term lenders. On June 24, 2005, as per revised CDR Scheme, the dividend percentage is reduced to 2 per cent from 7.5 per cent with effect from date of issuance of CPRS.

Schedule 2: Advance Against Share Application Money [See Schedule 24, Note 4]		
Advance Against Equity Share Application Money	867,431,181	880,541,768
	867,431,181	880,541,768

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 3: Reserves and Surplus		
Capital Reserve		
Securities Premium [See Note (a), (b) & (c) below]	34,032,776	34,032,776
Balance, beginning of the year		
Adjusted during the year	9,523,145	9,523,145
Less: Utilised during the year	13,110,587	-
	-	-
Statutory Reserve [See Note (d) below]	22,633,732	9,523,145
General Reserve [See Note (e) below]	11,900,000	11,900,000
	104,438,156	104,438,156
	173,004,664	159,894,077

(a) There are no share allotments during the year. Securities premium includes an amount of Rs 9,848,489 received on allotment of 19,696,978 equity shares of Rs 10 each on October 16, 2004 at a premium of Rs 0.50 per equity share [See Schedule 1, Note 1(a) (iii)]

(b) During the year 2006, in accordance with the CDR Scheme [See Schedule 23, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the securities premium to that extent.

(c) During the year 2007-08, the Company based on the lenders conformation, has written back the securities premium of Rs 13,110,587

(d) As more fully discussed in Schedule 23, Note 1(a), the Company (formerly The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 24, Note 17, the Company has surrendered its CoR with the Reserve Bank of India ('RBI'). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain strictures till the balance in the escrow account is settled.

(e) General Reserve represents the amount carried forward in accordance with the Scheme of Amalgamation as more fully discussed in Schedule 23, Note 1(a)

Schedule 4: Secured Loans [See Schedule 24, Note 5]		
Term Loans		
From Financial Institution	750,000,000	750,000,000
From Banks	5,300,000,000	5,300,000,000
Interest accrued & due on term loans from Banks and financial institution	61,387,079	32,532,983
Vehicle loans	11,310,067	13,392,651
Bank overdraft	167,790,093	167,226,456
	6,290,487,239	6,263,152,090
Amounts repayable within a year		
- Vehicle Loan	6,344,285	6,937,979
- Financial Institutions	13,750,000	-
- Banks	97,166,667	-
Schedule 5: Unsecured Loans [See Schedule 24, Note 6]		
Zero per cent Optionally Fully Convertible Debentures ('OFCDs') (others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	3,937,742	3,937,742
Buyers Credit Facility (Loan from foreign bank)	403,252,347	527,470,715
Buyers Credit Facility (Loan from Infotel Business Solutions Limited)	410,740,832	62,000,000
Short term loan from Infotel Digicom (P) Limited	499,499,886	-
Interest accrued & due on short term loan	-	2,523,984
	1,484,206,907	762,708,541
Amounts repayable within a year - Buyer Credit Facility (Loan from foreign bank)	161,550,219	80,413,250

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

Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2007	Additions For the year	Sale/ Adjustment For the year	As at March31,2008	As at March 31, 2007	Depreciation For the year	On Sale/ Adjustment	As at March 31,2008	As at March 31,2008	As at March 31,2007
Land - Freehold	16,142,623	-	-	16,142,623	-	-	-	-	16,142,623	16,142,623
Land - Leasehold	8,896,419	-	-	8,896,419	740,858	91,650	-	832,508	8,063,912	8,155,561
Building	188,994,559	384,555	178,906	189,200,208	22,345,601	3,623,078	21,748	25,946,931	163,253,277	166,648,958
Leasehold Improvements	88,038,038	5,736,028	4,122,263	89,651,823	44,453,740	9,050,985	1,507,605	51,997,120	37,654,703	43,584,318
Network Equipment	5,182,098,045	422,127,192	16,031,953	5,588,193,284	1,504,995,717	376,785,193	15,992,276	1,865,788,634	1,722,404,650	1,677,102,328
Optical Fibre Cable and Copper Cable	4,271,977,074	50,731,614	15,034	4,322,693,654	1,471,107,974	301,979,703	1,679	1,773,085,998	2,549,607,656	2,800,869,100
Telephone Instruments at Customers Premises	939,039,756	137,693,895	77,431,928	999,301,723	547,309,395	156,306,486	57,168,371	646,447,510	352,854,213	391,730,361
Computers	211,248,914	33,355,627	4,126,058	240,478,483	130,329,381	26,797,703	2,747,376	154,379,708	86,098,775	80,919,533
Office Equipment	43,478,315	3,464,839	1,836,800	45,106,354	19,853,310	5,462,477	889,126	24,426,661	20,679,693	23,625,005
Furniture & Fixture	39,449,177	977,870	434,849	39,992,198	26,813,087	3,313,977	203,770	29,923,294	10,068,904	12,636,091
Vehicles	36,758,598	7,063,207	5,310,541	38,511,264	18,148,431	7,915,365	3,475,958	22,587,838	15,923,426	18,610,167
TOTAL	9,026,121,538	661,534,827	109,488,332	9,578,168,033	3,786,097,494	891,526,617	82,007,909	4,595,416,202	4,982,751,831	5,240,024,045
Previous Year	8,601,542,973	562,858,884	138,280,319	9,026,121,538	3,038,111,885	868,535,712	120,550,101	3,786,097,494	5,240,024,045	5,563,431,090

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at March 31, 2007	Additions For the year	Sale/ Adjustment For the year	As at March31,2008	As at March 31, 2007	Amortisation For the year	On Sale/ Adjustment	As at March 31,2008	As at March 31,2008	As at March 31,2007
Computer Software	154,428,383	17,134,002	-	171,562,385	123,649,143	12,078,098	-	135,727,241	35,835,144	30,779,240
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	923,146,177	136,055,289	-	1,059,201,466	1,293,457,137	1,429,512,426
Licence Entry Fees GSM	-	1,517,500,000	-	1,517,500,000	-	-	-	-	1,517,500,000	-
TOTAL	2,507,066,986	1,534,634,002	-	4,041,720,988	1,046,795,320	148,133,387	-	1,194,928,707	2,846,792,281	1,460,291,666
Previous Year	2,491,170,156	15,916,830		2,507,086,986	893,519,728	153,275,592	-	1,046,795,320	1,460,291,666	1,597,650,428

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
SCHEDULE 8: Investments (Non Trade - Long term) [See Schedule 24, Note 8]		
Subsidiary Company of CBSL Cable Networks Limited ('CBSL')		
CBSL City Network India (P) Ltd (254,800 shares @ Rs. 10 each)	2,548,000	-
Associate company		
Long Term (at cost)		
Unquoted		
1,750,000 [2007 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')	-	-
6,996,709 [2007- 6,996,709] Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each fully paid in The Investment Trust of India Limited ('ITI')	699,670,900	699,670,900
	702,218,900	699,670,900

Note:

(a) The Company has incorporated a wholly owned subsidiary named CBSL Cable Networks Limited (erstwhile Connect Broadband Services Limited) ('CBSL') to carry on the business of distribution of Cable Television Network and all other connected services . During the year, 5,500,000 shares of Rs 10 each at par has been allotted by CBSL.

(b) The Company acquired the entire shareholding in The Investment Trust of India Ltd ('ITI') (*formerly* Rajam Finance and Investments Company India Limited, an unlisted registered NBFC) from the erstwhile promoters [See Schedule 23, Note 1(a)]. Consequently ITI became a wholly owned subsidiary of the Company with effect from August 19, 2002. Subsequent to September 30, 2003, with infusion of fresh equity, ITI became an associate company.

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

(i) The OFCDs of Rs 100 each are convertible into 10 equity shares (with pari passu right with the existing equity shares in terms of the present Articles of Association of the Company) of Rs 10 each after three years at the option of the holder. The Company has not exercised this option as on March 31, 2008

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

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

Schedule 9: Inventory		
Consumable Stores	20,667,816	-
	20,667,816	-

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 10: Sundry Debtors		
Debts outstanding for a period exceeding six months:		
Secured and Considered Good	5,110,376	5,433,385
Unsecured and Considered Good	-	5,102,880
Unsecured and Considered Doubtful	116,017,176	88,778,602
Debts outstanding for a period less than six months:		
Secured and Considered Good	28,692,519	21,004,171
Unsecured and Considered Good	375,714,239	379,361,356
Unsecured and Considered Doubtful	22,279,934	36,748,929
	547,814,244	536,429,323
Less: Provision for Doubtful Debts	138,297,110	125,527,531
	409,517,134	410,901,792

Notes:

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

b) Includes Rs 111,541,969 (2007 - Rs 128,624,731) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2008 [See Schedule 23, Note 2.11]

c) Debtors includes amount due from HFCL Satellite Communication Limited, the company under the same management, amounting to Rs 7,838,591 (2007 - Rs 4,539,954) Maximum amount outstanding during the year Rs 9,330,004 (2007 - Rs 9,330,004).

Schedule 11: Cash and Bank Balances		
Cash in Hand	1,444,917	1,157,405
Cheques in Hand	9,750,726	10,043,709
Balances with Scheduled Banks		
In Current Accounts	27,167,008	31,249,137
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 73,390,554, (2007 - Rs. 77,068,875)]	73,524,494	77,191,304
In Escrow Account [See note below]	1,843,370	1,912,708
	113,730,515	121,554,263

Notes:

The balance with scheduled banks in Escrow account is towards public deposits payable by the Company [See Schedule 24, Note 17]

Schedule 12: Other Current Assets		
Interest Accrued on Fixed Deposits	8,884,139	5,418,441
	8,884,139	5,418,441

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 13: Loans and Advances		
(Unsecured , considered good except otherwise stated)		
Advances Recoverable in cash or in kind or for value to be received Considered Good	84,360,349	36,088,338
Considered Doubtful [See Schedule 24, Note 1(f)]	134,859,908	134,859,908
Due from The Investment Trust of India Limited - Associate	1,149,999	1,149,999
(Maximum outstanding balance during the year Rs 1,149,999, 2007 - Rs 1,149,999)		
Due from HTL Limited - Company under the same management	119,784	119,784
(Maximum outstanding balance during the year Rs 119,784, 2007 - Rs 119,784)		
Security Deposits		
Considered Good	22,511,027	20,586,448
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	5,015,816	5,421,667
Balance with Customs and Excise	30,921,772	24,095,238
	280,149,920	**223,532,646**
Less: Provision for Doubtful Advances	136,071,173	136,071,173
	144,078,747	**87,461,473**

Notes:

Advance recoverable includes dues from Chief Executive Officer as under Interest free Housing Loan (Maximum amount outstanding during the year Rs 500,000, 2007 - Rs 650,000)	350,000	500,000
Other Advances (Maximum amount outstanding during the year Rs 862,933, 2007 - Rs 963,737)	33,158	93,573

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 14: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors [See Schedule 24, Note 12]		
Capital Goods	95,468,070	239,176,512
Expenses	415,086,789	125,679,101
Interconnection Usage Charges ('IUC') payable to other operators	97,550,269	153,007,910
Expenses Payable	197,192,213	187,089,552
Book Overdraft	8,815,116	26,231,635
Advance Against Booking	325,525	777,830
Advance From Customers and Unaccrued Income***	329,285,130	186,065,808
Advance against sale of Investment in CBSL Cable Networks Limited	79,900,000	-
Advance for GSM Licence Entry Fee	1,517,500,000	-
Security Deposits		
From Subscribers	99,845,721	154,552,466
From Others	30,642,785	24,488,225
Investor Education and Protection Fund*		
Unclaimed Dividends	520,779	520,779
Unclaimed Deposits from Public	700,963	850,649
Interest accrued and due on Public Deposits	101,611	115,496
Minority Interest	600	600
Other Liabilities	78,102,647	131,465,617
Provision for interest**	997,794,128	781,826,605
	3,948,832,346	**2,011,848,805**

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

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 962,496,986 (2007 - Rs 762,300,000) to be adjusted from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs 31,724,541 (2007 - Rs 15,216,844) and interest accrued but not due on unsecured loan amounting to Rs 35,72,601 (2007 - Rs 4,309,761)

*** Includes Rs. 277,783,003 (2007 Rs 163,180,267 pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which ranges from year 2004 to 2019.

Provisions		
Wealth Tax	31,123	37,175
Leave Encashment / Availment	12,750,944	9,403,667
Gratuity	10,489,582	6,510,738
	23,271,649	**15,951,580**
	3,972,103,995	**2,027,800,385**

Notes:

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

(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,617 (2007 - Rs 523,617) towards repayment of public deposits under the NBFC CoR [See Schedule 24, Note 17]

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS	For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 15: Service Revenue		
Revenue		
From Unified Access Services	1,783,281,134	2,240,915,825
From Interconnection Usage Charge	140,444,750	168,918,924
From Infrastructure Services	51,281,795	38,935,188
From Internet Services	468,137,537	310,223,668
Revenue from Cable Television Operations	21,668,490	35,807,797
	2,464,813,706	2,794,801,402
Schedule 16: Other Income		
Interest Income (Tax deduction at source Rs Nil, 2007 Rs Nil)	5,040,505	4,391,094
Excess Provision written back	-	443,733
Miscellaneous Income	6,042,289	1,570,353
	11,082,794	6,405,180
Schedule 17: Network Operation Expenditure		
Interconnect Usage Charges	534,688,724	651,412,560
Other Value Added Service charges	7,673,793	4,175,815
Port Charges	24,818,550	29,559,179
Testing and Technical Survey Expenses	2,225,090	177,000
Licence Fees on Revenue Share Basis	113,368,154	146,740,536
Royalty and licence fees to Wireless Planning Commission	10,038,030	14,731,151
Stores and Spares Consumed	29,738,183	70,512,507
Rent	39,877,340	31,587,873
Infrastructure Sharing Expenses	88,437,485	4,148,224
Electricity and Water	58,404,373	52,357,540
Security Charges	1,909,603	3,241,021
Repair & Maintenance - Network	82,713,132	87,533,586
Bandwidth Charges	144,574,944	58,671,762
Subscription and Carriage operating cost	11,997,369	21,488,741
	1,150,464,770	1,176,337,495
Schedule 18: Cost of Good Sold		
Opening Stock	-	6,439,504
Purchases	-	-
Less Closing Stock	-	-
	-	6,439,504
Schedule 19: Personnel Expenditure		
Salaries, Wages and Bonus [See Schedule 24, Note 20]	448,376,328	437,741,048
Employer's Contribution to Provident and Other Funds [See Schedule 24, Note 20]	21,978,367	18,793,657
Staff Welfare Expenses	12,134,453	14,882,271
Recruitment & Training Expenses	10,689,058	12,221,859
	493,178,206	483,638,835

HFCL INFOTEL LIMITED
SCHEDULES TO THE ACCOUNTS

PARTICULARS		For the year ended March 31, 2008 (Rs.)	For the year ended March 31, 2007 (Rs.)
Schedule 20: Sales and Marketing Expenditure			
Sales and Business Promotion		13,509,200	9,047,335
Advertisement Expenses		77,956,606	42,777,210
Customers Acquisition Costs		103,662,134	79,289,557
		195,127,940	**131,114,102**
Schedule 21: Administrative and Other Expenditure			
Legal and Professional Expenses		41,864,371	40,689,369
Travelling and Conveyance		69,163,457	77,816,353
Communication Expenses		4,603,504	6,617,927
Rent		28,900,894	20,698,138
Security Charges		5,648,863	3,615,381
Repairs and Maintenance - Building		358,604	1,445,243
Repairs and Maintenance - Others		14,041,563	14,343,460
Electricity and Water		17,162,314	16,457,752
Insurance		7,361,562	6,550,028
Rates and Taxes		2,012,429	6,233,257
Freight & Cartage		8,667,853	6,870,889
Printing and Stationary		7,301,267	6,939,957
Billing and Collection Expenses		68,496,295	65,907,866
Software Expenses		37,001	14,877
Directors' Fees		233,440	335,200
Bad Debts Written off		155,763,991	177,956,896
Provision for Doubtful Debts	41,051,360		
Less: Transferred to Bad Debts Written off	(28,255,811)	12,795,549	50,507,261
Wealth Tax		31,123	37,175
Miscellaneous Expenses		6,678,310	5,859,866
		451,122,390	**508,896,895**
Schedule 22: Finance Charges			
Interest on Term Loans**		598,544,126	591,494,812
Interest to Others		41,414,087	30,617,856
Bank Guarantee Commission		9,280,098	7,583,444
Trustees Fee		1,000,000	1,000,000
Other Finance Charges		4,883,442	4,438,405
		655,121,753	**635,134,517**

** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 200,196,986 (2007 - Rs 381,150,000) as per CDR Scheme.

CONSOLIDATED HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2008

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

SCHEDULE 23:

BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services Licensee for Punjab Circle (including Chandigarh and Panchkula), is providing a full gamut of telecommunication services, which includes voice telephony, both wireline and fixed wireless, CDMA based mobile, internet services, broadband data services and a wide range of value added service viz., centrex, leased lines, VPNs, voice mail, video conferencing etc. The services were commercially launched in October 2000 and as on March 31, 2008, the Company has an active subscriber base of over 446,404.

The Company is a subsidiary company of Himachal Futuristic Communications Limited ('the Holding Company' or 'HFCL'). The Company was incorporated on August 2, 1946 with the name of The Investment Trust of India Limited (ITI) which was subsequently changed to HFCL Infotel Limited on May 12, 2003. This was done pursuant to a Scheme of amalgamation (the Scheme), approved by the Hon' able High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively, whereby the *erstwhile* HFCL Infotel Limited (name earlier allotted to the transferor Company) ('*erstwhile* HFCL Infotel') was merged with the Company with effect from September 1, 2002. As per the Scheme envisaged, the Company's then existing business of hire purchase, leasing and securities trading was transferred by way of slump sales to its wholly owned subsidiary, Rajam Finance & Investments Company (India) Limited ('Rajam Finance') with effect from September 1, 2002. Rajam Finance was renamed as The Investment Trust of India Limited with effect from June 17, 2003 and it ceased to be the subsidiary of the Company with effect from September 30, 2003, due to allotment of fresh equity by Rajam Finance to other investors.

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

On July 2, 2004, the Company incorporated a subsidiary company in the name of Connect Broadband Services Limited, which has been changed to CBSL Cable Networks Limited ('CBSL' or 'Subsidiary') with effect from February 5, 2008. The main object of the Company is to carry on the business as service provider and operator for distribution of cable television network. During the previous year, the Company 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 Company 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

(b) License Fees

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

Fixed license fees of Rs 1,775,852,329 paid under the old license fee regime from inception till July 31, 1999, were considered as the License Entry Fees of the Punjab circle (including Chandigarh and Panchkula) as part of the migration package to NTP 1999.

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

During the year, the Company 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 USAL 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.

(c) Project Financing

The Company's project was initially appraised by Industrial Development Bank of India ('IDBI') during the year ended March 31, 2000 for an estimated peak fund requirement of Rs 11,800,000,000. The appraised means of finance for the project was to be funded by way of equity capital of Rs 5,240,000,000 and debt of Rs 6,560,000,000.

Pursuant to the migration to UASL regime, the consortium of lenders, led by IDBI, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company and thereby revised the peak funding requirements from Rs 11,800,000,000 to Rs 13,450,000,000 up to March 31, 2006, with peak funding gap of Rs 1,650,000,000.

Further, the CDR Empowered Group has approved the proposal of the Company for expansion of services, change in the scope of the project, cost of project and means of finance and restructuring of debt as per the letter dated June 24, 2005. As per the said proposal, the peak funding requirement has been further revised to Rs 15,470,000,000 and the principal repayment of existing term loan was rescheduled and the same will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, secured OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD were to be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ended March 31, 2006.

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

During the year, the Company has incurred losses of Rs 1,508,728,989, resulting into accumulated loss of Rs 9,341,318,694 as at March 31, 2008 which has completely eroded its net worth and has a net current liability of Rs 3,275,225,644 including capital liability of Rs 95,468,070 and subscriber security deposits of Rs 130,488,506 (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 at March 31, 2008, the Company has arranged Rs 14,353,607,927 and is in advanced stage of discussions for the arrangement of Rs 1,116,392,073 by way of term loans / buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the Company to continue as a going concern is substantially dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. The management is confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance funding. Accordingly, these statements have been prepared on going concern basis

2. Summary of significant accounting policies

2.1 Basis of preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by The Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year except for the change in accounting policy mentioned in note 2.4, 2.13 and 2.15 and below. The significant accounting policies are as follows:

2.2 Principles of Consolidation

These consolidated financial statements of the Group have been prepared based on a line-by-line consolidation of the balance sheet, statement of profit and loss and cash flows of HIL and CBSL as at March 31, 2008. As explained in Note 1(a), the Group transferred its business of hire purchase, leasing and securities trading to its wholly owned subsidiary, ITL, which became an associate company with effect from September 30, 2003, and the results of its operations since that date have been accounted under the equity method, as an associate company. All material inter-company transactions and balances between the entities included in the consolidated financial statements have been eliminated.

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

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

2.3 Fixed Assets

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

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

2.4 Inventory

With effect from April, 2007, the Company has valued inventory of material and supplies of network maintenance consumables based on physical verification and changed its earlier policy of charging the same to the Profit and Loss Account, as and when purchased. Inventory is valued at cost or net realisable value which ever is low. Cost for the purchase is worked out on FIFO basis.

2.5 Depreciation

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

Asset	Useful life(in years)
Leasehold Land Buildings	Over the primary period of the lease Office Building 30 years Others 61 years
Leasehold Improvements:	10 years or over the primary period of the lease, whichever is lower
Network Equipment	9.67 years
Testing Equipments (included in Network Equipments)	5 years
Optical Fibre Cable and Copper Cable	15 years
Telephone Instruments	5 years
Computers	6.17 years
Software	5 years
Office Equipments	10 years, except in case issued to employees where asset is depreciated in 5 years
Furniture and Fixture	10 years, except in case issued to employees where asset is depreciated in 5 years
Vehicles	4 years
Fixed Assets costing less than Rs 5,000 (other than Telephone Instruments)	Fully depreciated when they are ready to use.

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

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

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

2.6 Impairment

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

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

2.7 Intangibles

All expenditure on intangible items are expensed as incurred unless it qualifies as an intangible assets as defined in Accounting Standard 26. The carrying value of intangible assets is assessed for recoverability by reference to the estimated future discounted net cash flows that are expected to be generated by the asset. Where this assessment indicates a deficit, the assets are written down to the market value or fair value as computed above.

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

For accounting policy related to Licence Entry Fees, see note 2.8(i), below.

2.8 Licence Fees

(i) Licence Entry Fee

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

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

(ii) Revenue Sharing Fee

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

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

Further, effective February 15th 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 28th 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.

2.9 Investments

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

2.10 Provisions

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

2.11 Revenue Recognition

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

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

2.12 Interconnection Usage Revenue and Charges

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

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

2.13 Foreign Currency Transactions

Initial Recognition

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

Conversion

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

Exchange Differences

Exchange differences arising on the settlement or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year. Effective April 1, 2007, the Company has adopted the guidelines as per the notification issued by the Ministry of Company Affairs dated December 7, 2006 prescribing the Companies (Accounting Standards) Rules 2006, with respect to its policy relating to recognition of foreign exchange fluctuation on fixed assets. Instead of capitalizing / decapitalizing such fluctuation, as per policy hitherto followed, the Company has, with effect from April 1, 2007, charged/credited such fluctuations directly to the Profit & Loss Account.

2.14 Borrowing Costs

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

2.15 Employee Benefits

Effective April 1, 2007, the Company has adopted the Revised Accounting Standard - 15 '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

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.

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.

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 LIC for the Gratuity Plan in respect of employees. The present value of obligation under gratuity is determined based on actuarial valuation at period end 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.

a) Short term compensated absences are provided for on based on estimates.

b) Actuarial gains and losses are recognized as and when incurred

2.16 Income-Tax

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

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised.

2.17 Operating Leases

Where the Company is the lessee

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

Where the Company is the lessor

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

2.18 Loss Per Share

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

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

2.19 Segment Reporting

Identification of segments:

The primary reporting of the Company has been performed on the basis of business segments. The analysis of geographical segments is based on the areas in which the Company's products are sold or services are rendered.

Allocation of common costs:

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

Unallocated items:

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

2.20 Pre-Operative Expenditure

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

2.21 Cash & Cash Equivalents

Cash & cash equivalents in the Balance Sheet comprise cash in hand and at bank.

CONSOLIDATED HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2008

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

SCHEDULE 24:

NOTES FORMING PART OF THE ACCOUNTS

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

S. No.	Description	For the year ended March 31, 2008	For the year ended March 31, 2007
I.	**Estimated Value of Contracts remaining** To be executed on capital account and not provided for net of capital advances Rs. 893,564 (2007- Rs 3,526,218)	100,459,974	72,984,777
II.	**Contingent Liabilities and Commitments**		
	Financial Bank Guarantees (refer Note (a) below)	260,349,628	266,944,632
	Performance Bank Guarantees (refer Note (a) below)	55,658,922	56,357,806
	Counter guarantee given to HFCL, the Holding Company (refer Note (a) below)	5,225,000,000	5,225,000,000
III.	**Open Letters of Credit** (Margin deposit for above Rs.4,789,855 (2007-Rs 6,305,000))	47,898,551	56,034,579
IV.	**Income-tax matters under Appeal** (refer Note (b) below)	24,566,429	38,873,322
V.	**Claims against the Company not acknowledged as debts** mainly representing various miscellaneous claims filed on the Company which are subject matter of litigation	4,227,065	4,973,508
VI.	**Others**(refer Note (c, d and e) below)	280,329,956	282,131,197
	Total	5,998,490,525	6,003,299,821

(a) Financial bank guarantees as at March 31, 2008 of Rs 260,349,628 (2007 — Rs 266,944,632) and performance bank guarantees of Rs 55,658,922 (2007 — 56,357,806) are secured. The details of security created are detailed out in note no. 9 (a) below. Further, the financial bank guarantee given by Punjab National Bank ('PNB') to The Export Import Bank of China of Rs 108,825,514 are not secured by the Consolidate Corporate Bank Guarantee of Rs 5,225,000,000 by HFCL, the Holding Company.

(b) The Company has certain income tax related matters pending with Income Tax Appellate Tribunal for the Assessment Year 2001-02 aggregating to Rs 9,316,234 and interest tax related matters pending with Income Tax Authorities for the Assessment Year 1993-94 to 1995-96 aggregating to Rs 15,250,195. The said demands pertain to the NBFC business of the *erstwhile* Investment Trust of India Limited (the Company before the merger with the *erstwhile* HFCL Infotel Limited).

(c) The Wireless Finance Division of Department of Telecommunications has claimed an outstanding of Rs 29,585,211 towards the Spectrum Charges dues from year 2001 to year 2005 vide their letter 1020/48/2005-WFD dated October 7, 2005. The Company has submitted its reply to the department on October 25, 2005 confirming the total due of Rs 29,472 only and paid the said amount. The Wireless Finance Division of Department of Telecommunications has subsequently claimed Rs 39,310,176 vide letter number 1020/48/2005-WFD dated September 13, 2006 towards the Spectrum Charges dues from year 2001 to year 2006. The Company has submitted a detailed reply on October 31, 2006. During the year ended March 31, 2008, out of the above demand, the Company has deposited Rs 1,801,241 under protest towards the interest due till August 31, 2006. Based on the legal opinion obtained, the Company is confident that no liability would accrue regarding the same in future.

(d) During the year ended March 31, 2007, Bharat Sanchar Nigam Limited ('BSNL') has raised supplementary bill dated August 10, 2006 for Rs 167,614,241 towards Inter-connect Usage Charges ('IUC') and Access Deficit Charges ('ADC') for the period November 14, 2004 to August 31, 2005 on the Company in accordance with HQ Letter No. 460-1/2006-REGLN dated May 22, 2006. BSNL further raised invoices to the tune of Rs 99,346,533 on similar grounds for the period September 1, 2005 to February 28, 2006.These charges are on account of unilateral declaration of Company's Fixed Wireless and Wire line Phone services as Limited Mobility Services by BSNL. The Company has submitted its reply to BSNL on August 23, 2006 asking for the calculation/basis for the additional amount raised towards IUC and ADC by BSNL for Rs 167,614,241. Subsequently, BSNL issued a disconnection notice on August 26, 2006 which required the payment of Rs 208,236,569 (including Rs 167,614,241). The Company has submitted details to BSNL for payments already made for Rs 40,622,328. The Company has approached Hon'ble TDSAT on the subject matter and a stay order was granted against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JL/HFCL/75 dated March 20, 2007 for Rs 5,206,780, to which the Company has submitted its reply on March 23, 2007 intimating that the matter being sub-judice and pending decision by the Hon'ble TDSAT, no coercive action be taken against the Company. The subsequent hearing has been adjourned to August 7, 2008. The Company, based on expert legal opinion, believes that there would be no financial liability against such bills and accordingly, has not recorded any liability towards the IUC and ADC supplementary bills during the year ended March 31, 2007 and the year ended March 31, 2008.

(e) The Company is in receipt of Show Cause Notice dated June 4, 2007 from Department of Telecommunications ('DoT') for non fulfilment of first year's roll-out obligations of Unified Access Service License ('UASL') Agreement for Punjab Service Area, where in the licensee as per the terms of the license agreement was required to ensure that at least 10% of the District Headquarter / Towns are covered in the first year of the date of migration to UASL which commences from the date of Test Certificate issued by Telecom Engineering Centre ('TEC'). As stated by DoT in the Show Cause Notice issued, the Company has violated the conditions of UASL and accordingly Liquidated Damages of Rs 70,000,000 has been imposed and DoT has also sought explanation within 21 days as to why they should not take action against the Company under the UASL Agreement. The Company, based on expert legal advice, believes that there would be no financial liability against such claims of DoT and accordingly, has not recorded any liability towards the Liquidated Damages during the year.

(f) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 134,070,240. The Company had made payments in earlier years to EIL for takeover of certain accounted and unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and *erstwhile* HFCL Infotel. EIL has failed to settle the dues with the respective parties and the Company has filed a winding up petition u/s 434 of the Companies Act, 1956 with Honourable Court of Mumbai. This petition has been dismissed vide Order dated March 24, 2005. Subsequently, the Company has filed an appeal before the division bench of the Honourable High Court against the order dated March 24, 2005 and also sent a notice to EIL invoking arbitration proceedings. The Honourable High Court disposed off the appeal as no case for interference in the impugned order vide its order dated November 1, 2005. However, the Honourable High Court referred the dispute to the sole Arbitrator of Justice Mr D.R. Dhanuka. The Company has filed the statement of claim on May 15, 2006 before the sole arbitrator and subsequent date of hearing is fixed for August 06, 2008. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

2. **Managerial remuneration**

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

	For the Year ended March 31, 2008	For the Year ended March 31, 2007
Salary	2,282,952	2,031,000
Employer's contribution to provident fund	273,955	243,720
Perquisites/ Allowances	3,839,510	3,351,797
Ex-gratia/ Performance linked incentive	1,387,380	1,112,832
Total	7,783,797	6,739,349

The above managerial remuneration does not include provision of gratuity of Rs. 287,241 (2007- Rs. 285,537) ane leave encashment of Rs. 645,742 (2007 - Rs. 425,174) as there provision are computed on the basis of an actuarial valuation done for the Company as a whole and are provided in the financials (Refer schedule 14).

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

The Company during the year ended March 31, 2008 had re-appointed Mr. Surendra Lunia as manager of the Company for a term of three years on September 28, 2007 with effect from July 25, 2007 under section 269 of the Companies Act 1956, in the Annual General Meeting of shareholders. The Company had applied to Central Government for approval which has been granted vide letter no 12/878/2007-CL.VII dated June 25, 2008.

3. **Share Capital**

Equity shares

On September 30, 2004, the Company obtained the approval from the shareholders for de-listing the shares listed in the Calcutta Stock Exchange Association Limited ('CSE') and complied with all the necessary requirements for delisting and submitted its application in CSE. Despite repeated reminders, the Company has not yet received CSE's approval in this regard.

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 equity shares are yet to be listed on any of the recognized stock exchanges in India. As a pre-condition to the listing of the aforesaid shares of the Company on the Bombay Stock Exchange ('BSE'), the Company and BSE had reached to a settlement under the order of Security Appellate Tribunal ('SAT') dated October 17, 2005 whereby the Company has agreed to undertake a public offer for sale ('OFS') of 8,000,000 shares i.e. 1.52% of the total share capital, held by the promoter. Accordingly, the Company has filed the draft OFS with the Securities and Exchange Board of India ('SEBI') on December 23, 2005, thereby offering 8,000,000 shares (1.52 percent) shares held by promoter to the public. Since the Company has been served a notice under sec. 11(4)(b) and 11B of SEBI Act, 1992, SEBI has passed an order dated March 7, 2007 directing that the communication of observations on the draft offer for sale document filed by the Company be withheld till the proceedings under Section 11B of the SEBI Act are disposed of. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007 and sought immediate relief of setting aside the order of SEBI and direct SEBI to offer its observations in the pending draft offer document. The appeal was taken up for hearing on October 18, 2007. After hearing the arguments by counsels on both sides, the Hon'ble Tribunal inter alia allowed Company's appeal and directed SEBI to proceed with the letter of offer presented by the Company, in accordance with law, and issue a letter of observations in terms of the guidelines within six weeks from the date of the receipt of copy of the order. On the December 1, 2007, SEBI directed the Company to file the revised draft OFS. The Company is in the process of compiling information and getting its restated accounts audited for 5 years for updating the draft offer for sale document.

4. **Advance Against Share Application Money**

As per the restructuring package approved under CDR mechanism, on October 16, 2004, the Company had issued 7,551,178 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from financial institution and banks from January 1, 2004 to March 31, 2005. Pursuant to the revised CDR scheme dated June 24, 2005, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, the Company transferred OFCDs of Rs 755,117,800 and OFCDs premium of Rs 119,873,591 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.

5. **Secured Loans**

(a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 24, 2005, the Lenders have signed Master Restructuring Agreement ('MRA') for restructuring of their Debts and Security Trusteeship Agreement, whereby the Lenders have entered into an agreement and appointed IDBI Trusteeship Services Limited (herein after referred as "ITSL") as their custodian of security. On November 11, 2005, the charges were registered in favour of the ITSL for Rupee Term Loans, for providing Specific Credit Facility, for Working Capital Assistance and Zero percent Secured OFCDs. The same are secured by first pari passu charge on immovable properties of the Company situated at Kandivali (East), Mumbai and properties situated at Mohali & Jalandhar under equitable mortgage, first pari passu charge of hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future. Further, the same are also secured by assignment of all rights, title, benefits, claims and interest in, under the project documents, insurance policies, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. These arrangements/loans are further secured by consolidated corporate guarantee given by HFCL, the Holding Company, to the tune of Rs 5,225,000,000. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the Company has entered into amendatory Master Restructuring Agreement and amendatory Security Trusteeship Agreement ('STA') on March 9, 2006, whereby Centurion Bank of Punjab has also joined as one of the lenders and has agreed to appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

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

(c) Vehicle Loans of Rs 11,310,067 (2007 - Rs 13,392,651) are secured by way of exclusive hypothecation charge in favour of bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly instalments and shall be repaid by 2010. Vehicle loans repayable within one-year amounts to Rs 6,344,285. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan is 36 months.

6. Unsecured Loans

(a) On October 16, 2004, the Company issued 1,667,761 zero percent Optionally Fully Convertible Debentures ('OFCD') of Rs. 100 each in Lieu of interest accured on term loan 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 loan as per revised CDR scheme effective from April 1, 2005.

(b) Interest payable on vendor finance facilities amounting to Rs 3,937,742 as at March 31, 2008 (2007– Rs 3,937,742) is yet to be remitted.

(c) On February 8, 2005, the Company has entered into a buyer's credit loan agreement with The Export Import Bank of China to facilitate payment to one of its equipment supplier for a total amount of Rs 544,131,662 (US$ 12,134,961). As on March 31, 2008, the Company has utilized Rs 527,470,587 (US$ 12,061,985) of this facility. The facility is secured by financial Bank guarantee of Rs 108,825,514 and by a Corporate Guarantee of Rs 544,131,662 given by HFCL, the Holding 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.

7. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 23,818,282 (2007 - Rs 14,302,307).

(b) Gross Block of Fixed Assets and Capital Work in Progress includes capitalized foreign exchange gain of Rs Nil, (2007 – foreign exchange gain of Rs 15,418,804).

(c) As on March 31, 2008, telephone instruments aggregating to a net book value of Rs 227,894,157 (2007 – Rs 317,221,792) and other assets aggregating to net book value of Rs 190,673,090 (2007 – Rs 29,436,071) are located at customer premises and at other operators sites, respectively.

(d) During the year ended March 31, 2008, the Company has sold Cable TV Networks Equipment at written down value to its subsidiary CBSL Cable Networks Limited 'CBSL' (formerly known as Connect Broadband Services Limited) aggregating to Rs 66,322,792 as per agreement dated March 26, 2008

8. Investments

(a) As more fully discussed in note 1(a) of schedule 23, balance sheet of the Company includes investments of Rs 717,670,900 (Rs 18,000,000 as equity and Rs 699,670,900 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, incurred a net loss of Rs 68,331,091 for the year ended March 31, 2008 and has a negative net worth of Rs 81,556,150 as on March 31, 2008. The management of ITI, is however, confident of generating cash flows to meet the working capital and capital funding requirements in the near future. The Company, therefore, believes that no provision is required on account of any diminution in the value of these long-term investments.

(b) During the year, the Company 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 Company 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.

9. **Licensing**

During the year, the Company 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.

10. **Inventory**

During the year ended March 31, 2008, the Company has reinstated inventory of network maintenance consumables in the books of account amounting to Rs 20,667,816 based on the physical verification of stocks. The stocks have been valued at cost on a first in first out basis and the losses have reduced to this extent. The quantity and valuation of inventory is taken as physically verified, valued and certified by the management at the end of the year.

11. **Deferred Taxes**

During the year, the Company has incurred losses of Rs 1,508,728,989 (accumulated losses of Rs 9,341,318,694) resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Income-tax Act, 1961. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

12. **Current liabilities and Provisions**

There are no transactions with Micro and Small Enterprises. Sundry Creditors include amount payable to Micro and Small Enterprises as at March 31, 2008 of Rs Nil (2007 - Rs Nil) (based on the information, to the extent available with the Company, and as certified by the management).

13. **Loss per share**

The calculation of loss per share are based on the loss for the year and number of shares is shown below.

	For the Year ended March 31, 2008	For the Year ended March 31, 2007
Loss for the year (in Rs)	1,508,728,989	1,284,263,254
Weighted average number of shares	525,517,152	525,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share basic and diluted (in Rs)	2.87	2.32

14. **Operating leases**

Company as a Lessee

(a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2008 is Rs 68,518,714 (March 31, 2007 — Rs 51,529,174).

(b) The Company has entered into site sharing agreements with other operators for sharing of their infrastructure sites. During the year, the Company has incurred Rs 88,437,485 (2007 - Rs 4,148,224) towards site sharing cost.

Company as a Lessor

(c) The Company has entered into site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 15,512,519.00 (2007 – Rs 8,390,676) towards site sharing revenue.

15. **Segmental Reporting**

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

16. Related Party Transactions

Relationship	Holding Company		Wholly owned Subsidiary		Companies Under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personnel		Total	
Nature of transaction	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007
Assets														
Purchase of Equity Shares		-	-	-	-	-		-	-	-	-	-	-	-
Advance against equity		-	55,100,000	55,250,000		-		-		-		-	55,020,000	55,250,000
Purchase of Capital Goods	5,697,780	63,096,107	-	5,445,120	-	165,518		-		-	460,514,216	227,546	465,611,996	56,150,493
Purchase of Capital Services		-		-		-				-			-	-
Payment against Capital Purchases / Services	59,938,946	41,062,054	-	5,665,170	8,297,549					-			65,089,436	47,518,224
Liabilities														
Amount received by Company	-	53,000	221,104,374	2,029,717		-				-		250,000	221,103,374	3,253,025
Loan Received by Company				-		-				-		67,450,000	-	67,450,000
Balance Payable	3,16,393	100,079,113				-				-	457,966,117	17,242,054	402,292,787	77,471,172
Balance Receivable			46,010,452	4,100,039	7,650,616	7,999,236	119,754	119,754	1,146,999	1,146,999		-	53,513,272	15,729,023

Relationship	Holding Company		Wholly owned Subsidiary		Companies Under Common Control		Fellow Subsidiary		Associates		Company Under Key Management Personnel		Total	
Nature of transaction	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007	For the year ended March 31, 2008	For the year ended March 31, 2007
Income/Receipt														
Services Provided	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of Material	2,340,668	-	74,238,750		-	-	-	-	-	-	-	-	76,509,362	-
Expenses/Payments														
Interest expense on ICD received		-		-	-	-		-	-	-	-	-	-	-
Bank Guarantee Commission	-	-	-	-	-	-		-	-	-	-	-	-	-
Debit Notes raised on us (Expenses)	43,536,896	633,542	3,000	3,795,572	-	390,153		-	-	-	17,216,456	8,962,197	58,879,355	13,156,156
Debit Notes raised by us (Expenses)	91,152	815,718	212,263,135	47,561,486	4,906,464	4,139,840		-		-	41,357,625	874,442	254,620,817	53,175,446
Purchase of Consumables/Contract Repair & Maintenance	1,019,086	1,495,970	-	911,586	2,780,151	337,370		-		-			6,719,803	2,681,135
Purchase of Services (Expenditure Nature)	-		-					-		-	176,513,007	98,462,767	178,713,007	98,887,762
Reimbursement of expenses [illegible]													-	-
Payment against purchase of Goods/Services (Expenditure Nature)													-	-
Payments made on our behalf		20,025,000		-		-		-		-		-	-	20,050,000
Payments made on their behalf										-		-	-	-
Payment received by us		-			5,747,667	4,200,000				-		-	5,747,667	4,200,000
Repayment of Loan						-		-		-	111,336,184	-	211,375,354	-
Payments made by the Company	47,615,575	27,167,250	6,750,000	11,734,868		-		-			66,176,128	91,497,274	120,541,566	129,864,962
Others														
Corporate													-	
Outstanding Corporate Guarantee / Indemnity Corporate													-	
Guarantees given to Banks on behalf of the Company		5,700,151,065											-	5,700,131,653
Counter Guarantee given by Company		5,256,000,000											-	5,225,000,000

a. Disclosure of Material Transactions with Related Parties

HFCL Satellite Communication Limited

- Payments received by the company Rs 5,747,667 (2007- Rs 4,200,000) and debit notes raised by the Company Rs 4,906,464 (2007- Rs 4,139,840).
- Balance receivable is Rs 7,838,591 (2007- Rs 8,679,794).

Himachal Exicom Communications Limited

- Purchase of capital goods by the Company Rs Nil (2007- Rs 165,518), purchase of consumables / services Rs 319,564 (2007- Rs 237,321) and payments made by the Company Rs 388,201 (2007- Nil).
- Balance payable is Rs 604,680 (2007- Rs 680,558).

Microwave Communication Limited

- Purchase of Services by the Company of Rs Nil (2007- Rs Nil) and payment made by the Company of Rs Nil (2007- Rs Nil).

Advances given to Key Managerial Personnel (Chief Executive Officer)

Interest Free Housing loan Rs 350,000 (2007 – 500,000), other advances Rs 93,573 (2007 – Rs 93,573)

- Holding Company: Himachal Futuristic Communications Limited.
- Wholly owned subsidiary: CBSL Cable Network Limited (*erstwhile* Connect Broadband Services Limited).
- Companies under common control: HFCL Satellite Communication Limited, Himachal Exicom Communications Limited and Microwave Communication Limited.
- Fellow subsidiary: HTL Limited.
- Associate enterprise includes The Investment Trust of India Limited.
- Company under Key Managerial Personnel: Infotel Business Limited (*erstwhile* HFCL Internet Services Limited).
- Key managerial personnel Mr Surendra Lunia (CEO) for the year ended March 31, 2008 (Refer Schedule 24, Note 3).
- Related parties with whom the Company does not have any transactions are:

Companies under common control

HFCL Bezeq Telecom Limited, Consolidated Futuristic Solutions Limited, WPPL Limited, HFCL Dacom Infocheck Limited, HFCL Kongsung Telecom Limited, Platinum EDU Limited, Westel Wireless Limited, Pagepoint Services Pvt. Limited, India Card Technology Pvt. Ltd., Moneta Finance Pvt. Ltd.

17. Unclaimed deposit from public

During the year ended March 31, 2004, the Company surrendered its licence granted by Reserve Bank of India ('RBI') to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date, and the same have been transferred to the Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with, pending completion of which, the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. [See Schedule 10 & 13 and Schedule 21, Note 1(a))]. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. Further, the Company submitted a letter dated July 7, 2004 for compliance and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised the Company to follow certain instructions till the balance in the escrow account is settled. The Registrar of Companies, Jalandhar, is yet to register the resolution of the shareholders due to delay in filing of the documents, for which the Company has moved an application to Central Government for condonation of delay. Ministry of Company Affairs vide letter no 17/23/2005-CL.V dated 07th July, 2005 has granted a condonation for filing of form 23, which was submitted to Registrar of Companies, Jalandhar vide letter No. HITL/C&L/S-31/05/347 dated July 13, 2005 and the registration certificate is yet to be obtained.

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

• Unclaimed Deposits From Public	Rs 700,963
• Interest accrued and due on public deposits upto September 15, 2003	Rs 101,611
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs 498,067
• Cheques outstanding beyond 6 months	Rs 523,617
• Others (Under reconciliation)	Rs 19,112
	Rs 1,843,370
Balances with Scheduled banks in Escrow account	Rs 1,843,370

18. Debenture redemption reserve

Pursuant to the CDR scheme on October 16, 2004, the Company has issued OFCDs aggregating to Rs 166,776,100 repayable as on March 31, 2016. As per section 117C (1) of the Companies Act, 1956, a debenture redemption reserve ('DRR') is to be created to which adequate amounts are to be credited out of the profits of each year until such debentures are redeemed.

During the year, the Company has incurred loss of Rs 1,425,357,719. Hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

19. Prior period expenditure (net)

Description	For the Year ended March 31, 2008	For the Year ended March 31, 2007
Revenue from Unified Access Services	(1,545,260)	-
Revenue from Internet Services	(918,966)	-
Revenue From Infrastructure Services	(1,214,033)	-
Interconnect Usage Charges	14,541,245	-
Other Finance Charges	2,286,040	-
Port Charges	2,995,612	-
Interest to Others	1,670,353	365,427
Fringe Benefit Tax	-	307,639
Sick Leave	-	1,598,942
Licence Fee on Revenue Share Basis	-	17,860,705
Royalty and Licence fees to Wireless Planning Commission	-	513,684
Customers Acquisition Costs	-	39,936
Travelling and Conveyance	1,254	864,439
Legal & Professional Charges	303,029	-
Staff Welfare Expenses	9,490	-
Repair & Maintenance - Network	234,373	-
Rent	30,097	287,706
Insurance	277,425	-
Electricity and Water - Admin	22,218	-
Total	18,692,877	21,838,478

20. Employee Benefits

(a) During the year, the Company has recognized the following amounts in the Profit and Loss Account

Defined Contribution Plans

Particulars	For the Year ended March 31, 2008	For the Year ended March 31, 2007
Employer's Contribution to Provident Fund *	16,010,073	14,439,298
Employer's Contribution to ESI *	355,855	272,283

* Included in Employer's Contribution to Provident and Other Funds

Defined Benefit Plans

The employee's gratuity fund scheme managed by Life Insurance Corporation of India and ICICI Lombard General Insurance Company Limited is a defined benefit plan. The present value of obligation 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. The obligation for leave encashment is recognized in the same manner as gratuity

Particulars	Gratuity #	Leave Encashment #
Current service cost	3,413,003	2,968,077
Interest cost	727,036	459,669
Expected Return on plan assets	(206,177)	-
Actuarial (gain) / loss	863,372	(1,370,429)
Past service cost	-	-
Curtailment and Settlement cost / (credit)	-	-
Net cost	4,797,234	2,057,318

Included in the Salaries, Wages and Bonus

(b) The assumptions used to determine the benefit obligations are as follows:

Particulars	Gratuity #	Leave Encashment #
Discount Rate	8.00%	8.00%
Expected Rate of increase in Compensation levels	5.00%	5.00%
Expected Rate of Return on Plan Assets	8.00%	8.00%
Expected Average remaining working lives of employees (years)	26 Years	26 Years

(c) Reconciliation of opening and closing balances of benefit obligations and plan assets

Particulars	Gratuity #	Leave Encashment #
Change in Projected Benefit Obligation (PBO)		
Projected benefit obligation at beginning of year	9,087,951	5,745,868
Current service cost	3,413,003	2,968,077
Interest cost	727,036	459,669
Benefits paid	(2,026,296)	-
Past service cost	-	-
Actuarial (gain) / loss	884,467	(1,370,429)
Projected benefit obligation at year end	12,086,161	7,803,185
Change in plan assets :		
Fair value of plan assets at beginning of year	2,577,213	-
Expected return on plan assets	206,177	-
Actuarial gain / (loss)	21,095	-
Employer contribution	-	-
Contribution by plan participants	818,390	-
Settlement cost	-	-
Benefits paid	(2,026,296)	-
Fair value of plan assets at year end	1,596,579	-
Net funded status of the plan	(10,489,582)	(7,803,185)
Net amount recognized	(10,489,582)	(7,803,185)

d) The expected rate of return on plan assets was based on the average long-term rate of return expected to prevail over the next 15 to 20 years on the investments made by the LIC. This was based on the historical returns suitably adjusted for movements in long-term government bond interest rates. The discount rate is based on the average yield on government bonds of 20 years.

e) The Company made annual contributions to the LIC of an amount advised by the LIC. The Company was not informed by LIC of the investments made by the LIC or the break-down of plan assets by investment type.

f) The estimates of rate of escalation in salary considered in actuarial valuation, taken into account inflation, seniority, promotion and other relevant factors including demand and supply 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.

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

22. **Prior year comparatives**

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

As per our report of even date.

For S.R. BATLIBOI & ASSOCIATES	ATUL KULSHRESTHA & CO.
Chartered Accountants	Chartered Accountants
per Prashant Singhal	per Anil Kumar Aggarwal
Partner	Partner
Membership No. 93283	Membership No: 91720
Place : Gurgaon	Place : New Delhi
Date : June 28, 2008	Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata	M. P. Shukla	Surendra Lunia
Director	Director	Chief Executive Officer
Vikash Agarwal	Kapil Bhalla	
AVP - Finance	Company Secretary	

Place : New Delhi
Date : June 28, 2008

HFCL INFOTEL LIMITED
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2008

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

PARTICULARS	For the Year Ended March 31, 2008 (Rs.)	For the Year Ended March 31, 2007 (Rs.)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Taxation	(1,501,587,606)	(1,212,364,830)
Adjustments for:		
Depreciation and Amortisation	1,039,460,004	1,021,811,304
Prior Period Expense / (Income) (Net)	18,692,877	21,838,478
Foreign exchange gain	(50,630,383)	-
Excess Provision Written Back	-	(443,733)
Loss on Fixed Assets Sold / Discarded	21,946,549	28,360,282
Bad Debts Writen Off	155,763,991	177,956,896
Provision for Doubtful Debts	11,051,360	50,507,261
Wealth tax	31,123	37,175
Finance Expenses	655,121,753	635,134,517
Interest Income	(5,040,555)	(4,391,094)
Operating profit before working capital changes	377,809,163	718,446,256
Movement in working capital:		
(Increase)/Decrease in Inventory	(20,667,816)	6,439,504
(Increase) / Decrease in debtors	(195,430,693)	(232,589,635)
(Increase) / Decrease in Loans and advances	(57,023,128)	2,986,035
Increase / (Decrease) in Current liabilites and provisions	1,878,533,365	163,490,567
Cash generated from operations	1,983,220,894	658,772,727
Direct Taxes paid (Net)	(6,766,655)	(3,587,276)
Prior Period Expense / (Income) (Net)	(18,692,877)	(21,838,478)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	1,957,761,362	633,346,973
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(2,320,966,623)	(505,053,435)
Proceeds from sale of fixed assets	2,533,873	5,055,756
Purchase of investments in Equity Share Capital	(2,548,000)	-
Purchase of investments in fixed deposits	3,666,810	(5,272,391)
Interest Received	1,574,807	1,252,110
NET CASH USED IN INVESTING ACTIVITIES (B)	(2,315,739,133)	(504,017,960)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	7,551,575	18,098,388
Repayment to Secured Loan	(9,070,522)	(7,805,281)
Repayment of Public Deposits	(149,686)	(207,925)
Proceeds from Unsecured loan	767,327,468	93,472,346
Interest paid	(412,338,002)	(235,933,989)
Dividend paid	-	(47,770)
NET CASH GENERATED FROM / (USED IN) FINANCING ACTIVITIES (C)	353,820,833	(132,424,230)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	(4,156,938)	(3,095,216)
Cash and Cash Equivalents at the beginning of the year	44,362,959	47,458,175
Cash and Cash Equivalents at the end of the year	40,206,021	44,362,959

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. Finance Expenses Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yeild basis amounting to Rs 200,196,986 (2007 - Rs 381,150,000) as per CDR Scheme.
4. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
5. Cash & Cash Equivalents include :

	2008	2007
Cash in Hand	1,444,917	1,157,405
Cheques in Hand	9,750,726	10,043,709
Balances with Scheduled Banks		
- In Current Account	27,167,008	31,249,137
- In Escrow Account	1,843,370	1,912,708
	40,206,021	44,362,959

6 Cash and cash equivalents does not include fixed deposits with Sheduled Banks (Receipts pledged with Banks as margin money for bank guarantees and LC issued) Rs. 73,390,554 (2007- Rs. 77,068,875)

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Gurgaon
Date : June 28, 2008

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 28, 2008

For and on behalf of the Board

Mahendra Nahata
Director

M. P. Shukla
Director

Surendra Lunia
Chief Executive Officer

Vikash Agarwal
AVP - Finance

Place : New Delhi
Date : June 28, 2008

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED

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

BALANCE SHEET ABSTRACT AND COMPANYS GENERAL BUSINESS PROFILE

I	REGISTRATION DETAILS	
	Registration No.	26718
	State Code	16
	Balance Sheet	March 31, 2008
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	9,351,086,812
	Total Assets	9,351,086,812
	SOURCE OF FUNDS	
	Shareholders' Funds	6,772,602,701
	Reserves & Surplus	173,004,664
	Secured Loans	6,290,487,239
	Unsecured Loans	1,484,206,907
	APPLICATION OF FUNDS	
	Net Fixed Assets (Including Intangible Asset)	7,951,989,561
	Accumulated Losses	9,341,318,694
	Investments	702,218,900
	Net Current Liabilities	3,275,225,644
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	2,475,896,500
	Total Expenditure	3,977,484,107
	Profit /(Loss) Before Tax	(1,501,587,606)
	Profit /(Loss) After Tax (Including share of Profit of Associate Company)	(1,508,728,989)
	Earning Per Share	(2.87)
	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY	
	Item Code No(ITC Code)	N.A.
	Product Description	Unified Access Services

For and on behalf of the Board of Directors

Mahendra Nahata Director	M. P. Shukla Director	Surendra Lunia Chief Executive Officer
Place : New Delhi Date : June 28, 2008	Vikash Agarwal AVP - Finance	Kapil Bhalla Company Secretary