



THE SMARTER WAY TO CONNECT

HFCL Infotel Limited

ANNUAL REPORT 2008-09

CORPORATE INFORMATION**Board of Directors**

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

Chief Executive Officer

Mr. Surendra Lunia

Company Secretary & Manager

Mr. Kapil Bhalla

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

M/s S.R.Batliboi & Associates, Chartered Accountants
 M/s Atul Kulshrestha & Co., Chartered Accountants

Internal Auditors

Maximus Management Advisory Services
 Private Limited

Compliance Officer

Mr. Kapil Bhalla

Banks & Financial Institutions,

IDBI Bank Ltd.
 LIC of India
 State Bank of Patiala
 Oriental Bank of Commerce
 ING Vysya Bank Ltd.
 Punjab National Bank
 HDFC Bank Ltd.
 ICICI Bank Ltd.

Registered Office

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

Registrar & Share Transfer Agents

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

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

Name	Mr. Mahendra Nahata	Mr. M.P.Shukla
Director Identification Number	00052898	00052977
Date of Birth	19.05.1959	18.06.1932
Date of Appointment	29.04.2003	29.04.2003
Qualification	B.Com(Hons)	B.E. (Electrical)
Expertise in specific functional areas	Over all Management Mr. Nabata has over 26 years of business experience to his credit. He is the promoter and Managing Director of Himachal Futuristic Communications Limited (HFCL).	Over all Management Mr. M. P. Shukla is an Electrical Engineer with specialization in Communication Engineering. He is fellow member of the Institute of Electronics & Telecommunication Engineers (India). Mr. Shukla has been the Chairman and Managing Director of Mahanagar Telephone Nigam Ltd.
Directorships in other Public Companies	1. Himachal Futuristic Communications Limited (Managing Director) 2. HTL Limited	1. Himachal Futuristic Communications Limited (Chairman) 2. HFCL Satellite Communications Limited 3. HTL Limited
Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	1. HFCL Infotel Ltd Audit Committee -Member PMRC** -Member	1. HFCL Infotel Limited Audit Committee -Member Remuneration Committee -Member STIG* Committee -Member PMRC** -Chairman 2. Himachal Futuristic Communications Limited Audit Committee -Chairman Remuneration Committee -Chairman STIG* Committee -Chairman 3. HFCL Satellite Communications Limited Audit Committee -Member 4. HTL Limited Audit Committee -Member

*Share Transfer & Investor Grievance Committee (STIG)

**Project Management Review Committee (PMRC)

DIRECTORS' REPORT

Your Directors take pleasure in presenting the 62nd Annual Report on the business and operations of your Company together with the Audited Accounts for the year ended 31st March, 2009.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2009 are as under: -

Particulars	(Rs. in millions)	
	For the year ended March 31, 2009	For the year ended March 31, 2008
Income From Operations/Services	2,235.71	2,488.83
Other Income	13.85	10.95
Total Income	2,249.56	2,499.78
Total Expenditure	2,058.44	2,238.45
Operating Profit before Finance Cost, Depreciation and Loss / (Gain) on sale / discard of Fixed Assets	191.12	261.34
Diminution in value of Investments	717.67	-
(Gain) on sale of Fixed Assets	(337.23)	-
Loss on Impaired Fixed Assets	155.30	17.69
Finance Charges	678.29	655.12
Foreign Exchange (Gain) / Loss	106.76	(50.63)
Depreciation / Amortization	991.74	1,038.80
Profit/ (Loss) before Prior Period Expenditure and Tax from ordinary activities	(2,121.40)	(1,399.65)
Prior Period Expenditure (Net)	20.66	18.69
Profit / (Loss) before Tax from ordinary activities	(2,142.07)	(1,418.34)
Fringe Benefit Tax	5.23	7.62
Net Profit / (Loss) from ordinary activities	(2,147.30)	(1,425.36)
Extraordinary items	-	-
Net Profit / (Loss) for the period	(2,147.30)	(1,425.36)
(Loss) / Profit brought forward from previous year	(9,151.02)	(7,725.67)
Loss / (Profit) carried to the Balance Sheet	(11,193.88)	(9,151.02)

PERFORMANCE

Following the trend of past few years, fixedline phones market went down in terms of number of customers as well as revenue. The downward trend of falling fixedline revenue has affected your company and therefore, during the year under review, there is a drop in the telecom

service revenue by 10% from Rs. 2488.83 million to Rs. 2235.71 million. Consequently, the Operating Profits from telecom services before finance cost, depreciation, and loss on sold / discarded fixed assets is reduced to Rs. 191.12 million compared to the previous year's figure of Rs. 261.34 million.

Various expenses optimization initiatives taken by the company coupled with reduction in direct variable expenses, has led to a reduction of operating expenses by Rs. 180.01 million from Rs. 2238.45 million in FY 2007-08.

The Broadband DSL customer base at 68,902 (previous year 52,316) witnessed a growth of about 32% during the year. Continuing the growth trend in CDMA mobile customer base, your company has achieved a growth of over 28% and reached to a customer base of 298,740.

The Department of Telecommunications (DoT) has permitted the Company to offer GSM Services in Punjab Telecom Circle under the existing Unified Access Service License (UASL) for which the Company paid Rs 1517.50 million as one time license fee in December 2007. However, the Company's application for Pan India UASLs to provide GSM services was rejected by DoT on grounds of insufficient Net worth. The Company made several representations to the DoT for reconsideration of its applications and subsequently it filed a writ petition before the Hon'ble High Court of Delhi seeking its intervention in the matter. Thereafter, DoT has vide its letter dated 27th June, 2008 offered the Company UASLs in some circles as per the choice of the Company and Company without prejudice to its claim for Pan India UASLs, has submitted its choice of circle in which it intends to avail UASL. The matter is still under consideration of DoT.

DIVIDEND

The Company has accumulated losses and your Directors, therefore, are not in a position to recommend any dividend for the financial year 2008 - 09.

TRANSFER TO RESERVES

During the year under review, no amount has been transferred to reserves but the Company has utilized General Reserve of Rs 104.44 million to set off the carried forward accumulated losses.

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

Listing and trading approval of equity shares: During the period, the Listing and trading permission to

43,20,00,250 equity shares of Rs.10/- each issued pursuant to the Scheme of Amalgamation and 8,30,70,088 equity Shares of Rs.10/- each allotted to Financial Institutions and Banks pursuant to the CDR Package has been granted by The Bombay Stock Exchange Limited and Madras Stock Exchange Limited.

Restructuring of liabilities: Corporate Debt Restructuring ('CDR') Cell vide its letter no CDR (JCP) No 138 / 2009-10 dated May 20, 2009 has approved the revised restructuring package which inter-alia provides for

- i) Conversion of interest on simple interest basis from July 1, 2008 to October 31, 2009 in Term Loan, which would not carry any interest and the same shall be repaid in 16 equal monthly instalments commencing from December 1, 2009, and
- ii) Re-scheduling of principle installments from August 1, 2008 to November 1, 2009 to be repaid from December 1, 2009 to March 1, 2011.

Further, to enable the company to induct strategic investor, for long term sustainability of the business, the Company's proposal for restructuring of its debt and paid up capital is under consideration of the lenders through the CDR mechanism.

Change of Registered Office of the Company: To facilitate better coordination with the Investor community and the Lenders, the Board of Directors in its meeting held on May 05, 2009 proposed the shifting of the registered office of the Company from Mohali in the State of Punjab to Mumbai in the State of Maharashtra. The Consent of the Shareholders of the Company was obtained by way of Postal Ballot conducted in accordance with Section 192A of the Companies Act, 1956 read with Companies (Passing of Resolution by Postal Ballot) Rules, 2001. The result of the Postal ballot was declared on June 16, 2009 at 4:00 P.M at the registered office of the Company. The Company is in process of obtaining the consent order of Company Law Board, Northern Region Bench, New Delhi in this regard.

Diminution in the value of Investments in ITI: In view of the declining business prospects coupled with negative net worth of the Investment Trust of India Limited (ITI), during this year, the Company has written off its entire investment made in equity shares and Optionally Fully Convertible Debentures (OFCDs) of ITI aggregating to Rs. 717.6 million.

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

Your Company 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, however foreign exchange outgo was Rs. 318.01 million on account of travel, finance and other expenses.

SHARE CAPITAL

Bombay Stock Exchange Limited (BSE) vide its letter no. BSE No. DCS/AMAL/RGG/TRD/102/2009-10 dated May 14, 2009 and Notice No. 20090514-12 issued on May 14, 2009 granted listing and trading permission in respect of 43,20,00,250 equity shares, issued pursuant to the scheme of amalgamation, w.e.f May 15, 2009. Similarly, Madras Stock Exchange Limited (MSE) has also granted the trading and listing permission vide its letter No. MSE/LD/PSK/738/134/09 dated June 12, 2009, which is effective from June 12, 2009.

BSE, vide Notice No. 20090605 issued on June 5, 2009 had granted listing and trading permission in respect of 8,30,70,088 equity shares, which is effective from June 8, 2009 and a similar approval has been received from MSE, vide its letter No. MSE/LD/PSK/738/148/09 dated July 2, 2009, which is effective from July 2, 2009.

Further, in terms of the (i) restructuring package approved by CDR cell (ii) interpretive letter issued by SEBI vide letter no. CFD/DIL/IG/SM/ 161406/09 dated April 24, 2009 on the issue price of equity shares and (iii) 'in-principle' approval received from BSE and MSE under clause 24(a) of the listing agreement, the company, in the Share Transfer and Investor Grievance (STIG) Committee meeting held on July 08, 2009, has allotted 8,67,43,116 equity shares of Rs.10/- each at par to Financial Institution and Banks against the share application money, which was placed on conversion of OFCDs along with premium in terms of the restructuring package approved by CDR. Allottee-wise details of the aforesaid equity shares are as below:

Name of the Bank / Financial Institution	No. of shares allotted	Face Value (Rs./share)
Industrial Development Bank of India Limited	5,73,98,531	10
Life Insurance Corporation of India	1,07,72,205	10
Oriental Bank of Commerce	1,68,06,054	10
ING Vysya Bank Limited	13,45,838	10
State Bank of Patiala	34,20,488	10
Total	8,67,43,116	

Pursuant to the compliance of post-allotment requirements of the aforesaid equity shares, the Company has applied to BSE and MSE for the listing & trading approval.

Consequent to the aforesaid allotment, the equity share capital of the company now stands increased to Rs.612,26,02,680/- comprising of 61,22,60,268 Equity Shares of Rs. 10/- each; Preference Share Capital remains Rs. 65,00,00,000/- comprising of 65,00,000 - Cumulative Redeemable Preference Shares (CRPS) of Rs. 100/- each held by M/s Himachal Futuristic Communications Limited (Holding Company).

DIRECTORS

Life Insurance Corporation of India has nominated Mr. Rajesh Kandwal as Director on the Board of the Company w.e.f. October 30, 2008 in place of Mr. S. Lakshmanan.

Mr. S. Lakshmanan was appointed as Additional Director on the Board of the Company w.e.f. October 30, 2008 to hold office till the date of ensuing Annual General Meeting of the Company. The Company is in receipt of a notice in writing from a member of the Company u/s 257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr. S. Lakshmanan as a Director of the Company.

In accordance with clause 104 of the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. M. P. Shukla and Mr. Mahendra Nahata are liable to retire by rotation in the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

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 2008-09, 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 March 31, 2009, 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 March 31, 2009 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 March 31, 2009 on a going concern basis.

SUBSIDIARY

During the year under review, CBSL Cable Networks Limited (Formerly Connect Broadband Services Limited) has ceased to be a subsidiary of your company w.e.f. April 16, 2008 pursuant to the sale of entire 90,50,000 equity shares held by the company in CBSL Cable Networks Ltd. to Digicable Networks (India) Private Limited at par vide Share Purchase Agreement dated March 26, 2008.

The Company incorporated a subsidiary in the name and style of "Infotel Tower Infrastructure Private Limited" for the purpose of creating infrastructure for telecom operations, manpower outsourcing and trading activities related to telecommunication operations. The company has subscribed to 9,980 equity shares in Infotel Tower Infrastructure Pvt. Ltd. at par.

Information on subsidiary company as required under Section 212 of the Companies Act, 1956 is provided in Annexure to this report.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Accounting Standard (AS-21) – Consolidated Financial Statement read with Accounting Standard (AS-23) on Accounting for Investments in Associates, your Directors have pleasure in 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 Non Banking Finance Company (NBFC) business in FY 2003-04 and transferred the outstanding amounts to an Escrow Account maintained with Oriental Bank of Commerce. In respect of the request received from depositors from time to time, the

Company has been duly making payment of the amount of deposits out of the said Escrow account. Certain amounts of deposit which were unclaimed for a period of seven years have been transferred to Investor Education and Protection Fund (IEPF) under section 205C of the Companies Act, 1956 out of said Escrow Account. The unclaimed amount as at March 31, 2009 was Rs. 16.63 lacs.

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 its report on the Accounts of the Company for the financial year ended March 31, 2009, which is self-explanatory.

AUDITORS QUALIFICATIONS / OBSERVATIONS AND MANAGEMENT'S EXPLANATIONS

1. Para 5(a): Note 13(b) of Schedule 23 of consolidated financial statements and Note 16(b) of Schedule 23 of financial statements wherein the Company has obtained an 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 during March 31, 2008 and Rs. 111,000,000 for operations during the year. The terms and conditions with respect to tenure, interest, right and obligation 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. Our audit report on the financial statements for the year ended March 31, 2008 was modified accordingly.

The terms and conditions of above mentioned advances are under discussion with such non-shareholder company and upon finalization of the terms and conditions subject to the approval of the secured Lenders of the Company, the impact, if any, will be considered in the profit and loss account.

2. Para 5(b): Note 5(a) of Schedule 23 of consolidated financial statements and Note 9(a) of Schedule 23 of financial statements wherein the Company has given effect to restructuring of secured loans pursuant to the revised restructuring package approved by Corporate Debt Restructuring Cell ("CDR") vide their letter no. CDR (ICP) No 138/2009-10 dated May 20, 2009 ("CDR letter"). We have relied upon the CDR Letter and the confirmation from the lenders is awaited.

On the request of the Company, CDR Cell has approved the amendments in the existing restructuring scheme in the CDR Empowered Committee meeting held on January 31, 2009 and issued its approval letter dated March 4, 2009. CDR

Cell has also requested all lenders of the Company to take necessary action in the matter. The Company has given effect to the aforesaid amendments in the restructuring package in the books of the Company and has requested the Banks and Financial Institution to provide their loan confirmation post amendment in the restructuring package. In absence of the confirmation from the Banks and Financial Institution the amount of loans including interest outstanding as on March 31, 2009 cannot be cross verified. While the necessary confirmation from lenders is awaited, IDBI, vide its letter dated May 20, 2009 has endorsed the approval granted by the CDR Cell.

3. Para 6(f): Subject to matter stated in paragraph 5 above consequential effect whereof is not ascertainable

The observation of the Auditors in their report is self explanatory. Since the terms and condition of aforesaid advances are under discussion and yet to be finalized, the consequential effect in the profit and loss account is not ascertainable.

4. Para (ix) (a) of Annexure: There have been delays in many cases in respect of deposit of service tax and withholding tax

The delays in deposit of service tax and withholding tax were on account of temporary cash flow mismatch; however the dues have been paid in full subsequently along with applicable interest.

5. Para (x) of Annexure: The accumulated losses of the Company as at March 31, 2009 are more than fifty percent of its net worth as at that date. The Company has incurred a cash loss of Rs. 881,292,798 and Rs. 155,157,544 during the year and immediately preceding financial year before considering interest provision on yield basis of Rs. 66,602,849, Rs. 212,980,372 respectively.

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 leverage its recently obtained ability of providing GSM mobile services for improvement in performance.

6. Para (xi) of Annexure: The Company has delayed in payment of principal and interest due to a financial institution and banks. Due to the delays the Company has paid Rs. 5,043,646 as penal interest to financial institution and banks.

There have been delays in payments of interest to Financial Institutions and Banks due to mismatch of cash flow. However the Company has made payment of penal interest for such delays. Further, on the request of the Company, the CDR Cell has inter-alia approved conversion of interest on term secured loans for the period July 1, 2008 to October

31, 2009 into Funded Interest Term Loan and rescheduling of principle repayment installments from August 1, 2008 to November 1, 2009.

7. Para (xvii) of Annexure: The Company has used *Short term loans and advances of Rs. 2,745,449,433 for purchase of intangibles and losses*

The accumulated losses and the entry fee have been funded from the short term funds as Company's net worth has been eroded due to accumulated losses being more than the aggregate of paid up share capital and free reserves. The Company is exploring the possibilities of inducting a strategic investor for the long term sustainability of the business. A proposal for restructuring of the Company's debts and equity capital to facilitate this is under consideration of the secured Lenders of the Company.

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 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 Government and Central Government Departments / Authorities.

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

for and on behalf of the Board

PLACE : New Delhi
DATED : July 31, 2009

Mahendra Nahata
Chairman

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

1. Name of the Company	Infotel Tower Infrastructure Private Limited
2. Financial Year ended on	31.03.2009
3. Shares of the Subsidiary held by the Company on the above date	
(a) Number and Face Value	9,980 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, 2009	N.A
(b) not dealt within the accounts of the Holding Company for the year ended on March 31, 2009	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	N.A
(b) not dealt with in the accounts of the Holding Company for the period ended March 31, 2008	N.A

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, 2009

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 (No. Years)	Date of Commencement of employment	Age (Years)	Designation & Last employment
Surendra Lonia	Chief Executive Officer	1,27,24,894	B.Com, M.Com, C.A, CS	23	15.04.2000	46	VP-Finance, South Asian Petroleum Ltd.
Gurraj Singh	Chief Operating Officer	80,91,103	B.E.	18	02.12.2002	39	VP- SAB Infotech Ltd.
S. K. Garg	Chief Project Officer	60,51,244	B.Sc. BE, M.Tech	29	01.04.2007	53	Sr. VP- Himachal Purvostic Communications Ltd
Vikas Agarwal	VP - Corporate Finance	43,07,117	B.Com, M. Com, C.A, CS, CWA	13	06.02.2001	35	AVP- SREI International Finance Ltd.
Santosh Sachdeva	VP - Operations	26,35,514	B.Com, PGDPM, DB, Mgmt.	24	07.02.2002	47	VP - Medi Telecommunications Ltd.
Vinesh Verma	AVP - Finance & Accounts	24,65,334	B.Com, C.A, CS	20	22.08.2007	43	Head Finance- Hutchison Essar South 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 annum

Naresh Bhatta	AVP - CSD	24,49,976	BA, MBA	24	01.06.2007	46	GM - Bharti Airtel Ltd.
Anil Agrwal	GM - Information Technology	6,46,184	BE (E&C)	12	02.07.2007	39	DCM - Bharti Airtel Ltd.
Ajay Sharma	VP - Technical	25,78,221	DIP, AMIE	27	16.07.2007	47	Sr. GM - Vishesh Sanchal Nigam Ltd.
Satish Shukla	Director -Operations (Cable Business)	5,53,615	B.SC	30	07.06.2005	50	VP - Amrithy Platco Ltd.
Harpreet Singh Bhatin	AVP - Human Resources	37,46,912	MBA, B.Tech	14	29.09.2003	38	Manager - Alstom Ltd.
Anoop Jhau	AVP - Technical	3,04,558	BE, ME, MBA	22	26.12.2006	47	GM - Alcanal 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 or Manager of the Company.
3. Nature of Employment in all cases is contractual
4. None of the employees mentioned above have any shareholding in the Company.

for and on behalf of the Board

Place : New Delhi
Date : July 31, 2009

Mahendra Nahata
Chairman

MANAGEMENT DISCUSSION & ANALYSIS REPORT

OVERVIEW

HFCL Infotel Ltd ("Infotel" or "the Company") is a Unified Access Services Licensee in Punjab Telecom Circle comprising of state of Punjab, Union Territory of Chandigarh and Panchkula town in the state of Haryana. The Company had commenced its operations in September 2000 as a fixed line service provider under the brand name "CONNECT". Subsequently, the Company had launched Broadband and CDMA Mobile services. In September 2007, the Company had undertaken expansion of its CDMA mobile services covering key cities / towns in Punjab, under the brand name of "PING". As at March 31, 2009, the Company had 550,502 telephony customers, including fixedline - 1,82,860 customers, CDMA mobile - 298,740 customers and Broadband - 68,902 customers.

The Company with its extensive optic fiber cable network of over 3800 kms, 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:

- ❖ With a growth of 31.70% during FY 2008-09, the Broadband customer base has been increased to 68,902
- ❖ During FY 2008-09 CDMA mobile customer base has gone up by 28.34% taking the base to 2,98,740
- ❖ There has been a drop of 16.83% in the Fixed Voice Subscriber Base which stands at 1,82,860 as on March 31, 2009.
- ❖ During FY 2008-09, the Company generated gross revenue of Rs. 2249.56 million, which is lower by 10.01% as compared to previous year.
- ❖ This resulted in a drop in Operating Profit (EBIDTA) to 191.12 million i.e. a drop by 26.37% as compared to the previous year.

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 licenses:

- ❖ Access Operators - Offering Fixed Line and Mobile Services.
- ❖ National Long Distance Operators - Inter-linking 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 licenses 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

Telecom Services - Industry Scenario

India, which already boasts of the second-largest telecom user base in the world after China and ahead of the US, now has 429.72 million telecom subscribers as at March 31, 2009 (300.49 million Previous year end March 2008), in both the wireless and wireline segments, with a growth of 43.01% during FY 2008-09. Of the total customer base, Wireless base has increase from 261.08 million as at end March 31, 2008 to 391.76 million as at March 31, 2009 (growth of over 50%).

During 2008-2009, Indian Telecom Services sector continued its growth trajectory, mainly driven by intense competition and aggressive pricing of mobile connection. The mobile segment continued to grow at a very high rate in comparison to the Fixed-line segment.

The growth of Wireline subscribers has been more or less stagnated over last few years. In fact during FY 2008-09, there has been a drop of 3.63% in Wireline customer base of 37.96 million as on end March 2009. The customer base of Wireline has been overshadowed by the growth in mobile services mainly due to convenience of use of mobile handset with features like telephone directory and SMS coupled with cheaper or more affordable tariffs.

Broadband services could not emulate the growth that is seen by Indian Mobile sector. The Broadband customer base as at end March 31, 2009 was 6.22 million. Government has announced several policies to stimulate the growth of Broadband in the country. As a result of these measures the broadband customer grew from a meager 0.18 million as on March 2005 to about 6.22 million as at March 2009 at an annual CAGR of 141%. With the increase in PC penetration in future, it is also

estimated that internet and broad-band subscribers will increase to 40 million and 20 million, respectively, by FY 2010.

Pursuant to the grant of UASL to provide GSM services to the new licensees during FY 2007-08 and the subsequent allocation of Spectrum to most of the licensees, many new players are expected to launch their services during the year 2009-10, which would further boost the growth of mobile phones in India.

Telecom sector is therefore expected to continue to grow mainly on account of the following factors:

- ❖ Need for increased coverage by network operators – reaching out to untapped rural markets.
- ❖ Higher affordability through reduced tariffs and affordable handsets
- ❖ Consistent growth of IT Services and IT enabled Services Sector
- ❖ Continuous growth and increased competition in the banking, insurance and hospitality sectors
- ❖ Increasing operations of the Multinational Corporations in India and expansion of overseas operations of Indian Companies thereby necessitating integration with the global economy
- ❖ Growing need by the Companies to organize their operations using ERPs and expansion of their networks for SCM, CRM

The Telecom Industry has witnessed a trend of voice traffic shifting from Fixed line networks to Mobile networks due to the below mentioned reasons:

- ❖ Higher penetration of mobile telephony in view of increased competition and lower tariffs leading to substitution of landlines in favour of Mobiles and voice traffic moving onto the mobile network.
- ❖ Convenience of mobility and the enhanced functionality of handsets which are personalized and easy to navigate. Rapidly changing consumption patterns are also having an impact on usage. Personal nature of the device supporting the increased 'individualism' of our society.
- ❖ Lower tariff for mobile voice calls as a result of:
 - Falling equipment prices and increased capacities
 - More advanced mobile network and now 3G
 - Intensifying competition among mobile operators
 - Infrastructure sharing among operators
 - Tariff for CUG & Short duration calls
- ❖ On-net calls being extremely affordable, users are replacing their fixed line phones with a second mobile from the same operator.

- ❖ Higher density of the mobile telephony with cheap STD rates resulting in a tremendous drop in the walk-in traffic at PCO locations.

Going forward, industry estimates that:

- ❖ The Indian fixed-line market will see growth from broadband and Internet access sectors, which will together grow at the rate of 22% to reach Rs 55 billion by 2013
- ❖ The fixed-line subscriber base will remain at 37 million connections in 2013, while the broadband subscriber base will increase by 26% to reach 16 million subscribers
- ❖ The number of fixed lines will continue to decrease slightly until 2012, but will start picking up again in 2013 as carriers will focus more on fixed broadband, bundling voice lines free with it.
- ❖ Revenue from broadband services will significantly contribute to the overall growth of fixed-line services in India, with a growth of 25% from 2008 to 2013.
- ❖ Wireless broadband services will also grow significantly from 2010, by expanding broadband coverage to areas previously not covered by copper telephone lines

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 continued support to BSNL through Universal Service Obligation Fund (USOF) instead of ADC. ADC on the incoming international calls also was reduced to 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. 1st April, 2008 and ADC charges on the rural revenue of operators had also been abolished in order to motivate penetration of telecom services in rural areas.
- ❖ The DoT has decided to implement the lock-in period clause that there shall be a lock-in period for sale of equity of a person whose share capital is 10% or more in the UAS licensee company on the effective date of UAS licence and whose net-worth has been taken into consideration for determining the eligibility for grant of UAS licence, till the completion of three years from the effective date of the UAS licence or till fulfillment of all the rollout obligations, whichever is earlier. In case of issue of fresh equity, within the lock-in period, the declaration of dividend and special dividend shall be barred.

- ❖ Press note was issued by 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, DoT has issued new UAS Licenses during the year.
- ❖ The DoT issued guidelines for sharing of infrastructure; except the sharing of spectrum sharing of other infrastructure is permitted viz. Tower, Node etc.
- ❖ Telecom Regulatory Authority of India (TRAI) has issued draft regulations for introduction of mobile number portability (MNP). The guidelines have highlighted subscribers' eligibility for porting - switching operators without changing number - as well as the rights, obligations and duties of operators - both donors and recipients
- ❖ Telecom Regulatory Authority of India (TRAI) has reduced local termination charges by 33% to 20 paisa from 30 paisa per minute. Termination charge for incoming international calls would be 40 paisa per minute against the existing charge of 30 paisa per minute.
- ❖ Government has accepted the telecom regulator's proposal to allow companies to offer mobile phone services without owning network infrastructure or spectrum that would pave the way for foreign and Indian companies to set up mobile virtual network operators (MVNO) in India which can roll out wireless telecom services by renting spectrum and networks from existing telecom companies.

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 utilization 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 is expected to touch 10-12 million 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 system 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 wire line 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 wire line 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 in Punjab.

Following rapid decline in equipment prices, Broadband Internet Access has emerged as a viable value-addition tool and growth driver for the wire line telephony segment. The Company has already deployed broadband network equipment in most of the areas served by the Company's wire line 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 launch of GSM mobile services in Punjab with a tie up with an operator having multiple circle footprint would be the most lucrative proposition, if the right financial support is made available.

The Company believes that the aforesaid expansion would provide economies of scale and improve the Company's financial position significantly. The proposed expansion would assist the Company to increase the top line 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 fixed line 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 wire line (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.

Though the overall market for fixed line 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 GSM mobile services under the UASL 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 wire line 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 / up gradation 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 tying

up with strategic investor to bring external funding 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 up gradation requirements and delays in planned capital expenditure.

2. Market and Competition Risk

The Company faces competition from other services providers in Punjab Circle. 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, testing approval for interconnection with BSNL, TRAI approval for interconnection agreements and tariffs etc. The Company's long term plan for expansion of GSM mobile services Pan India is subject to availability of resources

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 such key resources could have a material adverse effect on the Company's business, operating results and financial condition.

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

The company has a proper and adequate internal control system to ensure that all assets are adequately and properly 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 the management and the audit committee and properly 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 which conducts audit, reviews, evaluates and submits its report to the management and the Audit Committee at regular intervals.

The Internal Auditor 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, products and departments. The actual performance is measured on monthly basis and a detailed analysis of the variances in periodical reviews before the 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. The Company has its wire line services in 150 cities and towns in Punjab and has also widened its wireless footprint to cover the whole of Punjab by introducing the CDMA mobile services under the brand name of "Ping". Due to the sluggish market conditions in fixed line segment and delay in tie up of external funds, there has been a negative growth of about 16.83% in the fixed line subscriber base of the Company. However, the Mobile Subscriber base grew by 28.34% from 2,32,769 at the end of March 2008 to 2,98,740 at the end of March 2009.

The revenue from telecom service decreased from Rs. 2488.8 million in the previous year to Rs.2235.7 million 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 191.1 million as compared to the previous year's figure of Rs. 261.3 million.

(Rs. in million)

Revenue at glance is as follows:

Parameter	FY 2008-09	FY 2007-08
Unified Access Services	1507.9	1829.0
Internet Services	539.2	460.4
Interconnect Usage Charges	137.0	140.4
Infrastructure Services	51.6	51.3
Other Income	13.9	11.0
Total	2249.6	2492.1

FINANCIAL PERFORMANCE

Key Financial Indicators

Telecom Business

(Rs. in million)

Parameter	FY 2008-09	FY 2007-08
Revenue from Telephony Service	2235.7	2488.8
EBIDTA	191.1	261.3

On Gross Basis

(Rs. in million)

Parameter	FY 2008-09	FY 2007-08
Gross Income	2249.6	2499.8
Operating Profit	191.1	261.3
Loss after Tax	2147.3	1425.3

Major Expenses at a glance are as follows:

(Rs. in million)

Parameter	FY 2008-09	FY 2007-08
Network Operations Expenditure	1133.7	1138.5
Personnel Cost	482.2	479.5
Sales & Marketing Expenditure	155.0	195.1
Administration & Other Expenditure	287.6	425.3
Finance Cost	678.3	655.1
Total	2736.8	2893.5

Share Capital

During the period, the Bombay Stock Exchange (BSE) and Madras Stock Exchange (MSE) have granted 'Listing and trading permission' in respect of (i) 43,20,00,250 equity issued pursuant to the Amalgamation and (ii) 8,30,70,088 Equity Shares issued to Financial Institutions and Banks on conversion of part of principle term debt in term of the restructuring scheme approved through CDR mechanism.

Further, in terms of the (i) restructuring package approved by CDR cell (ii) interpretive letter issued by SEBI vide letter no. CFD/DIL/IC/SM/ 161406/09 dated April 24, 2009 on the issue price of equity shares and (iii) 'in-principle' approval received from BSE and MSE under clause 24(a) of the listing agreement, the company, in the Share Transfer and Investor Grievance (STIG) Committee meeting held on July 08, 2009, has allotted 8,67,43,116 equity shares of Rs.10/- each at par to Financial Institution and Banks against the share application money, which was placed on conversion of OFCDs along with premium in terms of the restructuring package approved by CDR. Pursuant to the compliance of post-allotment requirements of the aforesaid equity shares, the Company has applied to BSE and MSE for the listing & trading approval.

Consequent to the aforesaid allotment, the equity share capital of the company now stands increased to Rs.612,26,02,680/- comprising of 61,22,60,268 Equity Shares of Rs. 10/- each; Preference Share Capital remains Rs. 65,00,00,000/- comprising of 65,00,000 - Cumulative Redeemable Preference Shares (CRPS) of Rs. 100/- each held by M/s Himachal Futuristic Communication Limited (Holding Company).

Secured Loans

The secured loans of the company have been increased from Rs. 6290.5 million on March 31, 2008 to Rs. 6566.0 million on March 31, 2009 mainly due to the conversion of interest on term secured loans for the period July 1, 2008 to October 31, 2009 into Funded Interest Term Loan.

Unsecured Loans

The unsecured loans have decreased from Rs. 1484.2 million on March 31, 2008 to Rs. 1388.5 million on March 31, 2009 mainly due to the part repayment of Buyer Credit Facility availed from The Export Import Bank of China.

Fixed Assets

During the year 2008-09, the net block has decreased from Rs.4916.4 million on March 31, 2008 to Rs. 4216.5 million on March 31, 2009. The Capital Work in Progress is Rs 72.2 million on March 31, 2009 as compared to Rs. 122.4 million on March 31, 2008.

Investments

During the year under review, CBSL Cable Networks Limited (Formerly Connect Broadband Services Limited) has ceased to be a subsidiary of the company w.e.f. April 16, 2008 pursuant to the sale of entire 90,50,000 equity shares held by the company in CBSL Cable Networks Ltd. to Digicable Networks (India) Private Limited at par vide Share Purchase Agreement dated March 26, 2008.

During the year ended March 31, 2009 the Company incorporated a subsidiary in the name and style of "Infotel Tower Infrastructure Private Limited" for the purpose of creating infrastructure for telecom operations, manpower outsourcing and trading activities related to telecommunication operations and invested Rs. 99,800 to subscribed to 9,980 equity shares at a face value of Rs 10 each fully paid up.

Current Liabilities

The Current liabilities and Provisions of the company stood at Rs. 4082.2 million on March 31, 2009 as compared to 3858.4 million on March 31, 2008. This increase is on account of advance rentals for lease of Optic Fiber under IRU basis at Rs 166.98 million, increase in advance by Rs.111 million received from a non shareholder, increase in Expense payable by Rs. 41.77 million, increase in EUC charges payable by Rs. 40.17 million, increase in

provision for interest by Rs. 31.31 million and increase in other liabilities by Rs. 21.51 million.

Current Assets

The current assets of the company stood at Rs. 694.4 million as on March 31, 2009 as compared to Rs. 734.0 million as on March 31, 2008. 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, 2009 witnessed employee strength of 598, with an average age of employees being less than 32 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.

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2008-09

(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, lays 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:

- ❖ Executive freedom to the management in order to drive the enterprise forward without any undue restraints.
- ❖ The freedom of Management 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 Seven (7) Directors including two Nominated Directors nominated by the institutional lenders namely, The Industrial Development Bank of India Limited and the Life Insurance Corporation of India. All the board members possess adequate experience and expertise. The Board oversees the overall business operations with the day-to-day affairs being managed by the Chief Executive Officer in consultation with the senior Management team.

The non-executive directors and the independent directors constitute more than 50% of the strength of the Board and 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 member in more than ten Committees nor Chairman of more than five Committees across all the companies in which they are directors.

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

Sl No.	Name of the Director	Date of appointment	Category	No. of other Directorships	Committee Memberships	Committee Chairmanships*
a	Mr. Mahendra Nahata (Chairman)	29/04/2003	(C/NED/PD)	2	2	0
b	Mr. R.K. Bansal (Nominee of LIC)	29/04/2003	(NED/ID/Nominee)	5	4	0
c	Mr. Rajesh Khandwal (Nominee of LIC)	30/10/2008	(NED/ID/Nominee)	0	0	0
d	Mr. S. Lakshmanan**	30/10/2008	(NED/ID)	0	3	2
e	Mr. M.P. Shukla	29/04/2003	(NED/ID)	5	3	3
f	Mr. K.B. Lal	29/10/2008	(NED/NID)	0	2	0
g	Dr. Rajjeet Mal Kastia	19/06/2004	(NED/NID)	2	3	1

(C-Chairman; NED-Non Executive Director; PD-Promoter Director; ID-Independent Director, NID-Non Independent Director)

Note:

*Includes Membership / Chairmanship in all public limited Companies whether listed or not and excludes private companies. Committees considered are Audit Committee, Remuneration Committee, Share Transfer & Investors' Grievance Committee and Project Management Review Committee.

** Mr. S. Lakshmanan has been appointed as independent Additional Director subsequent to his resignation as nominee Director of LIC w.e.f. October 30, 2008. Mr. Rajesh Khandwal has been appointed as Director (as Nominee of LIC) on the Board of the Company in place of Mr. S. Lakshmanan.

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 and Annual General Meeting

The 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 and Minutes of the Meetings 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 of the board are held whenever required. During the period from April 01, 2008 to March 31, 2009, the Board met five times on the following dates viz. May 31, 2008, June 28, 2008, July 31, 2008, October 30, 2008 and January 31, 2009.

The 61st Annual General Meeting of your Company was held on September 30, 2008.

Attendance at the Board Meetings held during the year 2008-09 and at the last Annual General Meeting is as under:

Attendance of the Directors in the Financial Year 2008-2009

S. No.	Name of the Director	Board Meetings		Last AGM attended
		Held during the tenure	Attended	
a	Mr. Mahendra Nahata	5	5	No
b	Mr. S. Lakshmanan	5	4	Yes
c	Mr. R. K. Bansal	5	4	No
d	Mr. M. P. Shukla	5	5	No
e	Mr. K.B.Lal	5	4	No
f	Dr. R. M. Kastia	5	4	Yes
g	Mr. Rajesh Kandwal	2*	2	N.A

* There have been only two meetings since appointment of Mr. Rajesh Kandwal as Director w.e.f. October 30, 2008.

(C) Information Placed before the Board

In compliance with clause 49 of the Listing Agreement pertaining to Corporate Governance, the following matters are regularly placed before the Board in addition to the other matters which statutorily require Board's approval:

- Minutes of all the Committee Meetings;
- Quarterly Un-audited Financial Results of the Company;
- Annual Operating Plans, Budgets and updates thereon;
- Information on recruitment, resignation and remuneration of all senior officials including appointment of Chief Financial Officer and Company Secretary;
- Show cause, demand, prosecution notices, penalty notices etc. which are materially important;

- 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;
 - Non-compliance of any regulatory and statutory requirements or listing requirements and shareholders' service;
 - Details of any joint venture or collaboration agreement;
 - Quarterly details of foreign exchange exposures and steps taken by the management to limit the risks of adverse exchange rate movement, if material.
 - Legal Compliance reports and Certificates.
 - Accounts of the subsidiary Companies.
- 3. Committees of the Board**

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

(A) Audit Committee

The Audit Committee comprises of the following members:

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

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 comprises 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 statements are correct, sufficient and credible;
- ❖ Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and 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 Directors' 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 the internal auditors on 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 mandatorily authorized to review following information:

❖ Management discussion and analysis of financial condition and results of operations

❖ Statement of significant related party transactions, submitted by the management

❖ Management letters / letters of internal control weaknesses issued by the statutory auditors;

❖ Internal Audit Reports relating to internal control weaknesses;

During the year under review, Five (5) Audit Committee meetings were held on the following dates:

May 31, 2008, June 28, 2008, July 31, 2008, October 30, 2008 and January 31, 2009. The attendance at the Audit Committee Meetings was as under:

Attendance at the Audit Committee Meetings for the FY 2008-09

S. No.	Name of the Members	No. of Meetings held during the tenure	No. of Meetings Attended
a	Mr. S. Lakshmanan	5	4
b	Mr. Mahendra Nahata	5	5
c	Mr. R. K. Bansal	5	4
d	Mr. M.P.Shukla	5	5

(B) Remuneration Committee

The Remuneration Committee of the Company comprises of all non-executive directors and the Chairman of the Remuneration Committee is an independent director. The constitution of the Remuneration Committee meets the requirements of Clause 49 of the Listing Agreement. The Remuneration Committee comprises of the following members:

❖ Mr. S Lakshmanan, Chairman

❖ Mr. M. P. Shukla

❖ Dr. R. M. Kastia

The Committee is responsible to oversee the following matters:

a. Determination of the remuneration packages i.e. salary and perquisites payable to the Managing and other Executive Directors and to the Manager under Companies Act, 1956.

b. Determination of the amount of bonus, stock option, pension rights and compensation payments to the Managing and other Executive Directors and to the Manager Under Companies Act, 1956.

The Committee met twice during the last financial year i.e. on June 28, 2008 and January 31, 2009. The attendance at the Remuneration Committee Meetings was as under:

Attendance at the remuneration Committee Meetings for the FY 2008-09

Sl No.	Name of Members	No. of Meetings held during the tenure	No. of Meetings Attended
a	Mr. S. Lakshmanan	2	2
b	Mr. M.P.Shukla	2	2
c	Dr. R. M. Kastia	2	2

(C) Share Transfer and Investors' Grievance Committee

There are two Committees viz. Share Transfer and Investors' Grievance Committee (STIG) & 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 to recommend measures for overall improvement in the quality of investor services etc.

Board level Committee, which is known as the Share Transfer and Investors' Grievance Committee (STIG), consists of the following members:

- ❖ Dr. R. M. Kastia, Chairman
- ❖ Mr. K. B. Lal
- ❖ Mr. M. P. Shukla
- ❖ Mr. Kapil Bhalla, Company Secretary is the Compliance Officer.

This Committee meets on need basis to approve the share transfers / transmission / issue of duplicate share certificates etc. above 5,000 shares. In the case of request received for loss of shares, however, only STIG is empowered to issue the duplicate share certificates.

During the year under review, the STIG Committee met twice on October 30, 2008 and March 31, 2009 and the attendance at STIG meetings was as under:

Sl No.	Name of Member	No. of Meetings held during the tenure	No. of Meetings Attended
a	Dr. R. M. Kastia	2	2
b	Mr. K. B. Lal	2	2
c	Mr. M.P.Shukla	2	2

The Board of Directors has constituted another Committee namely 'Share Transfer In-House Committee' comprising of the following members:

- ❖ Mr. Surendra Lunia, Chief Executive Officer
- ❖ Mr. Vikash Agarwal, Vice President - Corporate Finance
- ❖ Mr. Dinesh K Verma, Associate Vice President - Finance and Accounts
- ❖ Mr. Kapil Bhalla, Company Secretary

The Share Transfer In-House Committee is empowered to approve transfers / transmission / transposition up to 5000 no of shares and issue of duplicate share certificates (in case of torn / mutilated share certificates). The Committee meets fortnightly. This Committee is empowered to issue duplicate share certificates only in

the case of mutilated / torn / partially burnt shares etc. During the year-ended March 31, 2009, 23 no. of 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 6. There was no unresolved complaint as on March 31, 2009.

(D) Project Management Review Committee (PMRC)

Project Management Review Committee comprises of the following members:

- ❖ 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

A sitting fees of Rs. 5,000/- is paid to all the Non-Executive Directors for attending each meeting of the Board and/or Committee thereof. The amount of sitting fee paid to the directors during the FY 2008-09 is as under:

S. No.	Name of the Director	Sitting Fee (in Rs.)					Total Sitting Fee paid
		Board Meeting	Audit Committee meeting	Remuneration committee meeting	Project management Review committee meeting	STIG Committee meeting	
a	Mr. Mahendra Nahata	25,000	25,000	NA	Nil	NA	50,000
b	Mr. R.K. Bansal	20,000	20,000	NA	Nil	NA	40,000
c	Mr. J. Lakshmanan	20,000	20,000	10,000	Nil	NA	50,000
d	Mr. M.P. Shukla	25,000	25,000	10,000	Nil	10,000	70,000
e	Mr. K.B. Lal	20,000	NA	NA	Nil	10,000	30,000
f	Dr. R. M. Kastis	20,000	NA	10,000	Nil	10,000	40,000
g	Mr. Rajesh Randwal	10,000	NA	NA	Nil	NA	10,000

*No other remuneration was paid to the Non-Executive Directors except payment / reimbursement of actual expenses incurred travel, conveyance etc. for attending the meetings.

4. General Body Meetings

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

Extraordinary General Meeting held during 2008-09: Nil

Annual General Meeting held during last three FYs:

Year	AGM No.	Location	Date	Time
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
2007-2008	61	B-71, Industrial Area, Phase-VII, Mohali	30.09.2008	12:00 Noon

Postal Ballot

No resolution was required to be approved through postal ballot in the financial year under review in terms of the provisions of Section 192 A of the Companies Act, 1956 and the rules framed there under. However in the Board meeting held on May 05, 2009, the Board decided to shift the Registered Office of the Company from Mohali in the State of Punjab to Mumbai in the state of Maharashtra. In terms of the provisions of Section 192A of the Companies Act, 1956 the said special resolution was required to be approved by the shareholders through postal ballot and subsequently the result of the postal ballot was declared on June 16, 2009 at the registered office of the Company thereby declaring the said resolution as passed with requisite majority.

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 September 29, 2006 no special resolution was passed.
 - ❖ In the Extra ordinary General Meeting held on February 27, 2006, special resolutions were passed for: -
- i) Approval for issue of equity shares/preference shares/equity shares through Global Depository Receipts (GDRs) / American Depository Receipts (ADRs)

- ii) Approval for Employee Stock Option Scheme
 - iii) Approval for alteration of Memorandum and Articles of Association to increase the authorized capital to Rs 1500 crores
- ❖ In the Annual General Meeting held on September 28, 2007, Special Resolution was passed for re-appointment and Remuneration payable to Mr. Surendra Lunia, Manager under the Companies Act, 1956 in terms of Section(s) 198, 269, 385, 386, 387 and 388 read with Section 2(24) and schedule XIII of the Companies Act, 1956.

In the last Annual General Meeting held on September 30, 2008, Special Resolution was passed for approval for conversion of the Optionally Fully Convertible Debentures (OFCDs) into equity at par consequent to the revised Corporate Debt Restructuring (CDR) Package as approved by the CDR cell.

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 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 2008-09.

c. Risk Management

The Company has adequate internal control systems in place and exercises 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. May 14, 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 "Dush 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. 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 were 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. **62nd Annual General Meeting**

Date : September 29, 2009

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 30 th June, 2009	Last week of July, 2009
Results for the Qtr ending 30 th September, 2009	Last week of Oct, 2009
Results for the Qtr ending 31 st December, 2009	Last week of Jan, 2010
Results for the year ending 31 st March, 2010	Last week of June, 2010
Annual General Meeting	In September, 2010

- 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 has not recommended any dividend for the financial year 2008-09

g. Registered Office

The Registered Office of the Company is situated at B-71, Phase VII, Industrial Focal Point, Mohali, Punjab-160 055
Tel.: 0172 -- 5090000 (BPABX)
Fax : 0172 -- 5091275
e-mail: secretarial@hfciconnect.com

h. Listing of Equity Shares on Stock Exchanges

Company's shares are listed on:

- Bombay Stock Exchange and
- Madras Stock Exchange.

As at March 31, 2009, the post-merger subscribed, issued and paid up equity share capital of the Company consists of 52,55,17,152 equity shares of Rs.10/- each.

Out of the above:

-1,04,46,814 equity shares (87,16,000 equity shares issued prior to amalgamation and 17,30,814 equity shares allotted pursuant to conversion of warrants issued to the shareholders of IFI 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 the erstwhile HFCI, Infotel Limited pursuant to the scheme of amalgamation were yet to be listed on BSE and MSE till March 31, 2009. Listing and Trading permission in respect of these 43,20,00,250 equity shares, has been granted by BSE vide its letter no. BSE no. DCS/ AMAL / RCG/ TRD/ 102/2009-10 dated May 14, 2009 and Notice number 20090514-12 issued on May 14, 2009 w.e.f. May 15, 2009. Also MSE has granted trading and listing permission vide their letter No. MSE/ LD/PSK/738/134/09 dated June 12, 2009 effective from June 12, 2009.

- 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 October 16, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring (CDR) mechanism, were yet to be listed on BSE and MSE till March 31, 2009.

BSE vide its Notice No. 20090605 issued on June 05, 2009 has granted listing permission in respect of these 8,30,70,088 Equity Shares w.e.f. June 08, 2009; also MSE has granted listing permission vide its letter No. MSE/LD/PSK/738/148/09 dated July 2, 2009 effective from July 2, 2009.

With the aforesaid listing, all the 52,55,17,152 equity shares of the Company stand listed on Bombay Stock Exchange Limited (BSE) and Madras Stock Exchange Limited (MSE).

The requisite listing fee has been paid to the Stock Exchanges where shares of the Company are listed. Listing fee is not payable to Calcutta Stock Exchange as the Company had completed all the formalities for delisting however the Exchange is withholding delisting without assigning any reason.

Issue of 8,67,43,116 equity shares

In terms of the (i) restructuring package approved by CDR cell (ii) interpretive letter issued by SEBI vide letter no. CDR/DIL/IG/SM/ 161406/09 dated April 24, 2009 on the issue price of equity shares and (iii) 'in-principle' approval received from BSE and MSE under clause 24(a) of the listing agreement, the company, in the Share Transfer and Investor Grievance (STIG) Committee meeting held on July 08, 2009, has allotted 8,67,43,116 equity shares of Rs.10/- each at par to Financial Institution and Banks against the share application money, which was placed on conversion of OFCDs along with premium in terms of the restructuring package approved by CDR.

Pursuant to the compliance of post-allotment requirements of the aforesaid equity shares, the Company has applied to BSE and MSE for the listing & trading approval for the aforesaid 8,67,43,116 equity shares.

i. Stock Code

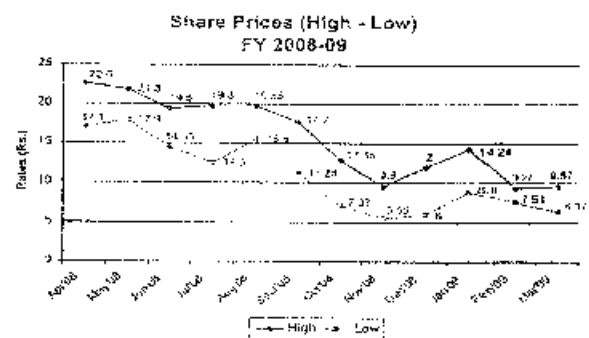
- ❖ The Stock Code on the Bombay Stock Exchange 511116
- ❖ The Stock Code on the Madras Stock Exchange Ltd. - ITR

j. Stock Price Data

The reported high and low closing prices of the Company's shares traded during the fiscal 2008-2009 on the Bombay Stock Exchange are given below:

Month	High	Low
Apr'08	22.60	17.10
May'08	21.80	17.90
Jun'08	19.50	14.55
Jul'08	19.80	12.50
Aug'08	19.85	15.50
Sept'08	17.70	11.25
Oct'08	12.85	7.07
Nov'08	9.60	5.55
Dec'08	12.00	6.00
Jan'09	14.24	8.80
Feb'09	9.27	7.51
Mar'09	9.57	6.37

Performance in comparison to BSE Sensex



k. Registrar & Share Transfer Agents

M/s. Cameo Corporate Services Ltd., Chennai is Registrar & Share Transfer Agent of the Company who handles all Securities transfer work, both in physical and demat segments including all aspects of investor servicing relating to shares.

l. Registrar for Public Deposits

M/s. Cameo Corporate Services Ltd., Chennai is Registrar 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(twenty one) 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 is affected in physical form.

With a view to expediting the process of share transfers, a Committee known as the Share Transfer In-House Committee comprising Mr. Surendra

Lunia, Chief Executive Officer, Mr. Vikash Agarwal, VP – Corporate Finance, Mr. Dinesh Verma, AVP- Finance and Accounts and Mr. Kapil Bhalla, Company Secretary is authorized to approve transfers / transmissions / issue of duplicate share certificates in cases the number of shares involved is below 5,000 in number. In the case the request is received to issue of duplicate shares certificate in lieu of the lost share certificate, a Board level Committee known as Share Transfer and Investors' Grievance Committee (STIG) is authorized. The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider share transfer and shareholder grievances.

n. Distribution of Shareholding as on 31st March, 2009

No. of Equity Shares Held	Shareholders		Shareholding	
	No.	% of total	No.	% of total
10 - 5000	10356	82.4391	17163530	0.3266
5001 - 10000	1088	8.6610	9389280	0.1767
10001 - 20000	357	2.8340	8817030	0.1677
20001 - 30000	164	1.3055	4259870	0.0810
30001 - 40000	73	0.5811	2671080	0.0503
40001 - 50000	90	0.7164	4304290	0.0819
50001 - 100000	117	0.9313	9126710	0.1736
100001 - & Above	117	0.9313	5199539730	98.9413
Total :	12562	100.0000	5255171520	100.0000

o. Shareholding Pattern as on 31st March 2009

1. Category of shareholders	No. of shareholders	Total No. of shares	Shares in Demat	Total Shareholding as a percentage of total number of shares		Shares Pledged or otherwise encumbered	
				AS A % OF (A+B)	AS A % OF (A+B-C)	Number of shares	As a % (D) = (VIII/IV)
(H)	(I)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)
A. SHAREHOLDING OF PROMOTER AND PROMOTER GROUP							
1. INDIAN BODIES CORPORATE	1*	325705000	262905000	81.9779	81.9779	209500000	64.322
2. FOREIGN BODIES CORPORATE	0	0	0	0	0	0	0
TOTAL SHARE HOLDING OF PROMOTER AND PROMOTER GROUP (A) = (A1)+(A2)	1*	325705000	262905000	81.9779	81.9779	209500000	64.322
B. PUBLIC SHAREHOLDING							
1. INSTITUTIONS	5	83072231	3143	15.4077	15.5017	N.A	N.A
a. FINANCIAL INSTITUTIONS/BANKS	1	200000	200000	0.354	0.355	N.A	N.A
b. FOREIGN INSTITUTIONAL INVESTORS	4	82872231	3143	15.0537	15.1462	N.A	N.A
SUB - TOTAL (B)(I)	7	83072231	302143	15.8457	15.8457	N.A	N.A
2. NON-INSTITUTIONS							
a. BODIES CORPORATE	335	98403662	46417353	18.7293	18.7293	N.A	N.A
b. INDIVIDUALS -							
I. INDIVIDUAL SHAREHOLDERS HOLDING NOMINAL SHARE CAPITAL UPTO RS. 1 LAKH	11558	4787853	4117135	0.911	0.911	N.A	N.A
II. INDIVIDUAL SHAREHOLDERS HOLDING NOMINAL SHARE CAPITAL IN EXCESS OF RS. 1 LAKH	19	12417824	7917824	2.9629	2.9629	N.A	N.A
c. ANY OTHER							
CLEARING MEMBERS	14	40547	10447	0.0076	0.0076	N.A	N.A
HINDU UNDIVIDED FAMILIES	229	474539	174539	0.0022	0.0022	N.A	N.A
NON RESIDENT INDIANS	34	45461	14971	0.0005	0.0005	N.A	N.A
OVERSEAS CORPORATE BODIES	3	310735	324273	0.0047	0.0047	N.A	N.A
	310	900597	382230	0.1711	0.1711	N.A	N.A
SUB - TOTAL (B)(2)	17552	106409921	55334510	22.1762	22.1762	N.A	N.A
TOTAL PUBLIC SHAREHOLDING (B) = (B)(1) + (B)(2)	12559	199812152	55366553	38.023	38.023	N.A	N.A
TOTAL (A)+(B)	12560	525517152	318441653	100	100	209500000	64.322
C. SHARES HELD BY CUSTODIANS AND AGAINST WHICH DEPOSITORY RECEIPTS HAVE BEEN ISSUED							
	0	0	0	0	0		
GRAND TOTAL (A)+(B)-(C)	12560	525517152	318441653		100	209500000	64.322

Top Ten Shareholders of the Company as on 31.03.2009

S. No.	Name of the Shareholder	Number of shares	% of total Share holdings
a.	Industrial Development Bank of India Ltd	63373110	12.0591
b.	Oriental Bank Of Commerce	12171778	2.3161
c.	MKJ Enterprises Ltd	10000300	1.9028
d.	Mantu Housing Projects Ltd	20000000	3.8037
e.	ING Vysya Bank Limited	7525200	1.4319
f.	Santosh Industries Ltd	12500000	2.3786
g.	Masitia Capital Services Ltd	15000000	2.8543
h.	August Trading Private Limited	10000000	1.9028
i.	Linear Commercial Private Limited	10000000	1.9028
j.	Moolsons Holdings Private Limited	10000000	1.9028
	TOTAL	170570088	32.4575

p. Dematerialization of Shares

60.60% of the issued Equity Share Capital is held in dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on March 31, 2009.

q. Unclaimed Dividends

The amount of unpaid / unclaimed Dividend which was declared and paid for the financial year ended March 31, 2002 shall be due for transfer to the Investor Education and Protection Fund (IPEF) Account of the Central Government after the expiry of seven years, i.e. in July, 2009.

r. 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.

Allotment of equity shares against share application money (arising out of conversion of 7,551,178 Zero percent Secured Optionally Fully Convertible Debentures along with premium in term of restructuring package approved under CDR mechanism): The revised restructuring Package, as approved on June 24, 2005, stipulated that the secured OFCDs, which was issued on October 16, 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, parked the convertible amount (principle amount of OFCDs along with premium in terms of the restructuring package approved under CDR mechanism) as 'Advance against equity/share application money account', with the consensus of OFCD holders. 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 confirmations from lenders in respect to the conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, and accordingly reduced an amount of Rs 13,110,587 from the OFCD premium and had taken back the equivalent amount to securities premium account.

On parallel, the Company requested SEBI for interpretive letter under SEBI (Informal Guidance) Scheme 2003 for guidance. Based on guidance received from SEBI vide its letter no. CPD/DIL/IG/SM/161-06/09 dated April 24, 2009 and based on the direction issued by lender backed by an independent legal opinion sought by CDR cell on behalf of the lenders, the Board of Directors in its meeting held on May 05, 2009 delegated the authority to the Share Transfer and Investor Grievances Committee (STIG) to examine, issue and allot the shares, once the 'in-principle' approval from Bombay Stock Exchange Limited (BSE) was received. BSE vide its letter no. DCS/ PREF/ DMN / PRE/ 522/09-10 dated July 01, 2009 granted the 'in-principle' approval to the company - in terms of clause 24(a) of the listing agreement - for allotment of 8,67,43,116 equity shares of Rs. 10/- each to be issued at Par to the Financial Institution and Banks. MSE also granted a similar approval in the matter. In light of the above facts, the Share Transfer and Investors Grievance Committee in its meeting held on July 08, 2009 allotted 8,67,43,116 equity shares to Financial Institution/s and Banks. The Company has filed the listing application with BSE and MSE and final Listing approval in respect of these shares is awaited.

1,667,761 Zero percent Unsecured Optionally Convertible Debentures: As per the revised CDR package approved on June 24, 2005 the unsecured OFCDs issued to Life Insurance Corporation of India and State Bank of Patiala shall be redeemable at par, after the full settlement of dues to the secured lenders on March 31, 2016. On expiration of statutory limit within which the conversion option is permissible, such debentures have been made as Non Convertible Debentures.

CEO/CFO CERTIFICATION

July 31, 2009

s. Head Office

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

t. 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)

For Shares/Debentures held in Demat form

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

For any query on Annual Report

Mr. Kapil Bhalla,

Company Secretary,

HFCL Infotel Limited

B-71, Industrial Focal Point , Phase-VII,

Mohali- 160055, Pb.

E-mail: secretarial@hfclconnect.com

- u. Compliance Officer** Mr. Kapil Bhalla is the Compliance Officer for complying with the requirements of SEBI Regulations and the Listing Agreements with the Stock Exchanges in India.

- v. Website:** <http://www.hfclconnect.com>

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

Formulation of Risk assessment and minimization is still under process.

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

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

- ii) Whistle Blower Policy has been formulated and is functioning from May 14, 2007.

- y. 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 March 31, 2009.

Place: Mohali
Date: July 31, 2009

Kapil Bhalla
Manager and
Company Secretary

To,

The Board of Directors
HFCL Infotel Limited

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

We, Surendra Lunia, CEO and Vikash Agarwal, VP -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
- (iii) There are no significant frauds, which we became aware, and the involvement of management or employee having a significant role in the company's internal control system over financial reporting.

Vikash Agarwal
VP-Corporate Finance & CFO

Surendra Lunia
Chief Executive Officer

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, 2009, 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 29, 2009

Postal Ballot

Pursuant to Section 192A of the Companies Act, 1956 read with Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001, the Company had conducted a postal Ballot for passing of Special Resolution in respect of shifting of Registered Office of the Company from Mohali in the State of Punjab to Mumbai in the State of Maharashtra.

The Notice for the said Postal Ballot as approved in the Board Meeting held on May 05, 2009, was dispatched on May 13, 2009 to all the members whose name(s) appeared on the Register of Members / List of beneficiaries as on May 08, 2009, along with postage prepaid business reply envelope. Postal Ballot forms received from members till June 15, 2009 till 5:00 p.m. were taken into account for determining the Postal Ballot results.

As per the scrutiny of the postal ballot forms conducted by Mr. Ajay K Arora, Scrutinizer appointed for aforesaid Postal Ballot, 165 Postal Ballot forms were received till June 15, 2009, out of which 138 Postal Ballot forms were valid; a total of 32,85,05,006 votes were cast in favor of the aforesaid Special Resolution approving the shifting of Registered office of the Company from Mohali in the state of Punjab to Mumbai in the state of Maharashtra and no votes were cast against aforesaid resolution.

The result of the aforesaid Postal Ballot was declared on June 16, 2009 at 4:00 p.m. at the registered office of the Company by Mr. Kapil Bhatta, Manager and Company Secretary of the Company. The result of the Postal Ballot was also published in one English Newspaper (Financial Express, all India edition) and one newspaper in vernacular language (Desh Sewak, Punjabi). The results were also posted on the Company's web site.

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, 2009, 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 237 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 2,147,295,600 during the year (accumulated loss of Rs 11,193,880,270) resulting into erosion of its net-worth, and has a net current liability of Rs 4,082,192,639 (after considering provision for interest amounting to Rs 1,025,846,205 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, 2009. The Company has achieved profitability at the 'Earnings before interest and depreciation/amortisation' level, and is also able to generate cash from operations during previous financial year. The ability of the Company to continue as a going concern is significantly dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements and 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 16 (b) 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 during March 31, 2008 and Rs 111,000,000 for operations during the year.

The terms and conditions with respect to tenure, interest, right 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. Our audit report on the financial statements for the year ended March 31, 2008 was modified accordingly;

- b) Note 3 (a) of Schedule 23 of the financial statements wherein the Company has given effect to restructuring of secured loan pursuant to the revised restructuring package approved by Corporate Debt Restructuring Cell ('CDR') vide their letter to CDR (JCP) No 138 / 2009-10 dated May 29, 2009 ('CDR letter'). We have relied upon the CDR letter and the confirmation from the lenders is awaited.
6. Further to our comments in annexure referred to above we report that:
 - (a) We have obtained all the information and explanation which to the best of our knowledge and belief we 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 conform 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 directors, as on March 31, 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2009 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 matter stated in paragraph 5 above, consequent effect thereof is not ascertainable in our opinion and to the best of our information and according to the explanation given to us, the said accounts, give the information required by the Companies Act, 1956, in the manner 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, 2009;
 - (ii) in the case of the profit and loss account, of the profit or 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
Chartered Accountants

per Prashant Singhal
Partner
Membership No: 93283

Place: Gurgaon
Date: June 30, 2009

ATUL KULSHRESTHA & CO
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place: New Delhi
Date: June 30, 2009

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

Re: HFCL INFOTEL LIMITED

- (i) (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 except sale of towers as fully discussed in 11 (c) of schedule 23 to the financial statements.
- (ii) (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.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, clauses (iii) of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 are not applicable to the Company for the current year.
- (iv) 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 inventory, fixed assets and for the sale of goods and services.

Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.

- (v) (a) According to the information and explanations given to us there were no transactions referred to in section 301 that are required to be entered in the register maintained under section 301 of the Companies Act, 1956.
- (vi) 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.
- (vii) In our opinion, the Company has an internal audit system to make it commensurate with the size and nature of its business.
- (viii) 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.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, sales-tax, wealth tax, customs duty, cess and other material statutory dues applicable to it have generally been regularly deposited with the appropriate authorities except *there has been delays in many cases in respect of deposit of service tax and withholding tax*. The provisions relating to excise duty is not applicable to the Company.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, cess and other material 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, there are no dues outstanding of income-tax, sales-tax, wealth-tax, service tax, custom duty, excise duty and cess on account of any dispute, other than the following:

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	Income tax	10,366,937	-	10,366,937	2000-01	Income Tax Appellate Tribunal

- (x) The accumulated losses of the Company as at March 31, 2009, are more than fifty percent of its net worth as at that date. The Company, has incurred a cash loss of

Rs 881,292,798 and Rs 155,157,544 during the year and immediately preceding financial year before considering interest provision on yield basis of Rs 66,602,849, Rs 212,950,372 respectively.

- (xi) Based on our audit procedures and as per the information and explanations given by the management, the Company has delayed in payment of principal and 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	Principal Amount In Rs.	Interest Amt. In Rs.	Date of Payment
IDBI, INC, SBOP, OBC, LIC	1st May-08	10,083,333	41,922,159	July 30, 2008 / July 30, 2008 / July 28, 2008 / July 30, 2008 July 30, 2008
IDBI, INC, SBOP, OBC, LIC	1st June-08	10,083,333	43,497,593	August 29, 2008 / August 29, 2008 / August 29, 2008, August 30, 2008 / August 30, 2008
IDBI, INC, SBOP, OBC, LIC	1st July-08	10,083,333	42,192,617	October 10, 2008 / October 8, 2008 / October 11, 2008 / October 11, 2008 / October 11, 2008
Total		30,249,999	127,612,369	

Due to the delays above, the Company has paid Rs 5,043,646 as penal interest to financial institution and banks.

- (xii) According to the information and explanations given to us and based on the documents and 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.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) As informed to us, the Company is not dealing in 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.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) 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.
- (xvii) 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 loans and advances of Rs 2,745,149,133 for purchase of intangibles and losses.
- (xviii) 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.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issue.
- (xxi) 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 30, 2009

ATUL KULSHRESTHA & CO.
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No. 91720

Place: New Delhi
Date: June 30, 2009

HECL INFOTEL LIMITED

BALANCE SHEET AS AT MARCH 31, 2009

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

PARTICULARS	SCHEDULE No.	As At March 31, 2009	As At March 31, 2008
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	1	5,905,171,520	5,905,171,520
Advance Against Share	2	867,431,181	867,431,181
Application Money			
Reserves and Surplus	3	68,566,508	173,004,664
		<u>6,841,169,209</u>	<u>6,945,607,365</u>
Loan Funds			
Secured Loans	4	6,566,009,737	6,290,487,239
Unsecured Loans	5	1,388,457,337	1,484,206,907
		<u>7,954,467,074</u>	<u>7,774,694,146</u>
		<u>14,795,636,283</u>	<u>14,720,301,511</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	6	9,053,888,326	9,511,129,842
Less: Accumulated Depreciation		(4,839,363,053)	(4,594,764,149)
Net Block		4,216,525,273	4,916,365,693
Capital Work-In-Progress (Includes Capital Advances for Rs 4,053,028) (March 31, 2008 - Rs 893,564)		72,216,696	122,445,449
		<u>4,288,741,969</u>	<u>5,038,811,142</u>
Intangible Assets (Net)	7	2,700,673,538	2,846,792,281
Investments	8	99,800	808,170,900
Current Assets, Loans and Advances			
Inventory	9	19,895,676	20,667,816
Sundry Debtors	10	338,978,258	406,638,000
Cash and Bank Balances	11	117,950,321	113,414,210
Other Current Assets	12	13,359,325	8,884,139
Loans and Advances	13	204,249,865	184,296,618
		<u>694,433,345</u>	<u>733,900,783</u>
Less: Current Liabilities and Provisions	14		
Current Liabilities		4,053,474,207	3,835,124,772
Provisions		28,718,432	23,271,649
		<u>4,082,192,639</u>	<u>3,858,396,421</u>
Net Current Liabilities		<u>3,387,759,294</u>	<u>3,124,495,638</u>
Profit and Loss Account		<u>11,193,880,270</u>	<u>9,151,022,826</u>
		<u>14,795,636,283</u>	<u>14,720,301,511</u>
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. BATHI & ASSOCIATES
Chartered Accountants

For 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
VP - Finance

Place : Gurgaon
Date : June 30, 2009

Place : New Delhi
Date : June 30, 2009

Place : New Delhi
Date : June 30, 2009

Kapil Bhatta
Company Secretary

HFCL INFOTEL LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009
 (Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	SCHEDULE No	For the year ended March 31, 2009	For the year ended March 31, 2008
INCOME			
Service Revenue	15	2,235,707,374	2,488,827,969
Other Income	16	13,854,662	10,952,505
		<u>2,249,562,036</u>	<u>2,499,780,474</u>
Expenditure			
Network Operation Expenditure	17	1,133,672,179	1,138,467,401
Personnel Expenditure	18	482,162,008	479,529,738
Sales and Marketing Expenditure	19	154,996,762	195,127,940
Administrative and Other Expenditure	20	287,611,099	423,320,075
		<u>2,058,442,048</u>	<u>2,238,445,154</u>
Operating Profit for the Year before Finance Charges, Depreciation, Amortization and Loss / (Gain) on Sold / Discarded Fixed Assets		191,119,988	261,335,320
Diminution in value of Investments	23, Note 12 (a)	717,670,900	-
(Gain) on sale of Fixed Assets	23, Note 11 (c)	(337,234,841)	17,689,380
Loss on Discarded Fixed Assets		155,296,539	655,121,753
Finance Charges	21	678,294,362	(50,630,383)
Foreign exchange Loss / (Gain)		186,760,734	890,670,356
Depreciation	6	841,687,026	148,133,387
Amortisation	7	150,049,533	-
Loss / (Profit) for the Year before Prior Year Expenditure and Tax		2,121,404,265	1,399,649,173
Prior Period Expenditure (Net)	23, Note 23	20,662,276	18,692,877
		<u>2,142,066,541</u>	<u>1,418,342,050</u>
Loss / (Profit) for the Year before Tax			
Provision for Taxation		5,229,059	7,015,669
Fringe Benefit Tax		2,147,295,600	1,423,357,719
Loss / (Profit) for the Year		9,151,022,826	7,725,665,107
Loss / (Profit), brought forward from previous year		(104,438,155)	-
Less Transfer from General Reserve		<u>11,193,880,270</u>	<u>9,151,022,826</u>
Loss / (Profit) carried to the Balance Sheet			
Loss / (Profit) per share (equity shares, par value of Rs 10 each)	23, Note 17		2.71
Basic (in Rs)		4.09	2.71
Diluted (in Rs)		4.09	
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 30, 2009

For ATUL KULSHRESTHA & CO.
 Chartered Accountants

per Anil Kumar Aggarwal
 Partner
 Membership No: 91720

Place : New Delhi
 Date : June 30, 2009

For and on behalf of the Board

Mahendra Nahata
 Director

Surendra Lunia
 Chief Executive Officer

Place : New Delhi
 Date : June 30, 2009

M. P. Shukla
 Director

Vikash Agarwal
 VI - Finance

Kapil Bhalla
 Company Secretary

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
SCHEDULE 1: Share Capital [See Schedule 23, Note 7]		
Authorised:		
1,300,000,000 (March 31, 2008 - 1,300,000,000) equity shares of Rs 10 each (March 31, 2008 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (March 31, 2008 - 20,000,000) 2 per cent preference shares of Rs 100 each (March 31, 2008 - Rs 100 each)	2,000,000,000	2,000,000,000
	<u>15,000,000,000</u>	<u>15,000,000,000</u>
Issued, Subscribed and Paid up		
525,517,152 (March 31, 2008 - 525,517,152) equity shares of Rs 10 each (March 31, 2008 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (March 31, 2008 - 6,500,000) fully paid 2 per cent cumulative redeemable preference shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	<u>5,905,171,520</u>	<u>5,905,171,520</u>

(a) Of the above

- (i) 490,750 (March 31, 2008 - 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 (March 31, 2008 - 325,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).
- (iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme. [See Schedule 22, Note 1 (c)] Out of these, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share as per provisions of applicable law.

(b) As more fully discussed in Schedule 22, Note 1(a), the Company in accordance with the scheme of amalgamation approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively under section 391 and 394 of the Companies Act, 1956, the erstwhile HFCL Infotel Limited (name earlier allotted to the transferor company), amalgamated with HFCL Infotel Limited ('HTEL' 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 warrants issue to the shareholder of the Investment Trust of India Limited prior to June 11, 2003.
- (c) 6,500,000 (March 31, 2008 - 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 was 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 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 CRPS. Due to accumulated losses provision for dividend is not required.

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
SCHEDULE 2: Advance Against Share Application Money [See Schedule 23, Note 8]		
Advance Against Equity Share Application Money	<u>867,431,181</u>	<u>867,431,181</u>
	<u>867,431,181</u>	<u>867,431,181</u>
SCHEDULE 3: Reserves and Surplus		
Capital Reserve	34,032,776	34,032,776
Securities Premium [See Note (a), (b) & (c) below]	22,633,732	9,523,145
Balance, beginning of the year	-	13,110,587
Adjusted during the year	-	-
Less: Utilised during the year	<u>22,633,732</u>	<u>22,633,732</u>
	11,900,000	11,900,000
Statutory Reserve [See Note (d) below]	104,438,156	104,438,156
General Reserve [See Note (e) below]	<u>(104,438,156)</u>	<u>-</u>
Less: Transferred to Profit & Loss Account	-	-
	<u>68,566,508</u>	<u>173,004,664</u>

- (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 (a) (iii)]
- (b) During the year 2006, in accordance with the CDR Scheme [See Schedule 22, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the securities premium to that extent.
- (c) During the year 2007-08, the Company based on the lenders confirmation has written back the securities premium of Rs 13,110,587
- (d) As more fully discussed in Schedule 22, Note 1(a), the Company (*erstwhile* The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 23, Note 21, 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 22, Note 1(a) This reserve has been transferred to Profit & Loss Account during the Year.

SCHEDULE 4: Secured Loans [See Schedule 23, Note 9]

Term Loans	746,250,000	750,000,000
From Financial Institution	5,273,500,000	5,300,000,000
From Banks	-	-
0% Funded Interest Term Loan	326,845,373	-
From Financial Institution	46,251,704	-
From Banks	-	61,387,079
Interest accrued & due on term loans	6,673,308	11,310,067
Vehicle loans	<u>166,489,352</u>	<u>167,790,093</u>
Bank overdraft	<u>6,566,009,737</u>	<u>6,290,487,239</u>
Amounts repayable within a year	6,415,390	6,344,253
- Vehicle Loan	15,000,000	13,750,000
- Financial Institutions	106,000,000	97,166,667
- Banks	-	-

SCHEDULE 5: Unsecured Loans [See Schedule 23, Note 10]

Zero per cent Non Convertible Debentures ('NCDs')(erstwhile OFCDs)(others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	-	3,937,742
Buyers Credit Facility (Loan from foreign bank)	311,440,519	403,252,347
Buyers Credit Facility (Loan from Infotel Business Solutions Limited) Repayable on demand	410,740,832	410,740,832
Short term loan from Infotel Digicom (P) Limited Repayable on demand	<u>499,499,886</u>	<u>499,499,886</u>
	<u>1,388,457,337</u>	<u>1,484,206,907</u>
Amounts repayable within a year - Buyer Credit Facility (Loan from foreign bank)	<u>207,627,012</u>	<u>161,530,219</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS
SCHEDULE 6: FIXED ASSETS [See Schedule 23, Note 11]

(Amount in Rs.)

Assets	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As at April 1, 2008	Additions during the year	Sale/Adjustment during the period	As at March 31, 2009	As at April 1, 2008	Depreciation for the period	On Sale/Adjustment	As at March 31, 2009	As at March 31, 2008
Land - Freehold	16,142,623	-	-	16,142,623	-	-	-	16,142,623	16,142,623
Land - Leasehold	8,896,419	-	-	8,896,419	832,508	92,160	-	7,971,751	8,063,911
Building	189,200,208	-	-	189,200,208	25,946,931	3,606,691	-	159,646,586	163,253,277
Leasehold Improvements	89,651,823	615,585	14,662,202	75,605,206	51,997,120	7,471,658	8,020,298	24,156,726	37,654,703
Network Equipment	3,521,155,093	168,866,137	486,202,260	3,203,818,970	1,865,136,581	343,567,119	402,261,302	1,397,376,572	1,656,018,512
Optical Fibre Cable and Copper Cable	4,322,693,654	24,620,483	-	4,347,314,137	1,773,085,998	305,215,381	-	2,078,301,379	2,549,607,656
Telephone Instruments at Customers Premises	999,301,723	107,134,095	241,589,054	864,846,764	646,447,510	141,994,508	172,688,262	249,153,008	352,854,213
Computers	240,478,483	2,864,639	8,253,235	235,089,887	154,379,768	24,564,508	4,099,137	60,244,808	86,098,775
Office Equipment	45,106,354	1,198,855	2,326,711	43,978,498	24,426,661	5,164,908	1,306,423	15,693,352	20,679,693
Furniture & Fixture	39,992,198	194,108	209,014	39,997,292	29,923,294	3,633,469	93,513	6,514,042	10,068,904
Vehicles	38,511,264	4,717,728	12,210,670	31,018,322	22,587,836	6,416,624	8,619,187	10,633,047	15,923,426
T O T A L	9,511,129,842	310,211,630	765,453,146	9,055,888,326	4,394,764,149	841,687,026	597,088,122	4,216,525,273	4,916,365,693
Previous Year ended March 31, 2008	9,026,056,715	655,074,231	170,001,104	9,511,129,822	3,786,093,632	890,670,356	81,999,839	4,594,764,149	

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK			AMORTISATION			NET BLOCK		
	As at April 1, 2008	Additions during the period	Sale/Adjustment during the period	As at March 31, 2009	As at April 1, 2008	Amortisation for the period	On Sale/Adjustment	As at March 31, 2009	As at March 31, 2008
Computer Software	171,562,385	3,930,790	-	175,493,175	135,727,241	13,994,243	-	149,723,484	35,835,144
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	1,059,201,466	136,055,290	-	1,195,256,736	1,293,457,137
Licence Entry Fees GSM [Refer Schedule 22, Note 1(b)]	1,517,500,000	-	-	1,517,500,000	-	-	-	1,517,500,000	1,517,500,000
T O T A L	4,041,720,988	3,930,790	-	4,045,651,778	1,194,928,707	150,049,533	-	2,700,673,538	2,846,792,281
Previous Year ended March 31, 2008	2,507,086,886	1,534,634,002	-	4,041,720,888	1,046,795,320	148,133,387	-	1,194,928,707	

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
SCHEDULE 8: Investments (Non Trade - Long term) [See Schedule 23, Note 12]		
Subsidiary Company		
Long Term (at cost)		
Unquoted		
Nil [March 31, 2008 - 9,050,000] equity shares of Rs 10 each fully paid in CBSL Cable Networks Limited (erstwhile Connect Broadband Services Limited ('CBSL'))	99,800	90,500,000
9,980 [March 31, 2008 - Nil] equity shares of Rs 10 each fully paid in Infotel Tower Infrastructure Private Limited		
Associate Company		
Long Term (at cost)		
Unquoted		
Nil [March 31, 2008 - 1,750,000] equity shares of Rs 10 each fully paid in The Investment Trust of India Limited ('ITI')		18,000,000
Nil [March 31, 2008 - 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
	<u>99,800</u>	<u>808,170,900</u>

Note:

- (a) The Company had 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. The Company held 9,050,000 shares of Rs 10 each at par in CBSL. During the year ended March 31, 2008 the Company had entered into a share purchase agreement with Digicable Networks (India) Private Ltd 'DNPL' on March 26, 2008 for sale of shares of CBSL. The transfer of shares has been completed on April 16, 2008. During the year 9,050,000 shares of Rs 10 each at par have been sold by the Company.
- (b) The Company acquired the entire shareholding in The Investment Trust of India Ltd ('ITI') (erstwhile Rajam Finance and Investments Company India Limited, an unlisted registered NBFC) from the erstwhile promoters [See Schedule 22, Note 1(a)]. Consequently ITI became a wholly owned subsidiary of the Company with effect from August 19, 2002. 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, 2009
 - (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 a proportionate premium as mentioned in condition (ii) above.
 - (iv) During the year ended March 31, 2009, the Company has written off the investment of Rs 18,000,000 in Equity Share Capital and Rs 699,670,900 in OFCD's in ITI as ITI has negative networth and the Company believes that ITI would not be able to arrange funds as per their business plans and the recovery of their investments.
- (d) During the year ended March 31, 2009, the Company has incorporated one wholly owned Subsidiary Company, Infotel Tower Infrastructure Private Limited with an investment of Rs 99,800 [See Schedule 23, Note 12 (c)]

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
SCHEDULE 9: Inventory [See Schedule 23, Note 14]		
Inventory held for installation and maintenance of network	19,895,676	20,667,816
	<u>19,895,676</u>	<u>20,667,816</u>
SCHEDULE 10: Sundry Debtors		
<i>Debts outstanding for a period exceeding six months:</i>		
Secured and Considered Good	7,978,885	5,110,376
Unsecured and Considered Doubtful	115,208,921	116,017,176
<i>Debts outstanding- Others</i>		
Secured and Considered Good	9,266,310	25,813,385
Unsecured and Considered Good	321,733,064	375,714,239
Unsecured and Considered Doubtful	13,680,977	22,279,934
	<u>467,868,137</u>	<u>544,935,110</u>
Less: Provision for Doubtful Debts	128,889,899	138,297,110
	<u>338,978,238</u>	<u>406,638,000</u>

Notes:

- Debtors are secured to the extent of deposit received from the subscribers.
- Includes Rs 91,979,858 (March 31, 2008 - Rs 111,541,969) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2009 [See Schedule 22, Note 2.11]
- Debtors includes amount due from HFCL Satellite Communication Limited, as per erstwhile Sec. 370 (1B) of the Companies Act, 1956, the company under the same management, amounting to Rs 10,123,047 (March 31, 2008 - Rs 7,538,591), Maximum amount outstanding during the year Rs 10,123,047 (March 31, 2008 - Rs 9,330,004).

SCHEDULE 11: Cash and Bank Balances

Cash in Hand	2,426,702	1,437,015
Cheques in Hand	7,964,046	9,750,726
Balances with Scheduled Banks		
In Current Account	40,466,719	26,992,545
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 65,428,936 (March 31, 2008 - Rs. 73,390,554)]	65,428,936	73,390,534
In Escrow Account [See note below]	1,663,818	1,843,370
	<u>117,950,221</u>	<u>113,414,210</u>

Notes:

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

SCHEDULE 12: Other Current Assets

Interest Accrued on Fixed Deposits	13,359,325	8,884,139
	<u>13,359,325</u>	<u>8,884,139</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
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	55,573,140	78,170,263
Considered Doubtful [See Schedule 23, Note 1(h)]	789,668	134,859,908
Due from CBSL Cable Networks Ltd - Wholly owned Subsidiary (Maximum outstanding balance during the year Rs 46,610,850, March 31, 2008 Rs 46,796,885)	-	46,610,850
Due from ITIPL Limited - Wholly owned Subsidiary (Maximum outstanding balance during the year Rs 32,821,607, March 31, 2008 - Rs Nil)	32,821,607	-
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999, March 31, 2008 - Rs 1,149,999)	1,149,999	1,149,999
Due from HTL Limited - Company under the same management (Maximum outstanding balance during the year Rs 119,784, March 31, 2008 - Rs 119,784)	-	119,784
Security Deposits		
Considered Good	26,030,348	22,511,027
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	11,402,874	4,812,923
Balance with Customs, Excise and Service Tax	77,271,897	30,921,772
	<u>206,250,798</u>	<u>320,367,791</u>
Less: Provision for Doubtful Advances	2,000,933	136,071,173
	<u>204,249,865</u>	<u>184,296,618</u>
Notes:		
Advance recoverable includes dues from Chief Executive Officer as under		
Interest free Housing Loan (Maximum amount outstanding during the year Rs 350,000, March 31, 2008 - Rs 500,000)	200,000	350,000
Other Advances (Maximum amount outstanding during the year Rs 493,134, March 31, 2008 - Rs 862,933)	-	<u>33,158</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
SCHEDULE 14: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors*		
Capital Goods	82,269,033	95,468,070
Expenses	230,453,745	188,685,821
Interconnection Usage Charges ("IUC") payable to other operators	137,717,010	97,550,269
Expenses Payable	132,309,443	197,192,213
Book Overdraft	5,945,836	8,815,116
Advance Against Booking	63,035	325,525
Advance From Customers and Unaccrued Income**	591,480,600	424,501,265
Advance against Investment in CBSL Cable Networks Limited	-	79,900,000
Advance for GSM Licence Entry Fee [See Schedule 23, Note 16 (b)]	1,628,500,000	1,517,500,000
Security Deposits		
From Subscribers	69,831,038	99,845,721
From Others	27,176,235	30,079,433
Investor Education and Protection Fund***		
Unclaimed Dividends	441,005	520,779
Unclaimed Deposits from Public	485,963	700,963
Interest accrued and due on Public Deposits	46,116	101,611
Other Liabilities		
	117,655,312	96,143,858
Provision for interest****	1,029,099,836	997,794,128
	<u>4,053,474,207</u>	<u>3,835,124,772</u>

* Includes Rs 709,716 (March 31, 2008 Rs Nil) amount payable to Micro, small and medium Enterprises. [See Schedule 23, Note 16 (a)]

** Includes Rs 337,467,701 (March 31, 2008 Rs 277,783,003) pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which ranges from year 2005 to 2023.

*** 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 1,025,846,205 (March 31, 2008 - Rs 962,496,986) to be adjusted over a period from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs Nil (March 31, 2008 - Rs 31,724,541) and interest accrued but not due on unsecured loan amounting to Rs 3,253,631 (March 31, 2008 - Rs 3,572,601)

Provisions [See Schedule 23, Note 21]

Wealth Tax	24,597	31,123
Leave Encashment / Availment	16,038,389	12,750,914
Gratuity	12,655,446	10,489,582
	<u>28,718,432</u>	<u>23,271,649</u>
	<u>4,082,192,639</u>	<u>3,858,396,421</u>

Notes:

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

(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,618 (March 31, 2008 - 523,618) towards repayment of public deposits under the NBFC COR. [See Schedule 23, Note 21]

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	For the year ended March 31, 2009	For the year ended March 31, 2008
SCHEDULE 15: Service Revenue		
Revenue	1,507,945,289	1,828,963,887
From Unified Access Services	136,992,288	140,444,750
From Interconnection Usage Charge	51,608,929	51,281,795
From Infrastructure Services	339,160,868	468,137,537
From Internet Services	<u>2,235,707,374</u>	<u>2,488,827,969</u>
SCHEDULE 16: Other Income		
Interest Income (Tax deduction at source Rs Nil, March 31, 2008 Rs Nil)	6,032,398	5,040,505
Excess Provision written back	3,937,742	-
Miscellaneous Income	3,884,522	5,912,000
	<u>13,854,662</u>	<u>10,952,505</u>
SCHEDULE 17: Network Operation Expenditure		
Interconnect Usage Charges	464,958,183	534,688,724
Other Value Added Service charges	8,942,490	7,673,793
Port Charges	30,711,984	24,818,550
Testing and Technical Survey Expenses	1,610,000	2,225,090
Licence Fees on Revenue Share Basis	104,064,784	113,368,154
Royalty and licence fees to Wireless Planning Commission	12,733,559	10,038,030
Stores and Spares Consumed	43,442,476	29,738,183
Rent Node site	36,190,144	39,877,340
Infrastructure Sharing Rent	143,008,106	77,277,485
Electricity and Water	78,175,180	69,564,373
Security Charges	390,733	1,909,603
Repair & Maintenance - Network	89,504,841	82,713,132
Bandwidth Charges	119,939,699	144,574,944
	<u>1,133,672,179</u>	<u>1,138,467,401</u>
SCHEDULE 18: Personnel Expenditure		
Salaries, Wages and Bonus [See Schedule 23, Note 24]	446,091,617	435,592,418
Employer's Contribution to Provident and Other Funds [See Schedule 23, Note 24]	20,776,293	21,163,162
Staff Welfare Expenses	10,793,205	12,085,100
Recruitment & Training Expenses	4,500,893	10,689,058
	<u>482,162,008</u>	<u>479,529,738</u>

HFCL INFOTEL LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	For the year ended March 31, 2009	For the year ended March 31, 2008
SCHEDULE 19: Sales and Marketing Expenditure		
Sales and Business Promotion	2,447,663	13,509,200
Advertisement Expenses	35,623,463	77,956,606
Customers Acquisition Costs	116,925,636	103,662,134
	<u>154,996,762</u>	<u>195,127,940</u>
SCHEDULE 20: Administrative and Other Expenditure		
Legal and Professional Expenses	32,323,239	27,381,588
Travelling and Conveyance	64,971,100	65,263,116
Communication Expenses	2,699,257	4,494,316
Rent	25,955,155	28,641,374
Security Charges	4,590,871	5,138,260
Repairs and Maintenance - Building	229,488	358,604
Repairs and Maintenance - Others	12,599,951	13,356,504
Electricity and Water	15,492,502	15,215,521
Insurance	6,937,795	7,098,285
Rates and Taxes	29,131,064	1,934,326
Freight & Cartage	5,473,920	8,667,853
Printing and Stationary	3,980,296	7,260,628
Billing and Collection Expenses	67,972,731	68,496,295
Software Expenses	-	37,001
Directors' Fees	288,440	233,440
Provision for Doubtful Advances	(134,070,240)	
Less: Utilised to Doubtful Advances Written off	<u>68,370,240</u>	(65,700,000)
Bad Debts Written off	63,826,550	153,382,407
Provision for Doubtful Debts	32,002,691	
Less: Utilised to Bad Debts Written off	<u>(20,704,951)</u>	11,297,740
Wealth Tax	24,597	31,123
Miscellaneous Expenses	5,516,403	5,559,853
	<u>287,611,099</u>	<u>425,320,075</u>
SCHEDULE 21: Finance Charges		
Interest on Term Loans*	583,433,679	596,757,418
Interest to Others	80,280,594	43,200,795
Bank Guarantee Commission	8,783,614	9,280,098
Trustees Fee	927,163	1,000,000
Other Finance Charges	4,869,312	4,883,412
	<u>678,294,362</u>	<u>655,121,753</u>

* Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 63,349,218 (March 31, 2008 - Rs 200,196,986) as per CDR Scheme.

**SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR
THE YEAR ENDED MARCH 31, 2009**

[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, 2009, the Company has an active subscriber base of over 550,502.

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 21, 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 26, 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.

On August 15, 2008, the Company has incorporated one wholly owned Subsidiary Company Infotel Tower Infrastructure Private Limited ('ITIPL') with an Investment of Rs 99,800. The principal business of the company is building, establishing, setting-up, accruing, developing, advising on, managing, providing, operating and/or maintaining, facilitating conduct of, fully or partially infrastructure facilities and services thereof for all kinds of value added services including Broadband Towers for telecom operations/services, payment gateway services and international gateway services.

(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 ended March 31, 2008, 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. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTC (Pt) dated September 9, 2008. The Company has applied for extension of the same with DOT, reply to which 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 2,147,295,600 resulting into accumulated loss of Rs 11,193,880,270 as at March 31, 2009 which has completely eroded its net worth and has a net current liability of Rs 3,387,759,294 including capital liability of Rs 82,269,032 and subscriber and distributors security deposits of Rs 97,007,273 (after considering provision for interest amounting to Rs 1,025,846,205 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, 2009, 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 notified accounting standards by Companies (Accounting Standards) Rules, 2006 ('as amended'), and the relevant provisions of the Companies Act, 1956. The preparation of financial statements in conformity with the Generally Accepted Accounting Principles. The financial statements have been prepared under the historical cost convention on an accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The significant accounting policies are as follows:

2.2 Fixed Assets

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

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

2.3 Inventory

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	Over the primary period of the lease
Buildings	Office Building 30 years Others 61 years
Leasehold Improvements:	10 years or over the primary period of the lease, whichever is lower
Network Equipment (other than batteries)	9.67 years
Batteries	5 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 for use.

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

- (iii) During the year the Company has decreased the average life of Batteries considered part of Network equipments from 9.67 years to 5 years. Resultant impact is not material, hence not disclosed.

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

- (v) Depreciation on the amount capitalised till March 31, 2007 on account of foreign exchange fluctuations is provided over the balance life of the original asset (refer Note 2.13, below)

2.5 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.

2.6 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 asset 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.

For accounting policy related to Licence Entry Fees, refer 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

equally 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 28, 2008, the same was abolished. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

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.

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, 2009**

[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	As At March 31, 2009	As At March 31, 2008
I.	Estimated Value of Contracts remaining To be executed on capital account and not provided for net of capital advances Rs. 2,024,306 (March 31, 2008 - Rs 393,564)	23,961,254	100,459,974
II.	Contingent Liabilities and Commitments		
	Financial Bank Guarantees (refer Note (a) below)	221,206,514	260,349,628
	Performance Bank Guarantees (refer Note (a) below)	53,864,972	55,658,922
	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 1,262,014 (March 31, 2008 - Rs 4,739,855))	12,620,144	47,898,551
IV.	Income-tax matters under Appeal (refer Note (b) below)	10,366,937	24,566,429
V.	Claims against the Company not acknowledged as debts - mainly representing various miscellaneous claims filed against the Company, which are subject matter of litigation.	51,48,860	4,227,065
VI.	Others (refer Note (c, d, e, f and g) below)	849,657,573	280,329,956
	Total	6,401,326,234	5,998,490,525

(a) Financial bank guarantees as at March 31, 2009 of Rs 221,206,514 (March 31, 2008 - Rs 260,349,628) and performance bank guarantees of Rs 53,864,972 (March 31, 2008 - Rs 55,658,922) 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 is 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 10,366,937 (March 31, 2008 - Rs 9,316,234).

(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. Wireless Finance Division of Department of Telecommunications has updated their claim to Rs 70,604,092 towards Spectrum Charges dues from January 1, 2000 to September 30, 2008 vide letter number 1020/29/WR/07-08 dated October 24, 2008. The Company has once again made a written representation vide its letter dated December 8, 2008. 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 the 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 on our petition no 232 of 2006 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 July 24, 2009. 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, 2009.

- (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 to which the Company has replied on September 27, 2007 that the Company has not violated the conditions of UASL and based on expert legal advice, the Company 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 year ended March 31, 2009.
- (f) The Company is in receipt of a demand of Rs 4,157,718 from Bharat Sanchar Nigam Limited ('BSNL') on February 2, 2009 on account of port charges for the year 2008-09, passive link charges, duct cost for passive link and active link charges. Out the above Rs 430,131 pertaining to port charges for the year 2008-09 and active link charges was paid by the Company vide receipt number 189 dated February 18, 2009. The amount of Rs 3,727,587 towards the duct cost for passive link and passive link charges was not acceptable by the Company as the demand raised by BSNL was unilateral and unjust. The Company filed a petition vide petition number 41(C) of 2009 with Telecom Dispute Settlement and Appellate Tribunal ('TDSAT') to which the Company was granted a stay order dated March 25, 2009 staying BSNL from recovering the dues from the Company and matter is further listed on July 20, 2009 for hearing on accordingly no liability has been booked in the books of accounts for the year ended March 31, 2009.
- (g) The Company is in receipt of a demand of Rs 433,158,340 from Bharat Sanchar Nigam Limited ('BSNL') on December 20, 2008 on account of unilateral revision of access charges vide its letter dated April 28, 2001 for the period from June 2001 to May 2003, in contravention of the Interconnect Agreement and TRAI Regulations. The Company, Association of Unified Service Providers of India 'AUSPI' (erstwhile Association of Basic Telephone Operators 'ABTO') and other Basic Service Operators contested aforesaid revision in the rates of access charges before Telecom Dispute Settlement Appellate Tribunal ('TDSAT'). TDSAT vide its reasoned and detailed judgement dated April 27, 2005 allowed the refund claims and struck down the unilateral revision in the rates of access charges by BSNL and held that Telecom Regulatory Authority of India ('TRAI') is the final authority for fixing of access charges and access charges would be payable as rates prescribed by the TRAI and as per the Interconnect agreements. BSNL preferred an appeal in Hon'ble Supreme Court against the order of TDSAT and an interim stay was granted on October 19, 2006. Therefore aggrieved by such unilateral action on the part of BSNL by raising aforesaid demand and disturbing the status-quo, applications were moved by the Company, AUSPI and other operators in the Hon'ble Supreme Court vide C.A No.5834-5836 of 2005 that was listed for hearing on February 9, 2009 and Hon'ble Supreme Court passed an order clarifying its previous order of October 19, 2006 and stayed the refunds claim against the BSNL there by upholding the TDSAT order dated April 27, 2005 where by BSNL is refrained from raising the access charges demand. The Company based on the legal opinion believes that there would be no financial liability against this demand and has accordingly not recorded any liability towards access charges during the year ended March 31, 2009.
- (h) Loan and Advances of March 31, 2008 includes amount 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. Pending such recovery, provision for doubtful advance is being carried in the financial statements for the year ended March 31, 2008. On July 11, 2008 the Company has reached a settlement with Essar Investments Limited ('EIL') and EIL has agreed to pay HFCL sum of Rs 65,700,000 towards the final settlement of dues, accordingly the provisions of equivalent amount of Rs 65,700,000 have been adjusted and the balance amount of Rs 68,370,240 has been adjusted from Loans and Advances as amount not recoverable and its provision of equivalent amount of Rs 68,370,240 have been reversed and written off.

2. Expenditure in foreign currency (on accrual basis)

	For the year ended March 31, 2009	For the year ended March 31, 2008
Travel expenses	1,351,785	2,813,044
Finance charges	18,434,494	20,732,243
Others	716,806	214,051,000
Total	20,503,084	237,596,287

3. Managerial remuneration

Mr. Surendra Lunia was designated 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. Mr. Surendra Lunia subsequently resigned as a manager on January 31, 2009. Mr. Kapil Bhalla – Company Secretary has been appointed as the manager of the Company with effect from January 31, 2009 since the annual salary payable is less than the stipulated limit no approval of Central Government is required. Accordingly the managerial remuneration has been as disclosed below.

Remuneration paid to Manager is as under:

	For the year ended March 31, 2009	For the year ended March 31, 2008
Salary	2,552,000	2,282,952
Employer's contribution to provident fund	306,240	273,955
Perquisites/ Allowances	3,542,726	3,839,510
Ex-gratia/ Performance linked incentive	577,500	1,387,380
Total	6,978,466	7,783,797

The above managerial remuneration does not include provision of gratuity of Rs 17,188 (March 31, 2008- Rs 287,241) and leave encashment of Rs 30,839 (March 31, 2008- Rs 645,742), as these provisions 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.

4. Payments to auditors (excluding service tax)

	For the year ended March 31, 2009	For the year ended March 31, 2008
As Auditor:		
Audit fees	2,000,000	2,000,000
Tax audit fee	480,000	350,000
Out-of-pocket expenses	281,118	300,834
In other manner:		
Certification charges	150,000	100,000
Total	2,911,118	2,750,834

5. CIF value of imports

	For the year ended March 31, 2009	For the year ended March 31, 2008
Import of capital equipment (other than telephone instruments)	78,738,857	99,542,553
Import of telephone instruments	68,232,931	96,510,977
Components & Spares	5,920,008	5,908,766
Total	152,891,796	201,962,296

6. Consumption of Stores & Spares

	For the year ended March 31, 2009		For the year ended March 31, 2008	
	Value	%	Value	%
Indigenous	41,214,789	94.94	25,443,562	85.57
Imported	2,197,667	5.06	4,292,621	14.43
Total	43,412,476	100.00	29,738,183	100.00

7. Share Capital

Equity shares

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 of unlisted equity shares have been listed at Bombay Stock Exchange (BSE) vide it's letter number 20090514-12 dated May 14, 2009 and letter number DCS/PREF/DMN/FIP/239/09-10 dated May 25, 2009. As a pre-condition to the listing of the aforesaid shares of the Company, BSE directed the Company to undertake an offer for sale in the domestic market as the non-promoter holding in the Company was below the minimum stipulated level. Accordingly, the Company filed

the draft offer for sale document with SEBI for sale of 8,000,000 equity shares held by promoter in the Company. However, SEBI, vide its order dated March 7, 2007 directed the Company that 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 against the Company are disposed off. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007. The Hon'ble SAT 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 eight weeks from the date of filing of revised draft offer for sale document by the Company. In parallel, pursuant to the restructuring package approved under CDR mechanism, the Company has been in the process of issuance of fresh equity shares to Banks / Financial Institutions on conversion of optionally fully convertible debentures (OFCDs). Considering that post issuance of fresh equity on conversion of OFCDs, the non-promoter holding in the Company would exceed the minimum stipulated threshold, the Company requested BSE to grant listing of unlisted shares without stipulating the condition of offer of sale. BSE, vide its letter DCS / AMAL / RCG / GEN / 1108 / 2008-09 dated February 13, 2009 has, inter alia, agreed to exempt the condition imposed on the Company to comply with requirement of making an offer for sale in the domestic market, subject to compliance of certain procedural requirements including three years lock-in period of 25% of newly issued equity shares pursuant to the merger i.e. 25% of 432,000,230 shares (1,080,00,063 equity shares). The Company in compliance with conditions stipulated by BSE has placed under lock in 108,000,063 equity shares on May 14, 2009 for a period of 3 years ending May 13, 2012. The Company has also complied with all other necessary requirements pursuant to the letter from BSE dated February 13, 2009 related to 83,070,088 equity shares issued pursuant to corporate debt restructuring scheme. BSE has also agreed to grant in-principle approval for allotment of 86,743,116 equity shares to be issued to Banks and financial institutions on conversion upon filing of necessary listing application, which the Company has filed, vide its letter no. HFTL/S&L/S-01/09/472 and 473 dated March 07, 2009. BSE vide their notice 20090914-12 dated May 14, 2009 hosted on its website has granted listing and trading permission for 432,000,230 equity shares issued pursuant to scheme of amalgamation. BSE has granted listing approval for 83,070,088 equity shares vide their letter number DCS/PRBF/DMN/FP/239/09-10 dated May 25, 2009 and the shares have been listed vide BSE notice number 20090603-20 dated June 3, 2009.

On March 31, 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.

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, 2008, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2005, 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 3,550,374 to Advance Against Equity Share Application Money, which pertained to differential interest due to monthly vis-a-vis quarterly compounding in respect of term loan from a scheduled bank. During the year ended March 31, 2008, the Company obtained additional confirmations 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 131,110,587 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, on the basis of directions of Financial Institution and Banks have requested Bombay Stock Exchange ('BSE') to grant 'in-principle' approval for allotment of shares at par. The BSE has agreed vide its letter no. DCS/AMAL/RCG/GEN/1108/2008-2009 dated February 13, 2009 to grant in-principle approval for allotment of 86,743,116 equity shares to be issued to Banks and financial institutions on conversion of OFCDs upon completion of necessary formalities. The Company has filed the requisite listing application in prescribed format vide its letter no. HFTL/S&L/S-01/09/472 and 473 dated March 07, 2009 receipted by BSE on March 12, 2009 and response from BSE is still awaited.

9. Secured Loans

- (a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 4, 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.

On the request of the Company, Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 138 / 2009-10 dated May 20, 2009 has approved a revised restructuring package. The revised restructuring package inter alia includes funding of interest from July 1, 2008 to October 31, 2009 on simple interest basis. Funded interest on Term Loan ('FITL') would not carry any interest and the FITL shall be repaid in 16 equal monthly installments commencing from December 1, 2009, and reschedulement of principle installments from August 1, 2008 to November 1, 2009 so as to be repayable from December 1, 2009 to March 1, 2011. In accordance with the aforesaid revision in the restructuring scheme, the Company has disclosed

the interest accrued but not due to the lenders amounting to Rs 373,097,077 from July 1, 2008 to March 31, 2009 as 0% FITL which shall be repaid from December 1, 2009 in 16 monthly installments. Further, in line with the aforesaid scheme, no installment of principle repayment is becoming due till November 1, 2009 and as such there is Nil amount due as on March 31, 2009. Confirmation from the lenders is awaited.

- (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 6,673,308 (March 31, 2008 - Rs 11,310,067) 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 2011. Vehicle loans repayable within one-year amounts to Rs 5,046,454. Interest rates on vehicle loans vary from 8.09 per cent per annum to 14.33 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 Non Convertible Debentures ('NCDs') 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 NCDs 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 Nil as at March 31, 2009 (March 31, 2008 - Rs 3,937,742).
- (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, 2009, 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 March 31, 2009 – Rs 499,499,886, March 31, 2008 – Rs 499,499,886) 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 March 31, 2009 – Rs 410,740,832, March 31, 2008 – Rs 410,740,832) from Infotel Business Solutions Limited. The loan carries 12% 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.

11. Fixed Assets and Capital work-in-progress

- (a) Capital Work in Progress includes Goods in Transit of Rs 92,177 (March 31, 2008 – Rs 23,818,282).
- (b) As on March 31, 2009, telephone instruments aggregating to a net book value of Rs 219,610,995 (March 31, 2008 – Rs 227,894,157) and other assets aggregating to net book value of Rs 280,717,435 (March 31, 2008 – Rs 190,673,090) are located at customer premises, other parties and at other operator's sites, respectively.
- (c) On July 30, 2008, the Company has entered into an agreement with Tower Vision India (P) Limited to sell 150 ready network sites to including 26 CorDect sites and 124 tower sites. Out of 124 tower sites, 99 ready tower sites were included in the Company's net fixed assets at written down value of Rs 59,964,154 and the balance 25 towers were yet to be constructed. The total consideration of the aforesaid agreement aggregates to Rs 656,000,000. The terms of the asset purchase agreement expires on December 31, 2008 and by then, the Company had handed over 83 ready tower sites for Rs 384,276,637 with gross book value of Rs 117,435,184 and accumulated depreciation of Rs 70,393,388, the net book value being Rs 47,041,796 and accordingly, recorded a profit of Rs 337,234,841 which has been disclosed under gain on Sold Fixed Assets in the Profit and Loss Account (Refer schedule 16). With the expiry of the asset purchase agreement there is no binding upon the Company to execute the handing over the balance 67 sites. The profit includes Rs 40,836,000 as premium, out of which Rs 38,936,333 has been deferred over the term of the master infrastructure provisioning agreement

- (d) During the year ended March 31, 2009, the Company has written off CorDect switch and telephones sets with gross book value of Rs 292,609,292 and accumulated depreciation of Rs 194,824,721, the net book value being Rs 97,784,571 and accordingly, recorded a loss of Rs 97,784,571 which has been disclosed under Loss on Discarded Fixed Assets in the Profit and Loss Account.
- (e) During the year ended March 31, 2009, the Company has also written off Lucent switch and its accessories with gross book value of Rs 289,659,578 and accumulated depreciation of Rs 289,113,567, the net book value being Rs 546,011 and accordingly, recorded a loss of Rs 546,011 which has been disclosed under Loss on Discarded Fixed Assets in the Profit and Loss Account.

12. Investments

- (a) As more fully discussed in note 1(a) of schedule 22, 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 93,807,921 for the year ended March 31, 2009, accumulated losses of Rs 212,864,072 and has a negative net worth of Rs 175,364,072 as on March 31, 2009. The Company believes that ITI would not be able to arrange funds as per their business plans and the recovery of their investments and accordingly has written off the investment of Rs 717,670,900 and has disclosed as 'Diminution in value of investments' in the Profit and Loss Account.
- (b) The Company held 9,050,000 equity shares of Rs 10 each amounting to Rs 90,500,000 (99.9994 %) of entire paid up capital of subsidiary CBSL Cable Networks Limited. During the year ended March 31, 2008 the Company had entered into a share purchase agreement with Digicable Networks (India) Private Ltd on March 26, 2008 for sale of shares of CBSL at par. The transfer of shares has been completed on April 16, 2008.
- (c) During the year ended March 31, 2009 the Company has incorporated one wholly owned Subsidiary Company Infotel Tower Infrastructure Private Limited with an Investment of Rs 99,800. The principal business of the company is building, establishing, setting-up, accruing, developing, advising on, managing, providing, operating and/or maintaining, facilitating conduct of, fully or partially infrastructure facilities and services thereof for all kinds of value added services including Broadband Towers for telecom operations/services, payment gateway services and international gateway services.

13. Licensing Fees

During the year ended March 31, 2008, 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. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTG (Pt) dated September 9, 2008. The Company has applied for extension of the same with DOT, reply to which is still awaited.

14. Inventory

The Company holds inventory of network maintenance consumables and RUM cards amounting to Rs 19,893,676 (March 31, 2008 - Rs 20,667,816). The quantity and valuation of inventory is taken as verified, valued and certified by the management.

15. Deferred Taxes

During the year, the Company has incurred losses of Rs 2,147,295,600 (accumulated losses of Rs 11,193,880,270) 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

(a) Sundry Creditors include amount payable to Micro and Small Enterprises as at March 31, 2009 of Rs 709,716 (March 31, 2008 - Rs Nil). The information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information and records available with the Company.

Information for the supplier covered under the Micro, Small and Medium Enterprise Development Act, 2006, as at March 31, 2009 is as under -

Particulars	For the year ended March 31, 2009	For the year ended March 31, 2008
Principal amount	709,716	-
Interest due thereon remaining unpaid to any supplier as at the end of each accounting year	-	-
The amount of interest paid by the buyer in terms of Section 16 of Micro, Small and Medium Enterprise Development Act, 2006, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro, Small & Medium Enterprise Development Act, 2006.	-	-
The amount of interest accrued and remaining unpaid at the end of accounting year.	-	-

(b) During the year ended March 31, 2008, the Company had obtained advance of Rs 1,517,300,000 to fund the entry fee for using GSM Technology under the existing Unified Access Services License (UASL) for Punjab Service Area. During the year ended March 31, 2009 the Company took additional advance of Rs 111,000,000. The amount of aforesaid advance is adjustable or refundable on such terms and conditions as may be mutually agreed.

17. Loss per share

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

	For the year ended March 31, 2009	For the year ended March 31, 2008
Loss for the year (in Rs)	2,147,295,600	1,425,357,719
Weighted average number of shares	523,517,152	523,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share - basic and diluted* (in Rs)	4.09	2.71

*The impact of dilution on account of advance share capital, OPCE has not been considered as it is anti-dilutive.

18. Operating leases**A. Company as a Lessee**

- (a) The Company has entered into various cancellable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2009 is Rs 62,145,298 (March 31, 2008 = Rs 68,518,714).
- (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 143,008,106 (March 31, 2008 = Rs 88,437,485) towards infrastructure sharing expenses.

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

Particulars	As at March 31, 2009	As at March 31, 2008
Payable not later than one year	37,886,689	85,868,630
Payable later than one year and not later than five years	143,633,605	48,989,034
Payable more than five years	171,449,122	10,289,506
Total	372,769,416	146,147,170

The escalation clause includes escalation at various periodic level ranging from 0 to 30%, includes options of renewal from 1 to 99 years and there are no restrictions imposed on the leased arrangements

B. Company as a Lessor

The Company has entered into cancellable site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 12,561,961 (March 31, 2008 = Rs 15,512,519) towards site sharing revenue.

The Company has entered into a non cancellable lease agreement to provide approximately 7525.11 fibre pair kilometers of dark fibre of indefeasible right of use (DRU) basis for a period 15 years. The lease rental receivable proportionate to actual kilometers accepted by the customers is credited to the profit and loss account on straight-line basis over the lease term. Due to the nature of the transactions it is not possible to compute the gross carrying amount, depreciation for the year and accumulated depreciation of the asset given on operating lease as at March 31, 2009 and accordingly disclosure required by AS-19 is not provided.

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 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.

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. [Refer Schedule 11 & 14 and Schedule 22, Note 1(a)]. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. 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. H11./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 455,963
❖ Interest accrued and due on public deposits upto September 15, 2003	Rs 46,116
❖ Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs 589,066
❖ Cheques outstanding beyond 6 months	Rs 523,618
Others (Under reconciliation)	Rs 19,055
	Rs 1,663,818
Balances with Scheduled banks in Escrow account	Rs 1,663,818

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 2,147,295,600. 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, 2009	For the year ended March 31, 2008
Revenue		
Revenue from Unified Access Services	-	(1,545,260)
Revenue from Internet Services	1,507,107	(918,966)
Revenue from Infrastructure Services	-	(1,214,033)
Sub Total	1,507,107	(3,678,259)
Expenses		
Interconnect Usage Charges	232,986	14,541,245
Infrastructure Sharing Rent	3,143,785	-
Other Finance Charges	-	2,286,040
Port Charges	2,069,621	2,995,612
Interest to Others	1,255,744	1,670,353
Traveling and Conveyance	313,738	1,254
Legal & Professional Charges	113,653	303,029
Staff Welfare Expenses	151,206	9,490
Repair & Maintenance - Network	2,095,329	234,373
Rent	300,292	30,097
Insurance	-	277,425
Electricity and Water	491,578	22,218
Miscellaneous Expenses	460,250	-
VAT on Sale of Assets	7,928,988	-
Sub Total	19,155,169	22,371,136
Grand Total	20,662,276	18,692,877

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, 2009	For the year ended March 31, 2008
Employer's Contribution to Provident Fund *	14,488,900	16,010,073
Employer's Contribution to ESI *	121,529	385,855

* Included in Employer's Contribution to Provident and Other Funds. Refer Schedule 18

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 recognised in the same manner as gratuity. Experience adjustments are Nil and have not been disclosed as required under para 120 of Accounting standard 15 relating to employee benefits.

Particulars	Gratuity #	Leave Encashment #
Current service cost	3,939,731	1,106,398
Interest cost	985,033	707,333
Expected Return on plan assets	(65,308)	-
Actuarial (gain) / loss	(693,582)	(843,373)
Past service cost	-	-
Curtailment and Settlement cost / (credit)	-	-
Net cost	6,165,864	2,968,361

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	7.50%	7.50%
Expected Rate of Increase in Compensation levels	3.00%	3.00%
Expected Rate of Return on Plan Assets	7.50%	7.50%
Expected Average remaining working lives of employees (years)	21 Years	21 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	12,086,161	7,893,183
Current service cost	3,939,731	1,106,398
Interest cost	985,033	707,333
Benefits paid	(4,251,824)	-
Past service cost	-	-
Actuarial (gain) / loss	(687,429)	(843,373)
Projected benefit obligation at year end	14,071,661	10,771,541
Change in plan assets:		
Fair value of plan assets at beginning of year	1,596,579	-
Expected return on plan assets	65,308	-
Actuarial gain / (loss)	8,153	-
Employer contribution	-	-
Contribution by plan participants	4,000,000	-
Settlement cost	-	-
Benefits paid	(4,251,824)	-
Fair value of plan assets at year end	1,416,214	-
Not funded status of the plan	(12,655,446)	(10,771,541)
Net amount recognized	(12,655,446)	(10,771,541)

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 period comparatives

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

As per our report of even date.

For S.A. BATHOGI & ASSOCIATES
Chartered Accountants
per Prashant Singhal
Partner
Membership No. 93261

For ATUL KUSHREBHA & CO.
Chartered Accountants
per Anil Kumar Aggarwal
Partner
Membership No. 91220

Place: Gurgaon
Date: June 30, 2009

Place: New Delhi
Date: June 30, 2009

For and on behalf of the Board

Mahendra Nabata
Director

M. P. Shukla
Director

Surenda Landa
Chief Executive Officer

Vikash Agarwal
VP - Finance

Kapil Ghalla
Company Secretary

Place: New Delhi
Date: June 30, 2009

HFCL INFOTEL LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2009
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	As At March 31, 2009	As At March 31, 2008
CASHFLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Prior Year Expenditure and Tax	(2,121,404,265)	(1,399,649,173)
Adjustments for:		
Depreciation and Amortization	991,736,559	1,038,803,743
Foreign exchange Loss/ (Gain)	103,875,334	(50,630,383)
Excess Provision Written Back	(1,937,742)	-
Disruption in value of Investments	717,673,908	-
Loss/ (Gain) on Sold / Discarded Fixed Assets	(181,938,302)	17,689,380
Bad Debts Written Off	63,826,550	159,382,407
Provision for Doubtful Advances	(65,700,000)	-
Provision for Doubtful Debts	11,292,740	12,769,579
Finance Expenses *	678,294,362	635,121,753
Interest Income	(6,032,398)	(5,140,505)
Operating profit before working capital changes	137,688,738	432,446,801
Adjustment for changes in working capital:		
(Increase) / Decrease in debtors	(7,464,548)	(169,779,369)
(Increase) / Decrease in Loans and advances	51,316,704	(100,956,290)
(Increase)/Decrease in Inventory	772,141	(30,667,816)
Increase / (Decrease) in Current liabilities and provisions	196,951,557	1,776,351,476
Cash generated from operations	430,284,632	1,907,394,802
Direct Taxes paid (Net)	(11,843,666)	(6,438,049)
Prior Period Expense / (Income) (Net)	(20,662,176)	(13,692,877)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	397,778,750	1,882,263,876
CASH FLOW FROM INVESTING ACTIVITIES		
Adjustment for changes in:		
Purchase of fixed assets	(277,112,704)	(2,314,505,026)
Proceeds from sale of fixed assets	350,303,315	70,311,833
Sale of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	90,500,000	-
Purchase of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	(99,800)	-
Fixed deposits	2,961,618	3,678,312
Wealth Tax	24,597	31,121
Interest Received	1,557,212	1,573,907
NET CASH USED IN INVESTING ACTIVITIES (B)	173,134,248	(2,238,909,889)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	3,735,000	7,551,575
Repayment of Secured Loan	(39,922,499)	(9,070,322)
Repayment of Public Deposits	(215,000)	(149,586)
Proceeds from Unsecured loan	-	648,240,717
Repayment to Unsecured Loan	(186,598,944)	(80,413,258)
Interest paid	(333,334,152)	(412,338,002)
Dividend paid	(79,774)	-
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	(558,415,369)	350,820,832
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	12,497,629	(12,825,181)
Cash and Cash Equivalents at the beginning of the year	40,023,656	32,848,837
Cash and Cash Equivalents at the end of the year	52,521,285	40,023,656
Cash and Bank Balances		
Cash in Hand	2,426,702	1,437,315
Cheques in Hand	2,964,046	9,750,726
Balances with Scheduled Banks		
In Current Account	40,466,719	26,992,945
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 63,428,936 (March 31, 2008 - Rs. 73,390,554)]	63,428,936	73,390,554
In Escrow Account	1,663,318	1,843,370
	117,950,221	113,414,210
Less : Margin Money pledged for Guarantees and LCs issued	63,428,936	73,390,554
Cash & Cash Equivalents	52,521,285	40,023,656

Notes:

- The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement notified under Companies (Accounting Standard) Rules 2006, ('as amended')
- Figures in brackets indicate cash outflow.
- * Includes interest accrued but not due on secured loan amounting to Rs 63,349,218 (March 31, 2008 - Rs 200,195,986) as per CDR Scheme.
- Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
- Dividend paid during the year Rs 79,774 (March 31, 2008, Rs Nil) as more fully disclosed in Schedule 14

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 30, 2009

For ATUL KULSHRESTHA & CO. For and on behalf of the Board
Chartered Accountants

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Place : New Delhi
Date : June 30, 2009

Mahendra Nahata
Director

Surendra Lunia
Chief Executive Officer

Place : New Delhi
Date : June 30, 2009

M. P. Shukla
Director

Vikash Agarwal
VP - Finance

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED

STATEMENT PURSUANT TO PART - IV OF SCHEDULE VI OF THE COMPANIES ACT, 1956
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I REGISTRATION DETAILS

Registration No.	26718
State Code	16
Balance Sheet	March 31, 2009

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	7,683,948,653
Total Assets	7,683,948,653

SOURCE OF FUNDS

Shareholders' Funds	6,772,602,701
Reserves & Surplus	68,566,508
Secured Loans	6,566,009,737
Unsecured Loans	1,388,457,337

APPLICATION OF FUNDS

Net Fixed Assets (Including Intangible Asset)	6,989,415,507
Accumulated Losses	11,193,880,270
Investments	99,800
Net Current Liabilities	3,387,759,294

IV PERFORMANCE OF THE COMPANY (RUPEES)

Turnover	2,249,562,036
Total Expenditure	4,391,628,577
Profit / (Loss) Before Tax	(2,142,066,541)
Profit / (Loss) After Tax	(2,147,295,600)
Earning Per Share	(4.09)
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

Vikash Agarwal
VP - Finance

Kapil Bhatta
Company Secretary

Place : New Delhi
Date : June 30, 2009

Auditors' Report

To

The Board of Directors of HFCL INFOTEL LIMITED

1. We have audited the attached consolidated Balance Sheet of HFCL INFOTEL LIMITED ('the Company'), its subsidiary Infotel Tower Infrastructure Private Limited and its associate The Investment Trust of India Limited (together referred as 'the Group') as described in schedule 22, Note 1(a), as at March 31, 2009, 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. We did not audit the financial statements of The Investment Trust of India Limited ('ITI') (Associate Company), and Infotel Tower Infrastructure Private Limited ('IT IPL') (Subsidiary Company), whose financial statements reflect the total assets of Rs. 921,313,467 (which represents 6.227% of consolidated assets) as at March 31, 2009 and the loss for the year of Rs. 94,563,441 (which represents 4.455% of consolidated net loss after tax) for the year ended on that date as at March 31, 2009. These financial statements have been audited by another auditor whose reports have been furnished to us and our opinion insofar as it relates to the amount included in respect of the associate and subsidiary, is based solely on the report of other auditors.
4. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 22 to the financial statements, the Group has incurred a losses of Rs 1,957,743,020 during the year (accumulated loss of Rs 11,194,623,558) resulting into erosion of its net-worth, and has a net current liability of Rs 3,420,336,760 (after considering provision for interest amounting to Rs 1,025,846,205 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, 2009. The Group has achieved profitability at the 'Earnings before interest and depreciation/amortisation' level, and is also able to generate cash from operations during 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 Group to continue as a going concern is significantly dependent on its ability to successfully arrange the balance funding in terms of the CDR scheme and achieve financial closure to fund its operating and capital funding requirements and 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 Group 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 13(b) of Schedule 23 of 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 (ULASL) for Punjab Service Area during March 31, 2008 and Rs 111,000,000 for operations during the year. 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. Our audit report on the financial statements for the year ended March 31, 2008 was modified, accordingly;

b) Note 5 (a) of Schedule 23 of the financial statements wherein the Company has given effect to restructuring of secured loans pursuant to the revised restructuring package approved by Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 138 / 2009-10 dated May 20, 2009 ('CDR letter'). We have relied upon the CDR letter and the confirmation from the lenders is awaited.

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, as notified pursuant to the Companies (Accounting Standards) Rules, 2006 (as Amended) and on the basis of separate financial statements of the ITI and ITIPL included in the consolidated financial statements.

7. Subject to matters stated in paragraph 5 above, consequential effect of whereof is not ascertainable, in our opinion and to the best of our information and according to the explanations given to us, the 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 March 31, 2009;

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

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

S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Place : Gurgaon
Date : June 30, 2009

per Prashant Singhal
Partner
Membership No: 93283

ATUL KULSHRESTHA & CO.
Chartered Accountants

Place : New Delhi
Date : June 30, 2009

per Anil Kumar Aggarwal
Partner
Membership No. 91720

HFCL INFOTEL LIMITED

CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 2009

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

PARTICULARS	SCHEDULE No.	As At	
		March 31, 2009	March 31, 2008
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	867,431,181
Reserves and Surplus	3	68,566,508	173,004,664
		<u>6,841,169,209</u>	<u>6,945,607,365</u>
Loan Funds			
Secured Loans	4	6,566,009,737	6,290,487,239
Unsecured Loans	5	1,388,457,337	1,484,206,907
		<u>7,954,467,074</u>	<u>7,774,694,146</u>
		<u>14,795,636,283</u>	<u>14,720,301,511</u>
APPLICATION OF FUNDS			
Fixed Assets			
Cross Block	6	9,055,888,326	9,578,168,033
Less: Accumulated Depreciation		(4,839,363,053)	(4,595,416,202)
Net Block		4,216,525,273	4,982,751,831
Capital Work-in-Progress (Includes Capital Advances for Rs 4,053,028) (March 31, 2008 - Rs 393,564)		72,567,405	122,445,449
		<u>4,289,092,678</u>	<u>5,105,197,280</u>
Intangible Assets (Net)	7	2,731,903,111	2,846,792,281
Investments	8	-	702,218,900
Deferred Tax Assets		353,696	-
Current Assets, Loans and Advances			
Inventory	9	29,629,456	20,667,816
Sundry Debtors	10	338,978,258	409,517,134
Cash and Bank Balances	11	118,229,086	113,730,515
Other Current Assets	12	13,359,323	8,884,139
Loans and Advances	13	172,459,202	114,078,747
		<u>672,655,327</u>	<u>696,878,351</u>
Less: Current Liabilities and Provisions	14	4,063,251,031	3,948,832,346
Current Liabilities		29,741,056	23,271,649
Provisions			
		<u>4,092,992,087</u>	<u>3,972,103,995</u>
Net Current Liabilities		<u>3,420,336,760</u>	<u>3,275,225,644</u>
Profit and Loss Account		11,194,623,558	9,341,318,694
Significant Accounting Policies	22	14,795,636,283	14,720,301,511
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. BAYLIBOI & ASSOCIATES
Chartered AccountantsFor ATUL KULSHRESTHA & CO.
Chartered Accountants

For and on behalf of the Board

per Prashant Singhal
Partner
Membership No. 93283per Anil Kumar Aggarwal
Partner
Membership No: 91720Mahendra Nahata
DirectorM. P. Shukla
DirectorSurendra Lunia
Chief Executive OfficerVikash Agarwal
VP - FinancePlace : Gurgaon
Date : June 30, 2009Place : New Delhi
Date : June 30, 2009Place : New Delhi
Date : June 30, 2009Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2009
 (Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	SCHEDULE No.	As At March 31, 2009	As At March 31, 2008
Income			
Service Revenue	15	2,235,707,374	2,464,813,706
Other Income	16	13,854,662	11,082,794
		<u>2,249,562,036</u>	<u>2,475,896,500</u>
Expenditure			
Network Operation Expenditure	17	1,133,672,179	1,150,464,770
Personnel Expenditure	18	481,779,020	493,178,206
Sales and Marketing Expenditure	19	154,996,762	195,127,940
Administrative and Other Expenditure	20	289,076,169	431,122,390
		<u>2,059,524,131</u>	<u>2,289,893,306</u>
Operating Profit for the Year before Finance Charges, Depreciation, Amortization and Loss / (Gain) on Sold / Discarded Fixed Assets		190,037,905	186,003,194
Diminution in value of Investments	23, Note 8 (a)	699,670,900	-
(Gain) on sale of Fixed Assets	23, Note 7 (c)	(337,234,841)	-
Loss on Discarded Fixed Assets		155,296,539	24,946,549
Finance Charges	21	678,294,812	655,121,753
Foreign exchange Loss / (Gain)		106,760,734	(50,630,383)
Depreciation	6	841,687,026	891,326,617
Amortisation	7	150,049,533	148,133,387
		<u>2,104,486,798</u>	<u>1,482,894,729</u>
Loss / (Profit) for the Year before Prior Year Expenditure and Tax		13,450,688	18,692,877
Prior Period Expenditure (Net)	23, Note 20		
		<u>2,117,937,486</u>	<u>1,501,587,606</u>
Loss / (Profit) for the Year before Tax			
Provision for Taxation			
Deferred Tax Liability / (Assets)		(353,696)	
Fringe Benefit Tax		5,243,511	7,141,333
		<u>2,122,827,301</u>	<u>1,508,728,989</u>
Loss / (Profit) for the Year before Profit on Disposal of Investment			
Share of Loss / (Profit) of Associate's Company	23, Note 8(a)		
Less Profit on Disposal of Investment in Subsidiary Company (CBSL Cable Networks Limited)		(165,084,281)	-
		<u>1,957,743,020</u>	<u>1,508,728,989</u>
Loss / (Profit) for the year		9,341,318,694	7,832,589,705
Loss / (Profit), brought forward from previous year			
Less Transfer from General Reserve		(104,438,156)	-
		<u>11,194,623,558</u>	<u>9,341,318,694</u>
Loss carried to the Balance Sheet			
Loss / (Profit) per share	23, Note 14		
(equity shares, par value of Rs 10 each)			
Basic (in Rs)		4.04	2.87
Diluted (in Rs)		4.04	2.87
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

For ATUL KULSHRESTHA & CO.
Chartered Accountants

For and on behalf of the Board

per Prashant Singhal
Partner
Membership No. 93383

per Anil Kumar Aggarwal
Partner
Membership No: 91720

Mahendra Nahata
Director

Surendra Lunia
Chief Executive Officer

M. P. Shukla
Director

Vikash Agarwal
VP - Finance

Place : Gurgaon
Date : June 30, 2009

Place : New Delhi
Date : June 30, 2009

Place : New Delhi
Date : June 30, 2009

Kapil Bhalla
Company Secretary

HFCL INFOTEL LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
Schedule 1: Share Capital [See Schedule 23, Note 3]		
Authorised:		
1,300,000,000 (March 31, 2008 - 1,300,000,000) equity shares of Rs 10 each (March 31, 2008 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (March 31, 2008 - 20,000,000) 2 per cent preference shares of Rs 100 each (March 31, 2008 - Rs 100 each)	2,000,000,000	2,000,000,000
	<u>15,000,000,000</u>	<u>15,000,000,000</u>
Issued, Subscribed and Paid up		
525,517,152 (March 31, 2008 - 525,517,152) equity shares of Rs 10 each (March 31, 2008 - Rs 10 each) fully paid.	5,255,171,520	5,255,171,520
6,500,000 (March 31, 2008 - 6,500,000) fully paid 2 percent cumulative redeemable preference shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	<u>5,905,171,520</u>	<u>5,905,171,520</u>

(a) Of the above

- (i) 490,750 (March 31, 2008 - 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 (March 31, 2008 - 325,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).
- (iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme. [See Schedule 22, Note 1 (c)] Out of these, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share as per provisions of applicable law.

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

- (i) 432,000,250 equity shares of Rs 10 each were allotted to the shareholders of erstwhile HFCL Infotel Limited on June 17, 2003.
- (ii) 1,730,814 equity shares of Rs 10 each were allotted on October 13, 2003, on conversion of the warrants issued to the shareholders of The Investment Trust of India Limited prior to June 11, 2003.
- (c) 6,500,000 (March 31, 2008 - 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 was 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 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. Due to accumulated losses provision for dividend is not required.

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

Advance Against Equity Share Application Money	867,431,181	867,431,181
	<u>867,431,181</u>	<u>867,431,181</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
Schedule 3: Reserves and Surplus		
Capital Reserve	34,032,776	34,032,776
Securities Premium [See Note (a), (b) & (c) below]		
Balance, beginning of the year	22,633,732	9,523,145
Adjusted during the year	-	13,110,587
Less: Utilised during the year	-	-
	<u>22,633,732</u>	<u>22,633,732</u>
Statutory Reserve [See Note (d) below]	11,900,000	11,900,000
General Reserve [See Note (e) below]	104,438,156	104,438,156
Less: Transferred to Profit & Loss Account	(104,438,156)	-
	<u>68,566,308</u>	<u>173,004,664</u>
(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 (a) (iii)]		
(b) During the year 2006, in accordance with the CDR Scheme [See Schedule 22, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the securities premium to that extent.		
(c) During the year 2007-08, the Company based on the lenders confirmation has written back the securities premium of Rs 13,110,587.		
(d) As more fully discussed in Schedule 22, Note 1(a), the Company (erstwhile The Investment Trust of India Limited) was a Non-Banking Financial Corporation (NBFC) under the Certificate of Registration (CoR) No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 23, Note 18, the Company has surrendered its CoR with the Reserve Bank of India (RBI). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain strictures till the balance in the escrow account is settled.		
(e) General Reserve represents the amount carried forward in accordance with the Scheme of Amalgamation as more fully discussed in Schedule 22, Note 1(a) This reserve has been transferred to Profit & Loss Account during the Year		
Schedule 4: Secured Loans [See Schedule 23, Note 5]		
Term Loans		
From Financial Institution	746,250,000	750,000,000
From Banks	5,273,500,000	5,300,000,000
0% Interest Funded Term Loan		
From Financial Institution	326,845,373	-
From Banks	46,251,704	-
Interest accrued & due on term loans	-	61,387,079
Vehicle loans	6,673,308	11,310,067
Bank overdraft	166,489,352	167,790,093
	<u>6,566,009,737</u>	<u>6,290,487,239</u>
Amounts repayable within a year		
- Vehicle Loan	6,415,390	6,344,285
- Financial Institutions	15,000,000	13,750,000
- Banks	106,000,000	97,166,667
Schedule 5: Unsecured Loans [See Schedule 23, Note 6]		
Zero per cent Non Convertible Debentures (NCDs) (erstwhile OFCDs) (others)	166,776,100	166,776,100
Interest accrued and due on other Vendor Finance Facilities	-	3,937,742
Buyers Credit Facility (Loan from foreign bank)	311,440,519	403,252,347
Buyers Credit Facility (Loan from Infotel Business Solutions Limited)	410,740,832	410,740,832
Repayable on demand		
Short term loan from Infotel Digicom (P) Limited Repayable on demand	499,499,886	499,499,886
	<u>1,388,457,337</u>	<u>1,484,206,907</u>
Amounts repayable within a year - Buyer Credit Facility (Loan from foreign bank)	207,627,012	161,550,219

HIFCL INHOTEL LIMITED
SCHEDULES TO THE ACCOUNTS
SCHEDULE 6: FIXED ASSETS [See Schedule 23, Note 11]

Assets	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As at April 1, 2008	Additions during the period	Sale/ Adjustment during the period	As at March 31, 2009	As at April 1, 2008	Depreciation For the period	On Sale/ Adjustment	As at March 31, 2009	As at March 31, 2008
Land - Freehold	16,142,623	-	-	16,142,623	-	-	-	16,142,623	16,142,623
Land - Leasehold	8,896,419	-	-	8,896,419	832,508	92,160	-	7,971,751	8,063,911
Building	189,200,208	-	-	189,200,208	25,946,931	3,606,691	-	29,553,622	163,253,277
Leasehold Improvements	89,651,823	615,585	14,662,202	75,603,206	51,997,120	7,471,658	8,020,298	51,448,480	37,654,703
Network Equipment	3,588,193,284	168,866,137	533,240,552	3,203,818,969	1,565,784,594	343,567,119	402,913,355	1,806,442,398	1,722,404,651
Optical Fibre Cable and Copper Cable	4,322,695,654	24,620,483	-	4,347,314,137	1,773,085,998	305,215,861	-	2,078,301,379	2,549,607,656
Telephone Instruments at Customer's Premises	999,301,723	107,134,095	241,589,053	864,846,765	646,447,510	141,954,508	172,688,262	249,133,009	352,854,213
Computers	240,478,483	2,864,639	8,253,235	235,089,887	154,379,706	24,564,508	4,099,137	174,845,079	86,098,774
Office Equipment	45,106,354	1,198,865	2,326,711	43,978,498	24,426,661	5,164,908	1,306,423	28,285,346	20,679,693
Furniture & Fixture	39,992,198	194,108	209,014	39,977,292	29,923,294	3,633,469	93,515	33,463,250	10,068,904
Vehicles	38,511,264	4,717,728	12,210,670	31,018,322	22,587,838	6,416,624	8,619,187	24,385,275	15,923,426
T O T A L	9,578,168,033	310,211,640	832,491,337	9,055,888,326	4,595,416,202	841,687,026	597,740,175	4,839,363,053	4,982,751,831
Previous Year ended March 31, 2008	9,026,121,538	661,634,827	109,488,352	9,578,168,033	3,786,097,494	891,326,617	82,807,909	4,595,416,202	-

SCHEDULE 7: INTANGIBLE ASSETS

Assets	GROSS BLOCK			AMORTISATION			NET BLOCK		
	As at April 1, 2008	Additions during the period	Sale/ Adjustment during the period	As at March 31, 2009	As at April 1, 2008	Amortisation For the period	On Sale/ Adjustment	As at March 31, 2009	As at March 31, 2008
Computer Software	171,562,385	3,930,790	-	175,493,175	135,727,241	13,994,243	-	149,721,485	35,835,144
License Entry fees	2,352,685,605	-	-	2,352,685,605	1,059,201,466	136,055,290	-	1,195,256,755	1,299,457,137
License Entry Fees GSM [Refer Schedule 22, Note 1(b)]	1,517,500,910	-	-	1,517,500,910	-	-	-	-	1,517,500,000
Goodwill [Refer Schedule 23, Note 11]	-	31,229,573	-	31,229,573	-	-	-	31,229,573	-
T O T A L	4,041,720,968	95,160,963	-	4,076,881,351	1,194,928,707	150,049,533	-	1,344,978,240	2,646,792,281
Previous Year ended March 31, 2008	2,507,086,986	1,534,634,002	-	4,041,720,988	1,046,795,320	148,133,337	-	1,194,928,707	-

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
Schedule 8: Investments (Non Trade - Long term) [See Schedule 23, Note 8]		
Subsidiary Company of CBSL Cable Networks Limited ('CBSL')		
CBSL City Network India (I) Ltd (254,800 shares @ Rs. 10 each)	-	2,548,000
Nil [March 31, 2008- 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
	<u>-</u>	<u>702,218,900</u>

Note:

- (a) The Company had 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. The Company held 9,050,000 shares of Rs 10 each at par in CBSL.
- During the year ended March 31, 2008 the Company had entered into a share purchase agreement with Digicable Networks (India) Private Ltd 'DNPL' on March 26, 2008 for sale of shares of CBSL. The transfer of shares has been completed on April 16, 2008. During the year 9,050,000 shares of Rs 10 each at par have been sold by the Company.
- (b) The Company acquired the entire shareholding in The Investment Trust of India Ltd (ITI) (erstwhile Rajam Finance and Investments Company India Limited), an unlisted registered NBFC) from the erstwhile promoters [See Schedule 22, Note 1(a)]. Consequently ITI became a wholly owned subsidiary of the Company with effect from August 19, 2002. 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:
- 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, 2009.
 - The OFCDs are redeemable after 10 years at a premium of Rs 60 per OFCD.
 - The issuing company shall have an option to redeem the OFCDs anytime after a period of one year at a proportionate premium as mentioned in condition (i) above.
 - During the year ended March 31, 2009, the Company has written off Rs 699,670,900 in OFCD's in ITI as ITI has negative networth and the Company believes that ITI would not be able to arrange funds as per their business plans and the recovery of their investments.
- (d) During the year ended March 31, 2009, the Company has incorporated one wholly owned Subsidiary Company, Infotel Tower Infrastructure Private Limited with an Investment of Rs 99,800. [See Schedule 23, Note 8 (c)]

Schedule 9: Inventory [See Schedule 23, Note 10]

Inventory held for installation and maintenance of network	29,629,456	20,667,816
	<u>29,629,456</u>	<u>20,667,816</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
Schedule 10: Sundry Debtors		
<i>Debts outstanding for a period exceeding six months:</i>		
Secured and Considered Good	7,978,884	5,110,376
Unsecured and Considered Good	-	-
Unsecured and Considered Doubtful	115,208,921	116,017,176
<i>Debts outstanding- Others</i>		
Secured and Considered Good	9,266,310	28,692,519
Unsecured and Considered Good	321,733,064	375,714,239
Unsecured and Considered Doubtful	<u>13,680,977</u>	<u>22,279,934</u>
	467,868,157	547,814,244
Less: Provision for Doubtful Debts	<u>128,889,899</u>	<u>138,297,110</u>
	<u><u>338,978,258</u></u>	<u><u>409,517,134</u></u>

Notes:

- Debtors are secured to the extent of deposit received from the subscribers.
- Includes Rs 91,979,858 (March 31, 2008 - Rs 111,541,969) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2009 [See Schedule 22, Note 2.11]
- Debtors includes amount due from HFCL Satellite Communication Limited, as per Sec. 370 (1B) of the Companies Act, 1956, the Company under the same management, amounting to Rs 10,123,047 (March 31, 2008 - Rs 7,838,591), Maximum amount outstanding during the year Rs 10,123,047 (March 31, 2008 - Rs 9,330,004).

Schedule 11: Cash and Bank Balances

Cash in Hand	2,428,254	1,444,917
Cheques in Hand	7,964,046	9,750,726
Balances with Scheduled Banks		
In Current Account	40,744,032	27,167,008
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 61,347,034, (March 31, 2008 - Rs. 73,390,554)]	65,428,936	73,524,494
In Escrow Account [See note below]	<u>1,663,818</u>	<u>1,843,370</u>
	<u><u>118,229,086</u></u>	<u><u>113,730,515</u></u>

Notes:

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

Schedule 12: Other Current Assets

Interest Accrued on Fixed Deposits	<u>13,359,325</u>	<u>8,884,139</u>
	<u><u>13,359,325</u></u>	<u><u>8,884,139</u></u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
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	56,057,723	84,360,349
Considered Doubtful [See Schedule 23, Note 1(h)]	789,668	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, March 31, 2008 - Rs 1,149,999)		
Due from HTL Limited - Company under the same management	-	119,784
(Maximum outstanding balance during the year Rs 119,784, March 31, 2008 - Rs 119,784)		
Security Deposits		
Considered Good	26,030,348	22,511,027
Considered Doubtful	1,211,265	1,211,265
Tax deducted at source recoverable	11,949,236	5,015,816
Balance with Customs, Excise and Service Tax	<u>77,271,897</u>	<u>30,921,772</u>
	174,460,135	280,149,920
Less: Provision for Doubtful Advances	2,000,933	136,071,173
	<u><u>172,459,202</u></u>	<u><u>144,078,747</u></u>

Notes:

Advance recoverable includes dues from Chief Executive Officer as under

Interest free Housing Loan (Maximum amount outstanding during the year Rs 350,000, March 31, 2008 - Rs 500,000)	200,000	350,000
Other Advances (Maximum amount outstanding during the year Rs 493,134, March 31, 2008 - Rs 862,933)	-	33,158

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	As At March 31, 2009	As At March 31, 2008
Schedule 14: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors*		
Capital Goods	82,269,032	95,468,070
Expenses	232,376,588	415,086,789
Interconnection Usage Charges ('IUC') payable to other operators	137,717,010	97,550,269
Expenses Payable	137,575,056	197,192,213
Book Overdraft	5,945,836	8,815,116
Advance Against Booking	63,035	325,525
Advance From Customers and Unaccrued Income**	591,480,600	329,285,130
Advance against Investment in CBSI, Cable Networks Limited	-	79,900,000
Advance for GSM Licence Entry Fee [See Schedule 23, Note 13 (b)]	1,628,500,000	1,517,500,000
Security Deposits		
From Subscribers	69,831,033	99,845,721
From Others	27,176,235	30,642,785
Investor Education and Protection Fund***		
Unclaimed Dividends	441,005	520,779
Unclaimed Deposits from Public	485,963	700,963
Interest accrued and due on Public Deposits	46,116	101,611
Minority Interest	-	600
Other Liabilities	120,243,680	78,102,647
Provision for interest****	1,029,099,836	997,794,128
	<u>4,063,251,031</u>	<u>3,948,832,346</u>
* Includes Rs 709,716 (March 31, 2008 Rs Nil) amount payable to Micro, small and medium Enterprises. [See Schedule 23, Note 13 (a)]		
** Includes Rs 337,467,701 (March 31, 2008 Rs 277,783,003) pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which ranges from year 2005 to 2023.		
*** 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 1,025,846,295 (March 31, 2008 - Rs 962,496,986) to be adjusted over a period from year 2005 to 2013 as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs Nil (March 31, 2008 - Rs 31,724,541) and interest accrued but not due on unsecured loan amounting to Rs 3,253,631 (March 31, 2008 - Rs 3,572,601)		
Provisions [See Schedule 23, Note 21]		
Wealth Tax	24,597	31,123
Leave Encashment / Availment	16,942,856	12,750,944
Gratuity	12,773,603	10,489,582
	<u>29,741,056</u>	<u>23,271,649</u>
	<u>4,092,992,087</u>	<u>3,972,103,995</u>
Notes:		
(a) Book overdraft has been settled subsequent to the Year end.		
(b) Sundry creditors include cheques outstanding beyond six months of Rs 523,618 (March 31, 2008 - 523,618) towards repayment of public deposits under the NBFC CoR [See Schedule 23, Note 18]		

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	For the year ended March 31, 2009	For the year ended March 31, 2008
Schedule 15: Service Revenue		
Revenue		
From Unified Access Services	1,507,943,289	1,783,281,134
From Interconnection Usage Charge	136,992,288	140,444,750
From Infrastructure Services	51,608,929	51,281,793
From Internet Services	539,160,868	468,137,537
Revenue from Cable Television Operations	-	21,668,490
	<u>2,235,707,374</u>	<u>2,464,813,706</u>
Schedule 16: Other Income		
Interest Income (Tax deduction at source Rs Nil, March 31, 2008 Rs Nil)	6,032,398	5,040,505
Excess Provision written back	3,937,742	-
Miscellaneous Income	3,884,522	6,042,289
	<u>13,854,662</u>	<u>11,082,794</u>
Schedule 17: Network Operation Expenditure		
Interconnect Usage Charges	464,938,183	534,688,724
Other Value Added Service charges	8,942,490	7,673,793
Port Charges	30,711,984	24,818,550
Testing and Technical Survey Expenses	1,610,000	2,225,090
Licence Fees on Revenue Share Basis	104,064,784	113,368,154
Royalty and licence fees to Wireless Planning Commission	12,733,539	10,038,030
Stores and Spares Consumed	43,442,476	29,738,183
Rent Node site	36,190,144	39,877,340
Infrastructure Sharing Rent	143,008,106	88,437,483
Electricity and Water	78,175,180	58,404,373
Security Charges	390,733	1,909,603
Repair & Maintenance - Network	89,304,841	82,713,132
Bandwidth Charges	119,939,699	144,574,944
Subscription and Carriage operating cost	-	11,997,369
	<u>1,133,672,179</u>	<u>1,136,464,770</u>
Schedule 18: Personnel Expenditure		
Salaries, Wages and Bonus [See Schedule 23, Note 21]	442,829,126	448,376,328
Employer's Contribution to Provident and Other Funds [See Schedule 23, Note 21]	23,651,328	21,978,367
Staff Welfare Expenses	10,781,173	12,134,453
Recruitment & Training Expenses	4,517,393	10,689,058
	<u>481,779,020</u>	<u>493,178,206</u>
Schedule 19: Sales and Marketing Expenditure		
Sales and Business Promotion	2,447,663	13,509,200
Advertisement Expenses	35,623,463	77,956,606
Customers Acquisition Costs	116,925,636	103,662,134
	<u>154,996,762</u>	<u>195,127,940</u>

HFCL INFOTEL LIMITED
SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

PARTICULARS	For the year ended March 31, 2009	For the year ended March 31, 2008
Schedule 20: Administrative and Other Expenditure		
Legal and Professional Expenses	33,467,729	41,864,371
Travelling and Conveyance	63,249,729	69,163,457
Communication Expenses	2,699,257	4,603,504
Rent	25,955,155	28,900,894
Security Charges	4,590,871	5,648,863
Repairs and Maintenance - Building	229,488	338,604
Repairs and Maintenance - Others	12,599,951	14,041,563
Electricity and Water	15,492,502	17,162,314
Insurance	6,956,947	7,361,562
Rates and Taxes	29,131,609	2,012,429
Freight & Cartage	5,496,374	6,667,833
Printing and Stationary	3,980,296	7,301,267
Billing and Collection Expenses	67,972,731	68,496,295
Software Expenses	-	37,001
Directors' Fees	288,440	233,440
Provision for Doubtful Advances	134,070,240	-
Less: Utilised to Doubtful Advances Written off	<u>(68,370,240)</u>	-
Bad Debts Written off	63,826,550	155,763,991
Provision for Doubtful Debts	32,002,691	-
Less: Utilised to Bad Debts Written off	<u>(20,704,951)</u>	-
Wealth Tax	24,397	31,123
Miscellaneous Expenses	5,516,203	6,678,310
	<u>289,076,169</u>	<u>451,122,390</u>
Schedule 21: Finance Charges		
Interest on Term Loans*	583,433,679	598,544,126
Interest to Others	80,280,594	41,414,087
Bank Guarantee Commission	8,783,614	9,280,098
Trustees Fee	927,163	1,000,000
Other Finance Charges	4,869,762	4,883,442
	<u>678,294,812</u>	<u>655,121,753</u>

* Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 63,349,218 (March 31, 2008 - Rs 200,196,986) as per CDR Scheme.

CONSOLIDATED HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2009

[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, 2009, the Company has an active subscriber base of over 550,502.

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 26, 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.

On August 15, 2008, the Company has incorporated one wholly owned Subsidiary Company Infotel Tower Infrastructure private limited ('ITIPL') with an investment of Rs 99,800. The principal business of the company is building, establishing, setting-up, accruing, developing, advising on, managing, providing, operating and/or maintaining, facilitating conduct of, fully or partially infrastructure facilities and services thereof for all kinds of value added services including Broadband Towers for telecom operations/services, payment gateway services and international gateway services.

HIL, together with its subsidiaries CBSL, ITIPL and associate company ITL is hereinafter collectively referred to as 'the Group'.

(b) License Fees

The Company obtained licence for Basic Telephony Service for the Punjab circle (including Chandigarh and Panchkula) by way of amalgamation of the erstwhile HFCL Infotel with the Company. Erstwhile HFCL Infotel had obtained this licence under fixed license fee regime under National Telecom Policy ('NTP') 1994, valid for a period of 20 years from the effective date, and subsequently migrated from the fixed license fee regime to revenue sharing regime upon implementation of NTP 1999. Further to the Telecom Regulatory Authority of India's ('TRAI') recommendations of October 27, 2003 and the Department of Telecommunications ('DoT') guidelines on Unified Access (Basic & Cellular) Services Licence ('UASL') dated November 11, 2003,

the Company migrated its licence to the UASL regime with effect from November 14, 2003. A fresh License Agreement was signed on May 31, 2004. Pursuant to this migration, the Company became additionally entitled to provide full mobility services. HFCL Infotel 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 ended March 31, 2008, 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. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTG (Pt) dated September 9, 2008. The Company has applied for extension of the same with DOT, reply to which 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 1,957,743,020 resulting into accumulated loss of Rs 11,194,623,558 as at March 31, 2009 which has completely eroded its net worth and has a net current liability of Rs 3,420,336,760 including capital liability of Rs 82,269,032 and subscriber and distributor security deposits of Rs 97,007,273 (after considering provision for interest amounting to Rs 1,025,846,205 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, 2009, 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 notified accounting standard by Companies (Accounting Standards) Rules, 2006 ('as amended'), and the relevant provisions of the Companies Act, 1956. The preparation of financial statements in conformity with the Generally Accepted Accounting Principals. The financial statements have been prepared under the historical cost convention on an accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The significant accounting policies are as follows:

2.2 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, CBSL and ITPL as at March 31, 2009. 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 HE.

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 directly attributable to the acquisition and installation of fixed assets. Capital work-in-progress is stated at cost.

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

2.4 Inventory

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	Over the primary period of the lease
Buildings	Office Building 30 years Others 61 years
Leasehold Improvements	10 years or over the primary period of the lease, whichever is lower
Network Equipment (other than batteries)	9.67 years
Batteries	5 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 for use.

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

(iii) During the year the Company has decreased the average life of Batteries considered part of Network equipments from 9.67 years to 5 years. Resultant impact is not material, hence not disclosed.

- (iv) Depreciation on the amount capitalized on up-gradation of the existing assets is provided over the balance life of the original asset.
- (v) Depreciation on the amount capitalised on account of foreign exchange fluctuations is provided over the balance life of the original asset till March 31, 2008 (refer Note 2.13, below)

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 asset 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.

For accounting policy related to Licence Entry Fees, refer 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 equally 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 ILC Regulation 2006, requiring to pay additional 0.75 per cent of AGR towards access deficit charge. Further on March 28, 2008, the same was abolished. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

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.

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

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

2.16 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 lessor

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 AS AT AND FOR THE YEAR ENDED MARCH 31, 2009

(All amounts in Indian Rupees, except share a/cts 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	As at March 31, 2009	As at March 31, 2008
I.	Estimated Value of Contracts remaining To be executed on capital account and not provided for net of capital advances Rs. 2,024,309 (March 31, 2008 - Rs 893,561)	23,961,334	100,459,974
II.	Contingent Liabilities and Commitments Financial Bank Guarantees (refer Note (a) below)	221,206,514	260,349,628
	Performance Bank Guarantees (refer Note (a) below)	53,864,972	55,658,922
	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 1,262,014 (March 31, 2008 - Rs 4,789,853))	12,620,144	47,898,551
IV.	Income-tax matters under Appeal (refer Note (b) below)	10,366,937	24,566,429
V.	Claims against the Company not acknowledged as debts - mainly representing various miscellaneous claims filed against the Company, which are subject matter of litigation.	51,48,860	4,227,065
VI.	Others (refer Note (c), d, e, f and g) below)	849,657,573	280,329,956
	Total	6,461,826,254	5,998,498,525

(a) Financial bank guarantees as at March 31, 2009 of Rs 221,206,514 (March 31, 2008 - Rs 260,349,628) and performance bank guarantees of Rs 53,864,972 (March 31, 2008 - Rs 55,658,922) are secured. The details of security created are detailed out in note no. 5 (a) below. Further, the financial bank guarantee given by Punjab National Bank ("PNB") to The Export Import Bank of China of Rs 108,825,511 is 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 10,366,937 (March 31, 2008 - Rs 9,316,234).

(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. Wireless Finance Division of Department of Telecommunications has updated their claim to Rs 70,604,092 towards Spectrum Charges dues from January 1, 2000 to September 30, 2008 vide letter number 1020/29/WR/07-08 dated October 24, 2008. The Company has once again made a written representation vide its letter dated December 8, 2008. 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 the 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 on our petition no 232 of 2006 against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JI./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 July 24, 2009. 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, 2009.

- (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 to which the Company has replied on September 27, 2007 that the Company has not violated the conditions of UASL and based on expert legal advice, the Company 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 year ended March 31, 2009.
- (f) The Company is in receipt of a demand of Rs 4,157,718 from Bharat Sanchar Nigam Limited ('BSNL') on February 2, 2009 on account of port charges for the year 2008-09, passive link charges, duct cost for passive link and active link charges. Out of the above Rs 430,131 pertaining to port charges for the year 2008-09 and active link charges was paid by the Company vide receipt number 189 dated February 18, 2009. The amount of Rs 3,727,587 towards the duct cost for passive link and passive link charges was not acceptable by the Company as the demand raised by BSNL was unilateral and unjust. The Company filed a petition vide petition

number 41(C) of 2009 with Telecom Dispute Settlement and Appellate Tribunal ('TDSAT') to which the Company was granted a stay order dated March 25, 2009 staying BSNL from recovering the dues from the Company and matter is further listed on July 20, 2009 for hearing on accordingly no liability has been booked in the books of accounts for the year ended March 31, 2009.

- (g) The Company is in receipt of a demand of Rs 433,158,340 from Bharat Sanchar Nigam Limited ('BSNL') on December 20, 2008 on account of unilateral revision of access charges vide its letter dated April 28, 2001 for the period from June 2001 to May 2003, in contravention of the Interconnect Agreement and TRAI Regulations. The Company, Association of Unified Service Providers of India ('AUSPI' erstwhile Association of Basic Telephone Operators 'ABTO') and other Basic Service Operators contested aforesaid revision in the rates of access charges before Telecom Dispute Settlement Appellate Tribunal ('TDSAT'). TDSAT vide its reasoned and detailed judgement dated April 27, 2005 allowed the refund claims and struck down the unilateral revision in the rates of access charges by BSNL and held that Telecom Regulatory Authority of India ('TRAI') is the final authority for fixing of access charges and access charges would be payable as rates prescribed by the TRAI and as per the Interconnect agreements. BSNL preferred an appeal in Hon'ble Supreme Court against the order of TDSAT and an interim stay was granted on October 19, 2006. Therefore aggrieved by such unilateral action on the part of BSNL by raising aforesaid demand and disturbing the status-quo, applications were moved by the Company, AUSPI and other operators in the Hon'ble Supreme Court vide C.A No.5834-5836 of 2005 that was listed for hearing on February 9, 2009 and Hon'ble Supreme Court passed an order clarifying its previous order of October 19, 2006 and stayed the refunds claim against the BSNL there by upholding the TDSAT order dated April 27, 2005 where by BSNL is refrained from raising the access charges demand. The Company based on the legal opinion believes that there would be no financial liability against this demand and has accordingly not recorded any liability towards access charges during the year ended March 31, 2009.
- (h) Loan and Advances of March 31, 2008 includes amount 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 HFCI 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. Pending such recovery, provision for doubtful advance is being carried in the financial statements for the year ended March 31, 2008. On July 11, 2008 the Company has reached a settlement with Essar Investments Limited ('EIL') and EIL has agreed to pay HFCL sum of Rs 65,700,000 towards the final settlement of dues, accordingly the provisions of equivalent amount of Rs 65,700,000 have been adjusted and the balance amount of Rs 68,370,240 has been adjusted from Loans and Advances as amount not recoverable and its provision of equivalent amount of Rs 68,370,240 have been reversed and written off.

2. Managerial remuneration

Mr. Surendra Lunia was designated 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. Mr. Surendra Lunia subsequently resigned as a manager on January 31, 2009. Mr. Kapil Shalla Company Secretary has been appointed as the manager of the Company with effect from January 31, 2009 since the annual salary payable is less than the stipulated limit no approval of Central Government is required. Accordingly the managerial remuneration has been as disclosed below.

Remuneration paid to Manager is as under:

Particulars	For the Year ended March 31, 2009	For the Year ended March 31, 2008
Salary	2,552,000	2,252,952
Employer's contribution to provident fund	306,240	273,955
Perquisites/ Allowances	3,542,726	3,839,510
Ex-gratia/ Performance linked incentive	577,500	1,387,380
Total	6,978,466	7,783,797

The above managerial remuneration does not include provision of gratuity of Rs 17,188 (March 31, 2008- Rs 287,241) and leave encashment of Rs 30,839 (March 31, 2008- Rs 645,742), as these provisions 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.

3. Share Capital

Equity shares

Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs 10 each, 515,070,338 of unlisted equity shares have been listed at Bombay Stock Exchange (BSE) vide it's letter number 20090514-12 dated May 14, 2009 and letter number DCS/PREF/DMN/FIP/239/09-10 dated May 25, 2009. As a pre-condition to the listing of the aforesaid shares of the Company, BSE directed the Company to undertake an offer for sale in the domestic market as the non-promoter holding in the Company was below the minimum stipulated level. Accordingly, the Company filed the draft offer for sale document with SEBI for sale of 8,000,000 equity shares held by promoter in the Company. However, SEBI, vide its order dated March 7, 2007 directed the Company that 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 against the Company are disposed off. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007. The Hon'ble SAT 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 eight weeks from the date of filing of revised draft offer for sale document by the Company. In parallel, pursuant to the restructuring package approved under CDR mechanism, the Company has been in the process of issuance of fresh equity shares to Banks / Financial Institutions on conversion of optionally fully convertible debentures (OFCDs). Considering that post issuance of fresh equity on conversion of OFCDs, the non-promoter holding in the Company would exceed the minimum stipulated threshold, the Company requested BSE to grant listing of unlisted shares without stipulating the condition of offer of sale. BSE, vide its letter DCS / AMAL / RCG/ GEN / 1108 / 2008-09 dated February 13, 2009 has, inter alia, agreed to exempt the condition imposed on the Company to comply with requirement of making an offer for sale in the domestic market, subject to compliance of certain

procedural requirements including three years lock-in period of 25% of newly issued equity shares pursuant to the merger i.e. 25% of 432,000,250 shares (1,080,00,063 equity shares). The Company in compliance with conditions stipulated by BSE has placed under lock in 108,000,063 equity shares on May 14, 2009 for a period of 3 years ending May 15, 2012. The Company has also complied with all other necessary requirements pursuant to the letter from BSE dated February 13, 2009 related to 83,070,088 equity shares issued pursuant to corporate debt restructuring scheme. BSE has also agreed to grant in-principle approval for allotment of 86,743,116 equity shares to be issued to Banks and financial institutions on conversion upon filing of necessary application, which the Company has filed, vide its letter no. HITL/S&L/S-01/09/472 and 473 dated March 07, 2009. BSE vide their notice 20090514-12 dated May 14, 2009 hosted on its website has granted listing and trading permission for 432,000,250 equity shares issued pursuant to scheme of amalgamation. BSE has granted listing approval for 83,070,088 equity shares vide their letter number DCS/PREF/DMN/FIP/239/09-10 dated May 25, 2009 and the shares have been listed vide BSE notice number 20090605-20 dated June 5, 2009.

On March 31, 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.

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 119,873,594 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 confirmations 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 131,110,587 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, on the basis of directions of Financial Institution and Banks have requested Bombay Stock Exchange ('BSE') to grant 'in-principle' approval for allotment of shares at par. The BSE has agreed vide its letter no.DCS/AMAL/RCG/GEN/1108/2008-2009 dated February 13, 2009 to grant in-principle approval for allotment of 86,743,116 equity shares to be issued to Banks and financial institutions on conversion of OFCDs upon completion of necessary formalities. The Company has filed the requisite listing application in prescribed format vide its letter no. HITL/S&L/S-01/09/472 and 473 dated March 07, 2009 received by BSE on March 12, 2009 and response from BSE is still awaited.

5. Secured Loans

- (a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 4, 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.

On the request of the Company, Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 138 / 2009-10 dated May 20, 2009 has approved a revised restructuring package. The revised restructuring package interalia includes funding of interest from July 1, 2008 to October 31, 2009 on simple interest basis. Funded Interest on Term Loan ('FITL') would not carry any interest and the FITL shall be repaid in 16 equal monthly installments commencing from December 1, 2009, and reschedulement of principle installments from August 1, 2008 to November 1, 2009 so as to be repayable from December 1, 2009 to March 1, 2011. In accordance with the aforesaid revision in the restructuring scheme, the Company has disclosed the Interest accrued but not due to the lenders amounting to Rs 373,097,077 from July 1, 2008 to March 31, 2009 as 0% FITL which shall be repaid from December 1, 2009 in 16 monthly installments. Further, in line with the aforesaid scheme, no installment of principle repayment is becoming due till November 1, 2009 and as such there is Nil amount due as on March 31, 2009. Confirmation from the lenders is awaited.

(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 6,673,308 (March 31, 2008 - Rs 11,310,067) 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 2011. Vehicle loans repayable within one-year amounts to Rs 5,046,454. Interest rates on vehicle loans vary from 8.09 per cent per annum to 14.33 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 Non Convertible Debentures ('NCDs') 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 NCDs 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 Nil as at March 31, 2009 (March 31, 2008 - Rs 3,937,742).

(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, 2009, 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 March 31, 2009 - Rs 499,499,886, March 31, 2008 - Rs 199,199,886) 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 March 31, 2009 - Rs 410,740,832, March 31, 2008 - Rs 410,740,832) from Infotel Business Solutions Limited. The loan carries 12% 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.

7. Fixed Assets and Capital work-in-progress

(a) Capital Work in Progress includes Goods in Transit of Rs 92,177 (March 31, 2008 - Rs 23,818,252).

(b) As on March 31, 2009, telephone instruments aggregating to a net book value of Rs 219,610,995 (March 31, 2008 - Rs 227,894,157) and other assets aggregating to net book value of Rs 280,717,435 (March 31, 2008 - Rs 190,673,090) are located at customer premises, other parties and at other operator's sites, respectively.

(c) On July 30, 2008, the Company has entered into an agreement with Tower Vision India (T) Limited to sell 150 ready network sites to including 26 CorDect sites and 124 tower sites. Out of 124 tower sites, 99

ready tower sites were included in the Company's net fixed assets at written down value of Rs 59,964,151 and the balance 25 towers were yet to be constructed. The total consideration of the aforesaid agreement aggregates to Rs 656,000,000. The terms of the asset purchase agreement expires on December 31, 2008 and by then, the Company had handed over 83 ready tower sites for Rs 384,276,637 with gross book value of Rs 117,435,184 and accumulated depreciation of Rs 70,393,388, the net book value being Rs 47,041,796 and accordingly, recorded a profit of Rs 337,234,841 which has been disclosed under gain on Sold Fixed Assets in the Profit and Loss Account. With the expiry of the asset purchase agreement there is no binding upon the Company to execute the handing over the balance 67 sites. The profit includes Rs 40,836,000 as premium, out of which Rs 38,936,333 has been deferred over the term of the master infrastructure provisioning agreement.

- (d) During the year ended March 31, 2009, the Company has written off CorDect switch and telephones sets with gross book value of Rs 292,609,292 and accumulated depreciation of Rs 194,824,721, the net book value being Rs 97,784,571 and accordingly, recorded a loss of Rs 97,784,571 which has been disclosed under Loss on Discarded Fixed Assets in the Profit and Loss Account.
- (c) During the year ended March 31, 2009, the Company has also written off Lucent switch and its accessories with gross book value of Rs 289,659,578 and accumulated depreciation of Rs 289,113,567, the net book value being Rs 546,011 and accordingly, recorded a loss of Rs 546,011 which has been disclosed under Loss on Discarded Fixed Assets in the Profit and Loss Account.

8. Investments

- (a) As more fully discussed in note 1(a) of schedule 22, 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 93,807,921 for the year ended March 31, 2009, accumulated losses of Rs 212,864,072 and has a negative net worth of Rs 175,364,072 as on March 31, 2009. The Company believes that ITI would not be able to arrange funds as per their business plans and the recovery of their investments and accordingly has written off the investment of Rs 699,670,900 and has disclosed as 'Diminution in value of investments' in the Profit and Loss Account. Since the share of losses of the Company in ITI's losses exceed the Companies investment in equity there is Rs Nil share or Profit from the Associate's Company.
- (b) The Company held 9,050,000 equity shares of Rs 10 each amounting to Rs 90,500,000 (99.9994 %) of

entire paid up capital of subsidiary CBSI. Cable Networks Limited. During the year ended March 31, 2008 the Company had entered into a share purchase agreement with Digicable Networks (India) Private Ltd on March 26, 2008 for sale of shares of CBSI at par. The transfer of shares has been completed on April 16, 2008.

- (v) During the year ended March 31, 2009 the Company has incorporated one wholly owned Subsidiary Company Infotel Tower Infrastructure Private Limited with an Investment of Rs 99,800. The principal business of the company is building, establishing, setting-up, accruing, developing, advising on, managing, providing, operating and/or maintaining, facilitating conduct of, fully or partially infrastructure facilities and services thereof for all kinds of value added services including Broadband Towers for telecom operations/services, payment gateway services and international gateway services.

9. Licensing Fees

During the year ended March 31, 2008, 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. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTG (Pt) dated September 9, 2008. The Company has applied for extension of the same with DOT, reply to which is still awaited.

10. Inventory

The Company holds inventory of network maintenance consumables, RUM cards and mobile handsets amounting to Rs 29,629,456 (March 31, 2008 - Rs 20,667,816). The quantity and valuation of inventory is taken as verified, valued and certified by the management.

Quantitative Information- RUM cards

Particulars in respect of Purchases, Sales and Stocks of Finished goods purchased for resale.

Class of Goods	Unit	Opening Stock		Purchases (Net of Returns)		Sales (Net of Returns)		Closing stock	
		Qty.	Value (Rs.)	Qty.	Value (Rs.)	Qty.	Value (Rs.)	Qty.	Value (Rs.)
CDMA Mobile Handsets (Ping)	Nos.	-	-	6,283	8,189,466	1	1,300	6,282	8,188,166
Handset Accessories	Nos.	-	-	12,004	1,545,614	-	-	12,004	1,545,614
Total				18,287	9,735,080	1	1,300	18,286	9,733,780

11. Goodwill

The Company has entered into agreement dated 31st March 2009 for acquiring "the Handset Business" from M/s Infotel Business Solutions Limited for consideration amounting to Rs. 40,836,098. The value of acquired inventory of handsets is Rs 9,732,480 and fixed assets is Rs 350,709 and taken over net current liabilities amounting to Rs. 476,663. The excess of consideration over net value of Assets and Liabilities amounting to Rs. 31,229,573 has been recognized as Goodwill and disclosed as intangible assets in the Balance Sheet. Goodwill would be amortized over the period of 5 years on straight-line method starting from April 1, 2009.

12. Deferred Taxes

During the year, the Company has incurred losses of Rs 1,957,743,020 (accumulated losses of Rs 11,194,623,558) 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.

Deferred Tax in the Subsidiary ITIPL has been provided for in accordance with the Accounting Standard 22 - Accounting for taxes on Income issued by the Institute of Chartered Accountants of India. Net deferred tax assets amounting to Rs. 353,696/- as on 31st March, 2009 comprises of the followings:-

Particulars	Charge /Credit during the year	As at March 31, 2009
Deferred Tax Liability in Total (A)	-	-
Provision for Gratuity	40,162	40,162
Provision for Leave encashment	307,428	307,428
Preliminary Expenses	6,106	6,106
Deferred Tax Assets in Total (B)	353,696	353,696
Net Deferred Tax Liability/ (Asset) (A-B)	(353,696)	(353,696)

13. Current liabilities and Provisions

(a) Sundry Creditors include amount payable to Micro and Small Enterprises as at March 31, 2009 of Rs 709,716 (March 31, 2008 - Rs Nil). The information as required to be disclosed under the

Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information and records available with the Company.

Information for the supplier covered under the Micro, Small and Medium Enterprise Development Act, 2006, as at March 31, 2009 is as under -

Particulars	For the Year ended March 31, 2009	For the Year ended March 31, 2008
Principal amount	709,716	-
Interest due thereon remaining unpaid to any supplier as at the end of each accounting year	-	-
The amount of interest paid by the buyer in terms of Section 16 of Micro, Small and Medium Enterprise Development Act, 2006, along with the amounts of the payment made to the supplier beyond the appointed day during each account year	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro, Small & Medium Enterprise Development Act, 2006.	-	-
The amount of interest accrued and remaining unpaid at the end of accounting year.	-	-

(b) During the year 2008, the Company had 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. During the year ended March 31, 2009 the Company took additional advance of Rs 111,000,000. The amount of aforesaid advance is adjustable or refundable on such terms and conditions as may be mutually agreed.

14. Loss per share

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

	For the year ended March 31, 2009	For the year ended March 31, 2008
Loss for the year (in Rs)	2,122,827,301	1,508,728,989
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)	4.04	2.87

*The impact of dilution on account of advance share capital, OFCD has not been considered as it is anti-dilutive.

15. Operating leases

A. 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, 2009 is Rs 62,145,298 (March 31, 2008 - Rs 68,518,714).
- (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 143,608,106 (March 31, 2008 - Rs 88,437,485) towards infrastructure sharing expenses.

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

Particulars	As at March 31, 2009	As at March 31, 2008
Payable not later than one year	57,686,689	86,868,630
Payable later than one year and not later than five years	143,633,605	48,989,034
Payable more than five years	171,449,122	10,289,506
Total	372,769,415	146,147,170

The escalation clause includes escalation at various periodic levels ranging from 0 to 50%, includes options of renewal from 1 to 99 years and there are no restrictions imposed on the leased arrangements

B. Company as a Lessor

The Company has entered into cancellable site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 12,561,961 (March 31, 2008- Rs 15,512,519) towards site sharing revenue.

The Company has entered into a non cancellable lease agreement to provide approximately 7525.11 fibre pair kilometers of dark fibre of indefeasible right of use (IRU) basis for a period of 15 years. The lease rental receivable proportionate to actual kilometers accepted by the customers is credited to the profit and loss account on straight-line basis over the lease term. Due to the nature of the transactions it is not possible to compute the gross carrying amount, depreciation for the year and accumulated depreciation of the asset given on operating lease as at March 31, 2009 and accordingly disclosures required by AS-19 is not provided.

16. 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 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 Pauchkula) and, accordingly, no disclosures are required under secondary segment reporting.

18. 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. [Refer Schedule 11 & 14 and Schedule 22, Note 1(a)]. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. 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 485,963
• Interest accrued and due on public deposits upto September 15, 2003	Rs 46,116
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs 589,066
• Cheques outstanding beyond 6 months	Rs 523,618
Others (Under reconciliation)	Rs 19,055
	<u>Rs 1,663,818</u>
Balances with Scheduled banks in Escrow account	<u>Rs 1,663,818</u>

19. 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 1,957,743,020. Hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

20. Prior period expenditure (net)

Description	For the Year ended March 31, 2009	For the Year ended March 31, 2008
Revenue		
Revenue from Unified Access Services	-	(1,543,260)
Revenue from Internet Services	1,507,107	(918,966)
Revenue from Infrastructure Services	-	(1,214,030)
Sub Total	1,507,107	(3,676,256)
Expenses		
Interconnect Usage Charges	232,986	14,541,245
Infrastructure Sharing Rent	3,143,785	-
Other Finance Charges	-	2,286,040
Port Charges	2,069,621	2,993,612
Interest to Others	1,255,744	1,670,353
Travelling and Conveyance	313,738	1,254
Legal & Professional Charges	413,653	303,029
Staff Welfare Expenses	451,206	9,490
Repair & Maintenance - Network	2,095,329	234,373
Rent	306,292	39,097
Insurance	-	277,425
Electricity and Water	491,578	22,218
Miscellaneous Expenses	460,250	-
VAT on Sale of Assets	715,400	-
Sub Total	11,943,581	22,371,136
Grand Total	13,450,688	18,692,877

21. 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, 2009	For the Year ended March 31, 2008
Employer's Contribution to Provident Fund *	14,488,900	16,010,073
Employer's Contribution to ESI *	121,529	355,855

* Included in Employer's Contribution to Provident and Other Funds, Refer Schedule 18

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 recognised in the same manner as gratuity. Experience adjustments are Nil and have not been disclosed as required under Para 120 of Accounting Standard 15 relating to employee benefits.

Particulars	Gratuity #	Leave Encashment #
Current service cost	5,939,721	3,106,398
Interest cost	985,033	707,335
Expected Return on plan assets	(65,308)	-
Actuarial (gain) / loss	(575,425)	(59,094)
Past service cost	-	-
Curtailment and Settlement cost / (credit)	-	-
Net cost	62,84,021	3,872,828

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	7.50%	7.50%
Expected Rate of increase in Compensation levels	5.00%	5.00%
Expected Rate of Return on Plan Assets	7.50%	7.50%
Expected Average remaining working lives of employees (years)-the company	21 Years	21 Years
Expected Average remaining working lives of employees (years) - the subsidiary	8 Years	8 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	12,086,161	7,803,185
Current service cost	5,939,721	3,106,398
Interest cost	985,033	707,335
Benefits paid	(4,251,824)	-
Past service cost	-	-
Actuarial (gain) / loss	(569,272)	(59,094)
Projected benefit obligation at year end	14,189,819	11,676,812
Change in plan assets :		
Fair value of plan assets at beginning of year	1,596,579	-
Expected return on plan assets	65,308	-
Actuarial gain / (loss)	6,153	-
Employer contribution	-	-
Contribution by plan participants	4,000,000	-
Settlement cost	-	-
Benefits paid	(4,251,824)	-
Fair value of plan assets at year end	1,416,216	-
Net funded status of the plan	12,773,603	11,676,812
Net amount recognized	12,773,603	11,676,812

- 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.

22. 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

23. Prior period comparatives

Previous year figures have been regrouped where necessary to confirm to this year classification.

As per our report of even date.

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

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

Place: Gurgaon
Date: June 30, 2009

Place: New Delhi
Date: June 30, 2009

For and on behalf of the Board

Mahendra Nahata
Director

M.P. Shukla
Director

Suendra Lunia
Chief Executive Officer

Vikash Agarwal
VP - Finance

Place: New Delhi
Date: June 30, 2009

Kapil Ghalla
Company Secretary

HFCL INFOTEL LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2009
(Unless and otherwise stated, all amounts are in rupees)

PARTICULARS	As At March 31, 2009	As At March 31, 2008
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Prior Year Expenditure and Tax Adjustments for:	(2,104,486,798)	(1,482,894,729)
Depreciation and Amortisation	991,736,559	1,039,460,004
Foreign exchange Loss/ (Gain)	103,975,334	(50,630,383)
Excess Provision Written Back	(3,937,742)	-
Diminution in value of investments	699,673,900	-
Loss/ (Gain) on Sold / Discarded Fixed Assets	155,296,539	24,946,549
Bad Debts Written Off	63,826,550	155,763,991
Provision for Doubtful Advances	(65,700,000)	-
Provision for Doubtful Debts	11,297,740	41,051,360
Finance Expenses*	678,294,812	655,121,753
Interest Income	(6,032,398)	(5,040,505)
Operating profit before working capital changes	523,841,496	377,778,040
Adjustment for changes in working capital:		
(Increase) / Decrease in debtors	(4,585,414)	(20,667,816)
(Increase) / Decrease in Loans and advances	44,252,964	(195,430,693)
(Increase) / Decrease in Inventory	(8,961,640)	(57,023,125)
Increase / (Decrease) in Current liabilities and provisions	94,043,473	1,828,533,365
Cash generated from operations	648,590,879	1,983,189,771
Direct Taxes paid (Net)	(12,201,527)	(6,766,655)
Prior Period Expense / (Income) (Net)	(13,450,688)	(18,692,877)
NET CASH GENERATED FROM OPERATING ACTIVITIES (A)	622,938,664	1,957,730,239
CASH FLOW FROM INVESTING ACTIVITIES		
Adjustment for changes in:		
Profit on Disposal of Investment in Subsidiary Company	165,084,231	-
Purchase of fixed assets	(308,692,987)	(2,320,966,623)
Proceeds from sale of fixed assets	79,454,623	2,533,873
Purchase of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	-	(2,548,000)
Sale of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	2,548,000	-
Fixed deposits	8,095,858	3,666,810
Wealth tax	24,397	31,123
Interest Received	1,557,212	1,574,307
NET CASH USED IN INVESTING ACTIVITIES (B)	(51,928,716)	(2,315,708,010)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Secured loan	3,735,000	7,351,575
Repayment of Secured Loan	(39,922,500)	(9,070,322)
Repayment of Public Deposits	(215,030)	(149,686)
Proceeds from Unsecured loan	-	848,243,718
Repayment to Unsecured Loan	(186,398,945)	(89,413,250)
Interest paid	(335,334,600)	(412,338,002)
Dividend paid	(79,774)	-
NET CASH GENERATED FROM FINANCING ACTIVITIES (C)	(558,415,819)	353,820,833
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	12,594,129	(4,156,938)
Cash and Cash Equivalents at the beginning of the year	40,206,021	44,362,959
Cash and Cash Equivalents at the end of the year	52,800,150	40,206,021
Cash in Hand	2,428,254	1,441,917
Cheques in Hand	7,964,046	9,750,726
Balances with Scheduled Banks		
in Current Account	40,741,032	27,167,008
in Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and L/Cs issued Rs 65,428,936 (March 31, 2009 - Rs. 73,390,554)]	65,428,936	73,524,494
in Savings Account	1,663,818	1,943,370
	118,229,086	113,730,515
Less : Margin Money pledged for Guarantees and L/Cs issued	65,428,936	73,524,494
Cash & Cash Equivalents	52,800,150	40,206,021

Notes:

- The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement notified under Companies (Accounting Standard) Rules 2006, ('as amended')
- Figures in brackets indicate cash outflow.
- * Includes interest accrued but not due on secured loan as amounting to Rs 63,319,218 (March 31, 2008 - Rs 200,196,986) as per CDR Scheme.
- Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
- Dividend paid during the year Rs 79,774 (March 31, 2008, Rs Nil) as more fully disclosed in Schedule 14

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

S.R. BATHIBOI & ASSOCIATES

Chartered Accountants

per Prashant Singhal

Partner

Membership No. 93283

Place: Gurgaon

Date: June 30, 2009

For ATUL KULSHRESTHA & CO.

Chartered Accountants

per Anil Kumar Aggarwal

Partner

Membership No. 91720

Place: New Delhi

Date: June 30, 2009

For and on behalf of the Board

Mahendra Nahata

Director

Surendra Lonia

Chief Executive Officer

Place: New Delhi

Date: June 30, 2009

M.P. Shukla

Director

Vikas Agarwal

VP - Finance

Kapil Bhatia

Company Secretary

HFCL INFOTEL LIMITED

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

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I REGISTRATION DETAILS		
Registration No.		26718
State Code		16
Balance Sheet		March 31, 2009
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		7,694,004,812
Total Assets		7,694,004,812
SOURCE OF FUNDS		
Shareholders' Funds		6,772,602,701
Reserves & Surplus		68,566,508
Secured Loans		6,566,009,737
Unsecured Loans		1,388,457,337
APPLICATION OF FUNDS		
Net Fixed Assets		
(Including Intangible Asset)		7,020,995,789
Accumulated Losses		11,194,623,558
Investments		-
Net Current Liabilities		3,419,983,064
IV PERFORMANCE OF THE COMPANY (RUPEES)		
Turnover		2,249,562,036
Total Expenditure		4,367,199,522
Profit /(Loss) Before Tax		(2,117,937,486)
Profit /(Loss) After Tax		(1,957,743,020)
Earning Per Share		(4.04)
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 Lonia
Chief Executive Officer

Vikash Agarwal
VP - Finance

Place : New Delhi
Date : June 30, 2009

Kapil Bhatta
Company Secretary