ANNUAL REPORT
2009-2010

HFCL GROUP

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.

BOARD OF DIRECTORS

Shri Mahendra Pratap Shukla	Non Executive Chairman
Shri Mahendra Nahata	Managing Director
Shri Arvind Kharabanda	Director (Finance)
Shri Y S Choudhary (w.e.f. 31.01.2009 up to 30.05.2009)	Director (Operations)
Dr. R M Kastia	Director
Shri R K Bansal	Nominee Director (IDBI)
Shri Y L Agarwal	Director
Shri Manoj Baid	Company Secretary

BANKERS
State Bank of India
Oriental Bank of Commerce
Punjab National Bank
Bank of Baroda
Union Bank of India
Centurian Bank of Punjab Limited
(now merged with HDFC Bank Ltd.)

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

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

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

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

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

CONTENTS

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.
NOTICE

Notice is hereby given that the 23rd Annual General Meeting of Himachal Futuristic Communications Ltd. will be held on Wednesday, the 30th day of March, 2011 at 11:00 A.M. at the Mushroom Centre, Chambaghat, Solan, (H.P.) to transact the following business:-

AS ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended 30th September, 2010 and the Reports of the Directors and of the Auditors thereon.

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

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

4. To appoint Auditors for the financial year 2010-2011 to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

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

AS SPECIAL BUSINESS

5. **Re-appointment of Shri Arvind Kharabanda, Director (Finance)**

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

   "**RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 309, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 ("the Act") and also subject to the approval of the Central Government wherever required and such other approvals as may be necessary, consent of the Company be and is hereby accorded for the re-appointment of Shri Arvind Kharabanda as the Director (Finance) of the Company w.e.f. 1st June, 2010 for a period of two years on the following terms and conditions including remuneration:-

1. Basic Salary

Rs. 2,40,000/- (Rupees Two Lac Forty Thousand Only) per month.

2. Perquisites, allowances and other benefits

In addition to the basic salary, Shri Arvind Kharabanda shall be entitled to perquisites and allowances like accommodation (furnished or otherwise) or house rent allowance in lieu thereof, reimbursement of expenses or allowances for gas, electricity, water, furnishing etc. medical reimbursement, leave travel allowances, club fee and such other perquisites and allowances under the Company's Rule.

The total cost of the aforesaid perquisites, allowances and other benefits shall be restricted to Rs. 1,92,000/- (Rupees One Lac Ninety Two Thousand Only) per month.

The above remuneration payable to Shri Arvind Kharabanda is subject to the condition that the total remuneration including basic salary, perquisites and allowances as mentioned above shall not exceed Rs. 4,32,000/- (Rupees Four Lakhs Thirty Two Thousand Only) per month.

3. Other Benefits

The following benefits shall not be included in the computation of ceiling on perquisites and allowances:-

a) Contribution to Provident Fund, Superannuation Fund and Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

b) Gratuity

   Gratuity shall be payable in accordance with the Rules of the Company.

c) Earned Leave

   Earned leave on full pay and allowances as per the Rules of the Company.

d) Leave encashment

   Encashment of leave at the end of the tenure in accordance with the Rules of the Company.

e) Provision of Car for use on Company's business.

f) Telephone at residence.

Minimum Remuneration

Notwithstanding anything to the contrary contained herein, where in a financial year, during the currency of the tenure of Shri Arvind Kharabanda, the Company has no profit or its profits are inadequate, the Company shall subject to the approval of the Central Government wherever required and subject to the provisions of Sections 198, 269 & 309 of the Companies Act, 1956 and subject to the conditions and the limits specified in Schedule XIII to the Act, pay to Shri Arvind Kharabanda, basic salary, perquisites and allowances as specified above as minimum remuneration.

The appointment of Shri Arvind Kharabanda can be terminated with three months notice or three months salary in lieu thereof from either side".

Registered Office:	By order of the Board
8, Electronics Complex	For **Himachal Futuristic**
Chambaghat,	**Communications Ltd.**
Solan-173 213 (H.P.)	
Place: New Delhi	**(Manoj Baid)**
Date : 28th February, 2011	**Company Secretary**

NOTES:

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

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

3. The Register of Members and Share Transfer Books of the Company will remain closed from 15th March, 2011 to 30th March, 2011 (both days inclusive).

4. Members are requested :
   i) to kindly notify the change of address, if any, to the Company/their Depository Participant.
   ii) to bring their attendance slip along with their copy of the Annual Report in the Meeting.
   iii) to deposit the duly completed attendance slip at the Meeting.

5. Members may use the facility of nomination. A nomination form will be supplied to them on request.

6. Members desiring any information with regard to Accounts/Reports are requested to submit their queries addressed to the Company Secretary at least ten days in advance of the meeting so that the information called for can be made available at the meeting.

7. Relevant documents referred to in the accompanying Notice and explanatory statement are open for inspection at the Registered office of the Company on all working days except Saturdays between 11:00 a.m. to 01:00 p.m. up to the date of the Annual General Meeting.

8. Pursuant to Circular No. SEBI/CFD/DIL/LA/2/2007/26/4 dated 26th April, 2007, issued by Securities and Exchange Board of India and as per the provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the statement containing the salient features of Balance Sheet, Profit & Loss Account and Auditors Report (Abridged Financial Statements), is being sent to the members along with the abridged consolidated financial statements. Any member interested in obtaining a copy of the full Annual Report may send his request to the Company Secretary at Himachal Futuristic Communications Limited, 8 Commercial Complex, Masjid Moth, Greater Kailash – II, New Delhi – 110048.

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

Item No(s). 2 & 3 of the Notice

Name	Date of Birth	Qualification	Expertise in specific functional areas	Directorship in other Public Companies	Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	Shares held in the Company
Shri Arvind Kharabanda	09.03.1947	Chartered Accountant	Shri Arvind Kharabanda has got over 35 years experience in managerial positions, project implementation and finance.	Nil	Himachal Futuristic Communications Ltd. Audit - Member Share Transfer & Investors Grievance - Member	Nil
Shri Y L Agarwal	20.09.1936	B.Sc, Bds DFIETE	Shri Y L Agarwal has got more than 49 years experience in the field of telecom and broadband services. He is Ex-Chairman and Managing Director of Telecommunications Consultants India Ltd (TCIL).	1 Electronics Systems Punjab Ltd. 2. HFCL Kongsung Telecom Ltd. 3. HTL Ltd.	Himachal Futuristic Communications Ltd. Audit - Member Remuneration - Member	Nil

The Board of Directors of the Company recommends their re-appointment.

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

Item No. 5

Present tenure of Shri Arvind Kharabanda as Director (Finance) has expired on 30th May, 2010. The Board of Directors of the Company at its meeting held on 14th May, 2010 has re-appointed him as Director (Finance) w.e.f. 1st June, 2010 on the terms and conditions including payment of remuneration, minimum remuneration to be paid in case of inadequacy of profits or no profit and the tenure of re-appointment as may be approved by the Remuneration Committee.

The Remuneration Committee at its meeting held on 15th November, 2010 has approved remuneration and terms and conditions of his re-appointment.

Abstracts of the terms and conditions of the re-appointment of Shri Arvind Kharabanda, Director (Finance) under Section 302 of the Companies Act, 1956 has already been mailed to members.

Shri Arvind Kharabanda aged 63 years is a Member of the Institute of Chartered Accountants of India and has got over 35 years of experience in managerial positions, project implementations and finance. He is on the Board of the Company since January, 1994 except for a brief period from 25th August, 2004 to 29th October, 2004 when he did not offer himself for re-appointment at the Annual General Meeting held on 25th August, 2004.

He is on the Board of the following Companies:-

1. Pals India Pvt. Limited
2. My Box Technologies Pvt. Limited

Shri Kharabanda is active on various committees as detailed below:-

Name of the Company	Name of the Committee	Committee Position
Himachal Futuristic Communications Ltd.	Audit	Member
Himachal Futuristic Communications Ltd.	Share Transfer & investors Grievance	Member

The Board of Directors of your Company is confident that the Company will be immensely benefited with the association of the above Director.

STATEMENT AS REQUIRED UNDER CLAUSE (C) (iv) OF SECTION II OF SCHEDULE XIII TO THE COMPANIES ACT, 1956

I GENERAL INFORMATION

1. **Nature of Industry:**

   Manufacturing of telecom equipments and rendering turnkey services.

2. **Date or expected date of commencement of commercial production:**

   Commercial production already started in October, 1989.

3. **In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus:**

   N.A.

4. **Financial performance based on given indicators : (as on 30.09.2010)**

(Rs. in crore)

Turnover including other income	:	402.21
Total expenditure including prior period adjustments	:	914.65
Profit/(Loss) before Tax	:	(512.44)
Profit/(Loss) after tax	:	(512.60)
Earning per equity share (in Rupees)	:	(7.61)
Dividend rate (%) on equity share capital	:	NIL

5. **Export performance & net foreign exchange collaborations:**

   FOB value of exports : Rs. 0.86 crore

6. **Foreign investments or collaborators if any:**

   N.A.

II INFORMATION ABOUT THE APPOINTEES

1. **Background details :**

   Already given in the foregoing paragraph

2. **Past remuneration (from 01.04.2008 to 31.03.2009)**

   Rs. 41,46,293/- (Remuneration includes salary, allowance and perquisites).

3. **Recognition or awards :**

   Shri Kharabanda has been associated with Federation of Indian Chamber of Commerce and various other Chambers and has been member on their various panels in the areas of direct taxation, indirect taxation and industrial activities.

4. **Job profile and his suitability:**

   Shri Arvind Kharabanda has developed expertise in the field of management discipline such as marketing, project appraisal, finance and the like. He has to his credit around 35 years of experience in various industries such as IT, tele-communications, electronics and consumer durables etc. This includes around 16 years of experience as Executive Director in the Company.

5. **Remuneration Proposed :**

   As mentioned in the Resolution.

6. **Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin):**

   In view of loss/inadequacy of profit, the appointee has opted for drawing much less remuneration compared to the remuneration being drawn by his counterparts in the Industry though the appointee is entitled to receive remuneration at par with his counterparts in the industry by virtue of his profile of the position and person.

7. **Pecuniary relationship directly or indirectly with the Company or relationship with the managerial personnel:**

   There is no direct or indirect pecuniary relationship with the Company or relationship with managerial personnel.

III OTHER INFORMATION

1. **Reason for loss/inadequate profit:**

   Stiff market competitions from multinationals and non availability of adequate working capital and high cost borrowings from Banks and Financial Institutions and others.

2. **Steps taken or proposed to be taken for improvement:**

   The Company has again approached to Corporate Debt Restructuring (CDR) Cell of IDBI Bank Ltd. for restructuring of its debts which is under their consideration. The proposed CDR Scheme includes reduction in rate of interest on loans, moratorium in repayment of the term loan, conversion of part of term loan and Zero Coupon Premium Bonds (ZCPBs) into equity shares of the Company.

3. **Expected increase in productivity and profits in measurable terms:**

   After the sanctioning of CDR Scheme, the Company's cash inflow will increase and the Company is expected to earn profits of Rs. 20.00 crore approx in the financial year 2010-2011.

IV. DISCLOSURES

(1) The shareholders of the company shall be informed of the remuneration package of the managerial person:

As mentioned above.

(2) The following disclosures shall be mentioned in the Board of Directors' Report under the heading 'Corporate Governance' if any, attached to the Annual Report:

i) All elements of remuneration package such as salary, benefits, bonuses, stocks options, pension etc. of all the directors:

This has been mentioned under the 'Corporate Governance Report'.

ii) Details of fixed component and performance linked incentives along with performance criteria

Fixed component as given in the Resolution. Presently no performance linked incentives is given by the Company.

iii) Service contracts, Notice period, severance fees:

There is no severance fees prescribed by the Company. The appointment of Shri Arvind Kharabanda can be terminated with three months notice or three months salary in lieu thereof from either side.

iv) Stock Option details, if any, and whether the same has been issued at a discount as well as the period over which accrued and over which exercisable:

Not applicable.

The members are requested to accord their approval to the re-appointment of Shri Arvind Kharabanda, Director (Finance) of the Company by passing the Special Resolution as set out at Sr. No. 5 of the Notice.

None of the Directors except Shri Arvind Kharabanda is concerned or interested in the Resolution.

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

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

Place: New Delhi
Date : 28th February, 2011

(Manoj Baid)
Company Secretary

Corporate Governance

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

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

1. HFCL Philosophy on Corporate Governance

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

"Transparency, professionalism and

Accountability

With an

Ultimate aim of value creation"

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

2. Board of Directors

During the year 2009-2010, the Company has got a broad based Board of Directors with one Promoter Managing Director, three Non-Executive Independent Directors (one Non-Executive Chairman, one Nominee Director of IDBI, one Non-Executive Independent Director), one Non-Executive Director and two Wholetime Directors including one Director (Finance) and one Director (Operations). During the year under review, Shri Y S Choudhary who was appointed as Director (Operations) w.e.f. 31st January, 2009 has resigned from the Board and ceases to be a Director of the Company w.e.f. 30th May, 2009.

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

During the financial year ended 30th September, 2010, 15 Board Meetings were held on 30.05.2009, 30.06.2009, 31.07.2009, 31.08.2009, 12.09.2009, 31.10.2009, 27.11.2009, 27.01.2010, 16.02.2010, 26.03.2010, 30.03.2010, 14.05.2010, 06.08.2010, 14.08.2010 and 21.09.2010.

The last Annual General Meeting was held on 30th September, 2009.

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

Name	Category	No. of other present Director-ships held	No. of Board Meetings		Attended last AGM (30/09/2009)
			Held	Attended	
Shri M P Shukla	NEID	2	15	14	YES
Shri Mahendra Nahata	PD [MD]	2	15	12	NO
Shri Arvind Kharabanda	WD	-	15	15	NO
Shri Y S Choudhary (ceased to be a Director w.e.f. 30.05.2009)	WD	1	0	0	N.A.
Dr. R M Kastia	NED	1	15	12	NO
Shri Y L Agarwal	NEID	3	15	13	YES
Shri R K Bansal, (IDBI Nominee)	NEID	6	15	13	NO

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

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

S.No	Name of Director	Directorships (Name of Companies)*	Committee Position		
			Name of the Company	Committee	Position
1.	Shri M P Shukla	1. HFCL Satellite Communications Ltd. 2. HTL Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Chairman
			Himachal Futuristic Communications Ltd.	Audit	Chairman
			Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Chairman
			HFCL Satellite Communications Ltd.	Audit	Member
			HTL Ltd.	Audit	Member
			HTL Ltd.	Remuneration	Member
2.	Shri Mahendra Nahata	1. HTL Ltd. 2. Infotel Broadband Services Ltd.	Infotel Broadband Services Ltd.	Audit	Member
3.	Shri Arvind Kharabanda	Nil	Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Member
			Himachal Futuristic Communications Ltd.	Audit	Member
4.	Shri Y S Choudhary (ceased to be a Director w.e.f. 30.05.2009)	1. Poly Medicure Ltd.	Poly Medicure Ltd.	Remuneration	Member
			Poly Medicure Ltd.	Audit	Member
5.	Dr. R M Kastia	1. HTL Ltd.	Himachal Futuristic Communications Ltd.	Share Transfer & Investors Grievance	Member
			HTL Ltd.	Audit	Member
6.	Shri Y L Agarwal	1. Electronics Systems Punjab Ltd. 2. HFCL Kongsung Telecom Ltd. 3. HTL Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Member
			Himachal Futuristic Communications Ltd.	Audit	Member
7.	Shri R K Bansal	1. National Securities Depository Ltd. 2. IDBI Fortis Life Insurance Co. Ltd. 3. IDBI Gilts Ltd. 4. IDBI Asset Management Ltd. 5. IDBI Home Finance Ltd. 6. J K Lakshmi Cements Ltd.	Himachal Futuristic Communications Ltd.	Remuneration	Member
			Himachal Futuristic Communications Ltd.	Audit	Member
			IDBI Fortis Life Insurance Co. Ltd.	Audit	Member
			IDBI Gilts Ltd.	Audit	Member

* The directorship held by Directors as mentioned above does not include directorship of foreign companies, Section 25 companies and private limited companies, if any.

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

2.1 Information Placed before the Board

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

- Minutes of Audit Committee Meetings, Remuneration Committee Meetings and Share Transfer & Investors Grievance Committee Meetings.
- Matters related to accident, dangerous

happenings, material effluent and pollution problems etc., if any.

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

3. Committees of the Board

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

- Audit Committee
- Remuneration Committee
- Share Transfer & Investors Grievance Committee

3.1 Audit Committee

The followings are the members and their attendance at the Committee Meetings during the year 2009-10:-

Name of Director	Status	No. of Meetings	
		Held	Attended
Shri M P Shukla	Chairman	8	8
Shri R K Bansal	Member	8	8
Shri Y L Agarwal	Member	8	8
Shri Arvind Kharabanda	Member	8	8

During the period 01.04.2009 to 30.09.2010, the Audit Committee met eight times on 30.05.2009, 30.06.2009, 31.07.2009, 31.08.2009, 31.10.2009, 27.01.2010, 14.05.2010 and 14.08.2010.

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

- Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending the appointment/re-appointment of external and internal auditors, tax auditors, fixation of statutory audit fees, internal audit fees and tax audit fees and also approval for payment of any other services.
- Review with management, the annual financial statements before submission to the Board.
- Review quarterly un-audited/audited financial results / quarterly review report.
- Review with management, performance of external and internal auditors, adequacy of internal control system.
- To do any internal investigations either departmentally or with the help of internal auditors or any other outside agency into matters where there is suspected fraud or irregularities.
- Discussions with external auditors before the audit commences about nature and scope of audit as well as have post audit discussions to ascertain any area of concern.

- Review the Company's financial and risk management policies.
- To look into the reasons for substantial defaults in the payment to the depositors, debentureholders, shareholders and creditors.
- Review of the use/application of money raised through Public/Rights/Preference Issue.
- Shri Mahendra Pratap Shukla, Non-Executive Independent Director is the Chairman of the Committee. The Company Secretary acts as Secretary to the Committee.

3.2 Remuneration Committee

During the year under review, the Remuneration Committee met on 31.08.2009. Attendance of the members in the Remuneration Committee Meeting are as under:-

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

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

The details of remuneration and perquisites paid to the Executive and Non-Executive Directors during the year 2009-10 are given below:-

Name of Director	Salary	Allowances	Perks	Sitting Fee	Total
	Rs.				
Category A - Executive Directors					
Shri Mahendra Nahata Managing Director	48,38,400	11,02,500	8,24,716	-	67,65,616
Shri Arvind Kharabanda Director (Finance)	31,36,000	16,80,000	5,59,307	-	53,75,307
Category B – Nominee Director (Independent Director)					
Shri R K Bansal Director	-	-	-	1,15,000	1,15,000
Category C – Non-Executive Independent Directors					
Shri M P Shukla Chairman	-	-	-	1,55,000	1,55,000
Shri Y L Agarwal Director	-	-	-	1,10,000	1,10,000
Dr. R M Kastia Director	-	-	-	1,00,000	1,00,000

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

The remuneration paid to Shri Mahendra Nahata, Managing Director of the Company as shown under item no. 3.2 of Report on Corporate Governance was subject to approval from the Central Government. The Company has already received approval from the Central Government for the re-appointment and payment of remuneration to Shri Mahendra Nahata, Managing Director for the period 1st October, 2006 to 30th September, 2009. Since the Company has received the approval of Central Government for a lesser amount than the actual remuneration paid to Managing Director for the period, i.e. from 1st April, 2009 to 30th September, 2009 Rs. 17,83,797/- has been charged to Profit & Loss Account and excess remuneration of Rs. 4,40,714/- continue to be shown as recoverable. The Company has already filed necessary application for re-appointment and payment of remuneration to Shri Mahendra Nahata, Managing Director for the period 1st October, 2009 to 30th September, 2012. The remuneration of Rs. 45,41,105/- paid to Shri Mahendra Nahata from 1st October, 2009 to 30th September, 2010 is subject to approval from Central Government. However amount paid to him towards remuneration has not been charged to Profit & Loss Account for the period

1st October, 2009 to 30th September, 2010 which shall be done after receipt of approval from the Central Government.

The remuneration paid to Shri Arvind Kharabanda, Director (Finance) of the Company as shown under item no. 3.2 of Report on Corporate Governance was subject to approval from the Central Government. The Company has already received approval from the Central Government for the re-appointment and payment of remuneration to Shri Arvind Kharabanda, Director (Finance) for the period 1st June, 2007 to 31st May, 2010. Since the Company has received the approval of Central Government for a lesser amount than the actual remuneration paid to Director (Finance) for the period i.e. 1st April, 2009 to 31st May, 2010, Rs. 30,50,833/- has been charged to Profit & Loss Account and excess remuneration of Rs. 23,24,474/- continue to be shown as recoverable. The Company has already filed necessary application for re-appointment and payment of remuneration to Shri Arvind Kharabanda, Director (Finance) for the period 1st June, 2010 to 31st May, 2012. The remuneration of Rs.16,51,200/- paid to Shri Arvind Kharabanda from 1st June, 2010 to 30th September, 2010 is subject to approval from Central Government. However amount paid to him towards remuneration has not been charged to Profit and Loss Account, which shall be done after receipt of approval from the Central Government.

3.3 Details of pecuniary relationship/transactions of the Non- Wholetime Directors / their Firms & Companies vis-a-vis the Company during the year 2009-2010

Nil

3.4 Share Transfer & Investors Grievance Committee

The Committee consists of one Non-Executive Independent Director, one Non Executive Director and one Wholetime Director and is chaired by the Non-Executive Independent Director. This Committee looks into transfer and transmission of shares/debentures/bonds etc., issue of duplicate share certificates, consolidation and sub-division of shares and investors' grievances. This Committee particularly looks into the investors grievances and oversees the performance of the Share Department /Share Transfer Agent and to ensure prompt and efficient investors' services. The Committee met eight times during the year 2009-2010. The followings are the members and their attendance at the Committee Meetings: -

Name of Director	Status	No. of Meetings	
		Held	Attended
Shri M P Shukla	Chairman	8	8
Dr. R M Kastia	Member	8	8
Shri Arvind Kharabanda	Member	8	8

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

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

4. General Body Meetings

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

YEAR	AGM/ EGM	LOCATION	DATE	TIME
2009-2010	Court Convened meeting of Equity Shareholders	Mushroom Centre, Solan	26.11.2010	10:00 A.M.
2009-2010	Court Convened meeting of Preference Shareholders	Mushroom Centre, Solan	26.11.2010	11:30 A.M.
2009-2010	Court Convened meeting of Secured Creditors	Mushroom Centre, Solan	26.11.2010	02:30 P.M.
2009-2010	Court Convened meeting of Unsecured Creditors	Mushroom Centre, Solan	26.11.2010	03:30 P.M.
2008-2009	AGM	Mushroom Centre, Solan	30.09.2009	11:00 A.M.
2007-2008	AGM	Mushroom Centre, Solan	29.09.2008	03:00 P.M.
2007-2008	EGM	Mushroom Centre, Solan	25.02.2008	11:00 A.M.
2006-2007	AGM	Mushroom Centre, Solan	27.12.2007	11:00 A.M.

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

YEAR	AGM/ EGM	SUBJECT MATTER OF SPECIAL RESOLUTIONS	DATE	TIME
2008-2009	AGM	Re-appointment of Shri Mahendra Nahata, Managing Director.	30.09.2009	11:00 A.M.
2007-2008	AGM	Delisting of Equity /Preference Shares from Stock Exchanges.	29.09.2008	3:00 P.M.
2007-2008	EGM	Change of Name of the Company.	25.02.2008	11:00 A.M.

No Special resolution was put through postal ballot in the last AGM.

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

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

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

None.

7. Whistle Blower Policy

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

8. Means of Communications

This is being done through quarterly / half yearly and annual results, which are being published in premier English and Hindi daily newspapers. Press releases are also issued simultaneously. The Company's website www.hfcl.com contains Annual Reports, Financial Results etc. Management Discussions and Analysis forms part of the Directors' Report, which is posted to the shareholders of the Company.

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

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

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

Nil

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

Risk assessment and minimization procedure is being formulated.

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

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

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

SHAREHOLDERS' INFORMATION

1.	**Dates of Book Closing**	:	15th March, 2011 to 30th March, 2011 (both days inclusive)
2.	**Date and venue of Annual General Meeting**	:	30th March, 2011 at 11:00 A.M. at Mushroom Centre, Chambaghat, Solan (H.P.)
3.	**Listing on Stock Exchanges in India**	:	Bombay Stock Exchange Ltd. * Phiroze Jeejeebhoy Towers Dalal Street , Mumbai - 400 001 Tel : +91-22-22721233 Fax : +91-22-22723121 National Stock Exchange of India Ltd.* Exchange Plaza, 5th Floor Plot No.C/1, G Block Bandra Kurla Complex Bandra (East) Mumbai - 400 051 Tel : +91-22-26598235 Fax : +91-22-26598237
4.	**Status of Listing Fees**	:	Paid for 2010-2011
5.	**Listing on Stock Exchanges outside India**	:	The London Stock Exchange Plc 10, Paternoster Square London EC 4 M7LS Tel : 0044-2077971000 Fax : 0044-2075886057 Luxembourg Stock Exchange 11, Avenue de la Porte-Neuve BP.165 L - 2011, Luxembourg Grand Duchy of Luxembourg Tel : 00352-4779361 Fax : 00352-477936204
6.	**Registered office**	:	8, Electronics Complex, Chambaghat Solan - 173 213 (H.P.) Tel : +91-1792-230643/44 Fax : +91-1792-231902

* The trading in Company's equity shares at Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE) has been suspended temporarily on 8th February, 2011 to give effect to reduction in face value and paid up value of equity shares of the Company from Rs. 10/- per share to Re.1/- per share as per the Composite Scheme of Arrangement and Amalgamation between Sunvision Engineering Company Private Limited (SECPL), its Shareholders, Optionally Convertible Debenture (OCD) Holder and Himachal Futuristic Communications Limited (HFCL) and its Shareholders, sanctioned by the Hon'ble High Court of Himachal Pradesh at Shimla on 5th January, 2011. The CDSL & NSDL have already given the effect of reduction in equity share capital in the individual account of beneficiaries on 25th February, 2011 and 26th February, 2011 respectively. The Company has already filed application with both NSE & BSE for the re-commencement of trading of its equity shares. We hope that trading of equity shares of the Company will resume at both the Stock Exchanges shortly.

7.	**Corporate Office**	:	8, Commercial Complex, Masjid Moth, Greater Kailash - II New Delhi - 110 048 Tel : +91-11-30882624 Fax : +91-11-30689013
8.	**Works**	:	Electronics Complex Chambaghat Solan - 173 213 (H.P.) Tel : +91-1792-230643/44 Fax : +91-1792-231902 Cable Division L 35-37, Industrial Area, Phase - II Verna Electronic City Salcete, Goa - 403 722 Tel : +91-832-6697000 Fax : +91-832-2783444
9.	**CIN NO.**	:	L64200HP1987PLC007466
10.	**Website/Email**	:	www.hfcl.com secretarial@hfcl.com / investor@hfcl.com
11.	**Name of News Papers in which results are generally published**	:	Indian Express, Jansatta, Dainik Tribune
12.	**Depositories**	:	National Securities Depository Ltd. 4th Floor, 'A' Wing, Trade World Kamla Mills Compound Senapati Bapat Marg, Lower Parel Mumbai - 400 013 Tel : +91-22-24994200 Fax : +91-22-24972993 Central Depository Services (India) Ltd. Phiroze Jeejeebhoy Towers 28th Floor, Dalal Street Mumbai - 400 023 Tel : +91-22-22723333 Fax : +91-22-22723199
13.	**ISIN NO.**	:	INE548A01028

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

M/s. MCS Ltd. F-65, Okhla Industrial Area, Phase -II New Delhi-110 020	Tel : +91-11-41406149 Fax : +91-11-41709881 Email: admin@mcsdel.com

15. Share Transfer System:

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

The Total Number of shares transferred in physical form during the year 2009-2010:

Number of transfer deeds	21
Number of Shares	5480

16. Investors complaints received during the year 2009-2010 :

Nature of Complaints	Received	Attended
Non Receipt of Shares (Transfers/Transmissions/Exchange)	8	8
Non receipt of Annual Reports	12	12
Dematerialisation	2	2
Non-receipt of dividend	8	8
Issue of duplicate shares	4	4
Others	6	6
Total	**40**	**40**

The Company has attended to the investor's grievances/correspondence within a period of 15 days from the date of receipt of the same during the year 2009-2010 except in cases which are constrained by disputes and legal impediments. There were no investor grievances remaining unattended/pending as at 30th September, 2010. The Board in its meeting held on 31st October, 2006 has designated Shri Manoj Baid, Company Secretary as the Compliance Officer.

17. Distribution of shareholdings as on 30th September, 2010:

No. of Equity held (Rs.)	No. of Shareholders	% of Shareholders	Shares Amount (Rs.)*	% of Shareholdings
Up to 5000	313932	97.337	170742031	17.205
5001 – 10000	4581	1.421	34278463	3.454
10001 – 20000	1884	0.584	27230254	2.744
20001 – 30000	659	0.204	16483429	1.661
30001 – 40000	259	0.080	9155427	0.923
40001 – 50000	179	0.056	8387239	0.845
50001 – 100000	341	0.106	24773100	2.496
100001 & above	310	0.096	698599112	70.395
Shares in Transit	375	0.116	2746282	0.277
TOTAL	**322520**	**100.000**	**992395337**	**100.000**

* Since the Scheme of Arrangement and Amalgamation has been made effective from 1st January, 2010 i.e. "appointed date", 47,00,00,000 & 5,96,01,640 equity shares allotted on 10th February, 2011 to equity shareholders and OCD holders respectively of erstwhile Sunvision Engineering Company Private Limited have been included in the total equity share capital amount as mentioned above.

18. Categories of Shareholding as on 30th September, 2010 :

S. No.	Category	Shares	%
A	**Promoters Holding**		
1	Indian Promoters *	479298999	48.29718
2	Foreign Promoters	-	-
	Sub Total	**479298999**	**48.29718**
B	**Public Shareholding**		
1	**Institutional Investors**		
a)	Mutual Funds & UTI	8380	0.00084
b)	Banks, Financial Institutions, Insurance Companies (Central/State Government Institutions/Non-Government Institutions)	714380	0.07199
c)	Foreign Institutional Investors	8258650	0.83219
	Sub Total	**8981410**	**0.90502**
2	**Non Institutional Investors**		
a)	Private Corporate Bodies *	203485570	20.50449
b)	Indian Public	293346646	29.55946
c)	NRIs	4091076	0.41224
d)	**Any Other**		
i)	Foreign Banks	1705	0.00017
ii)	Trusts	119469	0.01204
iii)	OCBs	46000	0.00464
iv)	Shares in transit	2746282	0.27673
C	**Shares held by Custodian and against which depository receipts have been issued**	278180	0.02803
GRAND TOTAL (A+B+C)		**992395337**	**100.00000**

* Since the Scheme of Arrangement and Amalgamation has been made effective from 1st January, 2010 i.e. "appointed date", 47,00,00,000 & 5,96,01,640 equity shares allotted on 10th February, 2011 to equity shareholders and OCD holders respectively of erstwhile Sunvision Engineering Company Private Limited have been included in the promoters shareholding and private corporate bodies shareholding respectively.

19. Dematerialisation of shares:

The Company's shares are compulsorily traded in dematerialised form as per SEBI Guidelines. As on 30th September, 2010, 99.78% of the equity shares have been dematerialised.

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

Outstanding GDRs as on 30th September, 2010 represent 2,78,180 equity shares (0.03 %). The 3,04,44,000 Zero Coupon Premium Bonds are convertible at option of lender if the Company opts for non-payment of premium of 8.5% p.a.

21. Stock Market Price Data on NSE and NIFTY Index:

Month	NSE (in Rs.)		NIFTY INDEX	
	Highest	Lowest	Highest	Lowest
April, 2009	10.55	7.95	3517.25	2965.70
May, 2009	14.00	8.55	4509.40	3478.70
June, 2009	17.50	11.80	4693.20	4143.25
July, 2009	13.00	9.25	4669.75	3918.75
August, 2009	14.70	11.20	4743.75	4353.45
September, 2009	14.30	12.60	5087.60	4576.60
October, 2009	13.35	10.35	5181.95	4687.50
November, 2009	11.40	9.70	5138.00	4538.50
December, 2009	11.85	9.95	5221.85	4943.95
January, 2010	15.40	11.10	5310.85	4766.00
February, 2010	17.45	13.00	4992.00	4675.40
March, 2010	14.20	11.60	5329.55	4935.35
April, 2010	14.10	11.80	5399.65	5160.90
May, 2010	12.40	9.85	5278.70	4786.45
June, 2010	13.05	9.90	5366.75	4961.05
July, 2010	11.70	9.95	5477.50	5225.60
August, 2010	13.15	10.00	5549.80	5348.90
September, 2010	13.05	10.55	6073.50	5403.05

22. Stock Codes: BSE **: 500183 ,** NSE **: HIMACHLFUT,** (proposed new code: **HFCL**)

23. Financial Calendar (tentative and subject to change) 2009-2010:

Financial Reporting for the first quarter ending 31st December, 2010 : **Second week of February, 2011.**

Financial Reporting for the second and last quarter ending 31st March, 2011 : **Second week of May, 2011**

Audited Accounts for the year ending March 31, 2011 : **Last week of August, 2011.**

Annual General Meeting for the year ending March 31, 2011 : **September, 2011.**

DECLARATION REGARDING COMPLIANCE OF CODE OF CONDUCT

I, Mahendra Nahata, Managing Director of Himachal Futuristic Communications Ltd. hereby declare that all Board Members and Senior Management Personnel have affirmed compliance of the Code of Conduct as on 30th September, 2010.

sd/-
(Mahendra Nahata)
Managing Director

Dated : 28th February, 2011

CERTIFICATE ON CORPORATE GOVERNANCE

To The Members of

HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED

1. We have examined the compliance of conditions of Corporate Governance by Himachal Futuristic Communications Limited ("the Company") for the period ended 30th September, 2010, as stipulated in clause 49 of the Listing Agreement of the said with various Stock Exchanges (hereinafter referred to as "the agreement").
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.
3. In our opinion and based on our review and to the best of our information and according to the explanations given to us and *subject to the comments given in the item no. 11 of the Corporate Governance Report,* we certify that the conditions of the Corporate Governance as stipulated in the Clause 49 of the agreement have been complied with in all material aspects by the Company.
4. As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained by the Share Transfer and Investors Grievance Committee, there were no investor grievance remaining unattended/ pending for more than 30 days as at 30th September, 2010 against the Company except in cases which are constrained by disputes and legal impediments.
5. We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For KHANDELWAL JAIN & CO.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.: 103490

Place: New Delhi
Date: 28th February, 2011

DIRECTORS' REPORT

To the Members,

The Directors have pleasure in presenting the Annual Report and Audited Accounts for the Financial Year for eighteen months ended 30th September, 2010.

(Rs. in million)

FINANCIAL RESULTS	2009-2010	2008-2009
Sales and Services	**3205.47**	1435.25
Other Income	**816.59**	54.41
Profit/(Loss) before depreciation, finance charges and taxation	**(3925.90)**	(1999.78)
Less : Depreciation & Amortisation	**390.33**	261.46
Finance charges	**814.82**	909.89
Profit/(Loss) before taxes	**(5131.04)**	(3171.13)
Provision for taxation	**0.46**	4.21
Income tax for earlier years	**1.14**	-
Prior period adjustments	**(6.69)**	(8.58)
Profit/(Loss) for the year	**(5125.95)**	(3166.76)
Balance brought forward from previous year	**(14899.02)**	(11732.26)
Accumulated losses transferred to the Business Reconstruction Account	**20024.97**	-
Balance carried to Balance Sheet	**-**	(14899.02)

DIVIDEND

In view of the loss incurred by the Company, your Directors do not recommend any dividend on equity and preference shares for the year ended 30th September, 2010.

MANAGEMENT DISCUSSIONS & ANALYSIS (MDA)

Financial Review

Sales during the financial year for eighteen months ended 30th September, 2010 has increased to Rs.3205.47 million from Rs. 1435.25 million in the previous year. The Company has incurred a net loss of Rs. 5125.95 million as against the net loss of Rs. 3166.76 million in the previous year. Stiff market competition from multinationals, non availability of adequate working capital, high cost borrowing from Banks and Financial Institutions and loss on account of sale of investments held by the Company in its subsidiary HFCL Infotel Ltd. are the main factors which have resulted into the losses of the Company. During the year under Report, the Board of Directors of the Company has extended its financial year by six months from 31st March, 2010 to 30th September, 2010. In this connection Company has obtained necessary approval from the Registrar of Companies, Punjab, Himachal Pradesh & Chandigarh as required under Section 210(4) of the Companies Act, 1956.

Capital Restructuring and Amalgamation

During the year under report, the Hon'ble High Court of Himachal Pradesh at Shimla has sanctioned the Composite Scheme of Arrangement and Amalgamation between Sunvision Engineering Company Private Limited (SECPL), its Shareholders & Optionally Convertible Debenture Holder ("OCD Holder") and Himachal Futuristic Communications Limited (HFCL) and its Shareholders vide its Order passed on 5th January, 2011. Pursuant to aforesaid Order, SECPL stands amalgamated into HFCL w.e.f.

1st January, 2010 i.e. "Appointed Date". Consequent upon the Amalgamation, SECPL stands dissolved without process of winding up w.e.f. 14th January, 2011 ("effective date") i.e. the date on which Registrar of Companies (RoC), Punjab, Himachal Pradesh & Chandigarh has registered the aforesaid Court Order.

Consequent upon Sanctioning of Composite Scheme of Arrangement and Amalgamation by the Hon'ble High Court of Himachal Pradesh at Shimla vide its Order passed on 5th January, 2011, the Company's issued, subscribed and paid-up equity share capital stands reduced from Rs. 462,79,36,970/- divided into 46,27,93,697 equity shares of Rs. 10/- each to Rs. 46,27,93,697/- divided into 46,27,93,697 equity shares of Re.1/- each by reduction in face value and paid-up value from Rs. 10/- per share to Re.1/- per share. Accordingly Central Depository Services (I) Limited (CDSL) and National Securities Depository Limited (NSDL) have credited same number of shares of Re.1/- each fully paid-up on 25th February, 2011 and 26th February, 2011, respectively held by the beneficiaries in CDSL and NSDL as on 9th February, 2011 i.e. "Record Date" fixed for reduction of equity share capital against the shares of Rs.10/- each fully paid up. The shareholders who were holding equity shares of Rs.10/- fully paid up in physical form have been sent stickers on 21st February, 2011 to be affixed on Share Certificate to indicate that the face value and paid up value of equity shares have been reduced from Rs.10/- per share to Re.1/- per share. Consequent upon Amalgamation of SECPL into HFCL, the Board of Directors of the Company at its meeting held on 10th February, 2011 has issued and allotted 47,00,00,000 and 5,96,01,640 equity shares of Re. 1/- each credited as fully paid-up to the Shareholders and Optionally Convertible Debenture Holders respectively of erstwhile SECPL. Accordingly the issued, subscribed and paid-up equity share capital of the Company has increased to Rs. 99,23,95,337/-

OVERVIEW OF TELECOM GROWTH IN INDIA

The Indian telecommunication industry is one of the fastest growing in the world, with the focus shifting from voice-centric to one that is data-oriented. It has become possible and the preferred option to provide a complete 'communications services package' to the end-customer, instead of having multiple services from possibly separate service providers. As per TRAI report, the number of telephone subscribers (fixed and mobile) in the country reached 621 million in March 2010 implying a tele-density of 52.7%. Wireless subscribers have increased to 584 million by the end of March 2010 with wireless tele-density at 49.6%. This achievement has exceeded the target of 500 million subscribers in 2010.

The Broadband Policy 2004 envisaged 40 million internet subscribers and 20 million broadband subscribers by year ending 2010. The growth of broadband subscriber base in India has hitherto been below expectations. The broadband subscribers were 8.75 million as on March 2010 with broadband penetration rate is just 0.74% when compared with tele-density of 52.7%. The internet usage in India is also low by world standards. In 2010, the estimated number of internet users was about 81 million which is about 6.9% of estimated population of 1.173 billion.

Wireless broadband market in India, is available on three types of networks namely, Wi-MAX, EVDO and 3G HSPDA. Currently BSNL has Wi-Max in select locations and the rollout has been slow in the franchise model. Broadband on EVDO is being provided by Tata, BSNL, and RCom and on 3G-HSPDA by BSNL and MTNL and some private telecom operators. The growth of wireless broadband has been slow mainly because of the absence of compelling applications for the end users.

As per TRAI Consultation Paper No. 09/2010, the desirable targets for broadband users has been kept at 100 million connections by 2014 which are based on 20% and 40% households having broadband connections by 2012 and 2014 respectively.

OPPORTUNITIES

The Company's core business being telecom products and services, it is expected to grow at a rapid pace due to the projected high growth rate of the Indian telecommunication sector. There is an addition of about 10 million mobile subscribers every month by mobile operators which is perhaps the highest addition per month in the world. With the award of 3G and BWA licenses and increased focus by the government for broadband up to villages, there is huge potential of business both in equipment and services as during the next 2-3 years there will be rollout of 5-6 pan India wireless broadband networks. With major broadband applications being IP based, the networks will see big deployment and therefore the huge opportunity for the Company, for IP technology based products like – Carrier Ethernet, IP Radios, GPON, LTE and 3G and the related customer premises equipment.

For such rapid expansion of new networks, large infrastructure requirements for tower construction, equipments, power supplies and installations will be generated for which your Company is focused. Moreover, the private operators are now outsourcing the operation and maintenance of their network for which your Company is eminently suitable as it has all the necessary qualifications. Your Company is well placed with its various services in line with the telecom market through its site infra services, RF planning services and telecom equipment installation and commissioning services. Your Company has already taken leadership position in providing these services with well entrenched contract with operators and telecom OEMs in various circles of India.

The Company has excellent manufacturing facilities and these have not been well utilised over past few years as the telecom equipment manufacturing industry as a whole saw a downturn. With government new policies related to security concerns and promotion of local manufacturing, we see huge potential for the Contract Manufacturing activities by the company. Your Company has signed contract manufacturing agreement with DragonWave Inc., a Canadian radio manufacturing company.

The two main Govt. Telecom PSUs are BSNL and MTNL, who have large expansion plans. The shift in demand from voice to data domination and from wireline to wireless, has revolutionized the very nature of the network. BSNL has already set in place several measures that would enable it to evolve into a fully integrated multi-operator by massive procurements of the required IP based products and systems by tenders in which your Company is likely to participate.

OUTLOOK

The Indian economy is expected to grow at around 8% until 2020 and is poised to become second biggest economy of the world by 2050. With increase of 10 million subscribers every month for the next two to three years making Indian telecom network to have 700 million subscribers and tele density of over 60% by 2012. The rollout of 3G & BWA networks will provide large opportunities for supply of equipments and services. As the technology is changing very fast the Company has decided to partner with some large international companies for technology transfer and manufacturing in the Company. The partnership can be in the form of Joint Ventures or technology transfer. The advantage is regular upgradation of technology as per market needs, without our investment in high technology R&D. The Company is in active discussions for Technology co-operation in the field of DWDM, Carrier Ethernet, GPON, IP Radios & 3G/LTE devices which will enable competitive participation in various tenders and provide solutions.

Your Company has a wide range of services offerings to cater to the wireline and wireless services. Some of the services being provided by the Company are RF services, Telecom equipment installation and commissioning services, telecom site infrastructure supply and services, optical services, AMC and Facility management services, operations and management services, DWDM & SDH network implementation. With all these, the outlook for the Company appears to be good. The company will focus on telecom equipment manufacturing, telecom infrastructure services, operation and maintenance of networks and other related services.

THREATS, RISKS & CONCERNS

The telecommunication market in India is among the most competitive markets. The Company faces intense competition from other companies in the same domain. The equipment business mostly is tender based with short delivery time. There is risk of delay in supply of equipment and related penalties because of increasing lead time in purchase of some critical components. The presence of many small companies, doing installation and commissioning job, is going to put strain on the margins on turnkey activities of the Company. There is also some concern related to delay in rollout of new 3G / BWA networks where the Company is expecting turnkey business and supply of some equipment.

ADEQUACY OF INTERNAL CONTROL

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

HUMAN RESOURCE DEVELOPMENT (HRD)

HFCL has a team of experienced and competitive professionals. In the ever changing telecom scenario, we recognize the need for training and retaining the talent pool of the Company. Hence, the Company has taken various initiatives in that direction. Employees have undergone technical trainings to further enhance their skills. Performance reviews of employees are conducted on a regular basis to motivate and reward the performers. The total employee strength of HFCL as on 30th September, 2010 was 600. Due to slow down in the market, Company has reduced the manpower so as to bring down the wage bill and administrative overheads.

SUBSIDIARIES

M/s. HTL Ltd. and M/s Moneta Finance (P) Ltd., continue to be the subsidiaries of your Company. During the year, the Company has sold 32,67,05,000 equity shares and 65,00,000 Cumulative Redeemable Preference Shares (CRPS) held by it in HFCL Infotel Ltd. (HITL) and accordingly w.e.f. 31st March, 2010 HFCL Infotel Ltd. ceases to be the subsidiary of the Company. Infotel Tower Infrastructure Pvt. Ltd. (ITIPL) became the subsidiary of the HFCL Infotel Ltd. which itself was a subsidiary of the Company. Since HITL ceases to be the subsidiary of the Company, ITIPL also ceases to be the subsidiary of the Company w.e.f. 31st March, 2010.

As required under Section 212 of the Companies Act, 1956 the audited statements of accounts, along with the reports of the Directors' and the Auditors' thereon of the above subsidiaries for the year ended 31st March, 2010 are not annexed as the Company has obtained the approval under Section 212 (8) of the Companies Act, 1956 from the Ministry of Corporate Affairs exempting the requirements of attaching the annual accounts of the above mentioned subsidiaries. However the Company has annexed consolidated financial statements to the Annual Report wherein the audited financial statements of Moneta Finance (P) Ltd. made up to 30th September, 2010 have been considered. The audited financial statements of HTL Ltd. as on 31st March, 2010 together with significant transactions/events up to 30th September, 2010 have been taken into consideration while preparing consolidated accounts. The financial statements of HITL and ITIPL, which ceased to be subsidiaries of the Company w.e.f. 31st March, 2010, have been included only in the consolidated statements of Profit and Loss accounts up to the date of cessation of relationship.

However, any shareholder desirous of obtaining the Annual Accounts and related information of the above subsidiary companies may write to the Company Secretary at M/s Himachal Futuristic Communications Ltd., 8, Commercial Complex, Masjid Moth, Greater Kailash – II, New Delhi - 110 048 and the same shall be sent by post.

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

CAUTIONARY STATEMENT

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

FIXED DEPOSITS

The Company has not accepted any Deposits during the year.

DIRECTORS

Shri Arvind Kharabanda and Shri Y L Agarwal, Directors retire by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment. During the year under review Shri Y S Choudhary has resigned from the position of Director (Operations) and ceased to be a Director of the Company w.e.f. 30th May, 2009. However he is continuing with the Company as a Chief Executive Officer of the Company w.e.f. 1st June, 2009.

DIRECTORS' RESPONSIBILITY STATEMENT

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

1. That in the preparation of the accounts for the financial year ended 30th September, 2010, the applicable accounting standards have been followed along with proper explanations relating to material departures;
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of

the state of affairs of the Company at the end of the financial year and of the loss of the Company for the year under review;

3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act,1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. That the Directors have prepared the accounts for the financial year ended 30th September, 2010 on a 'going concern' basis.

AUDITORS

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

AUDITORS' REPORT

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

PERSONNEL

In terms of provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the Annexure to the Director's Report. However having regard to provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and other entitled thereto. Any member interested in obtaining such particulars may write to Company Secretary, at the Corporate Office/ Registered Office of the Company.

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

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

DEPOSITORY SYSTEM

The Company's scrip have come under compulsory dematerialisation w.e.f. 29th November, 1999 for Institutional Investors and w.e.f. 17th January, 2000 for all investors. So far 99.78% of the shares have been dematerialised. The new ISIN no. allotted to the equity shares of the Company after the reduction of equity share capital is INE548A01028.

CORPORATE GOVERNANCE

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

VOLUNTARY DELISTING OF SECURITIES

As approved by the Shareholders at their Annual General Meeting held on 29th September, 2008, Company has filed necessary application for delisting of its equity shares from Delhi Stock Exchange Ltd. (DSE), The Calcutta Stock Exchange Association Ltd. (CSE), Jaipur Stock Exchange Ltd. (JSE) & Ludhiana Stock Exchange Ltd. (LSE) and preference shares from LSE. The Company has already obtained the delisting approval from all the above Stock Exchanges.

ACKNOWLEDGEMENTS

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

For and on behalf of the Board

Place: New Delhi | **M P Shukla**
Date: 28th February, 2011 | **Chairman**

ANNEXURE - I TO THE DIRECTORS' REPORT

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

A. OBSERVATIONS IN THE MAIN AUDITORS' REPORT

Auditors' Observations:

1. Para 4:

a) As stated in Note 13 of Schedule 19, the Company has accounted for the impact of modified CDR package after complying with most of the terms and conditions stipulated therein, however compliance of some of them are still in process. The company is also not regular in payment of its dues including interest thereon to the lenders and may be liable to consequential withdrawal of any of the reliefs granted earlier.

Reply:

The Company has complied with most of conditions as stipulated in CDR package. Due to continued cash losses and acute liquidity crisis, the Company could not meet its interest and repayment obligations towards its lenders under CDR package. The Company has submitted fresh re-structuring proposal to the lenders which is under their consideration. In view of this, Company does not expect withdrawal of any relief granted by the lenders under existing CDR package.

2. Para 4:

b) As stated in Note 15 of Schedule 19, the Company has, in terms of the CDR package, provided for interest on ballooning basis at the rate specified for the period which is higher then the rate on YTM basis i.e. @ 8.5% per annum, resulting in the higher loss for the period by Rs. 172.60 millions. Had the interest been provided on YTM basis, the cumulative provision for interest and accumulated losses up to 30th September 2010 would have been higher by Rs. 46.35 millions.

Reply:

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

3. Para 4:

(c) With regard to the sundry debtors outstanding for a long period as stated in Note 19 of Schedule 19, we are unable to comment on the extent of realisability and consequently on the adequacy of provision for doubtful debts made by the Company. Impact thereof on the loss for the period, if any, is unascertainable.

Reply:

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

4. Para 4:

(d) As stated in Note 23 of Schedule 19, balances of some of the sundry debtors, creditors, lenders and loans and advances are subject to confirmations, reconciliation and adjustments, if any.

Reply:

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

5. Para 4:

(e) As stated in Note 9 of Schedule 19, the Company has paid remuneration to managerial personnel during the period for which approval of central government is pending.

Reply:

The Company has received necessary approval from the Central Government for the re-appointment and payment of remuneration to Wholetime Directors for the financial year 2007-08, 2008-09 and part financial year of 2009-10 for Rs.2,74,63,608/-. However for this period, the Company has paid Rs.4,69,17,326/- as remuneration to Wholetime Directors. Since the approval of

Central Government received is for lesser amount than the actual remuneration paid for the aforesaid period, the excess remuneration of Rs.1,94,53,718/- paid continues to be shown as recoverable. The Company is in the process of making representation to the Central Government for seeking their approval to the balance remuneration of Rs.1,94,53,718/-. The Company has also filed the necessary applications with the Central Government seeking their approval for re-appointment and payment of remuneration to Wholetime Directors for financial year 2009-10 and onwards which is under their consideration.

6. Para 4:

(f) *As stated in Note 21 of Schedule 19, the Company is in process of determining the impairment loss, if any, on its assets as per Accounting Standard - 28 "Impairment of Assets" issued by The Institute of Chartered Accountants of India and will give effect thereto upon such determination. As such we are unable to express any opinion as to the effect thereof on the value of Assets and loss for the period.*

The effect of items mentioned at paragraph 4(a), (c), (d), (e) and (f) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the period, assets, liabilities and reserves is unascertainable. If the observation at paragraph 4(b) above had been considered, the loss for the period would have been lower by Rs. 172.60 millions and accumulated losses up to 30th September, 2010 and the current liabilities and provisions would have been higher by Rs. 46.35 millions.

Reply:

As stated in note 20 of the Schedule 19, the management has appointed an outside agency for conducting an exercise of identifying the assets that may have been impaired. Since the exercise is still under process, the effect of diminution in value of assets due to impairment if any, shall be given in the accounts upon such determination as required under Accounting Standards (AS-28) issued by the Institute of Chartered Accountants of India. The reply to the later para above, has been given in Para 2 of this annexure.

B. OBSERVATIONS IN ANNEXURE TO THE AUDITORS' REPORT

7. Para (vii):

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

Reply:

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

8. Para (ix):

(a) *According to the information and explanations given to us and records examined by us, the Company has not been regular in depositing undisputed statutory dues with the appropriate authorities in respect of provident fund, employees' state insurance, income tax deduced at source, income tax, wealth tax, excise duty, service tax and sales tax/works contract tax.* According to information and explanations given to us no undisputed arrears of statutory dues were outstanding as at 30th September, 2010 for a period of more than six months from the date they became payable.

Reply:

Due to financial crunch, the statutory dues could not be deposited in time. The above dues have been deposited since then. In future, the management will make all efforts to deposit the same in time.

9. Para (x):

The accumulated losses of the Company, after giving effect of the Composite Scheme of Arrangement and Amalgamation between Sunvision Engineering Company Private Limited (SECPL) and the Company, are not more than fifty percent of its net worth at the end of the financial period. *The Company has incurred cash loss during the period. In the immediately preceding financial year also, the Company had incurred cash loss.*

Reply:

After the Composite Scheme of Arrangement and Amalgamation ("Scheme") becoming effective, Company has opened a "Business Reconstruction Account" and books of account has been reconstructed and accordingly debit balance of profit and loss account up to 30.09.2010 i.e. Rs.20,024.97 million has been adjusted against the credits in Business Reconstruction Account and as on the Balance Sheet Date, there is no balance pertaining the accumulated losses is appearing in the Balance Sheet. As at the Balance Sheet date, the Company's networth stood positive. The cash loss for the current year and previous year has arisen mainly due to stiff market competition and low margins.

10. Para (xi):

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

Name of Lender	*Nature of the Dues*	*Period of Default/ delay*	*Maximum Overdue during the period (Rs. In millions)*	*Overdue Amount as on 30.09.10 (Rs. In millions)*
ARCIL (ICICI)	*Principal*	*Sept, 2010*	*10.59*	*0.72*
ARCIL (ICICI)	*Interest*	*April, 2005 to Sept, 2010*	*387.09*	*387.09*
OBC (eGTBL)	*Principal*	*April, 2007 to Sept, 2010*	*370.18*	*370.18*
OBC (eGTBL)	*Interest*	*February, 2004 to Sept, 2010*	*134.91*	*134.91*
IDBI	*Principal*	*April, 2007 to Sept, 2010*	*259.13*	*259.13*
IDBI	*Interest*	*April, 2007 to Sept, 2010*	*370.72*	*370.72*
Bank of Baroda	*Principal*	*April, 2007 to Sept, 2010*	*72.84*	*72.84*
Bank of Baroda	*Interest*	*April, 2007 to Sept, 2010*	*39.21*	*39.21*
Union Bank of India	*Principal*	*January, 2009 to Sept, 2010*	*133.34*	*133.34*
Union Bank of India	*Interest*	*January, 2009 to Sept, 2010*	*29.76*	*29.76*
State Bank of India	*Principal*	*October, 2008 to Sept, 2010*	*439.37*	*439.37*
State Bank of India	*Interest*	*October, 2008 to Sept, 2010*	*116.68*	*116.68*

Note: In view of the One Time Settlement (OTS) with some of the lenders, as explained in note no 13(f) and (g) of schedule 19, the Company has not defaulted in repayment of dues to said lenders as on Balance Sheet Date

Reply:

Due to liquidity crisis, the repayments to the Financial Institutions/Banks could not be made so far. However the Company has made One Time Settlement (OTS) with some of the lenders viz. The Jammu & Kashmir Bank Ltd., HDFC Bank Ltd. (formerly known as Centurian Bank of Punjab Ltd.) and accordingly has not made default in re-payment of dues to said lenders. The Company has also made One Time Settlement (OTS) with ARCIL.

11. Para (xix):

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

quo on the existing security is maintained by each lender for its exposure.

Reply:

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

ANNEXURE-II TO THE DIRECTORS' REPORT

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

CONSERVATION OF ENERGY

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

ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT

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

RESEARCH AND DEVELOPMENT (R&D) CARRIED OUT DURING THE YEAR UNDER REVIEW		
1.	Specific Area in which R&D carried out by the Company	: -
2.	Benefits derived as a result of the above R&D	: -
3.	Future plan of action	: -
4.	Expenditure on R&D	
	(a) Capital	: NIL
	(b) Recurring (excluding depreciation)	: NIL
	(c) Total	: NIL
	(d) Total R&D expenditure as a percentage of total turnover	: NIL
TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION		
1.	Efforts, in brief, made towards technology absorption, adaptation and innovation.	: The Technology of the products have been absorbed substantially in earlier years.
2.	Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.	: As a result of technology absorption, Company has been able to reduce product cost and save foreign exchange flow.
3.	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:	
	(a) Technology Imported	: N.A.
	(b) Year of Import	: N.A.
	(c) Has Technology been fully absorbed	: Technology has been absorbed almost in all the areas of the Company's operation.
	d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of actions.	: -.

FOREIGN EXCHANGE EARNINGS AND OUTGO

During the year under review the Company had made an export of Rs.8.57 million. No fresh initiatives were undertaken by the Company to increase and develop new export market for products and services as there is hardly any scope of export for the products and services in which the Company is engaged. The details of foreign exchange earnings and outgo are as under:

(Rs. in million)

Total Foreign Exchange earnings and outgo	Financial Year ended 30th September, 2010	Financial year ended 31st March, 2009
FOB Value of Exports	8.58	54.06
Value of Imports	405.25	162.94
Expenditure in foreign currency	14.97	2.41

For and on behalf of the Board

Place: New Delhi — **M P Shukla**

Date: 28th February, 2011 — **Chairman**

AUDITORS' REPORT

To

THE MEMBERS OF
HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED

1. We have audited the attached Balance Sheet of **Himachal Futuristic Communications Limited** (the Company) as at 30th September, 2010, the Profit & Loss Account and also the Cash Flow statement for the period ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956 and on the basis of such checks as considered appropriate and according to the information and explanations given to us during the course of the audit, we enclose in the Annexure hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable.

4. a) *As stated in Note 13 of Schedule 19, the Company has accounted for the impact of modified CDR package after complying with most of the terms and conditions stipulated therein, however compliance of some of them are still in process. The company is also not regular in payment of its dues including interest thereon to the lenders and may be liable to consequential withdrawal of any of the reliefs granted earlier.*

   b) *As stated in Note 15 of Schedule 19, the Company has, in terms of the CDR package, provided for interest on ballooning basis at the rate specified for the period which is higher then the rate on YTM basis i.e. @ 8.5% per annum, resulting in the higher loss for the period by Rs. 172.60 millions. Had the interest been provided on YTM basis, the cumulative provision for interest and accumulated losses upto 30th September 2010 would have been higher by Rs. 46.35 millions.*

   c) *With regard to the sundry debtors outstanding for a long period as stated in Note 19 of Schedule 19, we are unable to comment on the extent of realisability and consequently on the adequacy of provision for doubtful debts made by the Company. Impact thereof on the loss for the period, if any, is unascertainable.*

   d) *As stated in Note 23 of Schedule 19, balances of some of the sundry debtors, creditors, lenders and loans and advances are subject to confirmations, reconciliation and adjustments, if any.*

   e) *As stated in Note 9 of Schedule 19, the Company has paid remuneration to managerial personnel during the period for which approval of central government is pending.*

   f) *As stated in Note 21 of Schedule 19, the Company is in process of determining the impairment loss, if any, on its assets as per Accounting Standard - 28 "Impairment of Assets" issued by The Institute of Chartered Accountants of India and will give effect thereto upon such determination. As such we are unable to express any opinion as to the effect thereof on the value of Assets and loss for the period.*

The effect of items mentioned at paragraph 4(a), (c), (d), (e) and (f) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the period, assets, liabilities and reserves is unascertainable. If the observation at paragraph 4(b) above had been considered, the loss for the period would have been lower by Rs. 172.60 millions and accumulated losses upto 30th September 2010 and the current liabilities and provisions would have been higher by Rs. 46.35 millions.

5. Further to our comments in the Annexure referred to above paragraph, we report that:-

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

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

   c) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956 *except AS 28 - Impairment of Assets (Refer para 4(f) above)*

   e) On the basis of written representations received from the directors, as on 30th September, 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on above date from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

   f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts *subject to para 4* above and read together with the other notes and the significant accounting policies thereon, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 30th September, 2010;

      (ii) In the case of the Profit and Loss Account, of the loss for the period ended on that date; and

      (iii) In the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For KHANDELWAL JAIN & CO.,
Firm Registration No. 105049W
Chartered Accountants,

(Akash Shinghal)
Partner
Membership No: 103490

Place: New Delhi
Dated: 28th February, 2011

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 3 of the Auditors' Report of even date to the Members of **HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED** on the accounts for the period ended 30th September, 2010;

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

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

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

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

(b) In our opinion, and according to the information and explanations given to us, procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of Inventory. In our opinion, the discrepancies noticed on physical verification of stocks were not material in relation to the operation of the Company and the same have been properly dealt with in the books of account.

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

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

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

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

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

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

(viii) The Central Government has prescribed maintenance of the cost records under section

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

(ix) (a) *According to the information and explanations given to us and records examined by us, the Company has not been regular in depositing undisputed statutory dues with the appropriate authorities in respect of provident fund, employees' state insurance, income tax deduced at source, income tax, wealth tax, excise duty, service tax and sales tax/works contract tax.* According to information and explanations given to us, no undisputed arrears of statutory dues were outstanding as at 30th September 2010 for period of more than six months from the date they become payable.

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

Name of the Statute	**Nature of the dues**	**Amount in Rs. In millions**	**Period to which the amount relates**	**Forum where dispute is pending**
Sales Tax Act	Sales Tax	18.74	1997-1998 & 1998-1999	Hon'ble High Court of Punjab & Haryana.
	Total	**18.74**		

(x) The accumulated losses of the Company, after giving effect of the Composite Scheme of Arrangement and Amalgamation between Sunvision Engineering Company Private Limited (SECPL) and the Company, are not more than fifty percent of its net worth at the end of the financial period. *The Company has incurred cash loss during the period. In the immediately preceding financial year also, the Company had incurred cash loss.*

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

Name of Lender	***Nature of the Dues***	***Period of Default/ delay***	***Maximum Overdue during the period (Rs. In millions)***	***Overdue Amount as on 30.09.10 (Rs. In millions)***
ARCIL (ICICI)	*Principal*	*Sept, 2010*	*10.59*	*0.72*
ARCIL (ICICI)	*Interest*	*April, 2005 to Sept, 2010*	*387.09*	*387.09*
OBC (eGTBL)	*Principal*	*April, 2007 to Sept, 2010*	*370.18*	*370.18*
OBC (eGTBL)	*Interest*	*February, 2004 to Sept, 2010*	*134.91*	*134.91*
IDBI	*Principal*	*April, 2007 to Sept, 2010*	*259.13*	*259.13*
IDBI	*Interest*	*April, 2007 to Sept, 2010*	*370.72*	*370.72*
Bank of Baroda	*Principal*	*April, 2007 to Sept, 2010*	*72.84*	*72.84*
Bank of Baroda	*Interest*	*April, 2007 to Sept, 2010*	*39.21*	*39.21*
Union Bank of India	*Principal*	*January, 2009 to Sept, 2010*	*133.34*	*133.34*
Union Bank of India	*Interest*	*January, 2009 to Sept, 2010*	*29.76*	*29.76*
State Bank of India	*Principal*	*October, 2008 to Sept, 2010*	*439.37*	*439.37*
State Bank of India	*Interest*	*October, 2008 to Sept, 2010*	*116.68*	*116.68*

Note: In view of the One Time Settlement (OTS) with some of the lenders, as explained in note no 13(f) and (g) of schedule 19, the Company has not defaulted in repayment of dues to said lenders as on Balance Sheet Date.

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

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

(xiv) The Company has maintained proper records of transactions and contracts in respect of trading in shares, securities, debentures and other investments and timely entries have been made therein. All shares, debentures and other investments have been held by the Company in its own name. The company is in the process of getting the investment of erstwhile SECPL registered in its own name.

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

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

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company as at the end of the period, funds raised on short term basis have, prima facie, not been used for long term investment.

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

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

(xx) The Company has not raised any money by public issue during the period ended September 30, 2010.

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

For KHANDELWAL JAIN & CO.,
Firm Registration No. 105049W
Chartered Accountants,

(Akash Shinghal)
Partner
Membership No: 103490

Place: New Delhi
Dated: 28th February, 2011

BALANCE SHEET AS AT 30TH SEPTEMBER, 2010

(Rs. in millions)

	Schedule No.		As at 30.09.2010	As at 31.03.2009
I SOURCES OF FUNDS				
1 Shareholders' funds				
(i) Capital	1	**1,267.79**		5,232.90
(ii) Equity Share pursuant to Scheme (as referred note No.B-4 of schedule 19)		**529.60**		–
(iii) Reserves & surplus	2	**301.13**		11,043.76
			2,098.52	16,276.66
2 Loan funds				
(i) Secured loans	3	**8,490.51**		9,027.96
(ii) Unsecured loans	4	**2,063.28**		3,324.51
			10,553.79	12,352.47
			12,652.31	28,629.13
II APPLICATION OF FUNDS				
1 Fixed assets				
(i) Gross block	5	**4,722.59**		4,670.34
(ii) Less :Depreciation/Impairment		**2,933.65**		2,552.28
(iii) Net block		**1,788.94**		2,118.06
(iv) Capital work-in-progress		**105.00**		97.23
			1,893.94	2,215.29
2 Investments	6		**10,646.08**	7,196.68
3 Current Assets, loans and advances				
(i) Inventories	7	**389.84**		587.75
(ii) Sundry debtors	8	**4,219.09**		4,535.14
(iii) Cash and bank balances	9	**1,216.75**		246.99
(iv) Other current assets	10	**160.60**		61.51
(v) Loans and advances	11	**2,068.10**		919.11
		8,054.38		6,350.50
Less: Current liabilities and provisions				
(i) Current Liabilities	12	**7,927.23**		2,005.15
(ii) Provisions	13	**14.86**		27.21
Net Current Assets			**112.29**	4,318.14
Profit & Loss Account			**-**	14,899.02
			12,652.31	28,629.13
Notes forming part of the accounts	19			

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30TH SEPTEMBER, 2010

(Rs. in millions)

	Schedule No.		18 Months Ended 30.09.2010	2008-2009
INCOME				
Sales and services		**3,205.47**		1,435.25
Less: Excise Duty		**91.15**		44.26
			3,114.32	1,390.99
Other income	14		**816.59**	54.41
Increase/(decrease) in stock	15		**(102.00)**	(79.96)
			3,828.91	1,365.44
EXPENDITURE				
Materials consumed/cost of goods sold	16		**1,808.15**	702.14
Manufacturing and other expenses	17		**1,172.63**	752.15
Provision for doubtful debts			**-**	1,112.04
Provision for inventories			**99.04**	22.94
Bed debts, advances and miscellaneous balances written off (Net)		**1,789.23**		742.70
Less : Transferred from provision for doubtful debts		**1,112.04**	**677.19**	(739.81)
Liquidated Damages			**7.78**	410.38
Payment towards guarantee/contract obligation			**69.92**	107.41
Foreign exchange fluctuation			**(38.70)**	256.89
Loss on sale / disposed off of fixed assets			**9.06**	2.74
Goodwill on amalgamation written off			**33.68**	-
Finance charges	18		**814.82**	909.89
Depreciation	5		**390.33**	257.10
			5,043.90	4,536.57
PROFIT /(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES			**(1,214.99)**	(3,171.13)
Loss on sale of investments in subsidiary (refer note No B-2 of schedule 19)			**3,916.05**	-
PROFIT /(LOSS) BEFORE TAXES			**(5,131.04)**	(3,171.13)
Provision for taxation :				
Current tax			**0.46**	-
Fringe Benefit tax			**-**	4.21
PROFIT /(LOSS) FOR THE PERIOD			**(5,131.50)**	(3,175.34)
Prior period adjustments			**(6.69)**	(8.58)
Income tax for earlier years			**1.14**	-
			(5,125.95)	(3,166.76)
Balance brought forward from previous year			**(14,899.02)**	(11,732.26)
Balance transferred to business reconstruction account (refer note No.B-3(k) of schedule 19)			**20,024.97**	-
Balance carried to Balance Sheet			**-**	(14,899.02)
Earning per share (Face value of Re.1/- each) before extraordinary items				
Basic (Rs.)			**(1.88)**	(7.27)
Diluted (Rs.)			**(1.88)**	(7.27)
Earning per share (Face value of Re.1/- each) after extraordinary items				
Basic (Rs.)			**(7.61)**	(7.27)
Diluted (Rs.)			**(7.61)**	(7.27)
Notes forming part of the Accounts	19			

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Schedules forming part of the Accounts … contd.

(Rs. in millions)

1. SHARE CAPITAL	As at 30.09.2010	As at 31.03.2009
Authorised :		
5,100,000,000 (Previous year 500,000,000 face value Rs.10/- each) Equity shares of Re.1/- each	**5,100.00**	5,000.00
25,000,000 (Previous year 25,000,000) Cumulative Redeemable preference shares of Rs. 100/- each	**2,500.00**	2,500.00
	7,600.00	7,500.00
Issued and Subscribed :		
462,793,697 (Previous year 442,793,697 face value of Rs.10/- each) Equity shares of Re.1/- each	**462.79**	4,427.94
7,000,000 (Previous year 7,000,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each (Note-2)	**700.00**	700.00
1,050,000 (Previous year 1,050,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each (Note-2)	**105.00**	105.00
	1,267.79	5,232.94
Paid Up :		
462,793,697 (Previous year 442,793,697 face value of Rs.10/- each) Equity shares of Re.1/- each fully paid up (Refer note-1 below and B-14 of schedule 19)	**4,627.94**	4,427.93
Less : Reduction in Equity share capital (refer note No. B-3(c) of schedule 19)	**4,165.15**	-
Less : Calls in arrears	**-**	0.03
	462.79	4,427.90
7,000,000 (Previous year 7,000,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up (Note-2)	**700.00**	700.00
1,050,000 (Previous year 1,050,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up (Note-2)	**105.00**	105.00
Total	**1,267.79**	5,232.90

NOTES :

1 Of the above Equity shares :

(i) 278,180 (Previous year 346,180) shares represent Global Depository Receipts.

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

2 8,050,000 6.5% CRPS of Rs.100/- each are redeemable in the financial year 2017-18 and 2018-19 in terms of the modified CDR package.(Refer note no.13 b(ii) and 13(d) of Schedule 19)

Schedules forming part of the Accounts … contd.

(Rs. in millions)

2. RESERVES & SURPLUS			As at 30.09.2010	As at 31.03.2009
Capital Reserve				
As per last Balance Sheet				
Central investment subsidy		**1.00**		1.00
Gain on foreign exchange fluctuation		**244.76**		244.76
D.G. set subsidy		**0.01**		0.01
Amount paid on warrants forfeited		**46.00**		46.00
Less : Transfer to Business Reconstruction account*		**291.77**		-
			-	291.77
Securities Premium Account				
As per last Balance Sheet		**10,265.02**		10,536.32
Less : Calls in arrears		**-**		0.01
		10,265.02		10,536.31
Less : Premium on redemption of bonds		**380.58**		271.30
Add : Premium reversed due to OTS (refer note B-13(f) of schedule 19)		**86.86**		-
Less : Transfer to Business Reconstruction account*		**9,863.40**		-
		107.90		10,265.01
Add : On issue of equity share to the equity shareholder and OCD holders of SECPL	5,410.90			-
Less : Transfer to Business Reconstruction account*	5,217.67			-
		193.23		
			301.13	10,265.01
Amalgamation Reserve				
As per last Balance Sheet		**97.00**		97.00
Less : Proportionate calls in arrear		**0.02**		0.02
Less : Transfer to Business Reconstruction account*		**96.98**		-
			-	96.98
Capital Redemption Reserve				
As per last Balance Sheet		**140.00**		140.00
Less : Transfer to Business Reconstruction account*		**140.00**	**-**	
Debenture Redemption Reserve				
As per last Balance Sheet		**250.00**		250.00
Less : Transfer to Business Reconstruction account*		**250.00**	**-**	
		Total	**301.13**	11,043.76

*(Refer note no.B-3(k) of Schedule 19)

3. SECURED LOANS (Refer note no.B-13 of Schedule 19)		As at 30.09.2010	As at 31.03.2009
Zero coupon premium bonds		**2,664.10**	2,664.10
Working capital loans from banks		**1,262.42**	1,489.30
Term loans from financial institutions and banks		**1,316.82**	2,247.04
Funded interest term loans		**790.72**	790.72
Other loans		**0.62**	57.51
Premium payable on redemption of bonds		**1,611.19**	1,294.76
Interest accrued and due		**844.64**	484.53
	Total	**8,490.51**	9,027.96

NOTES :

Secured loans comprising :-

1. 12,804,000 (Previous year 12,804,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.791.04 million

Schedules forming part of the Accounts … contd.

(Previous year Rs.791.04 million) from financial institution and Funded interest term loan of Rs.443.29 million (Previous year Rs. 443.29 million) are secured on pari passu basis by way of first charge on all the immovable properties, both present and future, by way of equitable mortgage and first charge on the entire sales proceeds of the contracts covered under the abovesaid loan to be credited to the Escrow/designated account.

2. 10,937,000 (Previous year 10,937,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.266.30 million (Previous year Rs.706.30 million) from financial institution and Funded interest term loan of Rs.230.62 million (Previous year Rs. 230.62 million) are required to be secured by way of first charge on all the immovable properties, both present and future, on pari-passu basis, by way of equitable mortgage and hypothecation of moveable assets, both present and future, subject to the prior charge of the Company's bankers on specified moveable assets for securing the borrowings for working capital requirements. Term loan is further secured by way of pledge of certain shares.
3. 2,900,000 (Previous year 2,900,000) Zero Coupon Premium Bonds (ZCPBs) of Rs.100/- each, Term loan of Rs.259.48 million (Previous year Rs.259.48 million) from a bank and Funded interest term loan of Rs.116.81 million (Previous year Rs. 116.81 million) are secured by way of pledge of shares/Bonds/Units.
4. Working capital loans from banks aggregating to Rs.1,203.57 million (Previous year Rs. 1,438.81 million) are secured on pari passu basis by way of hypothecation of stocks of raw materials, finished and semi- finished goods, stores and spares, book debts etc. as well as by way of second charge on immovable properties pertaining to Wireline, Wireless and Cable divisions of the Company.
5. Other loans amounting to Rs.0.62 million (Previous year Rs.2.51 million) are secured by way of hypothecation of assets under hire purchase agreements. Installments of loan falling due for repayment with in one year Rs.0.62 million.
6. All the secured loans except as stated in 3 & 5 above are also personally guaranteed by some of the directors of the Company.
7. 26,641,000 (Previous year 26,641,000) ZCPBs are to be redeemed in 48 monthly installments, on ballooning basis, from 30th April 2011 and ending 31st March 2015 to ensure yield of 8.5% p.a. by way of premium.
8. Term loans from financial institutions and banks include overdue loans of Rs.349.95 million (Previous year Rs.175.22 million). Term Loans repayable within one year Rs.323.34 million (Previous year Rs.89.20 million).

(Rs. in millions)

4. UNSECURED LOANS (Refer note no.B-13 of Schedule 19)	**As at 30.09.2010**	As at 31.03.2009
Zero coupon premium bonds (refer note B-13(f) of schedule 19)	**380.30**	527.70
Term loans from banks	**109.91**	208.00
Loans from bodies corporates	**1,024.19**	2,129.39
Funded interest term loans	**87.25**	98.96
Premium payable on redemption of bonds	**219.94**	242.65
Interest accrued & due	**241.69**	117.81
Total	**2,063.28**	3,324.51

NOTES :

1. Term loans from banks are personally guaranteed by some of the directors of the Company. Term Loans repayable within one year Rs.10.05 million (Previous year Rs. 6.70 million).
2. 3,803,000 (Previous year 5,277,000) Zero coupon premium bonds of Rs.100/- each are personally guaranteed by some of the directors of the Company. These are to be redeemed in 48 monthly installments, on ballooning basis, from 30th April 2011 and ending 31st March 2015 to ensure yield of 8.5% p.a. by way of premium.
3. Loans from bodies corporates repayable within one year Rs. 528.78 million (Previous year Rs. 271.99 million)

Schedules forming part of the Accounts … contd.

5. FIXED ASSETS

Rs. in millions

Description	GROSS BLOCK					DEPRECIATION				NET BLOCK	
	As at 31.03.2009	Additions	Aquired on amagama-tion#	Deductions/ disposed off	**As at 30.09.2010**	Up to 31.03.2009	For the period	Deductions/ disposed off	**Up to 30.09.2010**	**As at 30.09.2010**	As at 31.03.2009
1. Land - Leasehold	8.22	-	-	-	**8.22**	1.21	0.13	-	**1.34**	**6.88**	7.01
- Freehold	7.58	-	16.38	-	**23.96**	-	-	-	**-**	**23.96**	7.58
2. Buildings-Leasehold	14.50	-	-	-	**14.50**	4.53	-	-	**4.53**	**9.97**	9.97
- Freehold	144.34	0.11	-	-	**144.45**	57.27	7.96	-	**65.23**	**79.22**	87.07
- Leasehold Improvements	30.31	-	-	-	**30.31**	30.31	-		**30.31**	**0.00**	0.00
3. Plant & machinery	4,148.70	10.56	-	-	**4,159.26**	2,182.36	360.91	-	**2,543.27**	**1,615.99**	1,966.34
4. Electrical installation	49.64	-	-	-	**49.64**	43.87	1.48	-	**45.35**	**4.29**	5.77
5. Furniture & fixtures	42.30	0.59	-	1.07	**41.82**	35.20	2.38	0.55	**37.03**	**4.79**	7.10
6. Office equipments	181.96	2.74	-	0.35	**184.35**	161.13	7.82	0.27	**168.68**	**15.67**	20.83
7. Vehicles	42.25	1.97	54.34	33.02	**65.54**	35.87	9.65	8.14	**37.38**	**28.16**	6.38
8. Moulds & dies	0.54	-		-	**0.54**	0.53	-	-	**0.53**	**0.01**	0.01
Total	4,670.34	15.97	70.72	34.44	**4,722.59**	2,552.28	390.33	8.96	**2,933.65**	**1,788.94**	2,118.06
Previous year	4,673.09	13.15	-	15.90	**4,670.34**	2,307.08	257.10	11.90	**2,552.28**	**2,118.06**	2,366.01
Capital work-in progress										**105.00**	97.23
#On amalgamation of Sunvision Enginering Company Private Limited (Refer to Note B-3(a), of Schedule ‘19’)											

NOTE :-

Gross block and Net block of fixed assets is net of provision for impairment made in Financial Year 2004-05 in respect of Plant & Machinery Rs.342.83 million Electrical Installation Rs.1.24 million and Office Equipments Rs.12.44 million.

Schedules forming part of the Accounts … contd.

6. INVESTMENTS

Rs. in millions

	Face value per share/ debenture	As at 30.09.2010 No. of shares/ debentures	As at 30.09.2010 Amount	As at 30.09.2010 Amount	As at 31.03.2009 No. of shares/ debentures	As at 31.03.2009 Amount
A. LONG TERM INVESTMENTS (AT COST)						
(i) TRADE INVESTMENTS						
IN EQUITY SHARES (FULLY PAID UP)						
Associates						
Microwave Communications Ltd. (MCL) *	10	**12,187,440**	**-**		12,187,440	-
Exicom tele-systems Ltd.	10	**630,223**	**43.35**		1,110,223	76.37
HFCL Kongsung Telecom Ltd.	10	**620,100**	**-**		620,100	-
HFCL Satellite Communications Ltd. (HSCL) **	10	**2,400,000**	**-**		2,400,000	-
HFCL Dacom Infochek Ltd. (HDIL)	10	**1,409,500**	**-**		1,409,500	-
HFCL Bezeq Telecom Ltd.	10	**100**	**-**		100	-
WPPL Ltd.	10	**10**	**-**		10	-
Westel Wireless Ltd.	10	**89,700**	**-**		89,700	-
Polixel Securities Systems (P) Ltd.	10	**10,000**	**0.10**		-	-
			43.45			76.37
Others						
Fascel Limited	10	**100**	**-**		100	-
Apex Enterprises (India) Limited	10	**39,999**	**-**		39,999	-
AB Corp Ltd.$	10	**13,300,000**	**1,650.00**		13,300,000	1,650.00
Gujarat Pickers Industries Ltd.	10	**500,000**	**-**		500,000	-
D L M Construction Pvt. Ltd.	10	**150,000**	**-**		150,000	-
Ja Ra Investments Pvt. Ltd.	100	**15,000**	**-**		15,000	-
Sant Lal Jain & Sons Pvt.Ltd.	100	**10,000**	**-**		10,000	-
Softline Leasing & Finance Ltd.	10	**150,000**	**-**		150,000	-
SCPL	10	**62,500**	**6,750.00**		-	-
Midas Communication Technologies Pvt. Ltd.	10	**2,642**	**3.00**		2,642	3.00
Etco Telecom Ltd	10	**1,200,000**	**36.00**		1,200,000	36.00
Creative Properties Pvt. Ltd.	100	**-**	**-**		19,800	19.80
Cleave Global e-Services Ltd.	10	**300,000**	**-**		300,000	-
Platinum EDU Ltd.	10	**400**	**-**		400	-
Pioneer.net Pvt Ltd	10	**5,200,000**	**-**		5,200,000	-
Pagepoint Services (India) Pvt. Ltd.	10	**49**	**-**		49	-
				8,482.45		1,785.17

* shares pledged with IDBI as a security for the term loan given by IDBI to MCL.
** shares pledged with IFCI as a security for the term loan given by IFCI to HSCL.
$ 6,500,000 shares are pledged as security for the term loan given by OBC to HSCL and the Company. 6,800,000 shares are pledged as security for the term loan given by ICICI Bank to the Company.

Schedules forming part of the Accounts … contd.

Rs. in millions

	Face value per share/ debenture	As at 30.09.2010 No. of shares/ debentures	As at 30.09.2010 Amount	As at 30.09.2010 Amount	As at 31.03.2009 No. of shares/ debentures	As at 31.03.2009 Amount
(ii) INVESTMENT IN SUBSIDIARY COMPANIES						
IN EQUITY SHARES (FULLY PAID UP)						
Unquoted						
HFCL Infotel Ltd. (HIL) #	10	**-**	**-**		326,705,000	3,267.05
HTL Ltd. (Refer note no. B-16 of Schedule 19)	100	**1,110,000**	**553.71**		1,110,000	553.71
Moneta Finance Pvt. Ltd.	10	**300,000**	**3.70**		300,000	3.70
# Nil (Previous year 163,000,000) shares pledged with IDBI as a security for the term loan given by IDBI to HIL and Nil (Previous year 47,500,000) shares pledged with other lenders as a security for the loans to the Company.				**557.41**		3,824.46
IN 7.5% CUMULATIVE REDEEMABLE PREFERENCE SHARES (FULLY PAID UP)						
Unquoted						
HFCL Infotel Ltd. (HIL)	100	**-**	**-**		6,500,000	650.00
				-		650.00
(iii) IN 0% OPTIONALLY FULLY CONVERTIBLE DEBENTURES						
Unquoted						
Amrit Sales Promotion Pvt. Ltd.	100	**11,906,150**	**597.22**		11,906,150	597.22
Apex Enterprises (India) Limited	100	**24,175,860**	**607.61**		24,175,860	607.61
Apurva Vanijya Pvt. Ltd.	100	**420,000**	**42.00**		420,000	42.00
Authentic Finance Pvt. Ltd.	100	**58,061,080**	**1,259.10**		58,061,080	1,259.10
APJR Traders & Commission Agent Pvt. Ltd.	100	**100,000**	**10.00**		100,000	10.00
Bachhawat Share Broking Pvt. Ltd.	100	**147,000**	**14.70**		147,000	14.70
Basant Marketing Pvt. Ltd.	100	**2,000,000**	**200.00**		2,000,000	200.00
Database Software & Technology Pvt. Ltd.	100	**4,500,000**	**450.00**		4,500,000	450.00
Etco Telecom Ltd.	100	**3,000,000**	**300.00**		3,000,000	300.00
Etisha Finance & Investment Pvt. Ltd.	100	**685,000**	**68.50**		685,000	68.50
Igloo Commerce Pvt. Ltd.	100	**734,000**	**51.80**		734,000	51.80
Lexus Infotech Ltd.	100	**5,130,000**	**513.00**		5,130,000	513.00
Shyam Basic Infrastructure Projects (P) Ltd.	100	**6,434,000**	**643.40**		6,434,000	643.40
Telelink Finance Pvt. Ltd.	100	**2,113,000**	**91.10**		2,113,000	91.10
Vaibhav Credit & Portfolio Pvt. Ltd.	100	**2,104,000**	**649.14**		2,104,000	649.14
VSB Investment Pvt. Ltd.	100	**225,000**	**22.50**		225,000	22.50
Westel Wireless Ltd.	100	**126,000**	**12.60**		126,000	12.60
			5,532.67			5,532.67
Less:Provision for diminution in value			**4,597.47**			4,597.47
				935.20		935.20

Schedules forming part of the Accounts … contd.

Rs. in millions

	Face value per share/ debenture	As at 30.09.2010 No. of shares/ debentures	Amount	Amount	As at 31.03.2009 No. of shares/ debentures	Amount
(iv) IN Zero Coupon Optionally converted Bond						
SCPL	1000	**26,000**		**26.00**	-	-
(v) IN 0.1% Unsecured Debenture						
Infotel Business Solutions Ltd.	10	**130000000**		**643.10**	-	-
(vi) IN Compulsorily Convertible Zero Coupon Bonds						
Infotel Technologies Private Ltd. (Formerly known as Digivision Infoysystem Private Ltd.)	1000	**900,000**		**-**	-	-
B. CURRENT INVESTMENTS (AT LOWER OF COST AND FAIR VALUE)						
OTHER INVESTMENTS						
IN EQUITY SHARES (FULLY PAID UP)						
Quoted						
Sumedha Fiscal Services Ltd	10	**18,200**	**0.18**		18,200	0.11
Indo Vanilion Ltd	10	**50,000**	**0.04**		50,000	0.04
Valiant Communications Ltd	10	**8,700**	**0.09**		8,700	0.09
Magma Fincorp Limited	2	**152,830**	**1.37**		91,700	1.37
Industrial Development Bank of India Ltd.	10	**-**	**-**		0	-
Industrial Finance Corporation of India Ltd.	10	**-**	**-**		0	-
				1.68		1.61
Unquoted						
The Greater Bombay co-op Bank Ltd.	25	**4,000**	**0.10**		4,000	0.10
				0.10		0.10
IN UNITS (FULLY PAID UP)						
Quoted						
Mutual Fund - Cash Management Dividend	10	**14,400**		**0.14**	12,839	0.14
				10,646.08		7,196.68

NOTES :

	As at 30.09.2010	As at 31.03.2009
1. Aggregate book value of investments		
-Quoted	1.82	1.74
-Unquoted	10,644.26	7,194.93
2. Aggregate market value of quoted investments	9.53	5.52

Schedules forming part of the Accounts … contd.

(Rs. in millions)

7. INVENTORIES		As at	As at
(As Certified and valued by the management)		**30.09.2010**	31.03.2009
Stores & spare parts	**9.14**		9.28
Less : Provision for Non Moving	**1.94**	**7.20**	(1.94)
Loose tools		**1.02**	1.34
Raw materials	**310.08**		314.65
Less : Provision for Non Moving	**85.84**	**224.24**	(21.00)
Raw materials in transit		**13.87**	6.18
Stock in trade - securities *		**74.67**	62.14
Packing materials		**1.38**	0.91
Work in process**	**95.18**		209.71
Less : Provision for Non Moving	**34.20**	**60.98**	
Finished goods		**6.48**	6.48
*(refer note no. B-11 of schedule 19)	**Total**	**389.84**	587.75
**(refer note no. B-12 of schedule 19)			

8. SUNDRY DEBTORS			
(Unsecured)			
Debts outstanding for a period exceeding six months			
Considered good *		**3,507.21**	4,097.64
Considered doubtful		**0.44**	1,112.49
Other debts *- considered good		**711.88**	437.50
		4,219.53	5,647.63
Less: Provision for doubtful debts		**0.44**	1,112.49
	Total	**4,219.09**	4,535.14

* Includes receivable from subsidiaries : Debts outstanding for a period exceeding six months Rs.105.58 million (Previous year Rs.105.76 million), Other debts Rs Nil (Previous year Rs.2.4 million)

9. CASH & BANK BALANCES			
Cash on hand		**1.33**	2.71
Cheques in hand		**-**	4.04
Balances with Scheduled banks in			
Current accounts		**270.83**	32.21
Fixed deposit accounts *		**944.59**	208.03
	Total	**1,216.75**	246.99

* a) includes fixed deposit receipts pledged with banks as margin money/under lien Rs.149.16 million previous year Rs.177.90 million
b) confirmation awaited for FDR with IDBI of Rs.50.00 million

Schedules forming part of the Accounts … contd.

(Rs. in millions)

10. OTHER CURRENT ASSETS			As at 30.09.2010	As at 31.03.2009
Interest receivable			**121.59**	14.41
Security deposits			**39.01**	43.71
Insurance claim receivable			**-**	3.39
	Total		**160.60**	61.51

11. LOANS AND ADVANCES				
(Unsecured, considered good unless otherwise stated)				
Loans to others			**75.24**	75.41
Advances recoverable in cash or in kind or for value to be received			**1,514.67**	384.76
Advances to vendors			**344.56**	338.57
Balances with Central excise & Customs authorities			**54.31**	43.33
Advance payment of Income tax (net)			**79.32**	77.04
	Total		**2,068.10**	919.11

12. CURRENT LIABILITIES				
Sundry creditors			**1,442.87**	1,722.09
Other liabilities			**108.53**	251.29
Interest Accrued but not due			**20.79**	28.13
Advances from customers and others			**6,355.04**	3.64
	Total		**7,927.23**	2,005.15

13. PROVISIONS				
Provision for Tax / FBT			**-**	9.69
Provisions for employees' retirement benefits			**14.86**	17.52
	Total		**14.86**	27.21

14 OTHER INCOME			18 Month Ended 30.09.2010	2008-2009
Interest (Gross)				
On fixed deposits		**26.12**		8.08
(TDS Rs.2.38 million; previous year Rs.2.27 million)				
Others		**3.74**		-
			29.86	8.08
Appreciation/(Diminution) in value of investments (to the extent of cost price)			**0.06**	(0.04)
Profit on sale of investments			**26.88**	-
Excise Claim received			**0.30**	38.10
Remission of loan and interest thereon			**653.09**	-
Loans & advances recovered (earlier written off)			**80.28**	-
Dividends on investments (Gross)			**20.77**	6.90
Miscellaneous income			**5.35**	1.37
	Total		**816.59**	54.41

Schedules forming part of the Accounts … contd.

(Rs. in millions)

15 INCREASE/(DECREASE) IN STOCK	18 Month Ended 30.09.2010	2008-2009
Opening stock		
Finished goods	**6.48**	6.76
Stock in trade - securities	**62.14**	75.07
Work in process	**209.71**	276.46
	278.33	358.29
Closing stock		
Finished goods	**6.48**	6.48
Stock in trade - securities	**74.67**	62.14
Work in process	**95.18**	209.71
	176.33	278.33
Increase/(Decrease) in Stock	**(102.00)**	(79.96)

16 MATERIALS CONSUMED/COST OF GOODS SOLD		
Opening stock	**314.65**	330.86
Add : Purchases during the year *	**1,803.58**	685.93
	2,118.23	1,016.79
Less : Closing stock	**310.08**	314.65
	1,808.15	702.14

* includes goods purchased for resale amounting to Rs.701.20 million(Previous year Rs.344.20 million)

Schedules forming part of the Accounts … contd.

(Rs. in millions)

17 MANUFACTURING AND OTHER EXPENSES		18 Month Ended 30.09.2010	2008-2009
Payments to and provisions for employees			
Salaries, wages and bonus	**261.00**		181.84
Contribution to provident & other funds	**16.15**		11.94
Welfare expenses	**21.61**		20.34
		298.76	214.12
Operating and other expenses			
Consumption of packing material	**33.65**		12.77
Consumption of stores and spare parts	**20.05**		15.94
Loose tools written off	**0.60**		0.51
Power, fuel and water charges	**22.79**		14.60
Repairs to buildings	**3.91**		1.11
Repairs to machinery	**4.17**		2.05
Other repairs	**4.81**		4.82
Rent	**13.94**		21.61
Rates and taxes	**8.49**		7.10
Insurance charges	**5.78**		2.07
Auditors remuneration			
Audit fees	**4.14**		2.76
In other capacity	**1.52**		1.43
Out of pocket expenses	**0.19**		0.16
Legal and professional charges	**61.78**		28.05
Communication expenses	**12.55**		12.11
Travelling, conveyance and vehicle expenses	**45.92**		44.39
Labour and service charges	**467.30**		305.12
Directors fees	**0.48**		0.20
Charity & Donation	**88.29**		0.05
Increase/(decrease) in excise duty on finished goods	**-**		(0.12)
Other expenses	**45.34**		29.23
		845.70	505.96
Selling and distribution expenses		**28.17**	27.71
Technical know-how fee written off		**-**	4.36
	Total	**1,172.63**	752.15

18 FINANCE CHARGES			
Interest and upfront fee on loans		**501.00**	353.71
Interest on other loans (net)		**295.28**	538.93
(Refer note no. B-10 of Schedule 19)			
Discounting & bank charges		**18.54**	17.25
	Total	**814.82**	909.89

Schedules forming part of the Accounts … contd.

19. NOTES FORMING PART OF THE ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. Method of Accounting

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

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

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

2. Fixed Assets

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

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

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

3 Leases

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

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

4 Depreciation, Amortisation and Impairment

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

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

(c) On assets acquired on lease (including improvements to the leasehold premises), depreciation has been provided for on Straight Line Method at the rates as per Schedule XIV of the Companies Act, 1956 or

Schedules forming part of the Accounts … contd.

at the rates worked out on the basis of remaining useful life of the assets, whichever is higher.

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

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

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

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

5. Investments

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

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

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

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

6 Inventories

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

Note : Cost of Inventories is ascertained on First in First out (FIFO) basis.

(c)	Stock in trade – Quoted	At lower of cost and market value
	– Unquoted	At lower of cost and break up value
(d)	Contract Work in Progress	At cost
(e)	Loose Tools	After write-off at 27.82% p.a.

7 Revenue Recognition

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

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

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

8 Foreign Currency Transactions

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

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

Schedules forming part of the Accounts … contd.

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

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

9 Provisioning/Write off of Doubtful Debts

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

10. Borrowing Costs

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

11. Excise and Customs Duty

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

12. CENVAT Credit

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

13. Employees Benefits

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

Short Term Employee Benefits

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

Long Term Employee Benefits

a) Defined Contribution plan

(i) Provident Fund and employees’ state insurance schemes

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

Schedules forming part of the Accounts … contd.

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.

(ii) Gratuity

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

b) Other long term benefit

Leave Encashment

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

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

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

15. Research & Development Costs

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

16. Taxes on Income

Tax expense comprises 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 recognized only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

17. Segment Reporting

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

18 Earnings Per Share

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

Schedules forming part of the Accounts … contd.

19. Contingent Liabilities

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

B. OTHER NOTES

1 The Company has filed an application under section 210 (4) of the Companies Act, 1956 with the Registrar of Companies , Punjab, Himachal Pradesh and Chandigarh (ROC) seeking permission to extend the financial year of the Company for a period of eighteen months commencing from 1st April, 2009 to 30th September, 2010. The ROC vide its order dated 4th May, 2010 has granted the permission to the Company to prepare the annual accounts for eighteen months up to 30th September, 2010.

2 The Board of Directors of the Company in compliances with the terms of (i) letter dated 13th August, 2009 issued by CDR Cell of IDBI, (ii) Settlement Co-operation Agreement dated 12th September, 2009, (iii) SEBI order dated 3rd March, 2010 and IDBI's letter dated 30th March, 2010 at its meeting held on 30th March, 2010 has approved the sale of 32,67,05,000 equity shares and 65,00,000 Cumulative Redeemable Preference shares of HFCL Infotel Limited held by the Company to fulfill its obligation as stipulated in settlement co-operation agreement dated 12.09.2009. Accordingly the said shares have been sold on 31st March, 2010 and HFCL Infotel Limited has ceased to be a subsidiary of the Company w.e.f. 31st March, 2010. The loss on sale of the said investment in subsidiary of Rs.3916.05 million has been shown as extra ordinary item in the Profit & Loss Account.

3 (a) The Hon'ble High Court of Himachal Pradesh at Shimla has sanctioned the Composite Scheme of Arrangement and Amalgamation (" the Scheme") between Sunvision Engineering Company Private Limited ("SECPL", Transferrer Company), its Shareholders and Optionally Convertible Debenture holder ("OCD holder") and Himachal Futuristic Communications Limited ("HFCL", Company, Transferee Company) and its Shareholders vide its order passed on 5th January, 2011 u/s 391 to 394 of the Companies Act, 1956.The aforesaid Order has been filed with the Registrar of Companies, Punjab, Himachal Pradesh and Chandigarh (ROC) in the prescribed form no. 21 both by HFCL and SECPL, and ROC has issued a certificate confirming the registration of the aforesaid Court Order on 14th January, 2011 i.e. "effective date". With the registration of the aforesaid Court Order on 14th January, 2011 (effective date), SECPL stands amalgamated with HFCL w.e.f. 1st January, 2010 (Appointed date).

(b) The objects for which SECPL had been established were to carry on the business of manufacturing, assembling, trading, repairing, installation and commissioning of various types of engineering equipments, engineering goods, infrastructural works, civil, mechanical, electrical projects, etc. The Company forayed in the business of electronic surveillance, electronic security and monitoring systems, etc. and made a strategic investment of 47.95% in Polixel Security Systems Private Limited (Polixel).

(c) Consequent upon the said scheme becoming effective, the Company's issued, subscribed and paid up equity share capital stands reduced from Rs. 4627.94 million divided into 46,27,93,697 equity shares of Rs. 10/- each to Rs. 462.79 million divided into 46,27,93,697 equity shares of Re 1/- each by reduction in face value and paid up value from Rs. 10/- per share to Re 1/- per share. Accordingly, an amount of Rs.4165.15 million being the equity capital so reduced has been credited to the Business Reconstruction Account. The ROC has also issued a necessary certificate under Section 103(4) of the Companies Act, 1956 on 14th January, 2011 confirming the reduction in equity share capital of the Company.

(d) With effect from the Appointed date SECPL (Transferor Company) has been amalgamated with the Company, as a going concern, with all its assets, liabilities, properties, rights, benefits and interest therein subject to existing charges thereon in favour of banks and financial institutions. All the employees of the Transferor Company, who are in service on the effective date, shall become the employees of the Company on that date, without any break or interruption in service.

Schedules forming part of the Accounts … contd.

(e) In consideration for the amalgamation, 470,000,000 equity shares of face value of Re1/- each, credited as fully paid-up, in the ratio of 47(forty seven) equity shares of the face value of Re1/- each in the Company for every 1 (one) equity share of face value of Rs.10/- each held in SECPL have been allotted on 10th February, 2011 to the share holders of SECPL whose names appeared in the Register of Members, as on 9th February, 2011, being the record date. Further, upon the scheme becoming effective, 59,601,640 equity shares of Re 1/- each credited as fully paid-up have been allotted to the Optionally Convertible Debenture Holders of erstwhile SECPL.

(f) The amalgamation has been accounted for under ‘ the Purchase method’ prescribed by Accounting standard AS-14 “ Accounting for Amalgamations “ issued by the Institute of Chartered Accountants of India. Accordingly, the assets and liability of SECPL have been recorded at fair value on the appointed date.

(g) In terms of the Scheme, the Company has recorded all the assets and liabilities appearing in the books of account of SECPL and transferred to and vested in the Company at their fair values as on 1st January, 2010. For this purpose the fair value of Assets including Investments is as per the report of the independent valuers, fairness opinion on the said valuation report and based on the management’s assessment of its recoverability. The difference of Rs.33.68 million between the fair value of net assets of SECPL transferred to the Company, and the fair value of equity shares allotted by the Company (the consideration) has been debited to ‘Goodwill’. The same has been written off in Profit and Loss Statement.

(h) Excess of Consideration over the paid-up value of equity shares issued and allotted (as referred to under 3(e) above) amounting to Rs.4770.50 million has been credited to Securities Premium Account as prescribed in the Scheme. Further, difference between fair value and paid up value of equity shares issued and allotted to OCD holders of erstwhile SECPL (as referred to under 3(e) above) amounting to Rs.640.40 million has been credited to Securities Premium Account as prescribed in the Scheme.

i) The Company is in the process of getting the investment and other assets of SECPL transferred in its own name by the operation of law.

(j) Authorised Share Capital of the Transferee Company is total of the authorised share capital of both the Companies

(k) Upon the Scheme becoming effective, a “Business Reconstruction Account” has been opened, and the books of account of Company have been reconstructed in the following manner:

Particular	Rs. in millions	
	Debit	Credit
Reduction of Equity share Capital		4,165.15
Securities Premium Account		9,863.40
Capital Reserve		291.77
Capital Redemption Reserve		140.00
Debenture redemption Reserve		250.00
Amalgamation Reserve		96.98
Securities Premium Account on Account of issue of Equity shares to the equity share holders of SECPL		4,770.50
Securities Premium Account on Account of issue of Equity shares to the OCD holders of SECPL		640.40
Profit & Loss Account (as on 30.09.2010)	20,024.97	
Balance retained in Security Premium Account*	193.23	
	20,218.20	20,218.20

*After giving the above effect, there is no balance left in the Business Reconstruction Account.

Schedules forming part of the Accounts … contd.

4 529,601,640 equity share of Re 1/- each referred to note no. B-3(e) above have been allotted after the balance sheet date i.e. on 10th February, 2011 for a consideration other than cash pursuant to the scheme to the shareholders and the OCD holders of erstwhile SECPL and have been booked in " Equity Share Suspense" account as on 30.09.2010.

5 Pursuant to the scheme approved by the Hon'ble high court of Himachal Pradesh vide its order dated 05 January, 2011 under section 391 to 394 of the Companies Act, 1956, (the Act), SECPL has amalgamated with Company w.e.f. 1st January, 2010. Before amalgamation SECPL was having certain investment and loans. However being a private limited company it was exempt from the provisions of section 372A of the Act. On amalgamation, the financial statements of SECPL and Company have been combined as a result of which the Company has exceeded the prescribed limit u/s 372A(1) of the Act and it has to carry on certain investment in the form of debentures at a rate of interest lower than the rate prescribed u/s 372A(3) of the Act. The above situation has arisen only on account of amalgamation as per the scheme approved by the Hon'ble High Court.

The Company has been legally advised that in above situation it would not be deemed to have violated the provisions of section 372A(1) and (3) of the Act.

		As at 30.09.2010 (Rs. in millions)	As at 31.03.2009 (Rs. in millions)
6	Contingent Liabilities not provided for in respect of :		
	(a) Unexpired Letters of Credit (margin money paid Rs.44.74 million ; Previous year Rs.2.62 million)	**24.35**	26.17
	(b) Guarantees given by banks on behalf of the Company (margin money kept by way of fixed deposits Rs.104.42million; Previous year Rs.123.70 million)	**415.29**	440.06
	(c) Counter Guarantees given by the Company to the financial institutions/banks for providing guarantees on behalf of companies promoted by the Company. (margin money kept by the banks by way of fixed deposits Rs. Nil ; Previous year Rs Nil)	**1,915.67***	7225.67*

* This excludes Company's counter guarantees of Rs.567.00 million in respect of guarantees provided by the banks and institutions on behalf of HFCL Bezeq Telecom Ltd. for bid bonds to Department of Telecommunications (DoT) towards tender for operation of basic telephone services as the guarantees have already expired and the Hon'ble Delhi High Court vide its order dated 19.09.97 granted permanent injunction restraining the DoT from invoking the said guarantees. The appeal filed by DoT against this also stands dismissed. The DoT has filed application for restoration of appeal before the Double Bench of the Hon'ble High Court of Delhi which has been allowed and matter is now pending for decision.

	(d) Arrears of Dividend on Cumulative redeemable preference shares (net of advances)	**674.74**	596.18
7	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	**17.83**	18.02

Schedules forming part of the Accounts … contd.

		As at 30.09.2010 (Rs. in millions)	As at 31.03.2009 (Rs. in millions)
8	a) Claims against the Company towards sales tax, income tax and others in dispute not acknowledged as debt (deposited under protest Rs.24.75 million shown as advance)	**43.50**	45.23
	b) Other claims against the company not acknowledge as debt	**68.40**	65.11
9	Directors remuneration including Managing Director* (excluding provision for gratuity)		
	(i) Salaries	**2.83**	5.91
	(ii) Contribution to provident fund	**0.34**	0.70
	(iii) Perquisites and allowances	**1.66**	4.26
		4.83	10.87

* As the Company has no profits in the current as well as preceding two years, the appointment of and remuneration to the managerial personnel's required approval of Central Government. The Company has made payment during the period ended 30.09.2010 amounting to Rs.12.14 million and cumulative Rs 46.92 million (Previous year Rs.34.78 million). The Company has received approval from the Central Government for the re-appointment and payment of remuneration to whole time directors for the financial year 2007- 08, 2008-09 and part of 2009-10 for Rs 27.46 million. The Company is in the process of making representation to the Central Government for the balance amount. Since the approval received is of lesser amount than the actual paid for the aforesaid period, the excess amount paid of Rs.19.45 million continues to shown as recoverable. The Company has also filed the necessary application with the Central Government for the re-appointment and payment of remuneration to whole time directors for the Financial Year 2009-10 and onwards which is under their consideration.

10 Interest charges on loans is net of Interest income from loans and advances and others amounting to Rs.145.48 million (Previous year Rs.1.01 million) .

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

	As at 30.09.2010		As at 31.03.2009	
	Qty	(Rs. in millions)	Qty	(Rs. in millions)
Adinath Bio Labs Ltd.	**6,408,000**	**14.55**	6,408,000	17.37
Granules India Ltd.	**100,000**	**3.20**	100,000	3.20
Manvens Biotech Ltd.	**17,000**	**0.23**	1,700	0.23
Media Matrix Worldwide Ltd.	**4,750**	**0.02**	4,750	0.03
Optimates Textile Ltd.	**1,302,500**	**9.70**	1,302,500	9.70
Rashel Agrotech Ltd.	**478,500**	**1.00**	478,500	0.91
Sahara India Media and Entertainment Ltd.	**250,950**	**45.97**	250,950	30.70
		74.67		62.14

Schedules forming part of the Accounts … contd.

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

(Rs. in millions)

Particular	**18 Months ended 30.09.2010**	2008-2009
Contract revenue recognized as revenue in the year / period	**917.04**	276.22
Aggregate amount of costs incurred and profit up to the reporting date on the contract under progress	**-**	120.88
Advance received on contract under progress	**-**	26.85
Retention amounts on contract under progress	**-**	NIL
Gross amount due from customers for the contract work as on assets	**-**	158.96
Gross amount due to the customers for contract work as a liability	**-**	62.27

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

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

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

ii) The Cumulative Redeemable Preference Shares (CRPS) aggregating to Rs. 805.00 million shall be redeemed at the rate of 25% and 75% of the face value in the financial years ending 31st March 2018 and 31st March, 2019, respectively and will carry the coupon rate of 9% from old cut off date till new cut off date and 6.50% from new cut off date. (Also refer Note no.13(d) below)

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

Schedules forming part of the Accounts … contd.

iv) Secured and unsecured working capital loans from banks amounting to Rs. 315.00 million and Rs. 76.41 million respectively have been converted into working capital term loans to be repaid in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a. on simple interest basis..

v) The outstanding principal amount of secured and unsecured term loans (after conversion into OFCDs and ZCPBs) amounting to Rs.1316.82 million (Previous year Rs.1756.82 million) and Rs.33.50 million (Previous year Rs.131.59 million) respectively from financial institutions and banks have been rescheduled so as to be repaid on ballooning basis in monthly installments commencing from 30th April, 2007 till 31st March, 2013. The installments fallen due/repayable during the period eighteen month amounted to Rs.107.78 million (Previous year Rs.89.20 million) and Rs.3.35 million (Previous year Rs.6.71 million). Accordingly overdue installments amounting to Rs.349.95 million and Rs.11.73 million have not been paid for Secured and unsecured loans, respectively.

vi) Funded Interest Term Loan (FITL) amounting to Rs.889.68 million (Previous year Rs.889.68 million) is repayable in twenty four monthly installments commencing from 30th April, 2017 till 31st March, 2019 and shall not carry any interest.

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

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

(c) Due to continued cash losses and very tight liquidity conditions, the company could not meet its interest and repayment obligations towards its lenders under CDR package its over due amount towards such lenders as on 30th September, 2010 is Rs.841.10 million (Previous year 556.91 million) including interest Rs.479.42 million (Previous year 394.88 million). However the company is in continuous discussions with lenders in respect of such default / possibility of further restructuring / modification in the CDR package in view of this, the company does not expect withdrawal of any relief. Further, the company has submitted fresh restructuring proposal to the lenders which is under consideration

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

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

(e) The company is in process of reconciliation of balances with the lenders i.e. financial institutions and banks. Adjustments, if any, on account of interest/ principal will be made when the same are confirmed by them. The Company has submitted fresh restructuring proposal which has already been recommended by the lenders to the empowered group of CDR Cell.

(f) The Company has settled the dues of The Jammu & Kashmir Bank Ltd. and HDFC Bank Ltd. (Formerly Centurion Bank of Punjab Ltd.) on One Time Settlement (OTS) basis and the gain arising out of OTS amounting to Rs.210.67 million and Rs.391.18 million respectively has been accounted for under the head other income as remission of liability & interest thereon. Further, Rs.86.85 million being the provision for premium on Zero Coupon Premium Bond issued to the The Jammu & Kashmir Bank Ltd. which was earlier adjusted from security premium account in earlier year has been now reversed.

Schedules forming part of the Accounts … contd.

(g) The Company has its dues with Assets Reconstruction Company (India) Ltd (ARCIL) on One time settlement (OTS) basis and most of the commitments as per the OTS have been fulfilled. In view of this, provision of interest on loan from ARCIL has not been made for the period from 1st July, 2010 to 30th September, 2010. The effect of the settlement will be given in the accounts after completion of all obligations.

14 The Board of Directors of the Company at their meeting held on 26th March, 2010 has allotted 20,000,000 equity shares of Rs. 10/- each at par to Asset Reconstruction Company (India) Limited on account of conversion of part of their loan into equity shares in terms of Loan Agreement dated 5th March, 2001 and letter dated 8th February, 2010 from ARCIL.

15 In terms of the modified CDR package, Company has to pay interest on term loans on ballooning basis over the period 2006 to 2013 at the ballooning rates of interest from 2% to 15.5% p.a. The Company accounts for interest at the rate it is required to pay during the respective year in terms of the aforesaid package on monthly rests for this year, in place of @ 8.50% p.a. i.e. on YTM basis. Had the interest been provided for on YTM basis, the loss for the year would have been lower by Rs.172.60 million and the accumulated debit balance in the Profit and Loss Account would have been higher by Rs.46.35 million.

16 Pursuant to the disinvestment by the Government of India, the Company had acquired 1,110,000 equity shares of Rs.100/- each of HTL Limited representing 74% of its equity capital at total consideration of Rs. 550.00 million in terms of Shareholders Agreement dated 16.10.2001. The above consideration paid by the Company is subject to post closing adjustments on account of difference in net worth of HTL Limited as on 31.03.2001 and as on the date of purchase of shares in terms of Share Purchase Agreement dated 16.10.2001.The Company has submitted its claim on account of Closing Date Adjustment to the Government in respect of such reduction in net assets of HTL Limited which has not been settled by the Government. Due to this, the Company has invoked the provisions of the Share Purchase Agreement for settlement of dispute by Arbitration. The Hon'ble Arbitral Tribunal has since given the award in favour of the company on 10th October, 2007 upholding the claim of the company on account of the above to the extent of Rs.550.00 million and interest from the date of award.

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

17 The Company had made a payment of Rs.113.38 million to certain cumulative preference shareholders as per contractual obligations in the earlier years. The said amounts paid have been treated as "advances" to be adjusted against future expected liability of dividend on cumulative preference shares.

18 During the period the Company has paid Guarantee contract/obligation amounting to Rs. 69.92 million. It includes Rs. 23.12 million on account of compensation to its customers/ invocation of performance bank guarantees due to non fulfillment of contractual obligations in terms of work orders and Rs.46.80 million towards obligation payments (as Corporate guarantor) to the lenders of promoted companies against their over dues.

19 Sundry debtors include debts outstanding for more than two years amounting to Rs 1922.92 million. The Company is in continuous process of working out different modalities of recovery for its remaining long outstanding debts. Pending outcome of such exercise, an amount of Rs.677.19 million (net of provision) has been written off during the period, which is in opinion of the management is adequate.

20 During the year, Company has recognised the following amounts in the financial statements as per Accounting Standard 15 (Revised) "Employees Benefits" issued by the ICAI :

a) Defined Contribution Plan

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

Schedules forming part of the Accounts … contd.

	(Rs. in millions)	
	18 Months ended 30.09.2010	2008-2009
Employer's Contribution to Provident Fund	**7.68**	7.49
Employer's Contribution to Pension Scheme	**4.62**	3.58

b) Defined Benefit Plan

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

	Rs. in millions		**Rs. in millions**	
	Gratuity (Funded)		**Leave Encashment**	
Actuarial assumptions	**18 Months ended 30.09.2010**	2008-2009	**18 Months ended 30.09.2010**	2008-2009
Motility Table (HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy)				
Discount rate (per annum)	**8.00%**	8.00%	**7.00%**	7.00%
Rate of increase in Compensation levels	**8.00%**	8.00%	**8.00%**	8.00%
Rate of Return on plan assets	**8.00%**	8.00%	**N.A.**	N.A.
Average remaining working lives of employees (Years)			**18.70**	20.84
Table showing changes in present value of obligations :				
Present value of obligation as at the beginning of the year	**35.74**	24.19	**17.29**	16.85
Acquisition adjustment	**Nil**	Nil	**Nil**	Nil
Interest Cost	**4.29**	2.19	**2.08**	1.18
Past service cost (Vested Benefit)	**11.58**	Nil	**Nil**	Nil
Current Service Cost	**8.94**	3.17	**2.49**	2.20
Curtailment cost / (Credit)	**Nil**	Nil	**Nil**	Nil
Settlement cost /(Credit)	**Nil**	Nil	**Nil**	Nil
Benefits paid	**Nil**	Nil	**(4.80)**	(4.34)
Actuarial (gain)/ loss on obligations	**(27.30)**	6.19	**(2.20)**	1.40
Present value of obligation as at the end of the period	**33.25**	35.74	**14.86**	17.29
Table showing changes in the fair value of plan assets :				
Fair value of plan assets at beginning of the year	**6.36**	6.50	**Nil**	Nil
Acquisition adjustments	**Nil**	Nil	**Nil**	Nil
Actual return of plan assets	**0.76**	0.52	**N.A.**	N.A.
Employer contribution	**Nil**	Nil	**Nil**	Nil
Benefits paid	**Nil**	Nil	**Nil**	Nil

Schedules forming part of the Accounts … contd.

Actuarial gain/ (loss) on obligations	**1.32**	(0.66)	**Nil**	Nil
Fair value of plan assets at year end	**8.44**	6.36	**Nil**	Nil
Table showing actuarial gain /loss - plan assets :				
Actual return of plan assets	**2.08**	(0.14)	**Nil**	Nil
Expected return on plan assets	**0.76**	0.52	**Nil**	Nil
Excess of actual over estimated return on plan assets	**Nil**	Nil	**Nil**	Nil
Actuarial (gain)/ loss-plan assets	**1.32**	(0.66)	**Nil**	Nil
Actuarial Gain / loss recognised				
Actuarial (gain) / loss for the period - Obligation	**(27.30)**	6.19	**(2.20)**	1.40
Actuarial (gain) / loss for the period - Plan assets	**(1.32)**	0.66	**Nil**	Nil
Total (gain) / loss for the period	**(28.62)**	6.85	**(2.20)**	1.40
Actuarial (gain) / loss recognized in the period	**(28.62)**	2.52	**(2.20)**	1.40
Unrecognised actuarial (gains) / losses at the end of the period	**Nil**	Nil	**Nil**	Nil
The amounts to be recognized in Balance Sheet and statement of Profit and Loss:				
Present value of obligation as at the end of the period	**(33.26)**	35.74	**14.86**	17.29
Fair value of plan assets as at the end of the period	**8.44**	6.36	**Nil**	Nil
Funded Status	**(24.81)**	(29.38)	**(14.86)**	(17.29)
Unrecognised actuarial (gains)/losses	**Nil**	Nil	**Nil**	Nil
Net asset / (liability) recognised in Balance Sheet	**(24.81)**	(29.38)	**(14.86)**	(17.29)
Expenses recognised in statement of Profit and Loss :				
Current service cost	**8.94**	3.17	**2.49**	2.20
Past service cost (Vested Benefit)	**11.58**	Nil	**Nil**	Nil
Interest Cost	**4.29**	2.19	**2.08**	1.18
Expected return on plan assets	**(0.76)**	(0.52)	**Nil**	Nil
Curtailment and settlement cost /(credit)	**Nil**	Nil	**Nil**	Nil
Net Actuarial (gain)/ loss recognised in the period	**(28.62)**	6.85	**(2.20)**	1.40
Expenses recognised in the statement of Profit and Loss	**(4.57)**	11.69	**2.37**	4.78
Investment Details				
HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy	**-**	6.36	**-**	-

Note-1: The estimates of rate of escalation in salary considered in actuarial valuation, take into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market. The above information is certified by the actuary.

Schedules forming part of the Accounts … contd.

21 To comply with the requirement of the Accounting Standard (AS-28) on "Impairment of Assets" the management has appointed an outside agency for conducting an exercise of identifying the assets that may have been impaired, if any. Since the exercise is still in process, the effect of diminution in value of assets due to impairment, if any shall be given in the accounts upon such determination.

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

	18 Months ended 30.09.2010	(Rs. in millions) 2008-2009
Not later than one year	**5.64**	4.67
Later than one year but not later than five years	**1.74**	2.24

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

24 As required by Accounting Standard 18 "Related Party Disclosures"

(i) Name of related parties and description of relationship:

Relationship	Name of Related Party
(a) Subsidiaries:	HTL Ltd.
	Moneta Finance Pvt. Ltd.
	HFCL Infotel Ltd. (Ceased w.e.f. 31st March, 2010)
	Infotel Tower Infrastructure Private Ltd (Ceased w.e.f. 31st March, 2010)
(b) Associates:	HFCL Bezeq Telecom Ltd
	HFCL Dacom Infochek Ltd (HDIL)
	HFCL Kongsung Telecom Ltd
	HFCL Satellite Communications Ltd
	Exicom Tele-systems Ltd.
	Microwave Communications Ltd.
	Westel Wireless Ltd
	WPPL Ltd
	Polixel Security Systems Pvt. Ltd.
(c) Key management personnel:	Mr. Mahendra Nahata
	Mr. Arvind Kharabanda

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

Schedules forming part of the Accounts … contd.

(ii) Nature of transactions - The transactions entered into with the related parties during the year along with related balances as at 30th September, 2010 are as under:

(Rs. in millions)

Particulars	Related parties referred above in	
	i(a)	i(b)
Purchases/receiving of		
Goods and materials	**–**	**8.11**
	(2.14)	(1.21)
Services	**84.67**	**26.73**
	(72.54)	(2.93)
Sales/rendering of		
Goods and materials	**5.64**	**17.47**
	(7.22)	(45.16)
Services	**–**	**19.85**
	(0.48)	(21.40)
Income		
Rent received	**0.05**	**1.11**
	(0.72)	(0.22)
Expenses		
Rent/other expenses	**0.71**	**10.50**
	(0.50)	(-)
Interest on loans	**–**	**–**
	(-)	(0.46)
Income		
Interest on advance	**-**	**1.22**
	(-)	(-)
Finance		
Advance given	**95.20**	**10.00**
	(-)	(-)
Outstanding (net)		
Payables	**31.62**	**11.85**
	(4.89)	(97.76)
Receivables	**200.93**	**66.18**
	(108.32)	(56.09)
Guarantees and collaterals	**-**	**1,374.33**
	(5,766.34)	(1,459.33)

Details of remuneration to directors are disclosed under note B-9. Figure in brackets represent the previous year figures

Schedules forming part of the Accounts … contd.

25 Segment Reporting

(a) Primary segment information

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

(Rs. in millions)

Particulars	**18 months ended 30.09.2010**	2008-2009
Segment Revenue		
a. Telecom Products	**2,036.50**	928.38
b. Turnkey Contracts and Services	**1,077.82**	462.61
c. Others	**-**	-
Total	**3,114.32**	1,390.99
Less: Inter segment revenue	**-**	-
Turnover/Income from Operations	**3,114.32**	1,390.99
Segment Results		
a. Telecom Products	**(500.09)**	(2,108.07)
b. Turnkey Contracts and Services	**229.52**	(130.30)
c. Others	**-**	-
Total	**(270.57)**	(2,238.37)
Less: i. Interest and Finance charges	**814.82**	909.89
ii. Other un-allocable expenditure net off un-allocable income	**122.91**	14.29
iii. Write offs, provisions and extra ordinary items	**3,916.05**	-
Profit/(Loss) before Tax	**(5,124.35)**	(3,162.57)
Capital Employed		
a. Telecom Products	**936.31**	688.29
b. Turnkey Contracts and Services	**658.92**	587.70
c. Others	**-**	-
Total capital employed in segments	**1,595.23**	1,275.99
Add: Un-allocable corporate assets less liabilities	**503.29**	101.65
Total capital employed in Company	**2,098.52**	1,377.64

(b) Secondary segment information

The Company caters mainly to the needs of Indian market and the export turnover being 0.27% (Previous year 3.77%) of the total turnover of the Company, there are no reportable geographical segments.

Schedules forming part of the Accounts … contd.

26 Deferred Tax

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

(Rs. in millions)

	18 months ended 30.09.2010		2008-2009	
	Deferred tax liability	**Deferred tax asset**	Deferred tax liability	Deferred tax asset
Depreciation	**389.99**	**-**	464.57	-
Others	**-**	**4.98**	-	3.86
Unabsorbed losses (to the extent of liability only) *	**-**	**385.01**	-	460.71
	389.99	**389.99**	464.57	464.57
Net deferred tax liability		**-**		-

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

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

	Particulars		
a.	Principal amount due	**12.96**	33.50
	Interest due on above	**0.65**	0.04
b.	Interest paid during the period beyond the appointed day	**Nil**	Nil
c.	Amount of interest due and payable for the period of delay in making payment without adding the interest specified under the Act.	**Nil**	Nil
d.	Amount of interest accrued and remaining unpaid at the end of the period	**Nil**	Nil
e.	Amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to small enterprises for the purpose of disallowance as a deductible expenditure under Sec.23 of the Act	**Nil**	Nil

Note: 1. The above information and that are given in schedule-12 ' Current Liabilities' regarding Micro, Small and Medium Enterprises has been determine on the basis of information available with the Company and has been relied upon by the auditors.

Note: 2. The Company is in process of compiling relevant information for the period from its suppliers, since the information is not ready, no disclosure have been made in accounts. However, in view of the management, the impact of interest, if any, that may be payable is not expected to be material

Schedules forming part of the Accounts … contd.

28 Earning per Share (EPS)- In accordance with the Accounting Standard (AS-20)

		18 months ended 30.09.2010	(Rs. in millions) 2008-2009
(a)	Basic & Diluted earning per share before extra ordinary items.		
	Profit /(Loss) after tax	**(1,209.90)**	(3,166.76)
	Less: Preference dividend & interest to OCD holders	**81.31**	52.33
	Profit attributable to ordinary shareholders	**(1,291.21)**	(3,219.09)
	Weighted average number of ordinary shares (used as denominator for calculating basic EPS)	**683,614,865**	442,793,697
	Weighted average number of ordinary shares (used as denominator for calculating diluted EPS)	**686,007,632**	442,793,697
	Nominal value of ordinary share	**Re. 1**	Rs. 10
	Earning per share basic	**(1.88)**	(7.27)
	Earning per share diluted	**-**	(7.27)
(b)	Basic & Diluted earning per share after extra ordinary items		
	Profit /(Loss) after tax	**(5,125.95)**	(3,166.76)
	Less: Preference dividend and interest to OCD holders	**81.31**	52.33
	Profit attributable to ordinary shareholders	**(5,207.26)**	(3,219.09)
	Weighted average number of ordinary shares (used as denominator for calculating basic EPS)	**683,614,865**	442,793,697
	Weighted average number of ordinary shares (used as denominator for calculating diluted EPS)	**686,007,632**	442,793,697
	Nominal value of ordinary share	**Re. 1**	Rs. 10
	Earning per share basic	**(7.61)**	(7.27)
	Earning per share diluted	**-**	(7.27)

While calculating EPS, equity share issued subsequent to the year end as consideration for the amalgamation refer to the note no 3(e) of above have been included in the calculation of weighted average number of equity shares.

29 Details of loans and advances in nature of loans outstanding from Subsidiary for the year ended 30th September, 2010 - Disclosure required by Clause 37 of the Listing Agreement.

Subsidiary Company	Outstanding as at		Maximum amount outstanding during the year	
	30.09.2010	31.03.2009	**30.09.2010**	31.03.2009
HTL Ltd	**95.20**	-	**95.20**	-
Moneta Finance (P) Ltd.	**0.15**	0.15	**0.15**	0.15

30 The figures of the current period are not comparable with those of previous year as current period is for eighteen months as against twelve months in previous year and in view of the amalgamation of SECPL w.e.f 01.01.2010. Previous year's figures have been regrouped/reclassified wherever necessary and the figures have been rounded off to the nearest rupee.

Schedules forming part of the Accounts … contd.

31 Additional information pursuant to Paragraphs 3,4C and 4D of Part-II of the Schedule VI to The Companies Act, 1956

(Previous year's figures are in brackets unless otherwise shown in separate columns)

(A) Licensed and installed capacity and actual production

Product	Unit	Licensed * capacity	Installed capacity	Actual production
Analog subscriber carrier system	Lines	**N.A**	**20,000**	**-**
		(N.A)	(20,000)	(-)
Coils **	Nos	**N.A**	**600,000**	**-**
		(N.A)	(600,000)	(-)
30 CH-PCM	Nos	**N.A**	**2,028**	**-**
		(N.A)	(2,028)	(-)
Optical line terminal	Nos	**N.A**	**480**	**-**
equipment (OLTE)-systems #		(N.A)	(480)	(-)
OLTE terminals #	Nos	**N.A**	**1,200**	**-**
		(N.A)	(1,200)	(-)
STM ##	Nos	**N.A**	**1,200**	**-**
		(N.A)	(1,200)	(-)
Digital Cross Connection (DXC) ##	Nos	**N.A**	**225**	**-**
		(N.A)	(225)	(-)
D L C	Nos	**N.A**	**240**	**-**
		(N.A)	(240)	(-)
Dense Wavelength Digital Multiplexer (DWDM)	Nos	**N.A**	**150**	**-**
		(N.A)	(150)	(-)
Microwave communications equipments	Nos	**N.A**	**1,700**	**-**
		(N.A)	(1,700)	(-)
CorDECT (Infra/FWT)	Lines	**N.A**	**350,000**	**-**
		(N.A)	(350,000)	(-)
CDMA (Infra/FWT)	Lines	**N.A**	**650,000**	**-**
		(N.A)	(650,000)	(-)
Digital Satellite Phone Terminals (DSPT)	Nos	**N.A**	**12,000**	**-**
		(N.A)	(12,000)	(430)
Optical fiber cables @	Kms	**N.A**	**25,704**	**40,675**
		(N.A)	(25,704)	(21,899)
Software	N.A	**N.A**	**N.A**	**Not**
		(N.A)	(N.A)	**ascertainable**

Notes

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

** Coils are mainly used for captive consumption.

Schedules forming part of the Accounts … contd.

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

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

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

(B) Opening and closing stock of finished goods

Product	Unit	Opening stock		Closing stock	
		Qty	Rs. in millions	Qty	Rs. in millions
OLTE - terminals	Nos	**3**	**2.84**	**3**	**2.84**
		(3)	(2.84)	(3)	(2.84)
STM Cards	Nos	**-**	**3.42**	**-**	**3.42**
		(-)	(3.42)	(-)	(3.42)
Optical fibre cables	Kms	**10**	**0.22**	**10**	**0.22**
		(13)	(0.50)	(13)	(0.22)
	Total		**6.48**		**6.48**
			(6.76)		(6.48)

(C) Sales and services

Product	Unit	Qty	Rs. in millions
Optical Fibre Cables	Kms	**40,675**	**1,077.94**
		(21,902)	(427.09)
Turnkey contracts and services	N.A.	**N.A.**	**1,077.82**
		(N.A.)	(462.61)
Job charges & annual maintenance charges	N.A.	**N.A.**	**193.44**
		(N.A.)	(120.66)
FWT	Nos	**-**	**-**
		(24,360)	(31.40)
Digital Satellite Phone Terminals (DSPT) with accessories	Nos	**-**	**-**
		(430)	(2.25)
Components and others #	N.A.	**N.A.**	**856.27**
		(N.A.)	(391.25)
(# In view of various items of different nature and specifications the quantitative details are not furnished)	Total		**3,205.47**
			(1,435.25)

Schedules forming part of the Accounts … contd.

(D) Material Consumed/Cost of goods sold

	Unit	**18 months ended 30.09.2010**		2008 - 2009	
		Qty	**Rs. in millions**	Qty	Rs. in millions
PCBs	Nos	**4,065**	**0.71**	1,867	0.48
ICs	Nos	**223,735**	**7.24**	214,149	9.52
Optical fibre	Kms	**855,802**	**340.27**	291,892	105.60
Nylon-12	Kgs	**407,246**	**145.62**	89,890	31.90
DSPT (Digital Satellite Phone Terminals)	N.A.	**-**	**-**	-	4.49
For turnkey contracts and services	N.A.	**-**	**49.43**	-	52.26
					-
Components and others #	N.A.	**-**	**1,264.88**	-	497.89
			1,808.15		702.14

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

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

Particulars	**18 months ended 30.09.2010**		2008 - 2009	
	%	**(Rs. in millions)**	%	(Rs. in millions)
(a) Raw materials				
Imported	**45**	**427.41**	46	162.98
Indigenous	**55**	**513.95**	54	190.27
	100	**941.36**	100	353.25
(b) Component purchased				
Imported	**-**	**-**	22	76.50
Indigenous	**100**	**866.79**	78	272.39
	100	**866.79**	100	348.89
(c) Stores & spares				
Imported	**6**	**1.12**	3	0.49
Indigenous	**94**	**18.94**	97	15.45
	100	**20.07**	100	15.94

(F) Value of Imports on CIF Basis

Raw material & components	**397.71**	161.88
Stores & spares	**6.02**	0.43
Capital goods	**1.52**	0.63

(G) Expenditure in foreign currency

(On payment basis)

Travelling, Subscription & others	**14.97**	2.41

(H) Earnings in foreign exchange

FOB Value of export	**8.58**	54.06

Schedules forming part of the Accounts … contd.

32 BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details		
Registration No.	:	7466
State Code	:	06
Balance Sheet Date	:	30.09.2010
II. Capital raised during the year (Rupees in Millions)		
Public Issue	:	-
Rights Issue	:	-
Bonus Issue	:	-
Private Placement	:	549.60
III. Position of Mobilisation and Deployment of Funds (Rupees in Millions)		
Total Liabilities	:	12,652.31
Total Assets	:	12,652.31
Sources of Funds		
Paid-up Capital	:	1,267.79
Equity Share		529.60
Reserves & Surplus	:	301.13
Secured Loans	:	8,490.51
Unsecured Loans	:	2,063.28
Application of Funds		
Net Fixed Assets	:	1,893.94
Goodwill		
Investments	:	10,646.08
Net Current Assets	:	112.29
IV. Performance of Company (Rupees in Millions)		
Turnover including other income	:	4,022.06
Total Expenditure including prior period adjustments	:	9,147.56
Loss before tax	:	(5,125.50)
Loss after tax	:	(5,125.95)
Earning per equity share (in Rupees)	:	(7.61)
Dividend rate (%)-On equity share capital	:	-
V. Generic names of four Principal Products /Services of Company (as per monetary terms)		
Product Description		Item Code (ITC Code)
(a) Optical Line Terminal Equipment (OLTE)	:	85.17
(b) Microwave Communication/WLL Equipment	:	85.25
(c) Software	:	85.24
(d) Optical Fibre Cable	:	85.44

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Cash flow Statement for the period ended 30th september, 2010

(Rs. in millions)

Particulars		18 Months ended 30.09.2010	Year ended 31.3.2009
A. Cash flow from Operating Activities :			
Net Profit before taxes		**(5,131.04)**	(3,171.13)
Adjustments for :			
Depreciation	**390.33**		257.10
Loss /(Profit) on sale of investments (net)	**3,889.17**		-
Provision for diminution in value of investments	**(0.06)**		0.04
Interest & finance charges	**814.82**		909.89
Interest income	**(29.86)**		(8.08)
Dividend income	**(20.77)**		(6.91)
Technical know how fee written off	**-**		4.36
Loss/(Profit) on sale of fixed assets	**9.06**		2.74
Bad Debts written off	**677.19**		2.89
Term Loan and interest thereon remit under OTS	**(653.09)**		-
Payment towards guarantee obligation	**69.92**		107.41
		5,146.71	1,269.44
Operating Profit before working capital changes		**15.67**	(1,901.69)
Adjustments for :			
Trade and other receivables	**(600.17)**		2,186.44
Adjustment due to amalgamation of SECPL	**(972.50)**		–
Inventories	**197.91**		220.03
Trade payables	**(281.66)**		–
Adjustment due to amalgamation of SECPL	**6,198.22**		(527.09)
		4,541.80	1,879.38
Cash generated from operations		**4,557.47**	(22.31)
Income tax for earlier years		**(1.14)**	-
Prior period adjustments		**6.69**	8.58
Net Cash used in operating activities		**4,563.02**	(13.73)
B. Cash flow from investing activities			
Purchase of fixed assets		**(23.69)**	(17.61)
Sale of fixed assets		**16.42**	1.26
Purchase of investments		**(0.11)**	(0.01)
Sale/disposal of investments		**79.70**	70.00
Disposal of investment in subsidiary		**1.00**	(15.00)
Loans and advances		**0.73**	61.70
Interest paid (net)		**(110.07)**	(382.72)
Dividend received		**20.77**	6.91
Adjustment due to amalgamation of SECPL			
Investments	**(7,419.10)**		-
Fixed Assets	**(70.72)**		-
		(7,489.82)	-
Net Cash used in investing activities		**(7,505.07)**	(275.47)

CASH FLOW STATEMENT (CONTD……)

Particulars		18 Month ended 30.09.2010		Year ended 31.3.2009
C. Cash flow from financing activities				
Proceed from issue of share capital including premium (net of issue expenses)		**700.04**		-
Proceeds from long term/short term borrowings				
Secured	**-**		71.50	
Unsecured	**1,934.34**		1,989.76	
		1,934.34		2,061.26
Repayment of long term/short term borrowings				
Secured	**(377.76)**		(1.75)	
Unsecured	**(3,384.55)**		(1,683.61)	
		(3,762.31)		(1,685.36)
Interest paid (net)		**(200.76)**		(118.83)
Adjustment due to amalgamation of SECPL				
Share Capital	**470.00**			-
Reserve account	**4,770.50**			-
		5,240.50		-
Net Cash from financing activities		**3,911.81**		257.07
Net increase in cash & cash equivalents		**969.76**		(32.13)
Cash & cash equivalents (Opening Balance)		**246.99**		279.12
Cash & cash equivalents (Closing Balance)		**1,216.75**		246.99

Notes:

1 The Cash flow statement has been prepared under the indirect method as setout in the Accounting Standard 3 " Cash Flow Statements" issued by The Institute of Chartered Accountants of India.

2 Figurs in bracket indicate cash outflow.

3 Cash & cash equivalents represents:

Cash on hand	**1.33**	2.71
Cheques in hand	**-**	4.04
Balances with Scheduled banks in		
Current accounts	**270.83**	32.21
Fixed deposit accounts	**944.58**	208.03
Total	**1,216.75**	246.99

4 Cash & cash equivalents as on 30.09.2010 includes Cash and bank balance acquired under the Scheme amounting to Rs.385.11 million.

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Statement pursuant to section 212 of the companies act, 1956
Relating to company's interest in subsidiary companies

(Rs. in millions)

Particular	Name of the subsidiary companies	
	HTL Ltd.	Moneta Finance Pvt. Ltd.
1. The Financial Year of the Subsidiary ended on	30.09.2010	30.09.2010
2. Shares of the Subsidiary held by the Company on the above date		
(a) Number and face value	1110000 equity shares of Rs.100/- only	300000 equity shares of Rs.10/- only
(b) Extent of Holding	74%	100%
3. Net aggregate of profits /(losses) of the subsidiary for the above financial year so far as they concern members of the Company		
(a) Dealt with in the accounts of the Company for the year ended 30th September 2010	Nil	Nil
(b) Not dealt with in the accounts of the Company for the year ended 30th September, 2010	(741.93)	(0.24)
4. Net aggregate of profits /(losses) of the subsidiary for the previous financial year ,since it became a subsidiary so far as they concern members of the Company (Rs in Lakhs)		
(a) Dealt with in the accounts of the Company for the year ended 31st March, 2009	Nil	Nil
(b) Not dealt with in the accounts of the Company for the year ended 31st March 2009	(1,042.70)	0.41

For and on behalf of the Board

M P Shukla, Chairman   Mahendra Nahata, Managing Director

Dr. R M Kastia, Director   Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary   New Delhi, 28th February, 2011

AUDITORS' REPORT

To,

The Board of Directors,

HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED

1. We have audited the attached Consolidated Balance Sheet of **Himachal Futuristic Communications Limited (the company) and its Subsidiaries and Associates** as at 30th September, 2010, the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the period then ended. These Consolidated Financial Statements (CFS) are the responsibility of the Himachal Futuristic Communications Limited's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. We did not audit the financial statements of Moneta Finance Private Limited, the subsidiary company, whose financial statements reflect total assets of Rs. 3.38 million and total liability of Rs. 0.21 million as at 30th September, 2010, total revenue of Rs. Nil and total expenditure of Rs. 0.24 million and cash flow arising therefrom for the period ended on that date. The financial statements and other financial information of the subsidiary have been audited by other auditor whose report have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.

4. We did not audit the financial statements of HFCL Infotel Limited and its subsidiary Infotel Tower Infrastructure Private Limited, the subsidiary companies, which ceased to be subsidiary w.e.f. 31st March, 2010, included in the consolidated statement of profit and loss upto the date of cessation of relationship. The financial statements and other financial information of the subsidiary have been audited by other auditor whose report have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.

5. We did not audit the financial statements of HTL Limited, the subsidiary company, whose financial statements reflect total assets of Rs. 1,114.30 million and total liability of Rs. 5,595.15 million as at 30th September, 2010, total revenue of Rs. 325.04 million and total expenditure of Rs. 1,066.97 million and cash flow arising therefrom for the period ended on that date. The audited financial statements of the subsidiary are available as on and upto 31st March, 2010 and significant transactions/events upto 30th September, 2010, have been certified by the management. The financial statements and other financial information upto 31st March, 2010 of the subsidiary have been audited by other auditor whose report have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor. In respect of the significant transactions/events from 1st April, 2010 to 30th September, 2010, we do not express any opinion on the same, and also we do not have responsibility for impact, if any, on the consolidated financial statements.

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

of Himachal Futuristic Communications Limited and its subsidiaries included in the CFS.

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

   a) *Note B10 of Schedule 20, regarding the Company has accounted for the impact of modified CDR package after complying with most of the terms and conditions stipulated therein, however compliance of some of them are still in process. The company is also not regular in payment of its dues including interest thereon to the lenders and may be liable to consequential withdrawal of any of the reliefs granted earlier.*

   b) *Note B12 of Schedule 20, regarding the Company has, in terms of the CDR package, provided for interest on ballooning basis at the rate specified for the period which is higher then the rate on YTM basis i.e. @ 8.5% per annum, resulting in the higher loss for the period by Rs. 172.60 millions. Had the interest been provided on YTM basis, the cumulative provision for interest and accumulated losses upto 30th September, 2010, would have been higher by Rs. 46.35 millions.*

   c) *Note B16 of Schedule 20, regarding the sundry debtors outstanding for a long period, we are unable to comment on the extent of realisability and consequently on the adequacy of provision for doubtful debts made by the Company.*

   d) *Note B19 of Schedule 20, balances of some of the sundry debtors, creditors, lenders and loans and advances are subject to confirmation reconciliation and adjustments, if any.*

   e) *Note B9 of Schedule 20, regarding the Company has paid remuneration to managerial personnel during the period for which approval of central government is pending.*

   f) *Note B18 of Schedule 20, regarding the Company is in process of determining the impairment loss, if any, on its assets as per Accounting Standard - 28 "Impairment of Assets" issued by The Institute of Chartered Accountants of India and will give effect thereto upon such determination. As such we are unable to express any opinion as to the effect thereof on the value of Assets and loss for the period.*

   The effect of items mentioned at paragraph 5(a), (c), (d), (e) and (f) above is unascertainable, and hence the consequential cumulative effect thereof on loss for the period, assets, liabilities and reserves is unascertainable. If the observation at paragraph 7(b) above had been considered, the loss for the period would have been lower by Rs 172.60 millions and accumulated losses upto 30th September, 2010 and the current liabilities and provisions would have been higher by Rs. 46.35 millions.

8. *In the case of the subsidiary, HTL Ltd. attention is drawn to Note No.B20(i) of Schedule 20 of Notes forming part of CFS, the Subsidiary incurred a net loss of Rs. 742 millions during the period and has accumulated losses of Rs 4,633 millions as at September 30, 2010, which has resulted in negative net worth of Rs. 4,481 millions. The Subsidiary's current liabilities have exceeded its current assets by Rs 2,024 millions as at that date. Further, the Subsidiary has overdrawn borrowings from banks by Rs. 594 millions and also has overdue loans from Government of India amounting to Rs 62 millions together with interest accrued and due thereon of Rs. 189 millions. The turnover during the current period is only Rs 155 millions. The Subsidiary's plans to raise fund are dependent on resolution of various uncertainties and litigation involving the sale of land as referred in the said note. These factors along with other matters as set forth in the said note raise substantial doubt that the Subsidiary will be able to continue as a going concern. The Subsidiary is hopeful of a successful outcome in the litigation. The Subsidiary has also received orders for erection of Telecom Towers and is also expecting further orders for Telecom Towers and Integrated Fixed Wireless Terminals. In expectation of the successful outcome of the above proposals, the financial statements have been prepared on a going concern basis. In view of the above, we are unable to comment on the ability of the Subsidiary to continue as a 'going concern' and the consequential adjustments to the accompanying financial statements, if any, that might have been necessary had the financial statements been prepared under liquidation basis.*

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

   (a) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at 30th September, 2010;

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

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

For KHANDELWAL JAIN & CO.,
Firm Registration No. 105049W
Chartered Accountants,

(Akash Shinghal)
Partner
Membership No: 103490

Place: New Delhi
Dated: 28th February, 2011

Consolidated Balance Sheet As at 30th September, 2010

(Rs. in millions)

	Schedule No.		As at 30.09.2010	As at 31.03.2009
I SOURCES OF FUNDS				
1 Shareholders' funds				
(i) Share Capital	1	**1,267.79**		5,232.91
(ii) Equity Share pursuant to Scheme (as referred note No.B-5 of schedule 20)		**529.60**		–
(iii) Advance against share application money		–		867.43
(iv) Reserves & surplus	2	**331.36**		11,244.94
			2,128.75	17,345.28
2 Loan funds				
(i) Secured loans	3	**10,491.46**		17,139.95
(ii) Unsecured loans	4	**2,559.68**		4,971.83
			13,051.14	22,111.78
			15,179.89	39,457.06
II APPLICATION OF FUNDS				
1 Fixed assets	5			
(i) Gross block		**5,251.10**		18,123.17
(ii) Less :Depreciation/ Impairment		**3,421.88**		9,075.07
(iii) Net block		**1,829.22**		9,048.10
(iv) Capital work-in-progress		**105.00**		169.80
			1,934.22	9,217.90
2 Investments	6		**10,129.89**	2,796.46
3 Goodwill (on consolidation of subsidiaries)			**742.21**	477.89
4 Deferred Tax Assets			–	0.35
5 Current Assets, loans and advances				
(i) Inventories	7	**397.74**		648.61
(ii) Sundry debtors	8	**4,855.15**		5,661.93
(iii) Cash and bank balances	9	**1,335.37**		488.79
(iv) Other current assets	10	**295.48**		233.88
(v) Loans and advances	11	**2,014.21**		1,104.73
		8,897.95		8,137.94
Less : Current liabilities and provisions				
(i) Current Liabilities	12	**10,676.24**		9,057.03
(ii) Provisions	13	**131.74**		165.81
Net Current Assets			**(1,910.03)**	(1,084.90)
6 Profit & Loss Account			**4,283.60**	28,049.36
			15,179.89	39,457.06
Notes forming part of consolidated financial statements	20			

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Consolidated Profit and Loss Account
For the period ended 30th September, 2010

(Rs. in millions)

	Schedule No.		18 Months Ended 30.09.2010	2008-2009
INCOME				
Sales and services		**5,240.95**		3,971.22
Less:- Excise Duty		**91.24**		47.30
			5,149.71	3,923.92
Profit/(Loss) on dilution of investments in subsidiary			–	165.08
Profit/(Loss) on sale of fixed assets			**(13.76)**	179.23
Other income	14		**862.27**	82.09
Increase/(decrease) in stock	15		**(120.64)**	(115.00)
			5,877.58	4,235.32
EXPENDITURE				
Materials consumed/cost of goods sold	16		**1,860.56**	1,053.07
Cost of traded goods sold	17		**(12.53)**	12.93
Manufacturing and other expenses	18		**2,161.12**	3,034.64
Network operation expenditure			**1,102.28**	1,133.67
Provision for doubtful debts and advances			**17.42**	1,130.18
Bad Dedts written off			**713.44**	66.72
Research & Development expenses written off			–	0.02
Payment towards guarantee contract / obligation			**69.92**	107.41
Provision for diminution in value of investments			–	699.71
Goodwill on amalgammation written off			**33.67**	–
Finance charges	19		**741.86**	1,957.70
Depreciation	5		**1,356.87**	1,237.88
			8,044.61	10,433.93
PROFIT /(LOSS) BEFORE EXTRAORDINARY ITEMS AND TAXES			**(2,167.03)**	(6,198.61)
Profit on disposal of investments in subsidiary			**5,895.69**	–
PROFIT / (LOSS) BEFORE TAXES			**3,728.66**	(6,198.61)
Provision for taxation:				
Current tax			**0.46**	0.05
Deferred tax			**(0.62)**	(0.35)
Fringe Benefit Tax			–	10.57
Share of results of Associates			**(9.28)**	53.41
PROFIT / (LOSS) FOR THE PERIOD BEFORE MINORITY INTEREST			**3,738.10**	(6,262.29)
Prior period adjustments			**3.82**	45.83
Income tax for earlier years			**(1.14)**	–
PROFIT / (LOSS) AFTER MINORITY INTEREST			**3,740.78**	(6,216.46)
Add : Balance brought forward from previous year			**(28,049.36)**	(21,832.90)
Less: Balance transferred to business reconsturction account (refer note no B- 4(k) of schedule 20)			**(20,024.98)**	–
Balance carried to Balance Sheet			**(4,283.60)**	(28,049.36)
Earning per share (Face value of Re.1/- each) before extraordinary items				
Basic (Rs.)			**(3.27)**	(14.16)
Diluted (Rs.)			**(3.27)**	(14.16)
Earning per share (Face value of Re.1/- each) after extraordinary items				
Basic (Rs.)			**5.36**	(14.16)
Diluted (Rs.)			**5.34**	(14.16)
Notes forming part of consolidated financial statements	20			

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Schedules forming part of the consolidated financial statements

(Rs. in millions)

		As at 30.09.2010	As at 31.03.2009
1. SHARE CAPITAL			
Authorised :			
5,100,000,000 (Previous year 500,000,000) Equity shares of Re.1/- each		**5,100.00**	5,000.00
25,000,000 (Previous year 25,000,000) Cumulative redeemable preference shares of Rs.100/- each		**2,500.00**	2,500.00
		7,600.00	7,500.00
Issued & Subscribed :			
462,793,697 (Previous year 442,793,697 face value of Rs. 10/- each) Equity shares of Re.1/- each		**462.79**	4,427.94
7,000,000 (Previous year 7,000,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each		**700.00**	700.00
1,050,000 (Previous year 1,050,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each		**105.00**	105.00
		1,267.79	5,232.94
Paid Up :			
462,793,697 (Previous year 442,793,697 face value 10/- each) Equity shares of Rs.1/- each		**4,627.94**	4,427.94
Less: Reduction in Equity share capital (note No.B - 4 (c) of Schedule 19)		**4,165.15**	-
Less : Calls in arrears		**-**	0.03
		462.79	4,427.91
7,000,000 (Previous year 7,000,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up		**700.00**	700.00
1,050,000 (Previous year 1,050,000) 6.5% Cumulative redeemable preference shares of Rs.100/- each, fully paid up		**105.00**	105.00
		1,267.79	5,232.91
2. RESERVES & SURPLUS			
Capital Reserve			
Central investment subsidy	1.00		1.00
Consolidation of Associates	30.23		189.28
Gain on foreign exchange fluctuation	244.76		244.76
Share Warrants forfieted	46.00		46.00
D.G. set subsidy	0.01		0.01
Less : Transfer to Business Reconstruction account*	(291.77)		-
		30.23	481.05
Securities Premium Account			
Opening balance	10,265.02		10,536.31
Less : Premium on redemption of bonds	380.58		-
Add : Premium reversed due to OTS	86.86		-
Less : Transfer to Business Reconstruction account*	9,863.40		-
	107.90		10,536.31
Add : On issue of equity share to the equity shareholder and OCD holders of SECPL	5,410.90		271.30
Less : Transfer to Business Reconstruction account*	5,217.67		-
		301.13	10,265.01
Amalgamation Reserve	96.98		
Less : Transfer to Business Reconstruction account*	(96.98)	**-**	96.98
Capital Redemption Reserve	140.00		
Less : Transfer to Business Reconstruction account*	(140.00)	**-**	140.00
Debenture Redemption Reserve	250.00		
Less : Transfer to Business Reconstruction account*	(250.00)	**-**	250.00
Statutory Reserve		**-**	11.90
*(Refer note no.B-4(k) of Schedule 20)		**331.36**	11,244.94

Schedules forming part of the consolidated financial statements … contd.

(Rs. in millions)

	As at 30.09.2010	As at 31.03.2009
3. SECURED LOANS		
Zero coupon premium bonds	**2,664.10**	2,664.10
Working capital loans from banks	**1,996.77**	2,383.40
Term loans from financial institutions and banks	**1,316.82**	8,266.79
Funded Interest term loan	**790.72**	790.72
Other loans	**0.62**	64.18
Premium payable on redemption of bonds and debentures	**1,611.19**	1,294.76
Interest accrued and due	**2,111.24**	1,676.00
	10,491.46	17,139.95
4. UNSECURED LOANS		
Term loans from banks	**109.91**	208.00
Funded interest term loans	**87.25**	98.96
Loans from bodies corporate	**1,241.89**	3,069.64
Loans from Govt. of India	**62.42**	62.42
Vendor Finance Facilities	**-**	311.44
Zero coupon premium bonds	**380.30**	527.70
Optionally Fully Convertible Debentures	**-**	166.78
Premium payable on redemption of bonds	**219.94**	242.64
Interest accrued and due	**457.97**	284.25
	2,559.68	4,971.83

5. FIXED ASSETS

(Rs. in millions)

Description	GROSS BLOCK					DEPRECIATION					NET BLOCK	
	As at 31.03.2009	Additions/ Adjustments	Deductions/ Adjustments	Deductions/ disposal of subsidiery	**As at 30.09.2010**	Up to 31.03.2009	For the year	On Sales/ Adjustment	Deductions/ disposal of subsidiery	**Up to 30.09.2010**	**As at 30.09.2010**	As at 31.03.2009
1. Land - Leasehold	17.36	_	_	8.90	**8.46**	2.14	0.22	_	1.02	**1.34**	**7.12**	15.22
- Freehold	24.31	16.39	_	16.14	**24.56**	_	_	_	_	_	**24.56**	24.31
2. Buildings - Leasehold	14.46	0.11	_	_	**14.57**	4.03	_	_	_	**4.03**	**10.54**	10.43
- Freehold	378.33	_	0.01	189.20	**189.12**	120.06	13.38	_	33.13	**100.31**	**88.81**	258.27
- Leasehold Improvements	105.91	_	_	75.61	**30.30**	81.76	6.84	_	58.30	**30.30**	_	24.15
3. Plant & machinery	4,579.07	10.58	_	_	**4,589.65**	2,576.79	368.10	_	_	**2,944.89**	**1,644.76**	2,002.28
4. Network Equipment	3,163.48	_	_	3,163.48	_	1,761.87	343.83	_	2,105.70	_	_	1,401.61
5. Optical Fibre Cable & Copper Cable	4,188.56	_	_	4,188.56	_	1,986.01	309.15	_	2,295.16	_	_	2,202.55
6. Telephone Instruments at Customers Premises	857.46	_	_	857.46	_	615.31	103.20	_	718.51	_	_	242.15
7. Electrical installation	49.64	_	_	_	**49.64**	43.87	1.48	_	_	**45.35**	**4.29**	5.77
8. Furniture & fixtures	97.95	0.58	1.07	39.98	**57.48**	84.10	5.95	0.54	36.78	**52.73**	**4.75**	13.85
9. Office equipments	670.28	2.78	0.35	452.63	**220.08**	546.08	46.73	0.28	388.50	**204.03**	**16.05**	124.20
10. Vehicles	74.43	56.31	33.02	31.02	**66.70**	57.26	14.03	8.14	24.78	**38.37**	**28.33**	17.17
11. Moulds & dies	0.54	_	_	_	**0.54**	0.53	_	_	_	**0.53**	**0.01**	0.01
Intangible Assets								_				
12. Licence entry fees	3,870.16	_	_	3,870.16	_	1,195.26	137.72	_	1,332.98	_	_	2,674.90
13. Goodwill	31.23	_	_	31.23	_	_	6.24	_	6.24	_	_	31.23
TOTAL	18,123.17	86.75	34.45	12,924.37	**5,251.10**	9,075.07	1,356.87	8.96	7,001.10	**3,421.88**	**1,829.22**	9,048.10
Previous year	18,607.32	365.17	84.32	_	**18,123.17**	8,447.71	1,237.88	610.52	_	**9,075.07**	**9,048.10**	10,159.61

NOTES :-

Gross block and Net block of fixed assets is net of provision for impairment made in Financial Year 2004-05 in respect of Plant & Machinery Rs.342.83 million, Electrical Installation Rs.1.25 million and Office Equipments Rs.12.44 million.

Schedules forming part of the consolidated financial statements … contd.

(Rs. in millions)

		As at 30.09.2010	As at 31.03.2009
6.	**INVESTMENTS**		
A.	**LONG TERM INVESTMENTS (at cost)**		
	(a) Trade Investments - Unquoted In equity shares (fully paid up)	**8,480.21**	1,708.80
	(b) Investments in Associates - Unquoted In equity shares (fully paid up)	**43.45**	150.61
	(c) 0% Fully Optionally Convertible Debentures - Unquoted	**935.20**	935.20
	(d) In Zero Coupon Optionally converted Bond	**26.00**	-
	(e) In 0.1% Unsecured Debenture	**643.10**	-
B.	**CURRENT INVESTMENTS**		
	(At lower of cost and fair value)		
	(a) In equity shares (fully paid up)		
	(i) Quoted	**1.68**	1.61
	(ii) Unquoted	**0.10**	0.10
	(b) In units (fully paid up)		
	Quoted	**0.15**	0.14
		10,129.89	2,796.46
7.	**INVENTORIES**		
	(As Certified and valued by the management)		
	Stores & spare parts	**14.47**	44.23
	Loose tools	**1.02**	1.34
	Raw materials	**498.46**	496.46
	Raw materials in transit	**13.87**	6.18
	Packing materials	**1.38**	0.90
	Work in process	**144.71**	262.61
	Finished goods	**18.02**	20.77
	Stocks in trade (Securities)	**74.67**	62.14
	Less: Provision for Non Moving	**(368.86)**	(246.02)
		397.74	648.61
8.	**SUNDRY DEBTORS**		
	Debts outstanding for a period exceeding six months		
	- Secured considered good	**-**	2.20
	- Unsecured considered good	**4,137.13**	4,711.83
	- Unsecured considered doubtful	**346.45**	1,577.07
	Debts outstanding for a period less than six months		
	- Secured considered good	**-**	9.27
	- Unsecured considered good	**718.02**	935.26
	- Unsecured considered doubtful	**-**	13.68
		5,201.60	7,249.31
	Less : Provision for doubtful debts	**346.45**	1,587.38
		4,855.15	5,661.93
9.	**CASH & BANK BALANCES**		
	Cash on hand	**1.68**	5.56
	Cheques in hand	**-**	12.00
	Balances with Scheduled banks in		
	Current accounts	**288.88**	81.70
	Fixed deposit / Margin money account	**1,044.81**	389.53
		1,335.37	488.79
10.	**OTHER CURRENT ASSETS**		
	Interest receivable	**125.20**	30.65
	Discarded assets held for sale	**1.37**	1.37
	Security deposits	**82.10**	111.66
	Insurance claim receivable	**86.81**	90.20
		295.48	233.88
11.	**LOANS AND ADVANCES**		
	(Unsecured, considered good unless otherwise stated)		
	Loans	**77.10**	78.77
	Advances recoverable in cash or in kind or for value to be received	**1,477.90**	499.57
	Advances to vendors	**344.56**	338.57
	Balances with Central excise & Customs authorities	**54.69**	121.95
	Advance payment of Income tax (net of provisions)	**106.52**	114.43
		2,060.77	1,153.29
	Less : Provision for doubtful advances	**46.56**	48.56
		2,014.21	1,104.73

Schedules forming part of the consolidated financial statements … contd.

(Rs. in millions)

12. CURRENT LIABILITIES		As at 30.09.2010	As at 31.03.2009
Sundry creditors		**3,984.29**	5,031.64
Unclaimed dividends		**-**	0.44
Unclaimed deposits		**-**	0.53
Other liabilities		**391.12**	723.21
Interest accrued but not due		**20.79**	1,057.32
Advances from customers and others		**6,280.04**	2,243.89
		10,676.24	9,057.03
13. PROVISIONS			
Provisions for tax		**-**	9.77
Provisions for employees' retirement benefits		**131.74**	156.04
		131.74	165.81

14 OTHER INCOME		18 Months Ended 30.09.2010	2008-2009
Interest (Gross)			
On fixed deposits	44.90		26.39
On loans and advances	-		0.21
Others	3.75		0.22
		48.65	26.82
Appreciation in value of investments (to the extent of cost price)		**0.06**	-
Dividends on investments (Gross)		**20.77**	6.91
Liquidated Damages Recovered		**0.30**	38.10
Profit on sale of investment		**26.88**	-
Remission of loan and Interest thereon		**653.09**	-
Loans & advances recovered (earlier written off)		**80.28**	-
Excess Liabilities Written Back		**12.79**	4.23
Miscellaneous income		**19.45**	6.03
		862.27	82.09
15 INCREASE/(DECREASE) IN STOCK			
Opening stock			
Finished goods		**20.77**	18.49
Work in process		**262.61**	379.89
		283.38	398.38
Closing stock			
Finished goods		**18.02**	20.77
Work in process		**144.72**	262.61
		162.74	283.38
Increase/(Decrease) in Stock		**(120.64)**	(115.00)
16 MATERIALS CONSUMED/COST OF GOODS SOLD			
Opening stock		**496.46**	555.81
Add : Purchases during the year		**1,862.56**	993.72
		2,359.02	1,549.53
Less : Closing stock		**498.46**	496.46
		1,860.56	1,053.07
		1,860.56	1,053.07
17 COST OF TRADED GOODS SOLD			
Opening stock		**62.14**	75.07
Less : Closing stock		**74.67**	62.14
		(12.53)	12.93

Schedules forming part of the consolidated financial statements … contd.

(Rs. in millions)

			18 Months Ended 30.09.2010	2008-2009
18.	**MANUFACTURING AND OTHER EXPENSES**			
	Payments to and provisions for employees			
	Salaries, wages and bonus	829.61		739.49
	Contribution to provident & other funds	58.26		58.37
	Welfare expenses	93.20		47.99
			981.07	845.85
	Operating and other expenses			
	Consumption of packing material	33.65		12.77
	Consumption of stores and spare parts	20.10		16.95
	Loose tools written off	0.60		0.55
	Power, fuel and water charges	44.53		33.77
	Repairs to buildings	7.22		4.36
	Repairs to machinery	4.17		2.05
	Other repairs	17.17		19.06
	Rent	39.37		48.44
	Rates and taxes	19.16		138.18
	Insurance charges	11.99		10.19
	Auditors remuneration			
	Audit fees	5.05		5.58
	In other capacity	1.63		2.19
	Out of pocket expenses	0.22		0.53
	Legal and professional charges	100.11		63.95
	Communication expenses	16.87		16.38
	Travelling, conveyance and vehicle expenses	122.86		117.95
	Labour and service charges to sub-contractors	454.81		280.19
	Directors fees	0.83		0.57
	Charity & Donation	88.28		0.05
	Foreign exchange fluctuation	(215.23)		638.37
	Commission to PC Operators	-		67.97
	Provision for Inventories	122.84		(27.49)
	Increase/(decrease) in excise duty of finished goods	-		(0.12)
	Other expenses	136.85		61.77
			1,033.08	1,514.21
	Liquidated Damages		**22.07**	474.13
	Selling and distribution expenses		**121.23**	74.72
	Customer acquisition cost		**3.67**	116.92
	Technical know-how fee written off		**-**	4.36
	Deferred revenue expenses written off		**-**	4.45
			2,161.12	3,034.64
19	**FINANCE CHARGES**			
	Interest and upfront fee on debentures and fixed loans		**(237.15)**	952.06
	Interest on other loans		**946.98**	963.55
	Discounting & bank charges		**32.03**	42.09
			741.86	1,957.70

20. NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS

A(I). Principles of Consolidation

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

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

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

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

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

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

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

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

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

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

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

A(II). Significant Accounting Policies

1. Method of Accounting

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

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

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

2. Fixed Assets

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

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

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

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

3. Leases

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

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

4. Depreciation, Amortization and Impairment

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

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

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

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

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

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

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

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

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

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

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

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

5. Licence Fees

(i) Licence Entry Fee

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

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

(ii) Revenue Sharing Fee

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

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

6. Interconnection Usage Revenue and Charges

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

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

7. Investments

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

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

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

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

8. Inventories

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

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

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

9. Revenue Recognition

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

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

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

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

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

10. Provisioning/Write-off of Doubtful Debts

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

11. Foreign Currency Transactions

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

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

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

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

12. Borrowing Costs

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

13. Excises and Customs Duty

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

14. CENVAT Credit

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

15. Retirement Benefits

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

Short Term Employee Benefits

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

Long Term Employee Benefits

a) Defined Contribution plan

(i) Provident Fund and employees’ state insurance schemes

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

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

(ii) Gratuity

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

b) Other long term benefit

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

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

16. Miscellaneous Expenditure

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

In one of the subsidiary preliminary expenditure are written off in the year of the commencement of commercial operations.

Voluntary Retirement Scheme expenses are amortized over a period of three years.

17. Research & Development Expenditure

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

18. Income Tax

Tax expense comprises 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 recognized only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realized.

19. Segment Reporting

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

20. Earnings Per Share

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

21. Contingent Liabilities

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

B. OTHER NOTES

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

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

Name of the Subsidiary Company	Percentage of Holding
HFCL Infotel Limited ("HITL")	Ceased to be subsidiary on March 31, 2010
Infotel Tower Infrastructure Private Ltd.("ITIPL")	99.80% by HITL Ceased to be subsidiary on March 31, 2010
HTL Limited ("HTL")	74%
Moneta Finance (P) Ltd.	100%

(b) **Information of Associate Companies:**

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

(i)

Name of the Associate Company	Proportion of Ownership
HFCL Satellite Communications Ltd.	30.00%
Microwave Communications Ltd.	32.50%
HFCL Kongsung Telecom Ltd.	21.13%
HFCL Dacom Infocheck Ltd.	29.99%
Westel Wireless Ltd.	28.94%
Polixel Security Systems Pvt. Ltd.	47.95%

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

Exicom Tele-systems Ltd. (Formerly known as Himachal Exicom Communications Ltd.)

HFCL Bezeq Telecom Ltd.

WPPL Ltd

2 The Company has filed an application under section 210 (4) of the Companies Act, 1956 with the Registrar of Companies , Punjab, Himachal Pradesh and Chandigarh (ROC) seeking permission to extend the financial year of the Company for a period of eighteen months commencing from 1st April, 2009 to 30th September, 2010. The ROC vide its order dated 4th May, 2010 has granted the permission to the Company to prepare the annual accounts for eighteen months up to 30th September, 2010.

3 (a) The Board of Directors of the Company in compliances with the terms of (i)letter dated 13th August, 2009 issued by CDR Cell of IDBI, (ii)Settlement Co-operation Agreement dated 12th September, 2009, (iii) SEBI order dated 3rd March, 2010 and IDBI's letter dated 30th March, 2010 at its meeting held on 30th March, 2010 has sold 32,67,05,000 equity shares and 65,00,000 Cumulative Redeemable Preference shares of HFCL Infotel Limited held by the Company and accordingly HFCL Infotel Limited has ceased to be a subsidiary of the Company w.e.f. 31st March, 2010. The loss on sale of the said investment in subsidiary of Rs. 3,916.05 million has been shown as extra ordinary item in the Profit & Loss Account.

(b) The effect of disposal of stake in HFCL Infotel Ltd. (including its subsidiary Infotel Tower Infrastructure (P) Ltd.) on the consolidated financial statements is as under:

	(Rs. in millions)
Loss of subsidiary companies in the consolidated Profit & Loss account for the period	**212.12** (Previous year Rs. 2,122.83)
Net carrying amount of subsidiaries on 31st March, 2010	(9,811.74)
Effect of the disposal of investments in subsidiaries	5,895.69

4 (a) The Hon'ble High Court of Himachal Pradesh at Shimla has sanctioned the Composite Scheme of Arrangement and Amalgamation (" the Scheme") between Sunvision Engineering Company Private Limited ("SECPL", Transferor Company), its Shareholders and Optionally Convertible Debenture holder ("OCD holder") and Himachal Futuristic Communications Limited ("HFCL", Company, Transferee Company) and its Shareholders vide its order passed on 5th January, 2011 u/s 391 to 394 of the Companies Act, 1956.The aforesaid Order has been filed with the Registrar of Companies, Punjab, Himachal Pradesh and Chandigarh (ROC) in the prescribed form no. 21 both by HFCL and SECPL, and ROC has issued a certificate confirming the registration of the aforesaid Court Order on 14th January, 2011 i.e. "effective date". With the registration of the aforesaid Court Order on 14th January, 2011 (effective date), SECPL stands amalgamated with HFCL w.e.f. 1st January, 2010 (Appointed date).

(b) The objects for which SECPL had been established were to carry on the business of manufacturing, assembling, trading, repairing, installation and commissioning of various types of engineering equipments, engineering goods, infrastructural works, civil mechanical, electrical projects etc. The Company forayed in the business of electronic surveillance, electronic security and monitoring systems, etc. and made a strategic investment of 47.95% in Polixel Security Systems Private Limited (Polixel).

(c) Consequent upon the said scheme becoming effective, the Company's issued, subscribed and paid up equity share capital stands reduced from Rs.4,627.94 million divided into 46,27,93,697 equity shares of Rs. 10/- each to Rs. 4,627.94 million divided into 46,27,93,697 equity shares of Re. 1/- each by reduction in face value and paid up value from Rs. 10/- per share to Re. 1/- per share. Accordingly, an amount of Rs.4,165.15 million being the equity capital so reduced has been credited to the Business Reconstruction Accounts. The ROC has also issued a necessary certificate under Section 103(4) of the Companies Act, 1956 on 14th January, 2011 confirming the reduction in equity share capital of the Company.

(d) With effect from the Appointed date SECPL (Transferor Company) has been amalgamated with the Company, as a going concern, with all its assets, liabilities, properties, rights, benefits and interest therein subject to existing charges thereon in favour of banks and financial institutions. All the employees of the Transferor Company, who are in service on the effective date, shall become the employees of the Company on that date, without any break or interruption in service.

(e) In consideration for the amalgamation, 470,000,000 equity shares of face value of Re.1/- each, credited as fully paid-up, in the ratio of 47(forty seven) equity shares of the face value of Re.1/- each in the Company for every 1 (one) equity share of face value of Rs.10/- each held in SECPL have been allotted on 10th February, 2011 to the share holders of SECPL whose names appeared in the Register of Members, as on 9th February, 2011, being the record date. Further, upon the scheme becoming effective, 59,601,640 equity shares of Re. 1/- each credited as fully paid-up have been allotted to the Optionally Convertible Debenture Holders of erstwhile SECPL.

(f) The amalgamation has been accounted for under ' the Purchase method' prescribed by Accounting standard AS-14 "Accounting for Amalgamations" issued by the Institute of Chartered Accountants of India. Accordingly, the assets and liability of SECPL have been recorded at fair value on the appointed date.

(g) In terms of the Scheme, the Company has recorded all the assets and liabilities appearing in the books of account of SECPL and transferred to and vested in the Company at their fair values as on 1st January, 2010. For this purpose the fair value of Assets including Investments is as per the report of the independent valuers, fairness opinion on the said valuation report and based on the management's assessment of its recoverability. The difference of Rs.33.68 million between the fair value of net assets of SECPL transferred to the Company, and the fair value of equity shares allotted by the Company (the consideration) has been debited to 'Goodwill'. The same has been written off in Profit and Loss Statement.

(h) Excess of Consideration over the paid-up value of equity shares issued and allotted (as referred to under 4(e) above) amounting to Rs.4,770.50 million has been credited to Securities Premium Account as prescribed in the Scheme. Further, difference between fair value and paid up value of equity shares issued and allotted to OCD holders of erstwhile SECPL (as referred to under 4(e) above) amounting to Rs.640.40 million has been credited to Securities Premium Account as prescribed in the Scheme.

(i) The Company is in the process of getting the investment and other assets of SECPL transferred in its own name by the operation of law.

(j) Authorised Share Capital of the Transferee Company is total of the authorised share capital of both the Companies.

(k) Upon the Scheme becoming effective, a "Business Reconstruction Account" has been opened, and the books of account of Company have been reconstructed in the following manner:

Rs. in millions

Particular	Debit	Credit
Reduction of Equity share Capital		4,165.15
Securities Premium Account		9,863.40
Capital Reserve		291.77
Capital Redemption Reserve		140.00
Debenture redemption Reserve		250.00
Amalgamation Reserve		96.98
Securities Premium Account on Account of issue of Equity shares to the equity share holders of SECPL		4,770.50
Securities Premium Account on Account of issue of Equity shares to the OCD holders of SECPL		640.40
Profit & Loss Account (as on 30.09.2010)	20,024.97	
Balance retained in Security Premium Account*	193.23	
	20,218.20	20,218.20

*After giving the above effect, there is no balance left in the Business Reconstruction Account.

5 529,601,640 equity share of Re. 1/- each referred to note no. B-4(e) above have been allotted after the balance sheet date i.e. on 10th February, 2011 for a consideration other than cash pursuant to the scheme to the shareholders and the OCD holders of erstwhile SECPL and have been booked in 'Equity Share Suspense Account' as on 30.09.2010.

6 Pursuant to the scheme approved by the Hon'ble high court of Himachal Pradesh vide its order dated 05 January, 2011 under section 391 to 394 of the Companies Act, 1956, (the Act), SECPL has amalgamated with Company w.e.f. 1st January, 2010. Before amalgamation SECPL was having certain investment and loans. However being a private limited company it was exempt from the provisions of section 372A of the Act. On amalgamation, the financial statements of SECPL and Company have been combined as a result of which the Company has exceeded the prescribed limit u/s 372A(1) of the Act and it has to carry on certain investment in the form of debentures at a rate of interest lower than the rate prescribed u/s 372A(3) of the Act. The above situation has arisen only on account of amalgamation as per the scheme approved by the Hon'ble High Court. The Company has been legally advised that in above situation it would not be deemed to have violated the provisions of section 372A(1) and (3) of the Act.

7 Contingent Liabilities not provided for in respect of:

(Rs. in millions)

	As at 30.09.2010	As at 31.03.2009
(a) Unexpired Letters of Credit	**24.35**	38.79
(b) Guarantees given by banks on behalf of the company	**496.59**	835.29
(c) Counter Guarantees given by the Company to the financial institutions/banks for providing guarantees on behalf of companies promoted by the Company*	**1,915.67**	7,225.67

(*)This excludes Company's counter guarantees of Rs.567 million in respect of guarantees provided by the banks and institutions on behalf of HFCL Bezeq Telecom Ltd. for bid bonds to Department of Telecommunications (DoT) towards tender for operation of basic telephone services as the guarantees have already expired and the Hon'ble Delhi High Court vide its order dated 19.09.97 granted permanent injunction restraining the DoT from invoking the said guarantees. The appeal filed by DoT against this also stands dismissed. The DoT has wfiled application for restoration of appeal before the Double Bench of the Hon'ble High Court of Delhi which has been allowed and matter is now pending for decision.

(d) Arrears of Dividend on Cumulative redeemable preference shares (net of advances)	**674.74**	596.18
(e) Claims against the Company towards sales tax , income tax, excise duty demand and others in dispute not acknowledged as debt	**194.53**	1,069.91

8. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs.17.83 million (Previous year Rs. 41.98 million).

9. Directors remuneration including Managing Director*:
(Excluding provision for gratuity)

(i) Salaries	**4.97**	10.21
(ii) Contribution to provident fund	**0.46**	1.13
(iii) Perquisites and allowances	**1.91**	8.62
Total	**7.34**	19.96

*As the Company has no profits in the current as well as preceding two years, the appointment of and remuneration to the managerial personnel's required approval of Central Government. The Company has made payment during the period ended 30.09.2010 amounting to Rs 12.14 million and cumulative Rs 46.92 million (Previous year Rs.34.78 million). The Company has received approval from the Central Government for the re-appointment and payment of remuneration to whole time directors for the financial year 2007- 08, 2008-09 and part of 2009-10 for Rs 27.46 million. The Company is in the process of making representation to the Central Government for the balance amount. Since the approval received is of lesser amount than the actual paid for the aforesaid period, the excess amount paid of Rs.19.45 million continues to shown as recoverable. The Company has also filed the necessary application with the Central Government for the re-appointment and payment of remuneration to whole time directors for the Financial Year 2009-10 and onwards which is under their consideration.

10. (a) The Company had approached its lenders viz. Banks and Financial Institutions for financial restructuring and a financial restructuring package, has been approved under the Corporate Debt Restructuring (CDR) mechanism by the CDR Empowered Group of lenders vide letter dated 6th April,

2004. Subsequently the CDR Empowered Group in its meeting held on 8th June, 2005 has approved modifications to the aforesaid CDR package with the cut off date as 1st April, 2005 and communicated to the company vide their letter No. BY CDR(ALB)/No 404 dated 24.06.2005.The modification in the CDR package include, interalia, reduction of interest rate on loans with effect from new cut off date, re-schedulement of repayment of loans and Cumulative Redeemable Preference Shares (CRPS) and conversion of certain loan amounts into Zero Coupon Premium Bonds (ZCPBs) . The said CDR package also stipulates conditions to be complied with by the Company and arrangement of additional infusion of working capital from existing or new lenders.

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

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

ii) The Cumulative Redeemable Preference Shares (CRPS) aggregating to Rs. 805 million shall be redeemed at the rate of 25% and 75% of the face value in the financial years ending 31st March 2018 and 31st March, 2019, respectively and will carry the coupon rate of 9% from old cut off date till new cut off date and 6.50% from new cut off date.(Also refer Note no.10(d) below).

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

iv) Secured and unsecured working capital loans from banks amounting to Rs. 315 million and Rs. 76.41 million respectively have been converted into working capital term loans to be repaid in 48 monthly installments, on ballooning basis, from 30th April, 2011 and ending 31st March, 2015 to ensure yield of 8.5% p.a. on simple interest basis.

v) The outstanding principal amount of secured and unsecured term loans (after conversion into OFCDs and ZCPBs) amounting to Rs.1,316.82 million (Previous year Rs.1,756.82 million) and Rs.33.50 million (Previous year Rs.131.59 million) respectively from financial institutions and banks have been rescheduled so as to be repaid on ballooning basis in monthly installments commencing from 30th April, 2007 till 31st March 2013. The installments fallen due/repayable during the period eighteen month amounted to Rs.107.78 million (Previous year Rs.89.20 million) and Rs.3.35 million (Previous year Rs.6.71 million). Accordingly overdue installments amounting to Rs.349.96 million and Rs.11.73 million have not been paid for Secured and unsecured loans, respectively.

vi) Funded Interest Term Loan (FITL) amounting to Rs.889.68 million (Previous year Rs.889.68 million) is repayable in twenty four monthly installments commencing from 30th April, 2017 till 31st March, 2019 and shall not carry any interest.

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

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

(c) Due to continued cash losses and very tight liquidity conditions, the company could not meet its interest and repayment obligations towards its lenders under CDR package its over due amount towards such lenders as on 30th September, 2010 is Rs.841.10 million (Previous year Rs.556.91 million) including interest Rs.479.42 million (Previous year Rs.394.88 million). However the company is in continuous discussions with lenders in respect of such default / possibility of further restructuring /modification in the CDR package in view of this, the company does not expect withdrawal of any relief. Further, the company has submitted fresh restructuring proposal to the lenders which is under consideration.

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

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

(e) The company is in process of reconciliation of balances with the lenders i.e. financial institutions and banks. Adjustments, if any, on account of interest/ principal will be made when the same are confirmed by them. The Company has submitted fresh restructuring proposal which has already been recommended by the lenders to the empowered group of CDR Cell.

(f) The Company has settled the dues of The Jammu & Kashmir Bank Ltd. and HDFC Bank Ltd. (Formerly Centurion Bank of Punjab Ltd.) on One Time Settlement (OTS) basis and the gain arising out of OTS amounting to Rs.210.67 million and Rs.391.18 million respectively has been accounted for under the head other income as remission of liability & interest thereon. Further, Rs.86.85 million being the provision for premium on Zero Coupon Premium Bond issued to the The Jammu & Kashmir Bank Ltd. which was earlier adjusted from security premium account in earlier year has been now reversed.

(g) The Company has its dues with Assets Reconstruction Company (India) Ltd (ARCIL) on One time settlement (OTS) basis and most of the commitments as per the OTS have been fulfilled. In view of this, provision of interest on loan from ARCIL has not been made for the period from 1st July, 2010 to 30th September, 2010. The effect of the settlement will be given in the accounts after completion of all obligations.

11. The Board of Directors of the Company at their meeting held on 26th March, 2010 has allotted 20,000,000 equity shares of Rs. 10/- each at par to Asset Reconstruction Company (India) Limited on account of conversion of part of their loan into equity shares in terms of Loan Agreement dated 5th March, 2001 and letter dated 8th February, 2010 from ARCIL.

12. In terms of the modified CDR package, Company has to pay interest on term loans on ballooning basis over the period 2006 to 2013 at the ballooning rates of interest from 2% to 15.5% p.a. The Company accounts for interest at the rate it is required to pay during the respective year in terms of the aforesaid package on monthly rests for this year, in place of @ 8.50% p.a. i.e. on YTM basis. Had the interest been provided for on YTM basis, the loss for the year would have been lower by Rs.172.60 million and the accumulated debit balance in the Profit and Loss Account would have been higher by Rs.46.35 million.

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

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

14. The Company had made a payment of Rs.113.38 million to certain cumulative preference shareholders as per contractual obligations in the earlier years. The said amounts paid have been treated as "advances" to be adjusted against future expected liability of dividend on cumulative preference shares.

15. During the period the Company has paid Guarantee contract/obligation amounting to Rs. 69.92 million. It includes Rs. 23.12 million on account of compensation to its customers/ invocation of performance bank guarantees due to non fulfillment of contractual obligations in terms of work orders and Rs.46.80 million towards obligation payments (as Corporate guarantor) to the lenders of promoted companies against their over dues.

16. Sundry debtors include debts outstanding for more than two years amounting to Rs 1,922.92 million. The Company is in continuous process of working out different modalities of recovery for its remaining long outstanding debts. Pending outcome of such exercise, an amount of Rs.677.19 million (net of provision) has been written off during the period, which is in opinion of the management is adequate.

17. During the year, Company has recognised the following amounts in the financial statements as per Accounting Standard 15 (Revised) "Employees Benefits" issued by the ICAI :

(Rs. in millions)

	18 Months ended 30.09.2010	2008-2009
Employer's Contribution to Provident Fund	**19.51**	15.71
Employer's Contribution to Pension Scheme	**7.91**	6.31

b) Defined Benefit Plan

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

(Rs. in millions)

	Gratuity (Fund)/non fund		**Leave Encashment**	
	2009-2010	**2008-2009**	**2009-2010**	**2008-2009**
Motility Table (HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy)				
Discount rate (per annum)	**8.00%**	8.00%	**7.00%**	7.00%
Rate of increase in Compensation levels	**8.00%**	8.00%	**8.00%**	8.00%
Rate of Return on plan assets	**8.00%**	8.00%	**NA**	NA
Average remaining working lives of employees (Years)			**18.70**	20.24
Table showing changes in present value of obligations:				
Present value of obligation as at the beginning of the year	**114.39**	105.41	**17.29**	16.85

	Gratuity (Fund)/non fund		Leave Encashment	
	2009-2010	**2008-2009**	**2009-2010**	**2008-2009**
Acquisition adjustment	**Nil**	Nil	**Nil**	Nil
Interest Cost	**9.81**	8.13	**2.08**	1.18
Past service cost (Vested Benefit)	**31.21**	Nil	**Nil**	Nil
Current Service Cost	**12.13**	6.23	**2.49**	2.20
Curtailment cost / (Credit)	**Nil**	Nil	**Nil**	Nil
Settlement cost /(Credit)	**Nil**	Nil	**Nil**	Nil
Benefits paid	**(19.20)**	(13.90)	**(4.80)**	(4.34)
Actuarial (gain)/ loss on obligations	**(27.73)**	8.52	**(2.20)**	1.40
Present value of obligation as at the end of the period	**120.6,1**	14.39	**14.86**	17.29
Table showing changes in the fair value of plan assets:				
Fair value of plan assets at beginning of the year	**7.36**	7.37	**Nil**	Nil
Acquisition adjustments	**Nil**	Nil	**Nil**	Nil
Actual return of plan assets	**0.83**	0.59	**N.A.**	N.A.
Employer contribution	**18.95**	13.95	**Nil**	Nil
Benefits paid	**(19.20)**	(13.90)	**Nil**	Nil
Actuarial gain/ (loss) on obligations	**1.34**	(0.65)	**Nil**	Nil
Fair value of plan assets at year end	**9.28**	7.36	**Nil**	Nil
Table showing actuarial gain /loss - plan assets:				
Actual return of plan assets	**2.17**	(0.06)	**Nil**	Nil
Expected return on plan assets	**0.83**	0.59	**Nil**	Nil
Excess of actual over estimated return on plan assets actuarial (gain)/ loss-plan assets	**1.34**	(0.65)	**Nil**	Nil
Actuarial Gain / loss recognised				
Actuarial (gain) / loss for the period - Obligation	**(27.76)**	8.52	**(2.20)**	1.40
Actuarial (gain) / loss for the period - Plan assets	**(1.34)**	0.67	**Nil**	Nil
Total (gain) / loss for the period	**(29.06)**	9.18	**(2.20)**	1.40
Actuarial (gain) / loss recognized in the period	**(29.06)**	4.84	**(2.20)**	1.40

	Gratuity (Fund)/non fund		Leave Encashment	
	2009-2010	**2008-2009**	**2009-2010**	**2008-2009**
Unrecognised actuarial (gains) / losses at the end of the period	**Nil**	Nil	**Nil**	Nil
The amounts to be recognized in Balance Sheet and statement of Profit and Loss:				
Present value of obligation as at the end of the period	**54.10**	114.39	**14.86**	17.29
Fair value of plan assets as at the end of the period	**9.28**	7.36	**Nil**	Nil
Funded Status	**(24.81)**	(29.38)	**(14.86)**	(17.29)
Unrecognised actuarial (gains) / losses	**Nil**	Nil	**Nil**	Nil
Net asset / (liability) recognised in Balance Sheet	**61.70**	48.25	**(14.86)**	(17.29)
Expenses recognised in statement of Profit and Loss:				
Current service cost	**12.13**	6.23	**2.49**	2.20
Past service cost (Vested Benefit)	**31.21**	Nil	**Nil**	Nil
Interest Cost	**9.81**	8.13	**2.07**	1.18
Expected return on plan assets	**(0.83)**	(0.59)	**Nil**	Nil
Curtailment and settlement cost / (credit)	**Nil**	Nil	**Nil**	Nil
Net Actuarial (gain)/ loss recognised in the period	**(29.06)**	9.18	**(2.20)**	1.40
Expenses recognised in the statement of Profit and Loss	**23.26**	22.94	**2.37**	4.78
Investment Details				
HDFC Standard Life Insurance Company Limited (Cash accumulation) Policy	**Nil**	6.36	**Nil**	Nil

Note-1: The estimates of rate of escalation in salary considered in actuarial valuation, take into account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market. The above information is certified by the actuary.

18. To comply with the Accounting Standard (AS-28) on “Impairment of Assets” the management has appointed an outside agency for conducting an exercise of identifying the assets that may have been impaired, if any. Since the exercise still in process, the effect of diminution in value of assets due to impairment if any shall be given in the accounts upon such determination.

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

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

HTL LIMITED

i) The Subsidiary has incurred loss of Rs. 74.19 million (Previous year Rs.1,042.70 million) during the current period and has accumulated losses of Rs. 4,632.85 million (Previous year: Rs 3,888.92 million) as at 30th September, 2010, resulting in negative net worth of Rs. 4,480.85 million (Previous year Rs. 3,738.92 million). The Subsidiary's current liabilities exceed its current assets by Rs. 2,023.78 million as of that date. Further, the Subsidiary has overdrawn borrowings from banks by Rs. 594.32 million (Previous year Rs 492.61 million) and also has overdue loans from Government of India amounting to Rs. 62.42 million (Previous year: Rs 60.42 million) together with interest accrued and due thereon of Rs. 188.97 million (Previous year: Rs 166.44 million). The turnover during the current period is Rs 154.93 million (Previous Year: Rs 380.12 million). Due to lack of orders for existing products from BSNL during the year and the shortfall in working capital required to diversify into new telecom products, the operations of the Subsidiary have been substantially curtailed. The Subsidiary has already made reference to Board for Industrial and Financial Reconstruction under Section 15 (1) of the Sick Industrial Companies (Special Provisions) Act, 1985, and has since, been declared as a Sick Industrial Company vide order 261/2003 dated June 16, 2009. During the year State Bank of India, has, on behalf of the consortium banks, issued a notice to the Subsidiary u/s 13(2) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 requiring the Subsidiary to discharge its full dues within 60 days from the date of the notice i.e. April 18, 2009. The Subsidiary is in the process of discussions with the bankers on the matter.

The Subsidiary's ability to continue as a going concern in spite of the present losses is dependent upon infusion of funds for its operations. In the earlier years, the Subsidiary decided to sell the free hold land of 11.02 acres ('the land') situated in the Developed plot in Thiru Vi Ka Industrial Estate, Guindy Chennai and held an e – auction at a consideration of Rs 271 million per acre after obtaining the permission of the Ministry of Communications and Information Technology. However based on the request of Small Industrial Development Corporation ('SIDCO'), the Government of Tamil Nadu decided to take back the land and to pay market value prevailing on the date of the relinquishing of the land. SIDCO informed that the Subsidiary did not obtain the permission from the Department of Industries & Commerce as per the condition laid down in the Assignment Deed before the auction. During the current year, the Subsidiary has obtained a favorable order against the actions taken by SIDCO/Government of Tamilnadu. The Writ Appeal filed by the Government of Tamil Nadu against this has also been dismissed by the High Court of Madras.

Management plans to complete all the formalities and expects to sell its land of 11.02 acres, the proceeds of which will be available to settle its outstanding liabilities. The Subsidiary is also expecting further orders for Telecom Towers and Integrated Fixed Wireless Terminals. In expectation of the successful outcome of the above proposals, the financial statements have been prepared on a going concern basis.

ii) Secured loans from banks and interest accrued and due include Rs. 662.79 million on account of dues to IndusInd Bank and Axis Bank as the Banks have assigned the loans to Pegasus Assets Reconstruction Private Limited (an Asset Management Company).

iii) a. Working Capital Demand Loans and Cash Credit facilities from Banks shown in Schedule 3 are secured by pari-passu first charge on the inventories, receivables, moveable fixed assets of the Subsidiary and equitable mortgage of the Subsidiary's immovable properties viz. land measuring 11.021 acres situated at Thiru Vi Ka Industrial Estate, Guindy Chennai and another land measuring 2.56 acres at Lucky Bungalow Premises in Guindy Industrial Estate, Chennai together with buildings and erections thereon.

b. Loan of Rs.62.42 million (Previous year Rs. 62.42 million) together with interest accrued and due thereon of Rs.181.46 million (Previous year Rs. 166.44 million) is due to Government of India (GOI). As at March 31, 2010, total loan of Rs.62.42 million (Previous year Rs 62.42 million) is overdue for payment. In addition to this, the Govt. of India has acceded to adjust Rs.34.70 million compensation receivable by HTL in case of ETP claim against the outstanding interest portion in respect of GOI Loan.[Refer Note.(vii) below].

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

b) The Subsidiary has 15.09 acres of land at Hosur District, Tamil Nadu, which was acquired by the Subsidiary from State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) under lease cum sale transaction in 1983. The Estate Officer SIPCOT has issued order under Section 4 of the Tamil Nadu Public Premises Eviction Act, 1975 to surrender unused land aggregating to 11.05 acres out of above in the previous year. The subsidiary has filed a writ in the Honourable Madras High Court against this order and has secured an interim stay. The matter is progress and the said stay has been extended.

v) (a) As at 1.04.2009, aggregate sales amounting to Rs. 1,656.22 million, inclusive of excise duty and sales tax (as certified by the management) was pending fixation of final price from Bharat Sanchar Nigam Limited (BSNL) (formerly Department of Telecom Services) and had been accounted for on provisional price basis in earlier years. Out of the above, provisional sales of Rs 168.11 million was firmed up during the year and the balance are still pending for firm price fixation. The impact of the firm price orders, which can be higher or lower than the provisional price, will be reflected in the books as and when such firm price is fixed by BSNL.

(b) From May 11, 2002, against the sales made to BSNL and MTNL, central sales tax at the concessional rate of 4% has been charged against C Forms to be received from them. During the year Subsidiary has performed reconciliation of C forms received and the sales made till the year ended March 31, 2007 and provided for Rs.98.70 million against the tax liability for the cases where C forms has not been collected till date.

vi) (a) Sundry Debtors include Rs.134.18 million (Previous year Rs.134.18 million) debited to BSNL in an earlier year pertaining to differential sales tax over and above 4 % in respect of purchase orders where scheduled delivery fell after 30.09.2000 and where actual delivery was executed subsequent to 30.09.2000 and upto 31.03.2001. Upto the close of the year, only Rs.3.24 million (Previous year Rs. 3.24 million) have been received out of the total debit notes of Rs.9.54 million (Previous year Rs. 9.54 million) raised on BSNL so far against the above recoverable amount. However, no provision is considered necessary against the outstanding balance as the management is fully hopeful of recovery of the entire amount.

(b) (i) During an earlier year, the Subsidiary had raised debit notes amounting to Rs.75.43 million on MTNL towards differential sales tax over and above 4% payable against ‘C’ Form on supplies made during the period 1993-94 to 1997-98. Upto the close of the current year, the Subsidiary has received ‘C’ forms from MTNL for Rs.73.92 million (Previous year Rs. 73.92 million). However, no adjustment for the sales tax forms received has been made in books. The Subsidiary has submitted the ‘C’ forms and the matter is pending for verification of the forms by the sales tax authorities.

(ii) Interest liability on the delay in payment of differential sales tax as above, has not been provided for in the books in terms of circular no. Acts Cell-IV/45217/2000/04.11.2000 issued by Commissioner of Commercial Taxes, where it is clarified that "Where ever no penal interest was levied for the belated payment of tax and penalty under the Central Sales Tax Act, 1956 upto 11.05.2000, no penal interest need to be levied now. The assessing officer can resort to levy of penal interest for the payments made on or after 12.05.2000, the date of publication of Gazette of India". In view of above clarification, the management considers that interest liability, if any, after 11.05.2000 is contingent in nature and the same has been disclosed in Note No. 7 above.

vii). Claims receivable includes Rs.34.70 million receivable from BSNL against the compensation approved by Telecom Commission letter No. U-37012/3/97-FAC dated 1st May, 2001 for preclosure of ETP project. Department of Telecommunications (DoT) vide letter No.U-37012-3/97-FAC dated 02.12.2003 conveyed the decision of the competent authorities to adjust the above said amount against the interest portion of the outstanding Government of India Loan. In reply, the Subsidiary requested DoT vide letter no.43.12 ETP dated 08.12.2003 to adjust the compensation amount of Rs.34.70 million against the principal amount of loan outstanding as on 01.05.2001, the date on which the compensation was approved. The Govt. of India has rejected this request and reiterated the adjustment of Rs. 34.70 million compensation receivable by HTL in case of ETP claim against the interest portion of the outstanding in respect of GOI Loan while making payment of outstanding Govt. of India Loan with accrued interest thereon.

viii). During the previous year with effect from February 1, 2009, Dr. R.M. Kastia has been appointed as a whole time director in the Board Meeting held on March 31, 2009. The remuneration payable to the Whole Time Director was fixed in the Board Meeting held on March 30, 2010. As the Subsidiary has no profits to pay remuneration to the Whole Time Director, the appointment and remuneration payable to the Whole Time Director requires the approval of the Central Government as per Section 269 of the Companies Act. Pending approval from the Central Government, the remuneration of Rs.4.58 million accounted as payable to the Whole Time Director and also, instead of being charged to Profit & Loss Account, treated as deferred and recoverable as the approval of the Central Government is not received.

21. In case of subsidiary HTL Limited, depreciation on Fixed Assets is charged on Straight Line Method, based on the useful lives of the assets as estimated by the management. Depreciation is charged for the full year in respect of additions during the year, which is not in line with the accounting policy of the Company. The gross value of such assets is Rs.528.49 million (Previous year Rs. 528.46 million) and depreciation charged for the year is Rs.6.73 million (Previous year Rs.8.82 million).

22. In case of subsidiary, HTL Limited, inventory of raw materials, components and stores & spares amounting to Rs.7.94 million (Previous year 6.14 million) are valued at cost which is arrived at on quarterly moving weighted average basis, which is not in line with the accounting policy of the company i.e. FIFO basis.

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

		(Rs. in millions)
HTL Ltd.	Goodwill	741.73
Moneta Finance (P) Ltd.	Goodwill	0.48
Total		742.21

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

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

(Rs. in millions)

Particular	**18 Months ended 30.09.2010**	**2008-2009**
Contract revenue recognized as revenue in the year / period	**917.07**	276.22
Aggregate amount of costs incurred and profit up to the	–	120.88
Reporting date on the contract under progress	–	–
Advance received on contract under progress	–	26.85
Retention amounts on contract under progress	–	NIL
Gross amount due from customers for the contract work as on assets	–	158.96
Gross amount due to the customers for contract work as a liability	–	62.27

26. Lease payments under cancellable operating leases have been recognised as an expense in the profit & loss account. Maximum obligation on lease amount

Not later than one year	**5.64**	4.67
Later than one year but not later than five years	**1.74**	2.24

27. Segment Reporting

(a) Primary segment information

The Company and its subsidiaries operations primarily relates to manufacturing of telecom products, providing turnkey solutions relating thereto and providing basic telephony & ISP services. Accordingly segments have been identified in line with Accounting Standard on Segment Reporting (AS) - 17 Telecom products, Turnkey contracts & services and Basic telephony & ISP are the primary business segments whereas Others constituting less than 10% of the segment revenue/results/assets have been considered as other business segments and are disclosed in the financial statements accordingly. The details of business segments for the year-ended 30.09.2010 are as follows:

(Rs. in millions)

	2009-2010		**2008-2009**	
	Inter	**Total**	**Inter**	**Total**
Particulars	**Segment**		**Segment**	
Segment Revenue				
a. Telecom Products	**90.31**	**2,036.50**	82.38	1,307.99
b. Turnkey Contracts and Services		**1,229.60**		462.61
c. Basic Telephony and ISP		**1,973.92**		2,235.71
d. Others		**-**		-
Total	**90.31**	**5,240.02**	82.38	4,006.30
Less:Inter segment revenue		**90.31**		82.38
Turnover/Income from Operations		**5,149.71**		3,923.93
Segment Results				
a. Telecom Products		**(500.09)**		(2,780.13)

	2009-2010		2008-2009	
	Inter	Total	Inter	Total
Particulars	**Segment**		**Segment**	
b. Turnkey Contracts and Services		**(118.75)**		(130.30)
c. Basic Telephony and ISP		**(916.88)**		(1,270.82)
d. Others		**(0.24)**		0.47
Total		**(1,298.46)**		(4,180.79)
Less: i. Interest and Finance charges		**741.86**		1,957.70
ii. Other un-allocable expenditure net off un-allocable income		**113.62**		67.70
Profit/(loss) before Tax		**(2,153.94)**		(6,206.19)
Capital Employed				
a. Telecom Products		**(3,547.23)**		(3,050.63)
b. Turnkey Contracts and Services		**658.92**		587.70
c. Basic Telephony and ISP		**–**		(4,353.45)
d. Others		**3.16**		3.40
Total capital employed in segments		**(2,885.15)**		(6,812.98)
Add: Un-allocable corporate assets less liabilities		**730.29**		(3,891.10)
Total capital employed in Company		**(2,154.86)**		(10,704.09)

(b) Secondary segment information

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

28. Deferred Tax

The break up of net deferred tax liability as on 30th September 2010 is as under:

(Rs. in millions)

	2009-2010		2008-2009	
	Deferred tax liability	**Deferred tax assets**	**Deferred tax liability**	**Deferred tax assets**
Depreciation	**389.99**		464.57	
Others	**–**	**4.98**	–	4.21
Unabsorbed Losses (to the extent of liability only)*	**–**	**385.01**	–	460.71
	389.99	**389.99**	464.57	464.92
Net deferred tax Assets	**–**		–	0.35

29. Related Party Disclosures

1. Name of related parties and description of relationship:

(a) Associates:	HFCL Bezeq Telecom Ltd
	HFCL Dacom Infochek Ltd (HDIL)
	HFCL Kongsung Telecom Ltd
	HFCL Satellite Communications Ltd
	Exicom Tele-systems Ltd. (Formerly known as Himachal Exicom Communications Ltd.)
	Microwave Communications Ltd.
	Westel Wireless Ltd
	WPPL Ltd
	Polixel Security Systems Pvt. Ltd.
(b) Key management personnel:	a) Mr. Mahendra Nahata
	b) Dr. R M Kastia
	c) Mr. Arvind Kharabanda
	d) Mr. D. P. Gupta

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

2. Nature of transactions: The transaction entered into with the related parties during the year along with related balances as at September 30, 2010 are as under

(Rs. in millions)

Particulars	**1 (a)**	**(Previous Year)**
Purchases		
Goods	**8.11**	(34.09)
Services	**26.73**	(127.89)
Fixed assets	**–**	(19.35)
Sales		
Goods	**17.47**	(49.13)
Services	**9.85**	(26.45)
Expenses		
Interest on loans	**–**	(0.46)
Foreign Exchange Fluctuation	**10.50**	(–)
Income		
Rent & other expenses recovered	**1.64**	(0.59)
Advance given	**10.00**	(–)
Outstanding (net)		
Payables	**29.84**	(1,096.69)
Receivables	**66.18**	(65.00)
Guarantees and collaterals	**1,374.33**	(1,459.33)

Notes: Details of remuneration to directors are disclosed under note 9

		(Rs. in millions)
	2009-2010	**2008-2009**
30. (a) Basic & Diluted Earnings per Share (EPS) before extra ordinary items		
Profit/(Loss) after tax and minority interest	**(2,154.92)**	(6,216.46)
Less: preference dividend	**78.49**	52.32
Profit/(Loss) attributable to ordinary share holders	**(2,233.40)**	(6,268.78)
Weighted average number of ordinary shares (used as denominator for calculating Basic EPS)	**683,614,865**	442,793,697
Weighted average number of ordinary shares (used as denominator for calculating Diluted EPS)	**686,007,632**	442,793,697
Nominal value of ordinary share	**Re.1/-**	Rs. 10/-
Earning per Share–Basic	**(3.27)**	(14.16)
Earning per Share–Diluted	**(3.27)**	(14.16)
(b) Basic & Diluted Earnings per Share after extra ordinary items		
Profit/(Loss) after tax and minority interest	**3,740.78**	(6,216.46)
Less: preference dividend	**78.49**	52.33
Profit/(Loss) attributable to ordinary share holders	**3,662.29**	(6,268.79)
Weighted average number of ordinary shares (used as denominator for calculating Basic EPS)	**683,614,865**	442,793,697
Weighted average number of ordinary shares (used as denominator for calculating Diluted EPS)	**686,007,632**	442,793,697
Nominal value of ordinary share	**Re.1/-**	Rs.10/-
Earning per Share–Basic	**5.36**	(14.16)
Earning per Share–Diluted	**5.34**	(14.16)

31. The figures of the current period are not comparable with those of previous year as current period is for eighteen months as against twelve months in previous year and in view of the amalgamation of SECPL w.e.f 01.01.2010. Previous year's figures have been regrouped / reclassified wherever necessary and the figures have been rounded off to the nearest rupee.

As per our report of even date attached

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

For and on behalf of the Board

M P Shukla, Chairman

Mahendra Nahata, Managing Director

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Himachal futuristic Communications Limited

Consolidated Cash Flow Statement for the period ended 30th september, 2010

(Rs. in millions)

Particulars		18 Months ended 30.09.2010	Year ended 31.03.2009
A. Cash Flow from Operating Activities :			
Net Profit before taxes		**3,728.66**	(6,198.61)
Adjustments for:			
Depreciation	**1,356.87**		1,237.88
Diminution in value of investments	**(0.06)**		699.71
Interest & finance charges	**739.05**		1,957.70
Interest income	**(48.65)**		(26.82)
Foreign exchange gain	**(16.67)**		–
Dividend income	**(20.77)**		(6.91)
Technical know how fee written off	–		4.36
Loss/(Profit) on sale of fixed assets	**13.76**		(179.23)
Loss/(Profit) on sale of Investment	**(26.87)**		(165.08)
Loss/(Profit) on sale of Investment in subsidiary	**(5,895.69)**		
Unpaid/ Unrealised exchange difference	**(141.92)**		378.59
Bad debts written off	**713.44**		66.72
Payment towards guarantee contract/obligation	**69.92**		107.41
Excess Provision/Liability Written Back	**(12.79)**		–
Provision for Inventories	**23.80**		–
Term loan and their interest remit under OTS	**(653.09)**		–
Provision for doubtful debts / advances	**17.42**		1,130.18
		(3,882.25)	5,204.50
Operating Profit before working capital changes		**(153.59)**	(994.11)
Adjustments for :			
Trade and other receivables	**(464.24)**		1,085.45
Adjustment due to amalgamation of SECPL	**(972.50)**		–
Inventories	**196.63**		251.80
Trade and other payables	**(41.42)**		–
Adjustment due to amalgamation of SECPL	**6,198.22**		(257.31)
		4,916.69	1,079.94
Cash generated from operations		**4,763.10**	85.83
Income tax for earlier years		**(16.38)**	(29.02)
Prior period adjustments		**3.81**	60.83
Net Cash used in operating activities		**4,750.53**	117.64
B. Cash flow from investing activities			
Purchase of fixed assets		**(180.79)**	(331.77)
Sale of fixed assets		**31.98**	418.03
Miscellaneous expenditure		–	4.45
Purchase of investments		**(0.11)**	(1.57)
Sale of investments		**79.70**	235.08
Disposal of investments in subsidiary		**1.00**	(12.45)
Loans and advances		**0.73**	61.70
Interest received (net)		**(93.46)**	(368.91)
Dividend received		**20.77**	6.91
Adjustment due to amalgamation of erstwhile SECPL			
Investments	**(7,419.10)**		
Fixed Assets	**(70.72)**	**(7,489.82)**	–
Net Cash used in investing activities		**(7,630.00)**	11.47
C. Cash flow from financing activities			
Proceed from issue of share capital including premium (net of issue expenses)		**700.04**	–
Proceeds from long term/short term borrowings - Secured/ Unsecured		**2,129.22**	2,094.99
Repayment of long term/short term borrowings - Secured/ Unsecured		**(3,776.24)**	(1,957.51)
Interest paid (net)		**(307.63)**	(469.84)
Repayment of Public deposit		**(190.52)**	(0.22)
Dividends paid (including dividend tax)		**(0.44)**	(0.08)
Adjustment due to amalgamation of erstwhile SECPL			
Share Capital	**470.00**		
Reserve	**4,770.50**	**5,240.50**	
Net Cash from financing activities		**3,794.93**	(332.66)
Net increase in cash & cash equivalents		**915.46**	(203.55)
Cash & cash equivalents (Opening Balance)		**488.78**	692.33
Adjustment for Disposal of investments in subsidiary		**(68.88)**	–
Cash & cash equivalents (Closing Balance)		**1,335.37**	488.78

As per our report of even date attached

For and on behalf of the Board

For Khandelwal Jain & Co.
Firm Registration No. 105049W
Chartered Accountants

M P Shukla, Chairman

Mahendra Nahata, Managing Director

(Akash Shinghal)
Partner
Membership No.103490
New Delhi, 28th February, 2011

Dr. R M Kastia, Director

Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary

New Delhi, 28th February, 2011

Statement Pursuant to exemption recevied under section 212 (8) of the Companies Act , 1956 relating to subsidiary companies

(Rs. in millions)

Particulars	Name of Subsidiary companies	
	HTL Limited	Moneta Finance Pvt Ltd.
Capital	150.00	3.00
Reserves	(4325.288)	0.17
Total Assets	1127.67	3.38
Total Liabilities	5302.96	0.21
Investment other than Investment in Subsidiary		
Turnover	142.23	–
Profit Before Taxation	(436.37)	(0.24)
Provision for Taxation/FBT (Including for earlier years)	–	–
Profit after Taxation	(436.37)	(0.24)
Proposed dividend	–	–

For and on behalf of the Board

M P Shukla, Chairman   Mahendra Nahata, Managing Director

Dr. R M Kastia, Director   Arvind Kharabanda, Director (Finance)

Manoj Baid, Company Secretary   New Delhi, 28th February, 2011

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.

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

ATTENDANCE SLIP

23rd Annual General Meeting

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

I/We hereby record my/our presence at the Annual General Meeting of the Company held on Wednesday, the 30th day of March, 2011 at 11:00 A.M. at Mushroom Centre, Chambaghat, Solan – 173213, Himachal Pradesh.

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

PROXY

HIMACHAL FUTURISTIC COMMUNICATIONS LTD.

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

I/We ____________________

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

of ____________ **or failing him** ____________

of ____________ **or failing him** ____________

of ____________ **as my / our proxy in my / our absence to attend and vote for me / us on my / our behalf at the Annual General Meeting of the Company to be held on Wednesday, the 30th day of March, 2011 at 11:00 A.M.**

Signed this ____________ **day of March, 2011**

Affix a 15 Paise Revenue Stamp

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

Signature ____________

Note:

The proxy form must be deposited at the Registered Office of the Company at 8, Electronics Complex, Chambaghat, Solan– 173213, Himachal Pradesh, not less than 48 hours before the time fixed for holding the Meeting.