

CORPORATE INFORMATION

Board of Directors

Mr. Babu Mohanlal Panchal
 Mr. Yatinder Vir Singh
 Mr. Vinay Kumar Monga
 Mr. Viney Kumar (Nominee IDBI Bank)
 Mr. Rajesh Kandwal (Nominee LIC)

Company Secretary & Manager

Mr. Kapil Bhalla

Audit Committee

Mr. Babu Mohanlal Panchal
 Mr. Viney Kumar (Nominee IDBI)
 Mr. Yatinder Vir Singh
 Mr. Vinay Kumar Monga

**Share Transfer & Investor's
Grievance Committee**

Mr. Babu Mohanlal Panchal
 Mr. Yatinder Vir Singh
 Mr. Vinay Kumar Monga

Remuneration Committee

Mr. Babu Mohanlal Panchal
 Mr. Viney Kumar (Nominee IDBI)
 Mr. Yatinder Vir Singh
 Mr. Vinay Kumar Monga

Auditors

M/s S.R.Batliboi & Associates
 Chartered Accountants

Internal Auditor

Maximus Management Advisory Services
 Private Limited

Compliance Officer

Mr.Kapil Bhalla

Banks & Financial Institutions

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

Registered office:

Autocars Compound, Adalat Road,
 Aurangabad - 431005, Maharashtra

Registrar & Share Transfer Agents

Cameo Corporate Services Ltd.
 Subramaniam Building No.1,
 Club House Road, Anna Salai,
 Chennai-600002
 Tel: 044-28460390-95 (5 lines)
 Fax: 044-28460129
 Email:cameo@cameoindia.com

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NOTICE

NOTICE is hereby given that the Sixty Third Annual General Meeting of **HFCL INFOTEL LIMITED** ("the Company") will be held as scheduled below:

Day and Date : Thursday, 30th day of September 2010
Time : 12.00 noon
Venue : Registered Office of the Company at:
Autocars Compound,
Adalat Road,
Aurangabad – 431005, Maharashtra

to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2010, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon;

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

"RESOLVED THAT pursuant to the provisions of section 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, M/s Khandelwal Jain & Co., Chartered Accountants (Firm Registration No. 105049W) be and are hereby appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company, on such remuneration as shall be fixed by the Board of Directors".

SPECIAL BUSINESS

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

"RESOLVED THAT Mr. Babu Mohanlal Panchal, who was appointed as an Additional Director by the Board of Directors on April 9, 2010 under article 99 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and who holds office up to the date of ensuing Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director under Section 257 of the Companies Act, 1956 and who is eligible for appointment to the office of Director, be and is hereby appointed as Director of the Company liable to retire by rotation".

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

"RESOLVED THAT Mr. Yatinder Vir Singh, who was appointed as an Additional Director by the Board of Directors on April 9, 2010 under article 99 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and who holds office up to the date of ensuing Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director under Section 257 of the Companies Act, 1956 and who is eligible for appointment to the office of Director, be and is hereby appointed as Director of the Company liable to retire by rotation".

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

"RESOLVED THAT Mr. Vinay Kumar Monga, who was appointed as an Additional Director by the Board of Directors on April 9, 2010 under article 99 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and who holds office up to the date of ensuing Annual General Meeting and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of the Director under Section 257 of the Companies Act, 1956 and who is eligible for appointment to the office of Director, be and is hereby appointed as Director of the Company liable to retire by rotation".

**By Order of the Board of Directors of
HFCL INFOTEL LIMITED**

**PLACE: MUMBAI
DATED: SEPTEMBER 3, 2010**

**KAPIL BHALLA
COMPANY SECRETARY**

Notes:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE PROXY SHALL NOT BE ENTITLED TO VOTE EXCEPT ON A POLL. DULY COMPLETED PROXY FORMS SHOULD BE LODGED WITH THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 24th September, 2010 to 30th September, 2010 (both days inclusive).
3. In case the members wish to seek any information about the accounts and operations of the Company, they are requested to send their queries to the Company Secretary at the Registered Office of the Company or at the email: secretarial@infotelconnect.com, at least 7 days before the date of the meeting.
4. Members who hold shares in dematerialized form are requested to notify immediately any change of address to their Depository Participants (DPs) and those who hold shares in physical form are requested to write to the Company's Registrar & Share Transfer Agents, *M/s. Cameo Corporate Services Limited, "Subramaniam Building", No. 1, Club House Road, Anna Salai, Chennai - 600 002.*
5. Members who are holding shares under more than one folio are requested to send the relative share certificates to the Registered Office of the Company for consolidation of the holding under one folio. The certificates after consolidation will be returned by Registered Post.
6. Members/Proxies are requested to fill the enclosed Attendance Slip and deposit the same at the entrance of the meeting hall.
7. Pursuant to the provisions of Section 205C of the Companies Act, 1956 the amount of unclaimed deposits which remain

unclaimed for a period of 7 years from the date of maturity would be transferred to the "Investor Education and Protection Fund" (IEPF) established by the Government and in terms of Section 205C of the Companies Act, 1956; no claim shall thereafter lie against the Company or the said fund after the said transfer to the IEPF.

8. To avail the facility of nomination, members are requested to submit to the Company the nomination form, which will be supplied on request.
9. In terms of the provisions of section 173(2) of the Companies Act, 1956, the Explanatory Statement in respect of Item Nos. 2, 3, 4 & 5 is annexed hereunder.

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

ITEM NO. 2

In view of the resignation of M/s Atul Kulshrestha & Co. Chartered Accountants, as Auditors vide their letter dated March 15, 2010 and further in view of M/s. S.R.Batlboi & Associates, Statutory Auditors of the Company expressing their inability to offer themselves for reappointment at the forthcoming Annual General Meeting, as Auditors of the Company for the Financial Year 2010-11, it is proposed to appoint M/s Khandelwal Jain & Co., Chartered Accountants, at the ensuing Annual General Meeting as the Auditors from the conclusion of the forthcoming Annual General Meeting till the conclusion of next Annual General Meeting on such remuneration as may be decided by the Board. M/s Khandelwal Jain & Co. have confirmed that they are eligible for appointment as Auditors in accordance with the provisions of section 224(1B) of the Companies Act, 1956.

ITEM NO. 3

Mr. Babu Mohanlal Panchal was appointed as an Additional Director on the Board of the Company in the meeting of Board of Directors held on April 9, 2010, in terms of Section 260 of the Companies Act, 1956, to hold office up to the date of the ensuing Annual General Meeting.

The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Mr. Babu Mohanlal Panchal for appointment as Director, liable to retire by rotation.

Mr. Babu Mohanlal Panchal, aged about 43 years is a commerce graduate and a qualified Fellow Chartered Accountant, having a vast specialized experience of about 18 years in the field of Accounts, Finance, Capital Market, Joint-Ventures, Taxation, Amalgamations & Takeovers and Administration.

Mr. Babu Mohanlal Panchal is holding following committee positions in the Company:

Name of the Committee	Position
Audit Committee	Chairman
Remuneration Committee	Member
Share Transfer & Investor Grievance Committee	Member
Share Transfer In-House Committee	Member

Your Directors recommend the proposed resolution for approval by way of an Ordinary Resolution.

None of the Directors other than Mr. Babu Mohanlal Panchal is interested in the proposed resolution.

ITEM NO. 4

Mr. Yatinder Vir Singh was appointed as an Additional Director on the Board of the Company in the meeting of Board of Directors held on April 9, 2010, in terms of Section 260 of the Companies Act, 1956, to hold office up to the date of the ensuing Annual General Meeting.

The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Mr. Yatinder Vir Singh for appointment as Director, liable to retire by rotation.

Mr. Yatinder Vir Singh, aged about 48 years, is a Post Graduate in Commerce and has a career spanning over two decades of rich experience in the field of Accounts, Finance, Capital Market and Administration.

Mr. Yatinder Vir Singh is holding following committee positions in the Company:

Name of the Committee	Position
Audit Committee	Member
Remuneration Committee	Member
Share Transfer & Investor Grievance Committee	Member
Share Transfer In-House Committee	Member

Your Directors recommend the proposed resolution for approval by way of an Ordinary Resolution.

None of the Directors other than Mr. Yatinder Vir Singh is interested in the proposed resolution.

ITEM NO. 5

Mr. Vinay Kumar Monga was appointed as an Additional Director on the Board of the Company in the meeting of Board of Directors held on April 9, 2010, in terms of Section 260 of the Companies Act, 1956, to hold office up to the date of the ensuing Annual General Meeting.

The Company has received a notice under Section 257 of the Companies Act, 1956 from a member signifying his intention to propose Mr. Vinay Kumar Monga as a candidate for the office of Director, liable to retire by rotation.

Mr. Vinay Kumar Monga, aged about 42 years, is graduate in commerce and has a rich experience of about twenty years in the field of Accounts, Finance, and Administration.

Mr. Vinay Kumar Monga is holding following committee positions in the Company:

Name of the Committee	Position
Audit Committee	Member
Remuneration Committee	Member
Share Transfer & Investor Grievance Committee	Member
Share Transfer In-House Committee	Member

Your Directors recommend the proposed resolution for approval by way of an Ordinary Resolution.

None of the Directors other than Mr. Vinay Kumar Monga is interested in the above resolution.

**By Order of the Board of Directors of
HFCL INFOTEL LIMITED**

PLACE: MUMBAI
DATED: SEPTEMBER 3, 2010

**KAPIL BHALLA
COMPANY SECRETARY**

**DETAILS OF DIRECTORS SEEKING APPOINTMENT
IN THE ANNUAL GENERAL MEETING
(Information pursuant to Clause 49 of the Listing Agreement)**

NAME	MR. BABU MOHANLAL PANCHAL	MR. YATINDER VIR SINGH	MR. VINAY KUMAR MONGA
Director Identification Number (DIN No.)	01806193	02223708	03029345
Date of Birth	14.12.1967	16.08.1962	02.08.1968
Date of Appointment	09.04.2010	09.04.2010	09.04.2010
Qualification	B.Com, FCA	M.Com	B.Com
Expertise in Specific Functional areas	Accounts, Finance, Capital Market, Joint Ventures Taxation, Amalgamations & Takeovers, and Administration	Finance, Accounts, Capital Market and Administration	Accounts, Finance & Administration
Directorship in other Public Companies	NIL	NIL	NIL
Chairmanship / Membership of Committees of the Board of Public Companies of which he is a Director	HFCL INFOTEL LIMITED Audit Committee - Chairman Remuneration Committee - Member Share Transfer & Investor Grievance Committee - Member Share Transfer In-house Committee - Member	HFCL INFOTEL LIMITED Audit Committee - Member Remuneration Committee - Member Share Transfer & Investor Grievance Committee - Member Share Transfer In-house Committee - Member	HFCL INFOTEL LIMITED Audit Committee - Member Remuneration Committee - Member Share Transfer & Investor Grievance Committee - Member Share Transfer In-house Committee - Member
No. of Shares held by Directors in the Company	NIL	NIL	NIL
Relationship, if any, with the other members of the Board	None	None	None

DIRECTORS' REPORT

To the Members of HFCL Infotel Ltd.

Your Directors take pleasure in presenting the Sixty Third Annual Report of your Company together with the Audited Accounts for the year ended 31st March, 2010.

SUMMARY OF FINANCIAL RESULTS

The summarized Financial Results for the year ended 31st March, 2010 are as under:

(Rs. in millions)

Particulars	For year ended March 31, 2010	For year ended March 31, 2009
Gross Income -		
- Service Revenue	1962.09	2235.71
- Other Income	16.07	13.85
Total	1978.16	2249.56
Total Expenditure	1964.01	2058.44
Operating Profit before Finance Charges, Depreciation, Amortisation and Loss on sold/discarded fixed Assets	14.15	191.12
Diminution in Value of Investments	-	717.67
(Gain) on sale of Fixed Assets	(14.30)	(337.23)
Loss on sold/discarded Fixed Assets and Capital work in progress	19.00	155.30
Finance Cost	(704.24)	678.29
Foreign Exchange (Gain) / Loss	(34.61)	106.76
Depreciation and Amortisation	950.17	991.74
Loss for the year before prior period Expenditure and Tax	201.87	2121.40
Prior period Expenditure (net)	4.58	20.66
Loss for the year before Tax	206.45	2142.07
Provision for taxation for earlier years	-	-
Fringe Benefits tax	-	5.23
Loss for the year from ordinary and extraordinary activities	206.45	2147.30
Loss brought forward from previous year	11193.88	9151.02
Loss carried to the Balance Sheet	11400.33	11193.88

PERFORMANCE

Following the trend of past few years, fixed line phones market went down in terms of number of customers as well as revenue. The downward trend of falling fixed line revenue has affected your company and therefore, during the year under review, there is a drop in the telecom service revenue by 12% from Rs. 2235.71 million to Rs.1962.09 million primarily because of drop in Fixed Line revenues due

to increased penetration of mobile services. Consequently Operating Profits from telecom services before finance charges, depreciation, and loss on sold / discarded fixed assets is reduced to Rs. 14.15 million compared to the previous year's figure of Rs. 191.12 million.

Various expenses optimization initiatives taken by the Company coupled with reduction in direct variable expenses, has led to a reduction of operating expenses by Rs. 94.43 million from Rs. 2058.44 million in FY 2009.

The Broadband DSL subscriber base at 87,354 (previous Year 68,902) witnessed a growth of about 27 %, during the year. In CDMA mobile customer base, there has been a decline of about 13% and the current CDMA customer base is 259,456 (previous year 2,98,740).

As of March 2010, the Company has also launched its GSM Services in the Punjab Service Area.

DIVIDEND

The Company has accumulated losses and your Directors, therefore, are not in a position to recommend any dividend for the financial year 2009-10.

TRANSFER TO RESERVES

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

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

Restructuring of Liabilities:

The Corporate Debt Restructuring Cell (CDR Cell) vide its letter No. CDR (JCP) 563/2009-10 dated August 13, 2009 has approved a restructuring package w.e.f. April 1, 2009 which provided for the restructuring of the term debt and also the induction of a strategic investor / change of management. The various lenders viz. IDBI Bank Limited, Life Insurance Corporation of India, Oriental Bank of Commerce, ING Vysya Bank Limited, State Bank of Patiala, Punjab National Bank and HDFC Bank Limited (collectively referred to as the "Lenders") have confirmed their acceptance of the CDR Scheme.

Change of Management:

In terms of the stipulations of the CDR Cell for induction of a strategic investor / change of management, as sanctioned by the CDR Cell in terms of the CDR Package approved vide letter No.CDJ (JCP) No.563/2009-10 dated August 13, 2009, M/s Quadrant Enterprises Private Limited, has acquired the entire equity stake of Himachal Futuristic Communications Limited ('HFCL') comprising of 32,67,05,000 (Thirty Two Crores Sixty Seven Lac and Five Thousand only) equity shares of the Company ('Shares') amounting to 53.3605% (approximately fifty three percent) of the issued, subscribed

and paid up equity share capital of the Company, from the erstwhile Promoters, Himachal Futuristic Communications Limited (HFCL). The aforesaid transfer of the said equity shares was effected w.e.f. April 3, 2010.

Further in terms of the stipulations of the CDR Package for a change in the management of the Company, all the erstwhile Directors (except the nominees of Financial Institutions) namely Mr. Mahendra Nahata, Mr. M.P.Shukla, Mr.S.Lakshmanan, Dr. R.M. Kastia and Mr. K.B. Lal have resigned from the Board of Directors w.e.f. April 9, 2010 and Mr. Babu Mohanlal Panchal, Mr. Yatinder Vir Singh and Mr. Vinay Kumar Monga have been appointed as additional Directors on the Board of Directors of the Company w.e.f. April 9, 2010. Further, in order to complete the process of change in the management of the Company, as per the stipulations of the CDR package, the senior management team comprising of Mr. Surendra Lunia, Chief Executive Officer, Mr. Gurdial Singh, Chief Operating Officer, and Mr. Vikash Agarwal, Vice President (Corporate Finance) and Chief Financial Officer of the Company have also resigned from the Company w.e.f. April 09, 2010.

Further, in accordance with the Corporate Debt Restructuring Scheme ("CDR Scheme") dated August 13, 2009 approved by the Corporate Debt Restructuring Cell (CDR Cell), the Company is now in the process of seeking the approval of the shareholders for the issuance of the following Securities to the Lenders, viz. Financial Institution / Banks by way of conversion of the amount outstanding and payable to them:

- 2% (two percent) Cumulative Redeemable Preference Shares of Rs.100/- (Rupees One Hundred only) each, fully paid up, aggregating Rs. 1,59,84,543 (Rupees One Crore Fifty Nine Lakh Eighty Four Thousand Five Hundred Forty Three only) ; and
- Secured Non Convertible Debentures of Rs.100/- (Rupees One Hundred only) each, fully paid up, aggregating Rs. 3,19,69,088 (Rupees Three Crores Nineteen Lakhs, Sixty Nine Thousand and Eighty Eight only).

During the period under review, the Company has also acquired the beneficial interest in the 20 equity shares at face value of Rs 10 each of its Subsidiary Company - Infotel Tower Infrastructure Private Limited (ITIPL) w.e.f. April 09, 2010, from the original subscribers to the Memorandum of Association of ITIPL, where upon Infotel Tower Infrastructure Private Limited has now become a wholly owned subsidiary of the Company w.e.f. April 09, 2010.

CHANGE OF REGISTERED OFFICE OF THE COMPANY:

The Company Law Board vide its Order dated August 31, 2009 had accorded its approval for shifting of Registered Office of the Company from the state of Punjab to State of Maharashtra. Consequently, the company filed the requisite documents with the Registrar of Companies, Mumbai. The Certificate confirming the change of Registered office was issued by the ROC Mumbai on December 01, 2009.

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

Since the Company does not carry on any manufacturing activity, the provisions of Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy are not applicable. However, the Company is regularly taking steps to conserve energy. During the year under review, the Company has not spent any amount on Research and Development and Technology Absorption.

During the year, there were no foreign exchange earnings; the total foreign exchange outgo was to the tune of Rs. 262.69 million, which was on account of import of material, finance charges and travel expenses.

SHARE CAPITAL

The total issued, subscribed and paid up equity share capital of the company comprises of 612,260,268 equity shares of Rs.10/- each and the whole of Equity Shares are listed on the Bombay Stock Exchange and Madras Stock Exchange.

DIRECTORS

IDBI Bank Limited nominated Mr. Viney Kumar, as its Nominee Director on the Board of the Company w.e.f. September 29, 2009 in place of Mr. R.K. Bansal.

In terms of the stipulations of the Corporate Debt Restructuring Cell (CDR Cell) for induction of a strategic investor / change of management, as sanctioned in terms of its CDR Package approved vide letter No. CDJ (JCP) No. 563/2009-10 dated August 13, 2009, Mr. Mahendra Nahata, Mr. M.P.Shukla, Mr.S.Lakshmanan, Dr.R.M.Kastia and Mr. K.B.Lal have resigned as Directors from the Board of Directors of the Company w.e.f. April 9, 2010 and Mr. Babu Mohanlal Panchal, Mr. Yatinder Vir Singh and Mr. Vinay Kumar Monga have been appointed as Additional Directors on the Board w.e.f April 9, 2010 and hold office till the date of the ensuing Annual General Meeting of the Company. The Company has received notices in writing from Members in terms of the provisions of section 257 of the Companies Act, 1956 signifying their intention to propose the appointment of Mr. Babu Mohanlal Panchal, Mr. Yatinder Vir Singh and Mr. Vinay Kumar Monga as Directors of the Company. Your Board of Directors recommend their appointment as Directors.

In view of the aforesaid change in the Board of Directors, none of the Directors is liable to retire by rotation in the ensuing Annual General Meeting, in accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956,

AUDITORS

M/s Atul Kulshrestha & Co., Chartered Accountants, had resigned as Statutory Auditors of the Company w.e.f.

March 15, 2010. M/s S.R. Batliboi & Associates, Chartered Accountants, hold office till the conclusion of the ensuing Annual General Meeting and have conveyed their inability to offer themselves for reappointment at the forthcoming Annual General Meeting of the Company.

M/s Khandelwal Jain & Co., Chartered Accountants, New Delhi, have offered their appointment as Statutory Auditors. Your Directors recommend the appointment of M/s Khandelwal Jain & Co. as the Statutory Auditors for the Financial Year 2010-2011 at the forthcoming Annual General Meeting to hold office till the conclusion of next Annual General Meeting.

PARTICULARS OF EMPLOYEES

The details of employees drawing remuneration in excess of the monetary ceiling in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, during the financial year 2009-10, is annexed to this report as Annexure 'A'.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- (i) that in the preparation of the annual accounts for the financial year ended 31st March, 2010, the applicable accounting standards have been followed along with proper explanations relating to material departures;
- (ii) that the Directors have selected appropriate accounting policies and applied them consistently, made changes wherever required, disclosed the same in the financial statements wherever applicable and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2010 and of the loss of the Company for the said period;
- (iii) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities and
- (iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2010 on a going concern basis.

SUBSIDIARY

Infotel Tower Infrastructure Private Limited is a wholly owned subsidiary of the Company, dealing with the object of creating Infrastructure for telecom operations, manpower outsourcing and trading activities related to telecommunication operations.

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

CONSOLIDATED FINANCIAL STATEMENTS

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

FIXED DEPOSITS

The Company has not accepted / renewed any deposits from the public under section 58A of the Companies Act, 1956 during the year. The Company had discontinued the NBFC business in the year 2004 and transferred the outstanding amounts to an Escrow Account maintained with Oriental Bank of Commerce. In respect of the request received from depositors from time to time, the Company has been making the payment of the amount of deposits out of the said Escrow Account. Certain amount of deposits which were unclaimed for a period of seven years have been transferred to Investor Education and Protection Fund (IEPF) under section 205C of the Companies Act, 1956 out of said Escrow Account. The unclaimed amount as at March 31, 2010 was Rs. 1.31 million.

AUDITORS' REPORT

The Statutory Auditors of the Company have submitted Auditors' Report on the accounts of the Company for the accounting period ended 31st March, 2010, which is self explanatory.

MANAGEMENT'S EXPLANATION TO THE AUDITORS' OBSERVATIONS:

Auditors Observation

- 1 *Note 9 (a) of Schedule 23 of the financial statements wherein based on Company's request Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 563 /2009-10 dated August 13, 2009('CDR letter') has revised the terms of CDR scheme with effect from April 1, 2009. During the year ended March 31, 2010, based on confirmations from lenders and the ability of the management to fulfill all conditions in the precedent to the implementation of the Revised CDR Scheme, the Company has given effect to the terms of the Revised CDR Scheme (without considering any interest costs based on yield with respect to proposed restructuring of 25 percent loan into Cumulative Redeemable preference Shares) and recognised interest costs for the period from April 1, 2009 based on such Scheme and, accordingly, reversed the provision for interest and interest costs of Rs 1,025,846,205. The Company is confident of fulfilling the remaining conditions precedent for the implementation of the Revised CDR Scheme and would fully implement the terms of the Revised CDR Scheme on the completion of such approvals and conditions precedent. The*

Company has also not made any provision for license fee on such reversal as based on the judgement of Telecom Disputes Settlement & Appellate Tribunal ("TDSAT") as it believes that no license fee is leviable. Had the Company followed the old CDR scheme the loss before taxes would have been higher by Rs 724,507,265 before taxes. These financial statements do not include any adjustment which may arise due to inability of the management to complete balance conditions precedent.

Management's Explanation

Corporate Debt Restructuring Cell ("CDR") vide their letter no CDR (JCP) No 563 / 2009-10 dated August 13, 2009 ("CDR letter") has revised the terms of CDR scheme with effect from April 1, 2009. During the year ended March 31, 2010, based on confirmations from lenders and the ability of the management to fulfill all conditions in the precedent to the implementation of the Revised CDR Scheme, the Company has given effect to the terms of the Revised CDR Scheme and recognised interest costs for the period from April 1, 2009 based on such Scheme and, accordingly, reversed the provision for interest and interest costs of Rs 1,025,846,205. The Company is confident of fulfilling the remaining conditions precedent for the implementation of the Revised CDR Scheme and would fully implement the terms of the Revised CDR Scheme on the completion of such approvals and conditions precedent. The Company has also not made any provision for license fee on such reversal as based on the judgment of the Hon'ble Telecom Disputes Settlement & Appellate Tribunal ("TDSAT") as it believes that no license fee is leviable.

Auditors Observation

- Note 16 (b) of Schedule 23 of the financial statements wherein the Company has obtained advance of Rs. 1,517,500,000 from a non shareholder Company/Promoter to fund the entry fee for using alternate technology under existing Unified Access Service License (UASL) for Punjab Service Area during March 31, 2008. The terms and conditions with respect to tenure, interest, rights and obligations etc. are yet to be finalised hence we are unable to comment on the carrying value and thereby its impact on the profit and loss for the year. Our audit report on the financial statements for the year ended March 31, 2009 was modified, accordingly;

Management's Explanation

The Company has obtained an advance of Rs. 1,517.50 million from a non-shareholder Company to meet the payment of License fee to DOT for starting GSM services under the Company's Unified Access Service License for Punjab Service Area. The amount of aforesaid advance is adjustable or refundable on such terms and conditions as may be mutually agreed.

Auditors Observation

- Undisputed statutory dues including provident fund, investor

education and protection fund, employees' state insurance, sales-tax, wealth tax, customs duty, cess and other material statutory dues applicable to it have generally been regularly deposited with the appropriate authorities except there has been delays in many cases in respect of deposit of service tax and withholding tax. The provisions relating to excise duty is not applicable to the Company.

Management's Explanation

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

Auditors Observation

- Without considering the matters reported in paragraph 5 of our main audit report, the effects of which are currently not ascertainable the accumulated losses of the Company as at March 31, 2010, are more than fifty percent of its net worth as at that date. The Company, has incurred a cash loss of Rs 74,798,095 and Rs 881,292,798 during the year and immediately preceding financial year before considering interest provision on yield basis of Rs 227,329,338 and Rs 66,602,849 respectively.

Management's Explanation

The accumulated losses of the Company as at March 31, 2010, are more than fifty percent of its net worth as at that date. The management acknowledges the erosion of net worth as stated by the Auditors. The cash loss in the current year and cash profit in the previous year are matters of fact flowing from the audited financial statements. The losses are due to declining market of the fixed line business and the CDMA business. The Company has therefore decided to enter the GSM mobile segment to reverse this trend.

Auditors Observation

- Based on our audit procedures and as per the information and explanations given by the management, the Company has defaulted in payment of interest due to a financial institution and banks as presented below. The Company has no outstanding dues to debenture holders. Due to the delays above, the Company has paid Rs 192,252 as penal interest to financial institution and banks.

Management's Explanation

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

Auditors Observation

6. According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that at the year end, the Company has used funds amounting to Rs 4,724,502,525 raised on short-term basis (primarily representing loans and Creditors) have been used for long-term investment (primarily representing accumulated losses).

Management's Explanation

The company has used short term funds of Rs 4,724,502,525 for purchase of fixed assets pending mobilization of equity capital and long term debt for funding expansion. Please refer to line item "net cash generated from operating activities (A) and net cash generated from / (used in) financing activities (C)" in the Cash Flow Statement)

CORPORATE GOVERNANCE

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

HUMAN RESOURCE (HR) DEVELOPMENT

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

ACKNOWLEDGEMENTS

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

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

For and on behalf of the Board of Directors

(Babu Mohanlal Panchal) (Yatinder Vir Singh)
Director Director

Place: Mumbai
Date: July 12, 2010

ADDENDUM TO DIRECTORS' REPORT

To the Members of HFCL Infotel Ltd.

Your Directors are pleased to provide here under the material changes that have occurred subsequent to the date of signing of the Directors' Report on July 12, 2010:

A Postal Ballot Notice (pursuant to the provisions of Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules 2001 dated July 27, 2010 was sent to all the shareholders of the Company for seeking their approval for the below mentioned matters:

1. Change of name of the Company from HFCL Infotel Limited to "Quadrant Televentures Limited";
2. Alteration of Clause V of the Memorandum of Association by way of Re-classification of the existing Authorised Share Capital
3. Alteration of Article 5(a) of the Articles of Association consequent to alteration of the Authorised Share Capital Clause.
4. Issue of Cumulative Redeemable Preference Shares
5. Issue of Secured Non Convertible Debentures
6. Creation of Charge u/s 293(1)(a) of the Companies Act, 1956 for securing the Non- Convertible Debentures
7. Shifting of the Registered Office of the Company from Mumbai to Aurangabad

Mr. Sheetal Kumar Dak, Company Secretary in Whole-Time Practice, who was appointed as Scrutinizer for conducting the Postal Ballot, in terms of Rule 5(b) of the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001, has submitted his report to the Board of Directors inter-alia confirming that the aforesaid resolutions have been duly assented by the Shareholders with the requisite majority.

The Board of Directors of the Company have taken on record the Scrutinizer's Report on Postal Ballot in their meeting held on Friday, September 3, 2010, and declared the aforesaid resolutions as duly passed. Results of the Postal Ballot were announced on the above date at 5.00 p.m. at 28, Khan Manzil, Calicut Street, Opp. Fort Market, Fort, Mumbai - 400 001. The results have also been posted on the Company's website at : www.infotelconnect.com.

The Scrutinizer submitted his Report on the Voting by Postal Ballot to your Directors on September 3, 2010 and the Directors have in their meeting held on September 3, 2010 declared the Result of the Voting by Postal Ballot, wherein all the above said resolutions have been declared to have been duly approved by the Shareholders with the requisite majority.

The Board of Directors of the Company have taken on record the shifting of the Registered Office from Mumbai to Aurangabad. As such the Registered Office of the Company now stands changed to the below mentioned address with immediate effect:

Autocars Compound, Adalat Road, Aurangabad - 431005, Maharashtra

For and on behalf of the Board of Directors

(Babu Mohanlal Panchal) (Yatinder Vir Singh)
Director Director

Place: Mumbai
Date: September 3, 2010

Annexure 'A' to the Directors' Report

Statement of Particulars of Employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956, as amended, read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors Report for the year ended 31st March, 2010.

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

Name of the employee	Designation	Remuneration (Rs)	Qualification	Experience (Years)	Date of Joining	Age (Years)	Designation & Last Employment
Arvind Jalota	Associate Vice President	2,433,049	BA,MCM	19	27.09.2004	41	Head, SAB Infotech Ltd.
Gurdial Singh	Chief Operating Officer	16,953,010	BE	19	02.12.2002	40	VP-SAB Infotech Ltd.
Kamaljeet Kumar Sharma	Associate Vice President	2,584,947	BE,MBA	20	01.02.2008	44	Network Operations Head, Reliance Communication Ltd.
Pawandeep Singh Bajwa	Vice President	2,628,892	BA	30	10.05.2005	51	Cluster Head,Reliance Infocom
Prem Ojha	Associate Vice President	2,413,760	BE,PGDS & MKTG	19	13.12.2005	41	Regional Head,TATA-VSNL
SS Nijjar	Vice President	2,586,149	B.Tech; M.Tech	34	01.04.2004	56	GM, MTNL
Surendra Lunia	Chief Executive Officer	25,843,920	B.Com, M.Com, CA,CS	24	15.04.2000	47	VP-Finance,South Asian Petrochem Ltd.
Vikash Agarwal	Vice President (Corporate Finance)	9,640,775	B.Com,M.Com, CA,CS, ICWA	14	06.02.2001	36	AVP-SREI International Finance Ltd.

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

Name of the employee	Designation	Remuneration (Rs)	Qualification	Experience (Years)	Date of Joining	Age (Years)	Designation & Last Employment
Dinesh Verma	Associate Vice President	1,930,552	CA, CS	16	22.08.2007	45	GM-Agro Tech. Foods Ltd
Pankaj Mehta	General Manager	1,284,678	B.E	7	09.08.2004	34	Tech Consultant;H2Software INC
P K Madan	General Manager	1,882,783	B.Tech	22	26.09.2003	46	Sr Consultant-HR & Professional Sec. Inst
Sandip Kumar Ghosh	General Manager	2,332,051	AMIE,MBA	15	01.08.2007	44	Head-Bharti Airtel Ltd.
Sannjay Sachdeva	Vice President	1,243,317	PGDBM, Dip. in Mgt.	25	07.02.2002	48	VP-Modi Telecommunication Ltd.
S K Garg	Chief Project Officer	5,801,914	B.Sc,BE,M.Tech	30	01.04.2007	59	Sr.VP-Himachal Futuristic Communications Ltd
Vijay Bainsla	General Manager	841,577	M.Sc,MBA	13	15.04.2008	38	Head-Mktg,Vodafone
Vikas Anand	Associate Vice President	2,632,037	B.Com.MBA	16	01.06.2007	38	Prepaid Head, Reliance Communication Ltd.

Notes:

- Remuneration includes salary, allowances, value of perquisites, Company's contribution to Provident Fund but excludes contribution made for gratuity and leave encashment during the year based on actuarial valuation.
- None of the employees above is a relative of any Director or Manager of the Company.
- Nature of employment in all cases contractual.
- None of the employees mentioned above have any shareholding in the Company.

For and on behalf of the Board of Directors

Place: Mumbai
Date: July 12, 2010

(Babu Mohanlal Panchal)
Director

(Yatinder Vir Singh)
Director

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

1.	Name of the Company	Infotel Tower Infrastructure Private Limited
2.	Financial Year ended on	31.03.2010
3.	Shares of the Subsidiary held by the Company on the above date	
	(a) Number and Face Value	9,980 equity shares of Rs.10/- each
	(b) Extent of Holding	100% (rounded off)
4.	Net aggregate of profits/(losses) of the subsidiary for the above financial year so far as they concern members of the Company (Rs.)	
	(a) dealt with in the accounts of the Holding Company for the year ended on March 31, 2010	(56,63,391)
	(b) not dealt with in the accounts of the Holding Company for the year ended on March 31, 2010	Nil
5.	Net aggregate of profits/(losses) of the Subsidiary Company for its previous financial year since it became a subsidiary so far as they concern the members of the Company (Rs.)	
	(a) dealt with in the accounts of the Holding Company for the period ended March 31, 2009	(7,55,519)
	(b) not dealt with in the accounts of the Holding Company for the period ended March 31, 2009	Nil

MANAGEMENT DISCUSSION & ANALYSIS REPORT

OVERVIEW

HFCL Infotel Ltd is a Unified Access Services Licensee in Punjab Telecom Circle, which comprises of the state of Punjab, the Union Territory of Chandigarh and the Panchkula town in Haryana. The Company started its operations in September 2000 as a fixed line service provider under the brand name "CONNECT". In September 2007, the Company had launched its CDMA based full mobility services under the brand name "PING". The Company has launched its GSM Mobile Services in Punjab on March 29, 2010.

As at 31.03.2010, the company had 501,885 telephony customers, including 154,743 fixed-line customers, 87,354 Broadband customers, 259,456 CDMA mobile customers and 332 GSM mobile customers.

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

Key Business and Financial highlights for the financial year are:

- A growth of 26.78% was achieved during the FY 2009-10 in the Broadband segment, where upon the customer base has increased to 87,354.
- During the FY 2009-10 CDMA mobile customers base has gone down by 13.15% to 259,456.
- The Fixed Voice Subscriber base stands at 154,743 as on March 31, 2010..
- During FY 2009-10, the Company generated gross revenue of Rs.1978.16 million, which is lower by 12.06% as compared to previous year.
- Operating Profit (EBIDTA) was to the tune of Rs 14.15 million.

INDUSTRY STRUCTURE

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

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

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

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

KEY INDUSTRY DEVELOPMENTS

Growth & Market Trends

Telecom Services - Industry Scenario

Presently, India hails as the second largest telecom user base in the world after China and ahead of US, with over 621.8 million telecom subscribers as at March 31, 2010, in both the wireless and wireline segments, with a growth of 44.6% during FY 2009-10. Of the total customer base, wireless base has increased from 391.73 million as at March 31, 2009 to 584.32 million as at March 31, 2010.

During 2009-2010 Indian Telecom Services sector continued its growth trajectory, driven by the intense competition and aggressive pricing by the mobile operators. The mobile segment continued to grow at a very high rate in comparison to the Fixed line segment.

The growth of Wireline subscribers has been more or less stagnated over last few years. In fact during the FY 2009-10 there has been a drop of 2.65% in wire line customer base of 36.95 million as at March 31, 2010. The customer base of wireline has been overshadowed by the growth in mobile services mainly due to convenience of use of mobile set with features like telephony directory and SMS coupled with cheaper or more affordable tariffs.

Broadband services have not been able to emulate the growth that has been seen in the Indian Mobile Sector. The broadband customer base as at March 31, 2010 was 8.75 million. Government has announced several policies to stimulate the growth of broadband in the country. As a result of these measures the broadband customer base has grown from a meager 0.18 million as on March 31, 2005 to about 8.75 million as at March 31, 2010.

With the continuing PC and laptop penetration, it is estimated that the internet and broadband subscribers will increase with projected growth rate of 45% to 24.36 million and 12.68 million respectively by 31.03.2011.

However, pursuant to the grant of UASL to provide GSM services to the new licencees during FY 2007-08 and the subsequent allocation of spectrum to most of the licencees, new players are expected to launch their services during the year 2010-11, which would further boost the growth of mobile phones in India.

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

- Need for increased coverage by network operators reaching out to untapped rural markets.
- Higher affordability through reduced tariffs and affordable handsets.
- Consistent growth of IT Services and IT enabled Services sector.
- Increasing operations of the Multinational Corporations in India and Indian Companies expanding overseas operations thereby necessitating integration with Global economy.
- Growing need by the Companies to organize their operations using ERPs and expansion their networks for SCM, CRM.
- Telecom Industry has witnessed a trend of voice traffic shifting from Fixedline networks to Mobile networks due to the below mentioned reasons:
 - Higher penetration of mobile telephony in view of increased competition and lower tariff leading to substitution of landlines in favour of Mobiles and voice traffic moving onto the mobile network..
 - Convenience of Mobility and the enhanced functionality of handsets which are personalized and easy to navigate. Rapidly changing consumption pattern are also having an impact on usage. Personal nature of the device supporting the increased individualism of our society.
 - Lower tariff for mobile voice calls as a result of
 - Falling equipment prices and increased capacities.
 - Advanced mobile network including 3G Services.
 - Intensifying competition among mobile operators.
 - Infrastructure sharing among operators
 - Tariff for CUG & short duration calls.
 - Higher density of the mobile telephony with cheap STD rates resulting in tremendous drop in the walk-in traffic at PCO locations.

Going forward it is estimated that:

- The Fixed line subscriber base may decline to 35 million connections in 2013, while the broadband subscriber base is expected to increase to reach 16 million subscribers.

- Revenue from broadband services will significantly contribute to the overall growth of fixed line services in India, with growth of 25% from 2008 to 2013.

Regulatory Developments/ Changes

Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT) had declared certain policy measures in the previous year which included key regulatory changes and developments undertaken by the TRAI and DoT.

- ADC paid in the form of percentage of Adjusted Gross Revenue (AGR)' had been done away with w.e.f. 1st April, 2008 and ADC charges on the rural revenue of operators had already been abolished in order to motivate penetration of telecom services in rural areas.
- DOT had implemented the lock in period clause wherein there would be a lock in period on sale of equity of a person whose share capital is 10% or more in the UAS licensee company on the effective date of the UAS license and whose net worth has been taken into consideration for determining the eligibility for grant of UAS licence, till the completion of three years from the effective date of the UAS licence or till fulfillment of all the rollout obligations, whichever is earlier. In case of issue of fresh equity, within the lock-in period, the declaration of dividend and special dividend shall be barred.
- Department of Telecommunications (DoT) had allowed the licensees - after the payment of requisite entry fee - (as prescribed for obtaining new UAS License) to use alternative technology (CDMA/GSM) under the same license.

Under the open policy, the DoT had issued 20 new UAS Licensees during the year 2008-09 and most of the new Licensees have commenced operations.

- DoT had also issued guidelines for sharing of passive infrastructure except sharing of spectrum, where under sharing of passive infrastructure has been permitted to share Tower, Ducts and Nodes etc.
- Telecom Regulatory Authority of India (TRAI) had issued draft regulations for introduction of mobile number portability (MNP). The guidelines have highlighted subscribers' eligibility for porting - switching operators without changing number - as well as the rights, obligations and duties of operators - both donors and recipients which is likely to come into effect w.e.f. Sep'2010.
- Telecom Regulatory Authority of India (TRAI) has reduced local termination charges by 33% to 20 paisa from 30 paisa per minute. Termination charges for incoming international calls would be 40 paisa per minute against the existing charges of 30 paisa per minute.

- Government has accepted the telecom regulators proposal to allow companies to offer mobile phone services without owning infrastructure or spectrum that would pave the way for foreign and Indian companies to set up mobile virtual network operators (MVNO) in India which can roll out wireless telecom services by renting spectrum and networks from existing telecom companies. However, DOT has still to formally stipulate and announce the guidelines for the start of the MVNO services.
- DOT has recently completed the auction of spectrum in 3G and BWA spectrum. There is likely hood of introduction more lucrative services with new applications in mobile and BWA.
- TRAI had introduced National Do Not Call Registry in 2008 and is now in the process of reviewing it and contemplating to introduce 'Do Call Registry'.
- There were two petitions in TDSAT filed by BSNL against TRAI's direction regarding revision of PORT charges and the carriage charges. TDSAT has recently set aside the TRAI regulations on Port charges and carriage charges vide Appeal No 2 of 2008 and Appeal No. 4 of 2007 filed by AUSPI on our behalf. Although AUSPI will go for appeal in Supreme Court but there is likely hood of impact on our revenues as BSNL is going to raise demands from back date.

Data Services

For Data services broadband holds a very promising future with number of subscribers projected to reach around 19.02 mn by 2012.

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

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

Future Perspective

- Broadband subscriber base is expected to touch 12.68 mn by 2010-11.

- Broadband is expected to become a dominant internet access media by 2010-11, especially in view of the ever increasing PC penetration and PC based education spreading across the schools all over India.
- DSL will continue to have an edge over all other delivery mechanisms for the next 2-3 years and any incumbent wireline operator will have an edge over standalone broadband service providers.

OPPORTUNITIES AND THREATS

Opportunities

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

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

It is felt that the largest growth driver in telecom market lies in Mobile. Realizing that mobile service is the largest growth opportunity and to corner a larger pie in the growing telecom market, the management believes that the roll out of GSM mobile services would be the most appropriate proposition with the availability of financial support and spectrum.

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

Threats

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

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

The Company derives substantial part of its earnings from wire line (copper based network) services.

OUTLOOK

The Company foresees high degree of competition in the years to come, especially in the mobile telephony segment. The Company during the financial year 2009-10 had expanded the wireless network footprint to most parts of Punjab. In terms of subscriber base, all existing mobile operators are showing a healthy growth pattern and none of the major operators holds sway over the market.

Even the overall market for fixedline services – the Company's largest service stream - has witnessed considerable growth and the Management believes that the Company will sustain all round healthy growth in both the Wireline as well as the GSM / CDMA segments on account of following factors:

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

RISKS & CONCERNS

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

1. Financing Risks

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

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

Thus, the Company's operating results and financial condition depends, among other things, on timely securing of significant external financial resources at competitive rates to fund these requirements. Further, the envisaged fund requirement might also escalate

upward due to variety of factors viz., slower uptake of services, stiff competition, change in regulatory scenario, technological up gradation requirements and delays in planned capital expenditure.

2. Market and Competition Risk

The Company faces competition from other services providers in Punjab Circle. Other service providers in Punjab are - Bharat Sanchar Nigam Limited (BSNL), Reliance Communication, Tata Teleservices, Bharti Airtel Limited ("Airtel" trade name), Idea Cellular (earlier Spice) (offering mobile services only) and Vodafone-Essar Group ("Vodafone" tradename, offering mobile services only). Most of the Company's competitors are already well-established brand names with existing all-India customer base, and potential to cross subsidize long-distance tariffs and intra-network tariffs. New Service providers shortly coming in the Punjab Telecom Circle are - Uninor, Aircel, MTS & Ettislat.

3. Regulatory Risks

In the ordinary course of business, the Company is required to obtain various regulatory approvals, which mostly are recurring in nature viz., SACFA / WPC approval for frequency allocation, Right of Way for laying network cables, testing approval for interconnection with BSNL, TRAI approval for interconnection agreements and tariffs etc.

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

4. Risk of Rapid Technological Changes

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

5. Dependence on Key Personnel

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

INTERNAL CONTROL SYSTEM AND ITS ADEQUACY

The company has a proper and adequate internal control system to ensure that all assets are safeguarded and protected against loss from unauthorized use or its disposition and that transaction are authorized, recorded and reported correctly. The Internal control is supplemented by an extensive internal audit, review by management and audit committee

and documented policies, guidelines and procedures. The internal control is designed to ensure that the financial and other records are reliable for preparing financial statements and other data, and for maintaining accountability of assets.

An independent firm of Chartered Accountants is entrusted with the internal audit function which conducts audit, reviews, evaluates and submits quarterly reports for review by the management and the Audit Committee at regular intervals.

The Internal Auditors reports continuously evaluate the Internal Control Systems and are considered by the Audit Committee for appropriate actions and corrections, wherever deemed necessary.

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

ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

It has been Company's endeavor to expand the operations geographically and also in terms of providing new value added services. The Company has expanded its wireline services to 150 cities / towns of Punjab and widened its wireless footprint to cover the whole of Punjab by introducing the wireless mobile services under the brand name of "Ping". The Company has launched its GSM based Mobile services on March 29, 2010 in Punjab Circle.

The revenue from telecom service has decreased from Rs. 2235.7 million in the previous year to Rs. 1962.1 million during the current year mainly because of declining Average Revenue Per Unit (ARPU). This impacted on the Operating Profits, i.e. Earnings before Interest, Depreciation, Extra Ordinary Items and Tax which stood at Rs 14.1 million as compared to the previous year's figure of Rs. 191.1 million.

Revenue at a glance is as follows:

(Rs. in millions)

Parameter	FY 2009-10	FY 2008-09
Unified Access Services	1202.4	1507.9
Internet Services	623.5	539.2
Interconnect Usage Charges	90.1	137.0
Infrastructure Services	46.1	51.6
Other Income	16.1	13.9
Total	1978.2	2249.6

FINANCIAL PERFORMANCE

Key Financial Indicators

Telecom Business (Rs. in millions)

Parameter	FY 2009-10	FY 2008-09
Revenue from Telephony Service	1962.1	2235.7
EBIDTA	14.1	191.1

On Gross Basis (Rs. in millions)

Parameter	FY 2009-10	FY 2008-09
Gross Income	1978.2	2249.6
Operating Profit	14.1	191.1
Loss after Tax	206.4	2147.3

Major Expenses at a glance are as follows:

(Rs. in millions)

Parameter	FY 2009-10	FY 2008-09
Network Operations Expenditure	1102.3	1133.7
Personnel Cost	458.7	482.2
Sales & Marketing Expenditure	91.3	155.0
Administration & Other Expenditure	311.7	287.6
Finance Cost	(704.2)	678.3
Total	1259.8	2736.8

Share Capital

The Authorised Share Capital of the company is Rs. 15000 million. Against this, the Paid up Share Capital is Rs.6772.6 million comprising of Rs.6122.6 million by way of Equity Shares and Rs. 650.0 million by way of Cumulative Redeemable Preference Shares. Pursuant to the Corporate Debt Restructuring Scheme (CDR Scheme) as approved by the Corporate Debt Restructuring Cell (CDR Cell) in August, 2009, the Company is now in the process of issuing fully paid up Cumulative Redeemable Preference Shares of Rs. 100/- each aggregating Rs. 1590 million and Secured Non Convertible Debentures of Rs. 100/- each aggregating Rs. 3190 million to the Financial Institution/Banks by way of conversion of their outstanding debts, in order to consolidate the financial position of the company and reduce the debt burden.

Secured Loans

The Secured Loans of the company have been decreased from Rs. 6556.0 million on March 31, 2009 to Rs. 6552.9 million as on March 31, 2010.

Unsecured Loans

The unsecured loans have decreased from Rs 1388.5 million as on March 31, 2009 to Rs. 1169.2 million as on March 31, 2010 mainly due to the part repayment of Buyer Credit Facility availed from The Export Import Bank of China.

Fixed Assets

During the year 2009-10, the net block has decreased from Rs. 4216.5 million as on March 31, 2009 to Rs. 3736.1 million as on March 31, 2010. The Capital Work in Progress is Rs 843.1 million on March 31, 2010 as compared to Rs. 72.2 million as on March 31, 2009.

Investments

The Company has a wholly owned subsidiary, namely, Infotel Tower Infrastructure Pvt. Ltd. which was set up for the purpose of creating infrastructure for telecom operations, manpower outsourcing and trading activities related to telecommunications operations. The company has an investment of Rs. 99,800/- towards the subscription amount for 9,980 Equity Shares of Rs. 10/- each, at par, in the said subsidiary.

Current Liability

The Current liability and provisions of the company stood at Rs. 4628.1 million on March 31, 2010 as compared to Rs. 4082.2 million as on March 31, 2009.

Current Assets

The current assets of the company stood at Rs 655.1 million as on March 31, 2010 as compared to Rs. 694.4 million as on March 31, 2009. These mainly include cash & bank balances, loans and advances and sundry Debtors.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

As the company reorganizes its resources to gain competitive edge, our human resources play a key role in helping us deal with a fast-changing competitive environment. We strongly believe in the quality and productivity of our employees.

As at March 31, 2010 the Company had an employee strength of 596 with an average age of employees being 32 yrs. The company has a professionally qualified work force out of which more than 70% are professionals including Engineers, MBA's, C.As / C.S.s etc.

By adopting new Human Resource Practices, we are destined to become 'Employer of Choice' and our endeavor is to add value to our organization by: -

- Effectively managing and utilizing people.
- Tying performance appraisal and compensation to competencies.
- Developing competencies that enhance individual and organizational performance.
- Increasing the innovation, creativity and flexibility necessary to enhance competitiveness.
- Applying new approaches to work out process design, succession planning and career development.
- Managing the implementation and integration of technology through improved staffing, training and communication with employees.

The organization has taken a lot of initiatives for people and Organization Development. Innovation and continuous employee growth technics are being designed for the employees at all levels for individual growth as also to ensure achievement of business success on sustainable basis.

CAUTIONARY STATEMENT

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

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

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2009-10

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

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

1. Company's Philosophy and Principles on Corporate Governance

Philosophy

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

Principles

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

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

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

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

2. Board of Directors

(A) Composition

As of March 31, 2010 the Board of Directors consisted of directors as mentioned below. The Board Members possess adequate experience and expertise and requisite management skills. The Board directs and reviews the overall business operations of the Company; the day-to-day affairs are being managed by the Business Heads.

The Board consists of Non-Executive, Independent Directors, who, with their diverse knowledge, experience and expertise, bring in their independent judgment in the deliberations in the decisions of the Board.

None of the directors are members in more than ten Committees and/or Chairman of more than five Committees across all companies in which they are directors. Directors in this respect made necessary disclosures.

Board of Directors as at 31.03.2010.

Name of the Directors	Date of Appointment	Category	No. of other Directorships	No. of Committee Memberships *	No. of Committee Chairmanships *
Mr. Mahendra Nahata *	29.04.2003	(C/NED / PD)	2	1	0
Mr. S.Lakshmanan*	30.10.2008	(NED/ID)	0	1	1
Mr. M.P.Shukla*	29.04.2003	(NED/ID)	2	2	0
Mr. K.B. Lal*	29.10.2003	(NED/NID)	0	1	0
Dr. Ranjeet Mal Kastia*	19.06.2004	(NED/NID)	2	2	1
Mr. Viney Kumar** (Nominee of IDBI Bank Ltd.)	29.09.2009	(NED/ID/Nominee)	1	1	0
Mr. Rajesh Kandwal (Nominee of LIC of India)	30.10.2008	(NED/ID/Nominee)	0	0	0
Mr. R. K. Bansal ** (Nominee of IDBI)	29.04.2005	(NED/ID/Nominee)	3	2	0

* Ceased to be Director w.e.f. April 9, 2010

** Mr. Viney Kumar was nominated as the Nominee Director by IDBI Bank Ltd. in place of Mr. R. K. Bansal w.e.f. September 29, 2009.

Note:

*Includes Membership / Chairmanship in HFCL Infotel Ltd.; excludes private companies;

Committees considered are Audit Committee, Share Transfer & Investors' Grievance Committee.

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

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

(B) Attendance at the Board Meetings/ Annual General Meeting

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

Additional meetings are held whenever required. During the period 01.04.2009 to 31.03.2010, the Board met 7 times on the following dates viz. 5th May, 2009, 30th June, 2009, 31st July, 2009, 12th September, 2009, 31st October, 2009, 27th November, 2009 and 30th January, 2010.

The 62nd Annual General Meeting of the shareholders was held on September 29, 2009.

Attendance of the Directors in the Financial Year 2009-10				
S. No.	Name of the Director	Board Meetings		Last AGM attended
		Held during the tenure	Attended	
1	Mr. Mahendra Nahata*	7	4	-
2	Mr. S. Lakshmanan*	7	6	Yes
3	Mr. M. P. Shukla*	7	7	-
4	Mr. K.B.Lal*	7	4	-
5	Dr. R. M. Kastia *	7	7	Yes
6	Mr. Viney Kumar** (Nominee of IDBI Bank Ltd.)	3	3	-
7	Mr. Rajesh Kandwal (Nominee of LIC of India)	7	7	-
8	Mr. R. K. Bansal** (Nominee of IDBI Bank Ltd.)	4	3	-

** Ceased to be Director w.e.f. April 9, 2010

** Mr. Viney Kumar was nominated as the Nominee Director by IDBI Bank Ltd. in place of Mr. R.K. Bansal w.e.f. September 29, 2009; Only three meetings were held since his appointment.

(C) Information Placed before the Board

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

- Minutes of all Committee Meetings;
- Quarterly Un-audited Financial Results of the Company;
- Annual Operating Plans, Budgets and updates thereon;
- Information on recruitment, resignation and remuneration of all senior officers just below the Board level including appointment of Manager, Chief Financial Officer and Company Secretary;
- Show cause, demand, prosecution notices, penalty notices etc. which are materially important;
- Material default in financial obligations, if any, to and by the Company or substantial non-payment for goods sold or services rendered by the Company;
- Non-compliance of any regulatory and statutory requirements or listing requirements and shareholders' service;
- Details of any joint venture or collaboration agreement;
- Quarterly details of foreign exchange exposures and the steps taken by the management to limit the risks of adverse exchange rate movement, if material.
- Legal Compliance reports and Certificates.
- Accounts of the subsidiary Companies.

3. Committees of the Board

Board has constituted various Committees for smooth and efficient operations of Company's activities. The

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

(A) Audit Committee

As on 31.03.2010, the Audit Committee comprised of the following members:

- Mr. S Lakshmanan* (Chairman)
- Mr. Mahendra Nahata*
- Mr. M. P. Shukla*
- Mr. Viney Kumar** (Nominee of IDBI Bank Ltd.)

* Ceased to be members of the Audit Committee w.e.f. 09-04-2010 consequent upon resignation as Director w.e.f. 09-04-2010

** Mr. Viney Kumar was appointed as a member of the Audit Committee consequent upon his nomination as the Nominee Director by IDBI Bank Ltd. in place of Mr. R.K. Bansal w.e.f. September 29,2009;

The Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreement with Stock Exchanges read with Section 292A of the Companies Act, 1956. The Committee meets regularly and the Statutory Auditors, the Internal Auditors, and other Senior Officers including the Head of Finance are permanent invitees to the Committee Meetings. The quorum for the Audit Committee is two independent members. The Company Secretary is the convener of the Audit Committee Meetings.

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

- Overview of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to Statutory Auditors
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
 - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
 - Changes, if any, in accounting policies and practices and reasons for the same
 - Major accounting entries involving estimates based on the exercise of judgment by management
 - Significant adjustments made in the financial statements arising out of audit findings

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

The Audit Committee has been mandatorily authorized to review the following Information:

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

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

30th June, 2009, 31st July, 2009, 31st October, 2009 and 30th January, 2010.

The attendance of the members at the Audit Committee Meeting was as under:

S. No.	Name of the Members	No. of Meetings held during the tenure	No. of Meetings Attended
1.	Mr. S. Lakshmanan*	4	3
2.	Mr. Mahendra Nahata*	4	2
3.	Mr. M.P.Shukla*	4	4
4.	Mr. Viney Kumar** (Nominee of IDBI Bank Ltd.)	2	2
5.	Mr. R. K. Bansal** (Nominee of IDBI Bank Ltd.)	2	1

* Ceased to be Audit Committee Members w.e.f. April 9, 2010

** Mr. Viney Kumar was appointed as a Audit Committee Member pursuant to his nomination as Nominee Director by IDBI Bank Ltd. in place of Mr. R.K. Bansal w.e.f. September 29, 2009; Only two meetings were held since his appointment.

(B) Remuneration Committee

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

As at 31.03.2010 the Remuneration Committee comprised of following Non Executive Directors as its members:

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

The Committee is responsible for overseeing the following matters:

- a. Determination of the remuneration packages i.e. salary and perquisites payable to the Managing /Executive Director /Manager /CEO.
- b. Determination of the amount of bonus, stock option, pension rights and compensation payments to the Managing /Executive Director /Manager /CEO.

(C) Share Transfer and Investors' Grievance Committee

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

Board level Committee, which is known as the Share Transfer and Investors' Grievance Committee (STIG), approves the transfer / transmission / transposition in excess of 5000 shares in each individual transaction; as of March 31, 2010 the STIG consisted of the following members:

1. Dr. Ranjit Mal Kastia (Chairman)
2. Mr. K.B. Lal (Member)
3. Mr. M.P.Shukla (Member)

Mr. Kapil Bhalla, Company Secretary is the Compliance officer.

This Committee meets on need basis to approve the share transfer / transmission / issue of duplicate share certificates etc. above 5000 shares. However, in respect of request received for "Loss of shares", only the STIG is empowered to issue the duplicate share certificates.

During the year under review, the STIG Committee consisting of Board Members met on 28th May, 2009, 08th July, 2009 and 11th January, 2010 and the attendance of the Members at the meetings was as under:

Name of Member	No. of Meetings held during the year	No. of Meetings Attended
Dr. R. M. Kastia	3	3
Mr. K. B. Lal	3	3
Mr. M.P.Shukla	3	3

(D) Share Transfer In-house Committee (STIC)

Besides the STIG which consists of Board Members, there is another In-house Committee known as the Share Transfer In-House Committee (STIC), which meets fortnightly for the approval of transfer/transmission/transposition/split of physical shares for quantities upto 5,000 shares only, in each individual transaction, and to take on record / note the remat/demat of shares done by the Registrar and Share Transfer Agent (RTA) on fortnightly basis, apart from the redressal of shareholders' complaints.

As of March 31, 2010, the STIC consisted of the following members:

1. Mr. Surendra Lunia, Chief Executive Officer
2. Mr. Vikash Agarwal, Vice President (Corporate Finance)
3. Mr. Suniljit Singh, Head (Finance) (w.e.f. 31.10.2009)
4. Mr. Kapil Bhalla, Company Secretary & Manager u/s 269

The Share Transfer In-House Committee is empowered to approve transfer/ transmission / transposition / issue duplicate share certificates up to 5000 nos. only. A meeting of this Committee is held fortnightly. This Committee is not empowered to issue duplicate shares in case of loss of share certificate and is only authorized to issue duplicate certificate(s) only in cases where mutilated / torn / partially burnt shares certificates etc. are surrendered to the Company. During the year-ended March 31, 2010, 24 meetings of Share Transfer In-House Committee were held.

(E) Project Management Review Committee (PMRC)

The Project Management Review Committee (PMRC) had been set up in the past at the time of the initial roll out of services which was initially undertaken by the company; as at March 31, 2010, the PMRC consisted of the following as its members:

1. Mr. M.P.Shukla (Chairman)
2. Mr. Mahendra Nahata (Member)

3. Mr. S. Lakshmanan (Member)
4. Mr. K.B.Lal (Member)
5. Mr. Viney Kumar (Nominee of IDBI Bank Ltd.) *

*Mr. Viney Kumar was appointed as the Member of the PMRC Committee pursuant to his nomination as Nominee Director by IDBI Bank Ltd. in place of Mr. R.K. Bansal w.e.f. September 29, 2009;

(F) Sitting fee paid to the Directors

The Company pays sitting fees to all the Non-Executive Directors at the rate of Rs.5000/- for each Board and/or Committee Meeting. The details of sitting fee paid to Directors during the F.Y. 2009-10 was as under: -

S. No	Name of the Director	Sitting Fee (in Rs.)					Total Sitting Fee paid
		Board Meeting	Audit Committee	Remuneration Committee	Project Management Review Committee	STIG Committee	
1.	Mr. Mahendra Nahata*	20000	10000	Nil	Nil	Nil	30000
2	Mr. S. Lakshmanan*	30000	15000	Nil	Nil	Nil	45000
3	Mr. M.P.Shukla*	35000	20000	Nil	Nil	15000	70000
4.	Mr. K.B.Lal*	20000	Nil	Nil	Nil	15000	35000
5.	Dr. R. M. Kastia*	35000	Nil	Nil	Nil	15000	50000
6.	Mr. Rajesh Kandwal	35000	Nil	Nil	Nil	Nil	35000
7.	Mr. Viney Kumar** (Nominee IDBI Bank Ltd. w.e.f. 29.09.2009)	15000	10000	Nil	Nil	Nil	25000
8.	Mr.R.K. Bansal** (Nominee IDBI Bank Ltd. till 29.09.2009)	15000	5000	Nil	Nil	Nil	20000

* Ceased to be Director w.e.f. April 9, 2010

** Besides sitting fee, IDBI Bank Ltd. was paid Rs. 860/- for every Board Meeting attended by Mr. R. K. Bansal / Mr. Viney Kumar to cover reimbursement of expenses to IDBI Bank Ltd.

** Only three Board Meetings and two Audit Committee Meetings were held since the appointment of Mr. Viney Kumar as Nominee Director of IDBI Bank Ltd w.e.f. September 29, 2009.

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

1. General Body Meetings

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

Year	AGM No.	Location	Date	Time
2006-2007	60	B-71, Industrial Area, Phase-VII, Mohali	28.09.2007	12.00 Noon
2007-2008	61	B-71, Industrial Area, Phase-VII, Mohali	30.09.2008	12.00 Noon
2008-2009	62	B-71, Industrial Area, Phase-VII, Mohali	29.09.2009	12.00 Noon

No Extraordinary General Meeting of the shareholders was held during 2009-10.

Postal Ballot

A postal ballot was passed in the year 2009 pursuant to the provisions of Section 192 A of the Companies Act, 1956 and the Rules framed there under for seeking the approval of the shareholders for the change in the registered office of the company from the state of Punjab to the state of Maharashtra.

Following was the voting pattern for the Postal Ballot:

Particulars	Number of Postal Ballot	Number of Shares
Total number of Postal Ballots received	165	328510614
Number of invalid Postal Ballots received	27	5608
Number of Valid Postal Ballot Forms received	138	328505006
Votes in favour of the resolution	138	328505006
Votes against the resolution	Nil	Nil

The aforesaid result of the Postal Ballot is also available on the website of the company at www.infotelconnect.com.

The Company is now in the process of seeking the approval of the shareholders by way of Postal Ballot for making the allotment of Cumulative Redeemable Preference Shares and Secured Non Convertible Debentures, to the Lenders, viz. Financial Institution / Banks by way of conversion of the amount outstanding and payable to them in order to give effect to the stipulations of the CDR package, in accordance with the Corporate Debt Restructuring Scheme ("CDR Scheme") dated August 13, 2009 approved by the Corporate Debt Restructuring Cell (CDR Cell), as well as for creating charge for securing non-convertible debentures.

Special Resolutions

- In the Annual General Meeting held on 28th September, 2007, Special Resolution was passed for: -
Re-appointment of Mr. Surendra Lunia as Manager under the Companies Act, 1956 and remuneration payable to him in terms with the provisions of Section(s) 198, 269, 385, 386, 387 and 388 read with Section 2(24) and schedule XIII of the Companies Act, 1956.
- In the Annual General Meeting held on 30th September, 2008 a Special Resolution was passed for the allotment of Equity Shares to the Lenders pursuant to the conversion of Optionally Fully Convertible Debentures (OFCDs) into Equity Shares, at par, pursuant to the Revised CDR Package approved by the Corporate Debt Restructuring (CDR) Cell.
- In the last Annual General meeting held on 29th September, 2009 no Special Resolution was passed.

5. Disclosures

a. Related Party Transactions

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

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

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

b. Code of Conduct

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

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

The Code has been circulated to all the members of the Board and Senior Management and they have affirmed compliance of the same. A declaration signed by the Manager under Companies Act, 1956 to this effect which forms part of this report.

The Company has obtained from all the members of the Board and Senior Management an affirmation that they have complied with the Code of Conduct in financial year 2009-10.

c. Risk Management

The Company has adequate internal control systems in place and exercise various risk-mitigating measures. The Company has formed a detailed policy framework for risk assessment and risk management.

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

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

e. Secretarial Audit

A qualified practicing Company Secretary carries out secretarial audit every quarter to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the total issued/paid up capital is in agreement with the total number of shares in physical form and the total number in dematerialized shares held with NSDL and CDSL.

f. Code for Prevention of Insider Trading Practices

In terms of the provisions of SEBI (Prevention of Insider Trading Regulations), 2002, as amended, the Company

has formulated a “Code of Internal procedure and conduct for prevention of insider trading”. The Code lays down the guidelines and advises the designated employees on procedure to be followed and disclosures to be made while dealing in shares of the Company.

6. Whistle Blower Policy

Whistle Blower Policy was adopted by the company w.e.f 14th May, 2007, to receive and investigate the complaints under the Whistle Blower Policy. As at March 31, 2010 Mr. S. S. Nijjar, Chief Vigilance Officer (CVO) was responsible for carrying out a comprehensive, neutral and fair investigation into the matters reported, if any. The policy was circulated to all the employees of the Company and posted at the Company website www.infotelconnect.com.

7. Means of Communication

- a. The Quarterly, Half Yearly and Annual results are published in “The Financial Express” - English daily and “Nav Shakti” - vernacular language paper and forwarded to Stock Exchanges immediately. Press releases are also issued simultaneously.
- b. The Company’s official website www.infotelconnect.com contains a separate dedicated section ‘Investor Relations’ where shareholders information is available. The Annual Report of the Company is also available on the website in a user-friendly and downloadable form.
- c. All material information about the Company is promptly sent through facsimile to the Stock Exchanges where the shares of the Company are listed.
- d. Annual Report: Annual Report containing, inter alia, Audited Annual Accounts, Consolidated Financial Statements, Directors’ Report, Auditors’ Report and other important information is circulated to members and others entitled thereto. The Management Discussion and Analysis (MD&A) Report forms part of the Annual Report.

8. Management Discussion and Analysis Report

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

9. General Shareholder Information

a. Company Registration Details:

The Company is registered in the State of Maharashtra, India. The Corporate Identity Number (CIN) allotted to the Company by the Ministry of Corporate Affairs (MCA) is L00000MH1946PLC197474.

b. 63rd Annual General Meeting

The Annual General Meeting of the Company is proposed to be held in the month of September. The Exact date, time and venue shall be intimated separately by way of the Notice of AGM.

c. Financial Year and Financial Calendar

Financial Year : 1st April to 31st March

d. Financial Calendar of the Company (Tentative)

Results for the Qtr ending 30 th June, 2010	Second week of August, 2010
Results for the Qtr ending 30 th September, 2010	Second week of November, 2010
Results for the Qtr ending 31 st December, 2010	Second week of February, 2011
Results for the year ending 31 st March, 2011 (un-audited)	Second week of May, 2011
Annual General Meeting	In the month of September, 2011

e. Dates of Book Closure

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

The Financial year covers the period from 1st April, 2009 to 31st March, 2010.

f. Dividend payment date :

The Board has not recommended any dividend for the financial year 2009-10

g. Registered Office

As on the date the Registered Office of the Company is situated at:

28, Khan Manzil,
Calicut Street,
Opposite Fort Market,
Fort, Mumbai - 400 001
Tel: 022 - 22672022, Fax: 022- 22672009
e-mail: secretarial@infotelconnect.com

h. Listing of Equity Shares on Stock Exchanges

Company’s shares are listed on:

- Bombay Stock Exchange and
- Madras Stock Exchange*

The Company has initiated the process for delisting of its shares from the Madras Stock Exchange as of July 12, 2010

The requisite listing fee has been paid up to 31.03.2011 to the Stock Exchanges where shares of the Company are

listed. Listing fee is not paid to Calcutta Stock Exchange since the Company has completed all the formalities for delisting but the exchange is withholding delisting without assigning any reason.

i. **Stock Code**

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

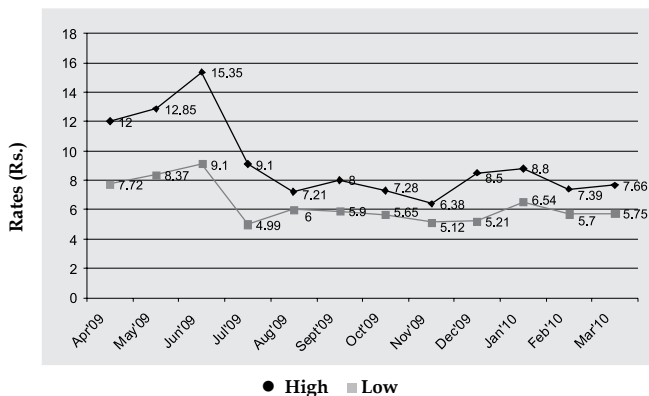
j. **Stock Price Data**

The reported high and low closing prices of the Company's shares traded during the fiscal 2009-2010 on the Stock Exchange, Mumbai are given below:

Month	High	Low
Apr'09	12.00	7.72
May'09	12.85	8.37
Jun'09	15.35	9.10
Jul'09	9.10	4.99
Aug'09	7.21	6.00
Sept'09	8.00	5.90
Oct'09	7.28	5.65
Nov'09	6.38	5.12
Dec'09	8.50	5.21
Jan'10	8.80	6.54
Feb'10	7.39	5.70
Mar'10	7.66	5.75

Performance in comparison to BSE Sensex

Share Prices (High - Low)
FY 2009-10



k. **Registrar & Share Transfer Agents**

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

l. **Registrars for Public Deposits**

M/s. Cameo Corporate Services Ltd., Chennai are the Registrars to handle all Public Deposit claims, unclaimed funds due to be transferred to the Central Government fund Investor Education and Protection Fund (IEPF) after expiry of period of seven years from the date of maturity and provide service to the deposit holders in this regard.

m. **Share Transfer System**

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

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

m. **Distribution of Shareholding as on 31st March, 2010**

Share holding of Nominal Value	Shareholders		Shareholding	
	Rs.	Number	Rs.	% of total
10 - 5000	10434	73.7386	18219010	0.2977
5001 - 10000	1625	11.4840	14294990	0.2335
10001 - 20000	866	6.1201	14074710	0.2299
20001 - 30000	310	2.1908	8109770	0.1324
30001 - 40000	147	1.0389	5361390	0.0876
40001 - 50000	213	1.5053	10332240	0.1687
50001 - 100000	289	2.0424	22626260	0.3695
100001 & Above	266	1.8799	6029584310	98.4807
Total :	14150	100.0000	6122602680	100.0000

Shareholding Pattern as on 31st March, 2010

1	Category of shareholders	No. of Shareholders	Total no. of shares	Shares in demat	Total Shareholding as a percentage of total number of shares		Shares Pledged or otherwise encumbered	
					AS A % OF (A+B)	AS A % OF (A+B+C)	Number of shares	As a % (IX) = (VIII)/(IV)
(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)	(IX)
A	SHAREHOLDING OF PROMOTER AND PROMOTER GROUP							
1	INDIAN BODIES CORPORATE	1	326705000	326705000	53.3600	53.3600	326705000	100
2	FOREIGN	0	0	0				
	TOTAL SHARE HOLDING OF PROMOTER AND PROMOTER GROUP (A)=(A)(1)+(A)(2)	1	326705000	326705000	53.3600	53.3600	326705000	100
B	PUBLIC SHAREHOLDING INSTITUTIONS							
1	a. MUTUAL FUND/UTI	1	10772205	10772205	1.7594	1.7594	N.A.	N.A.
	b. FINANCIAL INSTITUTION/BANKS	8	159042142	146870364	25.9762	25.9762	N.A.	N.A.
	c. FOREIGN INSTITUTIONAL INVESTORS	1	200000	200000	0.0326	0.0326	N.A.	N.A.
	SUB - TOTAL (B)(1)	10	170014347	157842569	27.7682	27.7682	N.A.	N.A.
2	NON-INSTITUTIONS BODIES CORPORATE	400	94795243	90278934	15.4828	15.4828	N.A.	N.A.
	b. INDIVIDUALS							
	i. INDIVIDUAL SHAREHOLDERS HOLDING NOMINAL SHARE CAPITAL UPTO Rs. 1 LAKH	13164	8035593	7373303	1.3124	1.3124	N.A.	N.A.
	ii. INDIVIDUAL SHAREHOLDERS HOLDING NOMINAL SHARE CAPITAL IN EXCESS OF Rs. 1 LAKH	143	9839305	9839305	1.607	1.607	N.A.	N.A.
	c. ANY OTHER							
	-CLEARING MEMBERS	55	1881782	1881782	0.3073	0.3073	N.A.	N.A.
	-HINDU UNDIVIDED FAMILIES	307	876545	876545	0.1431	0.1431	N.A.	N.A.
	-NON RESIDENT INDIANS	68	101378	98888	0.0165	0.0165	N.A.	N.A.
	-OVERSEAS CORPORATE BODIES	2	11075	8300	0.0018	0.0018	N.A.	N.A.
		432	2870780	2865515	0.4687	0.4687	N.A.	N.A.
	SUB - TOTAL (B)(2)	14139	115540921	110357057	18.8712	18.8712	N.A.	N.A.
	TOTAL PUBLIC SHAREHOLDING (B)=(B)(1)+(B)(2)	14149	285555268	268199626	46.6394	46.6394	N.A.	N.A.
	TOTAL (A)+(B)	14150	612260268	594904626	100	100	326705000	100

C	SHARES HELD BY CUSTODIANS AND AGAINST WHICH DEPOSITORY RECEIPTS HAVE BEEN ISSUED	0	0	0	0	0		
	GRAND TOTAL (A)+(B)+(C)	14150	612260268	594904626	100	100	326705000	100

Top Ten Shareholders of the Company as on 31.03.2010

S. No.	Name of the Shareholders	Number of shares	% of total Shareholdings
1	HIMACHAL FUTURISTIC COMMUNICATIONS LTD	326705000	53.3604
2	IDBI BANK LTD	120771641	19.7256
3	MANTU HOUSING PROJECTS LTD	20000000	3.2666
4	ORIENTAL BANK OF COMMERCE	12171778	1.9880
5	MASITIA CAPITAL SERVICES LTD	13300000	2.1722
6	ING VYSYA BANK LIMITED	11871038	1.9389
7	ORIENTAL BANK OF COMMERCE	10806054	1.7649
8	LIFE INSURANCE CORPORATION OF INDIA	10772205	1.7595
9	LINEAR COMMERCIAL PRIVATE LIMITED	8914709	1.4560
10	MOOLSONS HOLDINGS PRIVATE LIMITED	8820369	1.4406
	TOTAL	544132794	88.8727

o. Dematerialization of Shares

95.12% of the issued Equity Share Capital was held in dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on 31st March, 2010.

p. Unclaimed Dividends

There was no payment of Unclaimed dividend due for transfer to the Investor Education and Protection Fund (IEPF) account of the Central Government after expiry of seven years in March, 2010

q. Outstanding GDR/ADR or Warrants

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

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

r. Corporate Office

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

s. Address for Correspondence

Shareholders may correspond on all matters relating to transfer / dematerialization of shares and any other query relating to shares of the Company as per addresses mentioned below:

For Shares held in Physical form:**Cameo Corporate Services Ltd.**

Unit : HFCL Infotel Limited

"Subramanian Building,

No.1, Club House Road

Anna Salai, Chennai-600 002

Telephone Nos. : 044-2846 0390 (5 lines)

Email: cameo@cameoindia.com

For Shares/Debentures held in Demat form:

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

For any query on Annual Report:

The Company Secretary

HFCL Infotel Limited

28, Khan Manzil,

Calicut Street,

Opposite Fort Market,

Fort, Mumbai - 400 001

E-mail: secretarial@infotelconnect.com

t. Compliance Officer:

Mr. Kapil Bhalla, Company Secretary, is the Compliance Officer for complying with the requirements of SEBI Regulations and the Listing Agreements with the Stock Exchanges in India.

u. Website: www.infotelconnect.com.**v. Extent to which mandatory requirements have not been complied with:** N.A..**w. Extent to which non mandatory requirements have been complied with:**

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

ii) Whistle Blower Policy was formulated and is effective from 14th May, 2007.

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

As provided under Clause 49 of the Listing Agreement with the Stock Exchange (s), it is hereby declared that all the Board members and senior management personnel of the Company have affirmed compliance with the Code of Conduct for the year ended 31st March, 2010.

Place: Mumbai
Date: July 12, 2010

(KAPIL BHALLA)
Company Secretary & Manager

CEO/CFO CERTIFICATION

To,

July 12, 2010

The Board of Directors

HFCL Infotel Ltd.

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

We, Kapil Bhalla, Company Secretary and Manager and Sunil Jit Singh, Chief Financial Officer (CFO) certify to the Board that:

- (a) We have reviewed the financial statements and the cash flow statement for the year and that to the best of our knowledge and belief :
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) These statements together present a true and fair view of the Company's affairs and are in compliance with the existing Accounting Standards, applicable laws and regulations.
- (b) There are, to best of our knowledge and belief, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the Company's code of conduct.
- (c) We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- (d) We have indicated to the Auditors and the Audit Committee:
 - (i) Significant changes in internal control during the year.
 - (ii) Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and
 - (iii) There are no significant frauds, which we became aware, and the involvement of management or employee having a significant role in the Company's internal control system or financial reporting.

(SUNIL JIT SINGH)
Chief Financial Officer

(KAPIL BHALLA)
Company Secretary & Manager

CERTIFICATE BY PRACTISING COMPANY SECRETARY**On Compliance with the conditions of Corporate Governance under clause 49 of the Listing Agreement(s)**

To
The Members of
HFCL Infotel Limited

We have examined the compliance of conditions of Corporate Governance by HFCL Infotel Limited ("the Company") for year ended on 31st March, 2010, as stipulated in Clause 49 of the Listing Agreement(s) of the said Company with the Stock Exchange(s).

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to review of the procedures and implementations thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information, and according to the explanations given to us, subject to the laying down of detailed formal framework for risk assetment and minimization procedure by the Company in process, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of abovementioned Listing Agreement(s).

We 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.

Kanwaljit Singh
Membership No. F 5901
C.P. No. 5870

Place : Chandigarh
Date : July 12, 2010

AUDITORS' REPORT

To

The Members of HFCL INFOTEL LIMITED

1. We have audited the attached Balance Sheet of HFCL INFOTEL LIMITED, as at March 31, 2010, and also the Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Without qualifying our opinion, we draw attention to Note 1(c) of Schedule 22 to the financial statements, the Company has incurred a loss of Rs 206,447,327 during the year (accumulated loss of Rs 11,400,327,594) resulting into erosion of its net-worth, and has a net current liability of Rs 3,973,000,819 as at March 31, 2010. The ability of the Company to continue as a going concern is significantly dependent on its ability to successfully achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. The management in view of its business plans and support from promoters is confident of generating cash flows to fund the operating and capital requirements of the Company. Accordingly, these statements have been prepared on a going concern basis.
5. *Attention is invited to :*
 - a) *Note 16 (b) of Schedule 23 of the financial statements wherein the Company has obtained advance of Rs. 1,517,500,000 from a non shareholder Company/ Promoter to fund the entry fee for using alternate technology under existing Unified Access Service License (UASL) for Punjab Service Area during March 31, 2008. The terms and conditions with respect to tenure, interest, rights and obligations etc. are yet to be finalised hence we are unable to comment on the carrying value and thereby its impact on the profit and loss for the year. Our audit report on the financial statements for the year ended March 31, 2009 was modified, accordingly;*
 - b) *Note 9 (a) of Schedule 23 of the financial statements wherein based on Company's request Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 563 / 2009-10 dated August 13, 2009('CDR letter') has revised the terms of CDR scheme with effect from April 1, 2009. During the year ended March 31, 2010, based on confirmations from lenders and the ability of the management to fulfill all conditions in the precedent to the implementation of the Revised CDR Scheme, the Company has given effect to the terms of the Revised CDR Scheme (without considering any interest costs based on yield with respect to proposed restructuring of 25 percent loan into Cumulative Redeemable preference Shares) and recognised interest costs for the period from April 1, 2009 based on such Scheme and, accordingly, reversed the provision for interest and interest costs of Rs 1,025,846,205. The Company is confident of fulfilling the remaining conditions precedent for the implementation of the Revised CDR Scheme and would fully implement the terms of the Revised CDR Scheme on the completion of such approvals and conditions precedent. The Company has also not made any provision for license fee on such reversal as based on the judgement of Telecom Disputes Settlement & Appellate Tribunal ('TDSAT') as it believes that no license fee is leviable. Had the Company followed the old CDR scheme the loss before taxes would have been higher by Rs 724,507,265 before taxes. These financial statements do not include any adjustment which may arise due to inability of the management to complete balance conditions precedent.*
6. Further to our comments in annexure referred to above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

- (e) On the basis of written representations received from the directors, as on March 31, 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2010 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- (f) *Subject to matter stated in paragraph 5 above consequential effect whereof is not ascertainable* in our opinion and to the best of our information and according to the explanations given to us, the said accounts, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2010;
- (ii) in the case of the profit and loss account, of the loss for the year ended on that date; and
- (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For S.R. Batliboi & Associates
Firm registration number:101049W
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Mumbai
Date : June 25, 2010

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR REPORT OF EVEN DATE

Re: HFCL INFOTEL LIMITED

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets are physically verified by the management according to a phased programme designed to cover all the items over a period of three years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, a portion of the fixed assets has been physically verified by the management during the year and no material discrepancies between the book records and physical verification have been noticed.
- (c) There was no substantial disposal of fixed assets during the year.
- (ii) (a) The management has conducted physical verification of inventory of network maintenance consumables at reasonable intervals during the year.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) The Company has neither granted nor taken any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, clauses (iii) of the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 are not applicable to the Company for the current year.
- (iv) In our opinion and according to the information and explanations given to us, having regard to the explanation that certain items purchased are of special nature for which suitable alternative sources do not exist for obtaining comparative quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.
- Further, on the basis of our examination of the books and records of the Company, and according to the information and explanations given to us, we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
- (v) According to the information and explanations given to us there were no transactions referred to in section 301 that are required to be entered in the register maintained under section 301 of the Companies Act, 1956 and accordingly the clause (b) is not applicable.
- (vi) As more fully discussed in Note 21 on Schedule 23, the Company had surrendered its NBFC licence to the Reserve Bank of India ('RBI') and foreclosed the fixed deposits and deposited the amount in an escrow account as directed by the RBI. The Company has not accepted any deposits from the public in the current year within the meaning of Sections 58A and 58AA of the Act and the rules framed there under. Therefore, in our opinion, clause (vi) of Para 4 of the Companies (Auditor's Report) Order, 2003 (as amended) is not applicable to the Company for the current year.
- (vii) In our opinion, the Company has an internal audit system to make it commensurate with the size and nature of its business.

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

(ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, sales-tax, wealth tax, customs duty, cess and other material statutory dues applicable to it have generally been regularly deposited with the appropriate authorities *except there has been delays in many cases in respect of deposit of service tax and withholding tax*. The provisions relating to excise duty is not applicable to the Company.

Further, since the Central Government has till date not prescribed the amount of cess payable under section 441 A of the Companies Act, 1956, we are not in a position to comment upon the regularity or otherwise of the company in depositing the same.

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

(c) According to the records of the Company, there are no dues outstanding of income-tax, sales-tax, wealth-tax, service tax, custom duty, excise duty and cess on account of any dispute, other than the following:

Name of the Statute	Nature of Dues	Amount (Rs.)	Amount Paid (Rs.)	Net Amount (Rs.)	Financial Year	Forum where dispute is pending
Income Tax Act, 1961	Tax	10,997,359	-	10,997,359	2000-01	Income Tax Appellate Tribunal

(x) *Without considering the matters reported in paragraph 5 of our main audit report, the effects of which are currently not ascertainable the accumulated losses of the Company as at March 31, 2010, are more than fifty percent of its net worth as at that date. The Company, has incurred a cash loss of Rs 74,798,095 and Rs 881,292,798 during the year and immediately preceding financial year before considering interest provision on yield basis of Rs 227,329,338 and Rs 66,602,849 respectively.*

(xi) Based on our audit procedures and as per the information and explanations given by the management, *the Company has defaulted in payment of interest due to a financial institution and banks as presented below*. The Company has no outstanding dues to debenture holders.

Name of Financial Institution / Bank	Due date	IDBI BANK		ING VYSYA BANK		LIC OF INDIA		OBC		SBOP	
		Paid on	Amount Paid -Interest	Paid on	Amount Paid -Interest	Paid on	Amount Paid -Interest	Paid on	Amount Paid -Interest	Paid on	Amount Paid -Interest
Apr 09	1-May-09	5-Oct-09	1,737,401	25-Feb-10	130,274	29-Mar-10	325,686	30-Mar-10	325,686	28-Jan-10	108,562
May 09	1-Jun-09	5-Oct-09	1,795,314	25-Feb-10	134,727	29-Mar-10	336,818	30-Mar-10	336,818	28-Jan-10	112,181
June 09	1-Jul-09	5-Oct-09	1,737,401	25-Feb-10	130,599	29-Mar-10	326,498	30-Mar-10	326,498	28-Jan-10	108,562
July 09	1-Aug-09	5-Oct-09	1,795,314	25-Feb-10	135,288	29-Mar-10	338,221	30-Mar-10	338,221	28-Jan-10	112,181
Aug 09	1-Sep-09	5-Oct-09	1,795,314	25-Feb-10	135,739	29-Mar-10	339,348	30-Mar-10	339,348	28-Jan-10	112,181
Sep 09	1-Oct-09	5-Oct-09	1,759,249	25-Feb-10	133,552	29-Mar-10	333,881	30-Mar-10	333,881	28-Jan-10	109,927
Oct 09	1-Nov-09	27-Jan-10	1,800,783	25-Feb-10	139,018	29-Mar-10	347,546	30-Mar-10	347,546	28-Jan-10	113,868
Nov 09	1-Dec-09	27-Jan-10	1,741,832	25-Feb-10	135,641	29-Mar-10	339,101	30-Mar-10	339,101	28-Jan-10	110,471
Dec 09	1-Jan-10	22-Mar-10	1,804,324	25-Feb-10	141,409	29-Mar-10	353,524	30-Mar-10	353,524	22-Mar-10	114,430
Jan 10	1-Feb-10	29-Mar-10	1,808,259	25-Feb-10	142,788	29-Mar-10	356,971	30-Mar-10	356,971	29-Mar-10	114,523
Feb 10	1-Mar-10	29-Mar-10	1,629,855	22-Mar-10	130,030	29-Mar-10	325,813	30-Mar-10	325,813	29-Mar-10	101,841
Total			19,405,045		1,489,068		3,723,407		3,723,407		1,218,727

Due to the delays above, the Company has paid Rs 192,252 as penal interest to financial institution and banks.

- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) As informed to us, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) Based on the information and explanations given to us by the management, the term loans were applied for the purpose for which the loans were obtained.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet and cash flow statement of the Company, we report that at the year end, the Company has used *funds amounting to Rs 4,724,502,525 raised on short-term basis (primarily representing loans and Creditors) have been used for long-term investment (primarily representing accumulated losses)*.
- (xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) The Company has not raised any money by public issue.
- (xxi) Based on the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S.R. Batliboi & Associates
Firm registration number:101049W
Chartered Accountants

per Prashant Singhal
Partner
Membership No. 93283

Place : Mumbai
Date : June 25, 2010

BALANCE SHEET AS AT MARCH 31, 2010
(Unless and otherwise stated, all amounts are in rupees)

Particulars	Schedule No	As at March 31, 2010	As at March 31, 2009
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	1	6,772,602,680	5,905,171,520
Advance Against Share Application Money	2	-	867,431,181
Reserves and Surplus	3	68,566,508	68,566,508
		<u>6,841,169,188</u>	<u>6,841,169,209</u>
Loan Funds			
Secured Loans	4	6,552,851,534	6,566,009,737
Unsecured Loans	5	1,169,170,405	1,388,457,337
		<u>7,722,021,939</u>	<u>7,954,467,074</u>
		<u>14,563,191,127</u>	<u>14,795,636,283</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	6	9,200,296,933	9,055,888,326
Less: Accumulated Depreciation		(5,464,151,789)	(4,839,363,053)
Net Block		<u>3,736,145,144</u>	<u>4,216,525,273</u>
Capital Work-In-Progress (Includes Capital Advances for Rs 1,242,075) (March 31, 2009 - Rs 4,053,028)		843,114,772	72,216,696
		<u>4,579,259,916</u>	<u>4,288,741,969</u>
Intangible Assets (Net)	7	<u>2,556,504,636</u>	<u>2,700,673,538</u>
Investments	8	99,800	99,800
Current Assets, Loans and Advances			
Inventory	9	24,064,756	19,895,676
Sundry Debtors	10	278,160,277	338,978,258
Cash and Bank Balances	11	123,913,620	117,950,221
Other Current Assets	12	18,403,747	13,359,325
Loans and Advances	13	210,584,447	204,249,865
		<u>655,126,847</u>	<u>694,433,345</u>
Less: Current Liabilities and Provisions	14		
Current Liabilities		4,597,260,664	4,053,474,207
Provisions		30,867,002	28,718,432
		<u>4,628,127,666</u>	<u>4,082,192,639</u>
Net Current Liabilities		<u>3,973,000,819</u>	<u>3,387,759,294</u>
Profit and Loss Account		<u>11,400,327,594</u>	<u>11,193,880,270</u>
		<u>14,563,191,127</u>	<u>14,795,636,283</u>
Significant Accounting Policies	22		
Notes to Financial Statements	23		

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

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES

Firm registration number: 101049W

Chartered Accountants

per Prashant Singhal

Partner

Membership No. 93283

For and on behalf of the Board of Directors

Yatinder Vir Singh

Director

Kapil Bhalla

Manager & Company Secretary

Babu Mohanlal Panchal

Director

Sunil Jit Singh

Chief Financial Officer

Place : Mumbai

Date : June 25, 2010

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2010
(Unless and otherwise stated, all amounts are in rupees)

Particulars	Schedule No	For the year ended March 31, 2010	For the year ended March 31, 2009
Income			
Service Revenue	15	1,962,089,496	2,235,707,374
Other Income	16	16,071,573	13,854,662
		<u>1,978,161,069</u>	<u>2,249,562,036</u>
Expenditure			
Network Operation Expenditure	17	1,102,277,739	1,133,672,179
Personnel Expenditure	18	458,710,043	482,162,008
Sales and Marketing Expenditure	19	91,314,662	154,996,762
Administrative and Other Expenditure	20	311,710,620	287,611,099
		<u>1,964,013,064</u>	<u>2,058,442,048</u>
Operating Profit for the Year before Finance Charges, Depreciation, Amortisation and Loss / (Gain) on Sold / Discarded Fixed Assets		14,148,005	191,119,988
Diminution in value of Investments		-	717,670,900
(Gain) on sale of Fixed Assets	23, Note 11 (c)	(14,304,527)	(337,234,841)
Loss on Discarded Fixed Assets		19,003,813	155,296,539
Finance Charges	21	(704,235,671)	678,294,362
Foreign exchange Loss / (Gain)		(34,614,221)	106,760,734
Depreciation	6	799,778,815	841,687,026
Amortisation	7	150,386,418	150,049,533
Loss for the Year before Prior Year Expenditure and Tax		201,866,622	2,121,404,265
Prior Period Expenditure (Net)	23, Note 23	4,580,702	20,662,276
Loss for the Year before Tax		206,447,324	2,142,066,541
Provision for Taxation		-	-
Earlier years		-	-
Fringe Benefit Tax		-	5,229,059
Loss for the Year		206,447,324	2,147,295,600
Loss brought forward from previous year		11,193,880,270	9,151,022,826
Less Transfer from General Reserve		-	(104,438,156)
Loss carried to the Balance Sheet		11,400,327,594	11,193,880,270
Loss per share (equity shares, par value of Rs 10 each)	23, Note 17		
Basic (in Rs)		0.35	4.09
Diluted (in Rs)		0.35	4.09
Weighted average number of shares used in computing earnings per share			
Basic		588,970,335	525,517,152
Diluted		588,970,335	525,517,152
Significant Accounting Policies	22		
Notes to Financial Statements	23		

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

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES

Firm registration number: 101049W

Chartered Accountants

per Prashant Singhal

Partner

Membership No. 93283

For and on behalf of the Board of Directors

Yatinder Vir Singh

Director

Babu Mohanlal Panchal

Director

Kapil Bhalla

Manager & Company Secretary

Sunil Jit Singh

Chief Financial Officer

Place : Mumbai

Date : June 25, 2010

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	As at March 31, 2010	As at March 31, 2009
SCHEDULE 1: Share Capital [Refer Schedule 23, Note 7]		
Authorised:		
1,300,000,000 (March 31, 2009 - 1,300,000,000) Equity Shares of Rs 10 each (March 31, 2009 - Rs 10 each)	13,000,000,000	13,000,000,000
20,000,000 (March 31, 2009 - 20,000,000) Preference Shares of Rs 100 each (March 31, 2009 - Rs 100 each)	2,000,000,000	2,000,000,000
	<u>15,000,000,000</u>	<u>15,000,000,000</u>
Issued, Subscribed and Paid up		
612,260,268 (March 31, 2009 - 525,517,152) equity shares of Rs 10 each (March 31, 2009 - Rs 10 each) fully paid.	6,122,602,680	5,255,171,520
6,500,000 (March 31, 2009 - 6,500,000) fully paid 2 per cent cumulative redeemable preference shares ('CRPS') of Rs 100 each	650,000,000	650,000,000
	<u>6,772,602,680</u>	<u>5,905,171,520</u>

(a) Of the above

- (i) 490,750 (March 31, 2009 - 490,750) equity shares of Rs 10 each, were allotted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.
 - (ii) 326,705,000 (March 31, 2009 - 325,705,000) equity shares are held by Himachal Futuristic Communications Limited (Holding Company).
 - (iii) 83,070,088 equity shares of Rs 10 each were allotted on October 16, 2004, pursuant to the Corporate Debt Restructuring ('CDR') Scheme.[Refer Schedule 22, Note 1 (c)] Out of these, 63,373,110 equity shares of Rs 10 each were issued by the Company to Industrial Development Bank of India ('IDBI'), at par and the balance of 12,171,778 and 7,525,200 equity shares of Rs 10 each to Oriental Bank of Commerce ('OBC') and ING Vysya Bank Limited ('ING'), respectively, at a premium of Re 0.50 per equity share as per provisions of applicable law.
 - (iv) 8,67,43,116 equity shares of Rs.10/- each were issued on July 08, 2009 after obtaining in principle approval from the BSE and MSE, consequent to the conversion of Optionally Fully Convertible Debentures (OFCDs) pursuant to the Corporate Debt Restructuring (CDR) Cell.
- (b) As more fully discussed in Schedule 22, Note 1(a), the Company in accordance with the scheme of amalgamation approved by the High Court of the State of Punjab and Haryana and the State of Tamil Nadu on March 6, 2003 and March 20, 2003, respectively under section 391 and 394 of the Companies Act, 1956, the erstwhile HFCL Infotel Limited (name earlier allotted to the transferor company), amalgamated with HFCL Infotel Limited ('HIL' or 'the Company'), (formerly The Investment Trust of India Limited). Subsequent to the approved amalgamation:
- (i) 432,000,250 equity shares of Rs 10 each were allotted to the shareholders of erstwhile HFCL Infotel Limited on June 17,2003.
 - (ii) 1,730,814 equity shares of Rs 10 each were allotted on October 13, 2003, on conversion of the warrants issued to the shareholders of The Investment Trust of India Limited prior to June 11, 2003.
- (c) 6,500,000 (March 31, 2009 - 6,500,000) 7.5 per cent CRPS were allotted to Himachal Futuristic Communications Limited ('HFCL') (Holding Company) on October 16, 2004, pursuant to the CDR Scheme [Refer Schedule 22, Note 1(c)], the specified part of the amount due to HFCL by the Company was converted into 7.5 per cent CRPS redeemable after the repayment of Rupee Term Loan (i.e. July 1, 2013). Prior approval of the lenders is required to declare dividend on 7.5 per cent CRPS and all the voting rights attached to the CRPS to be assigned in favour of the term lenders. On June 24, 2005 as per revised CDR Scheme, the dividend percentage is reduced to 2 per cent from 7.5 per cent with effect from date of issuance of CPRS. Due to accumulated losses provision for dividend is not required.

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	As at March 31, 2010	As at March 31, 2009
SCHEDULE 2: Advance Against Share Application Money [Refer Schedule 23, Note 8]		
Advance Against Equity Share Application Money	-	867,431,181
	-	867,431,181
Advance against Share Application Money has been utilised to issue 86,743,116 equity shares of Rs.10/- each on July 08, 2009 after obtaining in principle approval from the BSE and MSE		
SCHEDULE 3: Reserves and Surplus		
Capital Reserve	34,032,776	34,032,776
Securities Premium [Refer Note (a), (b) & (c) below]		
Balance, beginning of the year	22,633,732	22,633,732
Adjusted during the year	-	-
Less: Utilised during the year	-	-
	22,633,732	22,633,732
Statutory Reserve [Refer Note (d) below]	11,900,000	11,900,000
General Reserve [Refer Note (e) below]	-	104,438,156
Less: Transferred to Profit & Loss Account	-	(104,438,156)
	-	-
	68,566,508	68,566,508
(a) Securities premium includes an amount of Rs 9,848,489 received on allotment of 19,696,978 equity shares of Rs 10 each on October 16, 2004 at a premium of Rs 0.50 per equity share [Refer Schedule 1, Note (a) (iii)]		
(b) During the year 2006, in accordance with the CDR Scheme [Refer Schedule 22, Note 1(c)], the Company had provided for the premium on Zero per cent Optionally Fully Convertible Debentures (OFCDs) and has utilised the securities premium to that extent.		
(c) During the year 2007-08, the Company based on the lenders confirmation has written back the securities premium of Rs 13,110,587		
(d) As more fully discussed in Schedule 22, Note 1(a), the Company (<i>erstwhile</i> The Investment Trust of India Limited) was a Non-Banking Financial Corporation ('NBFC') under the Certificate of Registration ('CoR') No 07.00222 dated April 18, 1998. Further, as more fully discussed in Schedule 23, Note 21, the Company has surrendered its CoR with the Reserve Bank of India ('RBI'). As a condition for the cancellation of the CoR, the RBI has advised the Company to follow certain strictures till the balance in the escrow account is settled .		
(e) General Reserve represents the amount carried forward in accordance with the Scheme of Amalgamation as more fully discussed in Schedule 22, Note 1(a) This reserve has been transferred to Profit & Loss Account during the Year ended March 31, 2009.		
SCHEDULE 4: Secured Loans [Refer Schedule 23, Note 9]		
Term Loans		
From Financial Institution	792,501,704	746,250,000
From Banks	5,601,344,471	5,273,500,000
Zero per cent Funded Interest Term Loan		
From Financial Institution	-	326,845,373
From Banks	-	46,251,704
Vehicle loans	1,341,082	6,673,308
Bank overdraft	157,664,277	166,489,352
	6,552,851,534	6,566,009,737
Amounts repayable within one year		
- Vehicle Loan	968,255	6,415,390
- Financial Institutions	-	15,000,000
- Banks	-	106,000,000
	-	-
SCHEDULE 5: Unsecured Loans [Refer Schedule 23, Note 10]		
Zero per cent Non Convertible Debentures ('NCDs') (<i>erstwhile</i> OFCDs) (others)	166,776,100	166,776,100
Buyers Credit Facility (Loan from foreign bank)	92,153,587	311,440,519
Buyers Credit Facility (Loan from Infotel Business Solutions Limited) Repayable on demand	40,832	410,740,832
Short term loan from Infotel Digicom (P) Limited Repayable on demand	-	499,499,886
Unsecured Loan from Domebell Electronics India Private Limited	910,199,886	-
	1,169,170,405.00	1,388,457,337
Amounts repayable within one year - Buyer Credit Facility (Loan from foreign bank)	92,153,587	207,627,012

Schedules annexed to and forming part of Financial Statements

SCHEDULE 6: Fixed Assets [Refer Schedule 23, Note 11]

ASSETS	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	As at April 1, 2009	Additions during the period	Sale/ Adjustment during the period	As at March 31, 2010	As at April 1, 2009	Depreciation for the period	On Sale/ Adjustment	As at March 31, 2010	As at March 31, 2009
Land - Freehold	16,142,623	-	-	16,142,623	-	-	-	16,142,623	16,142,623
Land - Leasehold	8,896,419	-	-	8,896,419	924,668	92,160	-	1,016,828	7,879,591
Building	189,200,208	-	3,943,939	185,256,269	29,553,622	3,574,490	899,247	32,228,865	153,027,404
Leasehold Improvements	75,605,206	156,437	-	75,761,643	51,448,480	6,841,158	-	58,289,638	24,156,726
Network Equipment	3,203,818,970	278,193,017	6,286,828	3,475,725,159	1,806,442,398	343,833,533	3,966,989	2,146,308,942	1,397,376,572
Optical Fibre Cable and Copper Cable	4,347,314,137	26,467,464	2,922	4,373,778,679	2,078,301,379	309,148,475	72	2,387,449,782	2,269,012,758
Telephone Instruments at Customers Premises	864,846,764	29,856,360	172,930,470	721,772,654	615,713,756	103,204,232	162,835,860	556,082,128	249,133,008
Computers	235,089,887	3,034,396	441,738	237,682,545	174,845,079	21,003,644	247,310	195,601,413	60,244,808
Office Equipment	43,978,498	984,315	1,986,455	42,976,358	28,285,146	4,481,465	1,227,664	31,538,947	15,693,352
Furniture & Fixture	39,977,292	412,000	395,452	39,993,840	33,463,250	3,288,207	251,086	36,500,371	6,514,042
Vehicles	31,018,322	542,400	9,249,978	22,310,744	20,385,275	4,311,451	5,561,851	19,134,875	10,633,047
T O T A L	9,055,888,326	339,646,389	195,237,782	9,200,296,933	4,839,363,053	799,778,815	174,990,079	5,464,151,789	4,216,525,273
<i>Previous Year ended March 31, 2009</i>	<i>9,511,129,842</i>	<i>310,211,630</i>	<i>765,453,146</i>	<i>9,055,888,326</i>	<i>4,594,764,149</i>	<i>841,687,026</i>	<i>597,088,122</i>	<i>4,839,363,053</i>	

SCHEDULE 7: Intangible Assets

ASSETS	GROSS BLOCK			AMORTISATION			NET BLOCK		
	As at April 1, 2009	Additions during the period	Sale/ Adjustment during the period	As at March 31, 2010	As at April 1, 2009	Amortisation for the period	On Sale/ Adjustment	As at March 31, 2010	As at March 31, 2009
Computer Software	175,493,175	6,217,516	-	181,710,691	149,721,484	12,668,419	-	162,389,903	25,771,691
Licence Entry Fees	2,352,658,603	-	-	2,352,658,603	1,195,256,756	136,055,289	-	1,331,312,045	1,157,401,847
Licence Entry Fees GSM [Refer Schedule 22, Note 1(b)]	1,517,500,000	-	-	1,517,500,000	-	1,662,710	-	1,662,710	1,515,837,290
T O T A L	4,045,651,778	6,217,516	-	4,051,869,294	1,344,978,240	150,386,418	-	1,495,364,658	2,700,673,538
<i>Previous Year ended March 31, 2009</i>	<i>4,041,720,988</i>	<i>3,930,790</i>	<i>-</i>	<i>4,045,651,778</i>	<i>1,194,928,707</i>	<i>150,049,533</i>	<i>-</i>	<i>1,344,978,240</i>	

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	As at March 31, 2010	As at March 31, 2009
SCHEDULE 8: Investments (Non Trade - Long term) [Refer Schedule 23, Note 12]		
Subsidiary Company		
Long Term (at cost)		
Unquoted		
9,980 [March 31, 2009 - 9,980] equity shares of Rs 10 each fully paid in		
Infotel Tower Infrastructure Private Limited	99,800	99,800
	<u>99,800</u>	<u>99,800</u>

Note:

- (a) During the year ended March 31, 2009, the Company had incorporated one wholly owned Subsidiary Company, Infotel Tower Infrastructure Private Limited with an Investment of Rs 99,800 [Refer Schedule 23, Note 12]

SCHEDULE 9: Inventory [Refer Schedule 23, Note 14]

Inventory held for installation and maintenance of network	24,064,756	19,895,676
	<u>24,064,756</u>	<u>19,895,676</u>

SCHEDULE 10: Sundry Debtors*Outstanding for a period exceeding six months:*

Secured and Considered Good	4,431,908	7,978,885
Unsecured and Considered Doubtful	144,818,316	115,208,921
<i>Others</i>		
Secured and Considered Good	6,335,907	9,266,310
Unsecured and Considered Good	267,392,462	321,733,064
Unsecured and Considered Doubtful	9,210,427	13,680,977
	432,189,020	467,868,157
Less: Provision for Doubtful Debts	154,028,743	128,889,899
	<u>278,160,277</u>	<u>338,978,258</u>

Notes:

- a) Debtors are secured to the extent of deposit received from the subscribers.
- b) Includes Rs 88,871,045 (March 31, 2009 - Rs 91,979,858) of unbilled revenues, the invoices for which have been raised subsequent to March 31, 2010 [Refer Schedule 22, Note 2.11]
- c) Debtors includes amount due from HFCL Satellite Communication Limited, as per erstwhile Sec. 370 (1B) of the Companies Act, 1956, the company under the same management, amounting to Rs 9,066,910 (March 31, 2009 - Rs 10,123,047), Maximum amount outstanding during the year Rs 10,123,047 (March 31, 2009 - Rs 10,123,047).

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	As at March 31, 2010	As at March 31, 2009
Schedule 11: Cash and Bank Balances		
Cash in Hand	2,340,516	2,426,702
Cheques in Hand	14,493,617	7,964,046
Balances with Scheduled Banks		
In Current Account	45,216,599	40,466,719
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 60,552,113 (March 31, 2009 - Rs. 65,428,936)]	60,552,113	65,428,936
In Escrow Account [Refer note below]	1,310,775	1,663,818
	<u>123,913,620</u>	<u>117,950,221</u>

Notes:

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

SCHEDULE 12: Other Current Assets

Interest Accrued on Fixed Deposits	18,403,747	13,359,325
	<u>18,403,747</u>	<u>13,359,325</u>

SCHEDULE 13: Loans and Advances**(Unsecured , considered good except otherwise stated)**

Advances Recoverable in cash or in kind or for value to be received		
Considered Good	47,775,459	55,573,140
Considered Doubtful	802,642	789,668
Due from ITIPL Limited - Wholly owned Subsidiary (Maximum outstanding balance during the year Rs 46,745,145, March 31, 2009 - Rs 32,821,607)	32,352,453	32,821,607
Due from The Investment Trust of India Limited - Associate (Maximum outstanding balance during the year Rs 1,149,999, March 31, 2009 - Rs 1,149,999)	1,149,999	1,149,999
Security Deposits		
Considered Good	26,963,683	26,030,348
Considered Doubtful	1,186,199	1,211,265
Tax deducted at source recoverable	24,047,260	11,402,874
FBT Recoverable	445,497	-
Balance with Customs, Excise and Service Tax	77,850,096	77,271,897
	<u>212,573,288</u>	<u>206,250,798</u>
Less: Provision for Doubtful Advances	1,988,841	2,000,933
	<u>210,584,447</u>	<u>204,249,865</u>

Notes:

Advance recoverable includes dues from Chief Executive Officer as under

Interest free Housing Loan (Maximum amount outstanding during the year Rs 200,000, March 31, 2009 Rs 3,50,000)	-	200,000
Other Advances (Maximum amount outstanding during the year Rs 328,024, March 31, 2009 - Rs 493,134)	10,243	-

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	As at March 31, 2010	As at March 31, 2009
SCHEDULE 14: Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors		
Capital Goods	1,041,973,880	82,269,033
Expenses	152,735,968	229,744,029
Interconnection Usage Charges ('IUC') payable to other operators	79,723,550	137,717,010
Due to Micro/Small & Medium Enterprises [Refer Schedule 23, Note 16 (a)]	1,980,142	709,716
Expenses Payable	351,305,756	132,309,443
Book Overdraft	2,928,802	5,945,836
Advance Against Booking	63,035	63,035
Advance From Customers and Unaccrued Income*	570,223,744	591,480,600
Advance for GSM Licence Entry Fee [Refer Schedule 23, Note 16 (b)]	1,517,500,000	1,628,500,000
Advance for Other Operations	497,900,000	
Security Deposits		
From Subscribers	46,165,643	69,831,038
From Others	30,245,464	27,176,235
Investor Education and Protection Fund**		
Unclaimed Dividends	-	441,005
Unclaimed Deposits from Public	164,397	485,963
Interest accrued and due on Public Deposits	103,342	46,116
Other Liabilities	76,917,603	117,655,312
Provision for interest***	227,329,338	1,029,099,836
	4,597,260,664	4,053,474,207
* Includes Rs 440,968,743 (March 31, 2009 Rs 337,467,701) pertaining to infrastructure income in advance which is recognized on a straight line basis upon the terms of agreement which ranges from year 2005 to 2023.		
** To be transferred to Investor Education and Protection Fund (as and when due)		
*** Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 226,574,959 (March 31, 2009 - Rs 1,025,846,205) to be adjusted over a period from year 2010 to 2017 as per new CDR dated August 13, 2009 (March 31, 2009 - from year 2005 to 2013) as per the CDR Scheme, interest accrued but not due on secured loan amounting to Rs Nil (March 31, 2009 - Rs Nil) and interest accrued but not due on unsecured loan amounting to Rs Nil (March 31, 2009 - Rs 3,253,631)		
Provisions [Refer Schedule 23, Note 24]		
Wealth Tax	-	24,597
Leave Encashment / Availment	16,026,523	16,038,389
Gratuity	14,840,479	12,655,446
	30,867,002	28,718,432
	4,628,127,666	4,082,192,639

Notes:

- (a) Book overdraft has been settled subsequent to the Year end.
- (b) Sundry creditors include cheques outstanding beyond six months of Rs 523,618 (March 31, 2009 - 523,618) towards repayment of public deposits under the NBFC COR [Refer Schedule 23, Note 21]

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
SCHEDULE 15: Service Revenue		
Revenue		
From Unified Access Services	1,202,377,243	1,507,945,289
From Interconnection Usage Charge	90,106,819	136,992,288
From Infrastructure Services	46,103,171	51,608,929
From Internet Services	623,502,263	539,160,868
	1,962,089,496	2,235,707,374
SCHEDULE 16: Other Income		
Interest Income [Tax deduction at source Rs 7,668 (March 31, 2009 Rs - Nil)]	6,954,122	6,032,398
Excess Provision written back	-	3,937,742
Miscellaneous Income	9,117,451	3,884,522
	16,071,573	13,854,662
SCHEDULE 17: Network Operation Expenditure		
Interconnect Usage Charges	313,989,521	464,958,183
Other Value Added Service charges	12,845,704	8,942,490
Port Charges	28,252,047	30,711,984
Testing and Technical Survey Expenses	100,000	1,610,000
Licence Fees on Revenue Share Basis	80,550,756	104,064,784
Royalty and licence fees to Wireless Planning Commission	8,307,115	12,733,559
Stores and Spares Consumed	48,037,231	43,442,476
Rent Node site	32,107,831	36,190,144
Infrastructure Sharing Rent	267,620,888	143,008,106
Electricity and Water	133,091,227	78,175,180
Security Charges	103,953	390,733
Repair & Maintenance - Network	93,497,358	89,504,841
Bandwidth Charges	83,774,108	119,939,699
	1,102,277,739	1,133,672,179
SCHEDULE 18: Personnel Expenditure		
Salaries, Wages and Bonus [Refer Schedule 23, Note 24]	424,831,630	446,091,617
Employer's Contribution to Provident and Other Funds [Refer Schedule 23, Note 24]	20,202,166	20,776,293
Staff Welfare Expenses	9,894,931	10,793,205
Recruitment & Training Expenses	3,781,316	4,500,893
	458,710,043	482,162,008

SCHEDULES ANNEXED TO AND FORMING PART OF FINANCIAL STATEMENTS

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
SCHEDULE 19: Sales and Marketing Expenditure		
Sales and Business Promotion	2,425,360	2,447,663
Advertisement Expenses	18,337,666	35,623,463
Customers Acquisition Costs	70,551,636	116,925,636
	<u>91,314,662</u>	<u>154,996,762</u>
SCHEDULE 20: Administrative and Other Expenditure		
Legal and Professional Expenses	30,839,435	32,323,239
Travelling and Conveyance	68,294,362	64,971,100
Communication Expenses	2,994,734	2,699,257
Rent	26,116,882	25,955,155
Security Charges	5,484,518	4,590,871
Repairs and Maintenance - Building	165,833	229,488
Repairs and Maintenance - Others	11,959,983	12,599,951
Electricity and Water	17,637,174	15,492,502
Insurance	5,061,857	6,937,795
Rates and Taxes	5,531,913	29,131,064
Freight & Cartage	4,438,556	5,473,920
Printing and Stationary	3,670,621	3,980,296
Billing and Collection Expenses	69,771,227	67,972,731
Software Expenses	1,097,178	-
Directors' Fees	315,160	288,440
Provision for Doubtful Advances	802,642	
Less: Utilised to Doubtful Advances Written off	-	(65,700,000)
Bad Debts Written off	36,249,364	63,826,550
Provision for Doubtful Debts	<u>24,289,442</u>	
Less: Utilised to Bad Debts Written off	<u>(7,883,316)</u>	11,297,740
Wealth Tax	-	24,597
Miscellaneous Expenses	4,873,055	5,516,403
	<u>311,710,620</u>	<u>287,611,099</u>
SCHEDULE 21: Finance Charges		
Interest on Term Loans [Refer Note (a) & (b) below]	(760,681,122)	583,433,679
Interest to Others	45,773,078	80,280,594
Bank Guarantee Commission	7,918,141	8,783,614
Trustees Fee	875,000	927,163
Other Finance Charges	1,879,232	4,869,312
	<u>(704,235,671)</u>	<u>678,294,362</u>

(a) Includes Rs 1,025,846,205 reversal of the provision for interest, being the differential between interest paid and interest accrued on yield basis as per old CDR scheme.

(b) Includes interest accrued on secured loan as difference between the interest paid and interest accrued on yield basis amounting to Rs 223,784,616 (March 31, 2009 - Rs 63,349,218) as per CDR Scheme. [Refer Schedule 23, Note 9 (a)]

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2010

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

SCHEDULE 22: BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services Licensee for Punjab Circle (including Chandigarh and Panchkula), is providing complete telecommunication services, which includes voice telephony, both wireline and fixed wireless, CDMA and GSM based mobiles, internet services, broadband data services and a wide range of value added service viz., centrex, leased lines, VPNs, voice mail, video conferencing etc. The services were commercially launched in October 2000 and as on March 31, 2010, the Company has an active subscriber base of over 501,885.

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

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

On August 15, 2008, the Company has incorporated one wholly owned Subsidiary Company Infotel Tower Infrastructure Private Limited ('TIPL') with an Investment of Rs 99,800. The principal business of the Company is building, establishing, setting-up, accruing,

developing, advising on, managing, providing, operating and/or maintaining, facilitating conduct of, fully or partially infrastructure facilities and services thereof for all kinds of value added services including Broadband Towers for telecom operations/services, payment gateway services and international gateway services.

(b) License Fees

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

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

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

During the year ended March 31, 2008, the Company has deposited the entry fee of Rs 1,517,500,000 with The Department of Telecommunication ('DOT') for the use of GSM Technology in addition to CDMA technology being used under the existing Unified Access Services Licence ('UASL') for the Punjab Service Area. The UASL has since been amended to incorporate the license for use of GSM technology on January 15, 2008 vide DOT's letter number F.No.10-15/2004/BS.II/HITL/ Punjab/17 dated January 15, 2008. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTG (Pt) dated September 10, 2008. The Company had submitted the spectrum trial reports to DOT vide letter number HFCL/DOT/2009-10/38A dated November 18, 2009. DOT has regularized the GSM Spectrum earmarked for Unified Access Services in Punjab Telecom Service Area vide letter number L-14043/37/2009-NTG (Pt-1) dated December 7, 2009 with immediate effect. The Company has launched its GSM services on March 29, 2010 in Punjab Circle.

(c) Project Financing

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

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

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

Further, the project cost is to be funded by way of Equity share capital of Rs 6,020,000,000, preference share capital of Rs 650,000,000, term loan of Rs 7,000,000,000, Buyer's

credit facility of Rs 1,630,000,000 and Unsecured OFCD of Rs 170,000,000.

During the year, the Company has incurred losses of Rs 206,447,324 resulting into accumulated loss of Rs 11,400,327,594 as at March 31, 2010 which has completely eroded its net worth and has a net current liability of Rs 3,973,000,819 including capital liability of Rs 1,041,973,880 and subscriber and distributors security deposits of Rs 76,411,107. The ability of the Company to continue as a going concern is substantially dependent on its ability to successfully arrange the remaining funding and achieve financial closure to fund its operating and capital funding requirements and to substantially increase its subscriber base. The management in view of its business plans and support from significant shareholders is confident of generating cash flows to fund the operating and capital requirements of the Company. Accordingly, these statements have been prepared on a going concern basis.

2. Summary of significant accounting policies

2.1 Basis of preparation of Financial Statements

The financial statements have been prepared to comply in all material respects with the notified accounting standards by Companies (Accounting Standards) Rules, 2006 ('as amended'), and the relevant provisions of the Companies Act, 1956. The preparation of financial statements is in conformity with the Generally Accepted Accounting Principals. The financial statements have been prepared under the historical cost convention on an accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The significant accounting policies are as follows:

2.2 Fixed Assets

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

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

2.3 Inventory

Inventory is valued at cost or net realisable value which ever is low. Cost for the purchase is calculated on FIFO basis

2.4 Depreciation

- (i) Depreciation is provided pro-rata to the period of use (except for Telephone Instruments, being ready for use are depreciated from the beginning of the month, following the month of purchase), on the straight line

method based on the estimated useful life of the assets, as follows:

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

- (ii) Depreciation rates derived from the above are not less than the rates prescribed under Schedule XIV of the Companies Act, 1956.
- (iii) During the year ended March 31, 2009 the Company has decreased the average life of Batteries considered part of Network equipments from 9.67 years to 5 years. Resultant impact is not material, hence not disclosed.
- (iv) Depreciation on the amount capitalized on up-gradation of the existing assets is provided over the balance life of the original asset.
- (v) Depreciation on the amount capitalised till March 31, 2007 on account of foreign exchange fluctuations is provided over the balance life of the original asset (refer Note 2.13, below)

2.5 Borrowing Costs

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

2.6 Impairment

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

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

2.7 Intangibles

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

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

2.8 Licence Fees

(i) Licence Entry Fee

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

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

(ii) Revenue Sharing Fee

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

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

2.9 Investments

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

2.10 Provisions

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

2.11 Revenue Recognition

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

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

2.12 Interconnection Usage Revenue and Charges

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

of the call i.e. mobile, fixed line, and distance i.e. local, national long distance and international long distance. The Company receives certain interconnection charges from other operators for all calls terminating in its network

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

2.13 Foreign Currency Transactions

Initial Recognition

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

Conversion

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

Exchange Differences

Exchange differences arising on the settlement or on reporting Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year.

2.14 Employee Benefits

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

Short Term Employee Benefits

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

Long Term Employee Benefits

Provident Fund and employees' state insurance schemes

All employees of the Company are entitled to receive benefits under the Provident Fund, which is a defined contribution plan. Both the employee and the employer make monthly contributions to the plan at a predetermined rate (presently 12%) of the employees'

basic salary. These contributions are made to the fund administered and managed by the Government of India. In addition, some employees of the Company are covered under the employees' state insurance schemes, which are also defined contribution schemes recognised and administered by the Government of India.

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

Leave Encashment

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

Gratuity

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

- a) Short term compensated absences are provided for on based on estimates.
- b) Actuarial gains and losses are recognised as and when incurred

2.15 Income-Tax

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

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the Company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty supported by convincing evidence that

such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be, that future taxable income will be available against which such deferred tax assets can be realised.

2.16 Operating Leases

Where the Company is the lessee

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

Where the Company is the lessor

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

2.17 Loss Per Share

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

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

2.18 Segment Reporting

Identification of segments:

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

Allocation of common costs:

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

Unallocated items:

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

2.19 Cash & Cash Equivalents

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

HFCL INFOTEL LIMITED

SCHEDULES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS AT AND FOR THE YEAR ENDED MARCH 31, 2010

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

SCHEDULE 23: NOTES FORMING PART OF THE FINANCIAL STATEMENTS

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

S. No.	Description	As at March 31, 2010	As at March 31, 2009
I.	Estimated Value of Contracts remaining		
	To be executed on capital account and not provided for net of capital advances Rs. 1,214,168 (March 31, 2009- Rs 2,024,309)	1,025,925,638	23,961,254
II.	Contingent Liabilities and Commitments		
	Financial Bank Guarantees (refer Note (a) below)	185,159,908	221,206,514
	Performance Bank Guarantees (refer Note (a) below)	52,782,810	53,864,972
	Counter guarantee given to HFCL, the Holding Company	-	5,225,000,000
III.	Open Letters of Credit	3,612,292	12,620,144
	(Margin deposit for above Rs 361,229 (March 31, 2009- Rs 1,262,014)		
IV.	Income-tax matters under Appeal (refer Note (b) below)	10,997,359	10,366,937
V.	Claims against the Company not acknowledged as debts - mainly representing miscellaneous claims filed against the Company, which are subject matter of litigation.	6,004,468	5,148,860
VI.	Others (refer to note (c, d, e, f, g and h) below)	856,657,573	849,657,573
	Total	2,141,140,048	6,401,826,254

- (a) Financial bank guarantees as at March 31, 2010 of Rs.185,159,908 (March 31, 2009 - Rs. 221,206,514) and performance bank guarantees of Rs. 52,782,810 (March 31, 2009 - Rs 53,864,972) are secured. The details of security created are detailed out in note no. 9 (a) below. Further, the financial bank guarantee given by Punjab National Bank ('PNB') to The Export Import Bank of China of Rs.108,825,514 is unsecured.
- (b) The Company has certain income tax related matters pending with Income Tax Appellate Tribunal for the Assessment Year 2001-02 aggregating to Rs 10,997,359 (March 31, 2009 - Rs 10,366,937).
- (c) The Wireless Finance Division of Department of Telecommunications has claimed an outstanding of

Rs 29,585,211 towards the Spectrum Charges dues from year 2001 to year 2005 vide their letter 1020/48/2005-WFD dated October 7, 2005. The Company has submitted its reply to the department on October 25, 2005 confirming the total due of Rs 29,472 only and paid the said amount. The Wireless Finance Division of Department of Telecommunications has subsequently claimed Rs 39,310,176 vide letter number 1020/48/2005-WFD dated September 13, 2006 towards the Spectrum Charges dues from year 2001 to year 2006. The Company has submitted a detailed reply on October 31, 2006. During the year ended March 31, 2008, out of the above demand, the Company has deposited Rs 1,801,241 under protest towards the interest due till August 31, 2006. Wireless Finance Division of Department of Telecommunications has updated their claim to Rs 70,604,092 towards Spectrum Charges dues from January 1, 2000 to September 30, 2008 vide letter number 1020/29/WR/07-08 dated October 24, 2008. The Company has once again made a written representation vide its letter dated December 8, 2008 and August 12, 2009. The reply of which has not been received. Based on the legal opinion, the Company is confident that no liability would accrue regarding the same in future

- (d) During the year ended March 31, 2007, Bharat Sanchar Nigam Limited ('BSNL') has raised supplementary bill dated August 10, 2006 for Rs 167,614,241 towards Inter-connect Usage Charges ('IUC') and Access Deficit Charges ('ADC') for the period November 14, 2004 to August 31, 2005 on the Company in accordance with HQ Letter No. 460-1/2006-REGLN dated May 22, 2006. BSNL further raised invoices to the tune of Rs 99,346,533 on similar grounds for the period September 1, 2005 to February 28, 2006. These charges are on account of unilateral declaration of the Company's Fixed Wireless and Wire line Phone services as Limited Mobility Services by BSNL. The Company has submitted its reply to BSNL on August 23, 2006 asking for the calculation/basis for the additional amount raised towards IUC and ADC by BSNL for Rs 167,614,241. Subsequently, BSNL issued a disconnection notice on August 26, 2006 which required the payment of Rs 208,236,569 (including Rs 167,614,241). The Company has submitted details to BSNL for payments already made for Rs 40,622,328. The Company has approached Hon'ble TDSAT on the subject matter and a stay order was granted on our petition no 232 of 2006 against the disconnection notice on September 21, 2006. BSNL Jalandhar Office subsequently raised a supplementary bill vide Letter No. Dy.GMM/NTR/JL/HFCL/75 dated March 20, 2007 for Rs 5,206,780, to which the Company has

submitted its reply on March 23, 2007 intimating that the matter being sub-judice and pending decision by the Hon'ble TDSAT, no coercive action be taken against the Company. The hearing on the matter has been completed on January 22, 2010 and the Hon'ble TDSAT has pronounced the judgement on May 21, 2010 and has directed that BSNL and the Company should exchange relevant information and reconcile the differences. In the absence of information from BSNL the Company is not in position to determine the liability with respect to this matter. The Company, based on expert legal opinion, believes that there would be no financial liability against such bills and accordingly, has not recorded any liability towards the IUC and ADC supplementary bills during the year ended March 31, 2010.

- (e) The Company is in receipt of Show Cause Notice dated June 4, 2007 from Department of Telecommunications ('DoT') for nonfulfilment of first year's roll-out obligations of Unified Access Service License ('UASL') Agreement for Punjab Service Area, where in the licensee as per the terms of the license agreement was required to ensure that at least 10% of the District Headquarter / Towns are covered in the first year of the date of migration to UASL which commences from the date of Test Certificate issued by Telecom Engineering Centre ('TEC'). As stated by DoT in the Show Cause Notice issued, the Company has violated the conditions of UASL and accordingly Liquidated Damages of Rs 70,000,000 has been imposed and DoT has also sought explanation within 21 days as to why they should not take action against the Company under the UASL Agreement to which the Company has replied on September 27, 2007 that the Company has not violated the conditions of UASL and based on expert legal advice, the Company believes that there would be no financial liability against such claims of DoT and accordingly, has not recorded any liability towards the Liquidated Damages during year ended March 31, 2010.
- (f) The Company is in receipt of a demand of Rs 4,157,718 from Bharat Sanchar Nigam Limited ('BSNL') on February 2, 2009 on account of port charges for the year 2008-09, passive link charges, duct cost for passive link and active link charges. Out the above Rs 430,131 pertaining to port charges for the year 2008-09 and active link charges was paid by the Company vide receipt number 189 dated February 18, 2009. The amount of Rs 3,727,587 towards the duct cost for passive link and passive link charges was not acceptable by the Company as the demand raised by BSNL was unilateral and unjust. The Company filed a petition vide petition number 41(C) of 2009 with Telecom Dispute Settlement and Appellate Tribunal ('TDSAT') to which the Company was granted a stay order dated March 25, 2009 restraining BSNL from recovering the dues from the Company. The hearing on the matter has been completed on February 11, 2010 and the judgement from Hon'ble TDSAT is awaited. Accordingly no liability has been booked in the books of accounts for the year ended March 31, 2010.
- (g) The Company is in receipt of a demand of Rs 433,158,340 from Bharat Sanchar Nigam Limited ('BSNL') on December 20, 2008 on account of unilateral revision of access charges vide its letter dated April 28, 2001 for the period from June 2001 to May 2003, in contravention of the Interconnect Agreement and TRAI Regulations. The Company, Association of Unified Service Providers of India 'AUSPI' (erstwhile Association of Basic Telephone Operators 'ABTO') and other Basic Service Operators contested aforesaid revision in the rates of access charges before Telecom Dispute Settlement Appellate Tribunal ('TDSAT'). TDSAT vide its reasoned and detailed judgement dated April 27, 2005 allowed the refund claims and struck down the unilateral revision in the rates of access charges by BSNL and held that Telecom Regulatory Authority of India ('TRAI') is the final authority for fixing of access charges and access charges would be payable as rates prescribed by the TRAI and as per the Interconnect agreements. BSNL preferred an appeal in Hon'ble Supreme Court against the order of TDSAT and an interim stay was granted on October 19, 2006. Therefore aggrieved by such unilateral action on the part of BSNL by raising aforesaid demand and disturbing the status-quo, applications were moved by the Company, AUSPI and other operators in the Hon'ble Supreme Court vide C.A No.5834-5836 of 2005 that was listed for hearing on February 9, 2009 and Hon'ble Supreme Court passed an order clarifying its previous order of October 19, 2006 and stayed the refunds claim against the BSNL there by upholding the TDSAT order dated April 27, 2005 where by BSNL is refrained from raising the access charges demand. The Company based on the legal opinion believes that there would be no financial liability against this demand and has accordingly not recorded any liability towards access charges during the year ended March 31, 2010.
- (h) The Company is in receipt of demand of Rs. 7,000,000 from Department of Telecommunications ('DoT'), Licensing Group (Access Services) vide their letter number 16-02(46)/2009-AS III/PB/799 dated October 21, 2009 for issuance of SIM cards on fake ID in Punjab Service Area, where in the Licensee was required to ensure adequate verification of each and every customer before enrolling him as a subscriber. The Company replied to DoT vide letter number HITL-Reg/DOT/09-10/269 dated November 14, 2009 that the levy of penalty imposed by DoT was based on verification done by any agency other than the DOT - TERM Cells and the exercise was carried out suo moto and in complete disregard of the established procedures and guidelines laid by DoT accordingly the Company has requested DoT to have this validation done by the DOT - TERM Cell. The Company believes that there would be no financial liability against this demand and has accordingly not recorded any liability towards penalty during the year ended March 31, 2010.

2. Expenditure in foreign currency (on accrual basis)

	For the year ended March 31, 2010	For the year ended March 31, 2009
Travel expenses	626,988	1,351,785
Finance charges	11,062,366	18,434,494
Others	5,323,053	716,806
Total	17,012,407	20,503,085

3. Managerial remuneration

Remuneration paid to Manager is as under:

	For the year ended March 31, 2010	For the year ended March 31, 2009
Salary	370,000	2,552,000
Employer's contribution to provident fund	44,400	306,240
Perquisites/ Allowances	472,894	3,542,726
Ex-gratia/ Performance linked incentive	-	577,500
Total	887,294	6,978,466

The above managerial remuneration does not include provision of gratuity of Rs 36,607 (March 31, 2009- Rs 17,188) and leave encashment of Rs 58,488 (March 31, 2009- Rs 30,839), as these provisions are computed on the basis of an actuarial valuation done for the Company and are provided in the financials (Refer Schedule 14).

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

4. Payments to auditors (excluding service tax)

	For the year ended March 31, 2010	For the year ended March 31, 2009
As Auditor:		
Audit fees	2,000,000	2,000,000
Tax audit fee	540,500	480,000
Out-of-pocket expenses	292,968	281,118
In other manner:		
AGR Fees	150,000	150,000
Certification charges	150,000	-
Total	3,133,468	2,911,118

5. CIF value of imports

	For the year ended March 31, 2010	For the year ended March 31, 2009
Import of capital equipment (other than telephone instruments)	863,258,493	78,738,857
Import of telephone instruments	5,390,610	68,232,931
Components and Spares	4,237,426	5,920,008
Total	872,886,529	152,891,796

6. Consumption of Stores & Spares

	For the year ended March 31, 2010		For the year ended March 31, 2009	
	Value	%	Value	%
Indigenous	42,632,131	88.75	41,244,789	94.94
Imported	5,405,100	11.25	2,197,687	5.06
Total	48,037,231	100.00	43,442,476	100.00

7. Share Capital

Equity shares

- (a) Out of the total paid up equity share capital comprising of 612,260,268 equity shares of Rs 10 each, 515,070,338 of unlisted equity shares have been listed at Bombay Stock Exchange (BSE) vide its letter number 20090514-12 dated May 14, 2009 and letter number DCS/PREF/DMN/FIP/239/09-10 dated May 25, 2009. As a pre-condition to the listing of the aforesaid shares of the Company, BSE directed the Company to undertake an offer for sale in the domestic market as the non-promoter holding in the Company was below the minimum stipulated level. Accordingly, the Company filed the draft offer for sale document with SEBI for sale of 8,000,000 equity shares held by promoter in the Company. However, SEBI, vide its order dated March 7, 2007 directed the Company that communication of observations on the draft offer for sale document filed by the Company be withheld till the proceedings under Section 11B of the SEBI Act against the Company are disposed off. The Company filed an appeal in SAT challenging the SEBI's order dated March 7, 2007. The Hon'ble SAT directed SEBI to proceed with the letter of offer presented by the Company, in accordance with law, and issue a letter of observations in terms of the guidelines within eight weeks from the date of filing of revised draft offer for sale document by the Company. In parallel, pursuant to the restructuring package approved under CDR mechanism, the Company has been in the process of issuance of fresh equity shares to Banks / Financial Institutions on conversion of optionally fully convertible debentures (OFCDs). Considering that post issuance of fresh equity on conversion of OFCDs, the non-promoter holding in the Company would exceed the minimum stipulated threshold, the Company requested BSE to grant listing of unlisted shares without stipulating the condition of offer of sale. BSE, vide its letter DCS / AMAL / RCG / GEN / 1108 / 2008-09 dated February 13, 2009 has, inter alia, agreed to exempt the condition imposed on the Company to comply with requirement of making an offer for sale in the domestic market, subject to compliance of certain procedural requirements including three years lock-in period of 25% of newly issued equity shares pursuant to the merger i.e. 25% of 432,000,250 shares (108,000,063 equity shares). The Company in compliance with conditions stipulated by BSE has placed under lock in 108,000,063 equity shares on May 14, 2009 for a period

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

- (b) Out of the total paid up equity share capital comprising of 612,260,268 equity shares of Rs 10/- each, 8,67,43,116 equity shares of Rs.10/- each were issued on July 08, 2009 after obtaining in principle approval from the BSE and MSE, consequent to the conversion of Optionally Fully Convertible Debentures (OFCDs) pursuant to the Corporate Debt Restructuring (CDR) Cell. The aforesaid 8,67,43,116 equity shares have been listed and tradable at Bombay Stock Exchange (BSE) vide its letter number 20090813-08 dated August 13, 2009 w.e.f. August 14, 2009 and at Madras Stock Exchange Limited vide its letter no.MSE/LD/PSK/738/215/09 dated September 01, 2009 w.e.f September 01, 2009.
- (c) On March 31, 2004, the Company obtained the approval from the shareholders for de-listing the shares listed in the Calcutta Stock Exchange Association Limited ('CSE') and complied with all the necessary requirements for delisting and submitted its application in CSE. Despite repeated reminders, the Company has not yet received CSE's approval in this regard.

8. Advance Against Share Application Money

As per the restructuring package approved under CDR mechanism, on October 16, 2004, the Company had issued 7,551,178 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from financial institution and banks from January 1, 2004 to March 31, 2005. Pursuant to the revised CDR scheme dated June 24, 2005, and lender's confirmation regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006, the Company transferred OFCDs of Rs 755,117,800 and OFCDs premium of Rs 119,873,594 into equity shares. However, pending clarifications on the conversion price, the Company, with the consent of the lenders, converted the convertible amount into Advance against Equity Share Application Money on March 31, 2006. During the year ended March 31, 2007, the Company had further

transferred Rs 5,550,374 to Advance against Equity Share Application Money, which pertained to differential interest due to monthly vis-à-vis quarterly compounding in respect of term loan from a scheduled bank. During the year ended March 31, 2008, the Company obtained additional confirmations from lenders regarding conversion of Zero percent Optionally Fully Convertible Debenture ('OFCD') including premium accrued till March 31, 2006. The Company has accordingly reduced an amount of Rs 131,110,587 from the OFCD premium and taken back the equivalent amount to securities premium account. Pending clarification on conversion price of such OFCDs (including premium) from SEBI, the Company, on the basis of directions of Financial Institution and Banks have requested Bombay Stock Exchange ('BSE') to grant 'in-principle' approval for allotment of shares at par. The BSE has agreed vide its letter no.DCS/AMAL/RCG/GEN/1108/2008-2009 dated February 13, 2009 to grant in-principle approval for allotment of 86,743,116 equity shares to be issued to Banks and financial institutions on conversion of OFCDs upon completion of necessary formalities. The Company has filed the requisite application in prescribed format vide its letter no. HITL/S&L/S-01/09/472 and 473 dated March 07, 2009 received by BSE on March 12, 2009. BSE vide their letter number DCS/PREF/DMN/PRE / 522 /09-10 dated July 1, 2009 and Madras Stock Exchange Limited (MSE) vide their letter no. MSE/LD/PSK/738/158/09 dated July 07, 2009 accorded their in-principle approval for allotment of Shares in physical form pursuant to conversion of OFCDs into equity and accordingly the Company has allotted 86,743,116 equity shares of Rs. 10 each (at par) fully paid up on July 08, 2009 and the necessary application for the listing of these shares was made to BSE and MSE on July 13, 2009. Company has received Listing and Trading approval from BSE vide its letter no. 20090813-08 dated August 13, 2009 w.e.f August 14, 2009 and MSE vide its letter no. MSE/LD/PSK/738/215/09 dated September 01, 2009 w.e.f September 01, 2009.

9. Secured Loans

- (a) As per the CDR Scheme approved on March 10, 2004 and subsequently approved on June 4, 2005, the Lenders have signed Master Restructuring Agreement ('MRA') for restructuring of their Debts and Security Trusteeship Agreement, whereby the Lenders have entered into an agreement and appointed IDBI Trusteeship Services Limited (herein after referred as "ITSL") as their custodian of security. On November 11, 2005, the charges were registered in favour of the ITSL for Rupee Term Loans, for providing Specific Credit Facility, for Working Capital Assistance and Zero percent Secured OFCDs. The same are secured by first pari passu charge on immovable properties of the Company situated at Kandivali (East), Mumbai and properties situated at Mohali & Jalandhar under equitable mortgage, first pari passu charge of hypothecation of movable properties of

the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future. Further, the same are also secured by assignment of all rights, title, benefits, claims and interest in, under the project documents, insurance policies, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Subsequently, pursuant to the reworked restructuring scheme approved under CDR mechanism on June 24, 2005, the Company has entered into amendatory Master Restructuring Agreement and amendatory Security Trusteeship Agreement ('STA') on March 9, 2006, whereby Centurion Bank of Punjab has also joined as one of the lenders and has agreed to appoint ITSL as their custodian for security and signed the STA in line with other lenders in consortium.

On the request of the Company, Corporate Debt Restructuring Cell ('CDR') vide their letter no CDR (JCP) No 138 / 2009-10 ('CDR Letter') dated May 20, 2009 has approved the interim revised restructuring package. The revised restructuring package inter alia includes funding of interest from July 1, 2008 to October 31, 2009 on simple interest basis. Funded Interest on Term Loan ('FITL') would not carry any interest and the FITL shall be repaid in 16 equal monthly installments commencing from December 1, 2009, and has rescheduled the principle installments from August 1, 2008 to November 1, 2009 so as to be repayable from December 1, 2009 to March 1, 2011. Corporate Debt Restructuring ('CDR') cell vide their letter no CDR (JCP) No 563 / 2009-10 dated August 13, 2009 has approved a new restructuring package, which includes the induction of strategic investor / change of management and settlement proposal for Term Lenders. All the term lenders have given their acceptance to the new restructuring package. The CDR has been made effective from April 1, 2009 and accordingly an amount of Rs 373,097,077 towards FITL from July 1, 2008 to March 31, 2009 has been considered as term loan. In accordance with the new restructuring package an amount of Rs 256,829,422 has been considered as Interest for the year ended March 31, 2010, and reversed the provision for interest of Rs 1,025,846,205, the differential between interest paid and interest accrued on yield basis as per old CDR scheme. The other parameters of the new CDR scheme are yet to be adopted. The management is confident of fulfilling the remaining conditions precedent for the implementation of the Revised CDR Scheme and would fully implement the terms of the Revised CDR Scheme on the completion of such approvals and conditions precedent.

- (b) The above mentioned security has been further extended to the amount of loans, working capital assistance, specific facility and OFCDs together with the interest, compound interest, additional interest, default interest, costs, charges, expenses and any other monies payable

by the Company in relation thereto and in terms with MRA and STA entered into between the lenders and ITSL.

- (c) Vehicle Loans of Rs 1,341,082 (March 31, 2009 - Rs 6,673,308) are secured by way of exclusive hypothecation charge in favour of bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly instalments and shall be repaid by 2012. Vehicle loans repayable within one-year amounts to Rs 968,255. Interest rates on vehicle loans vary from 9.65 per cent per annum to 12.15 percent per annum. The average tenure of loan is 36 months.

10. Unsecured Loans

- (a) On October 16, 2004, the Company issued 1,667,761 zero percent Non Convertible Debentures ('NCDs') of Rs 100 each in lieu of interest accrued on term loans from a financial institution and a bank for the period April 1, 2003 to December 31, 2003. The NCDs earlier redeemable at par on March 31, 2014, are now redeemable at par on March 31, 2016 after repayment of the term loans as per revised CDR Scheme effective from April 1, 2005.
- (b) On February 8, 2005, the Company has entered into a buyer's credit loan agreement with The Export Import Bank of China to facilitate payment to one of its equipment supplier for a total amount of Rs 544,131,662 (US\$ 12,134,961). As on March 31, 2010, the Company has utilized Rs 527,470,587 (US\$ 12,061,985) of this facility. The facility is secured by financial Bank guarantee of Rs 108,825,514 and by a Corporate Guarantee of Rs 544,131,662 given by HFCL, the Holding Company, on pari passu basis with other lenders.
- (c) The Company under the terms of the agreement dated May 1, 2007 had taken convertible loan to facilitate expansion and development of businesses amounting to Rs 499,499,886 from Infotel Digicomm Private Limited. The convertible loan is repayable on demand; Infotel Digicomm Private Limited shall have an option to convert the Loan into Equity Shares, subject to getting necessary approvals and subject to applicable pricing guidelines as per SEBI and other laws and regulations. On September 16, 2009 Infotel Digicomm Private Limited ('IDPL') has entered into an assignment agreement with Domebell Electronics India Private Limited ('DEIPL'), wherein IDPL has assigned the above convertible loan of Rs 499,499,886 to DEIPL. All the terms and conditions relating to the convertible loan has remained the same. The interest accrues at the end of each quarter. During the year ended March 31, 2010 the Company has provided for interest amounting to Rs 14,984,997 @ 12% to IDIPL for the three months ended June 30, 2009. DEIPL on the basis of the assignment agreement dated September 16, 2009 has a right on the interest accruing from July 1, 2009 onwards, DEIPL have agreed to waive off the interest from July 1, 2009 till March 31, 2010, therefore no provision for such interest has been made by the Company.

(d) The Company under the terms of the agreement dated May 1, 2007 had taken buyer's credit facility to facilitate funding of the telecom project amounting to Rs 410,740,832 from Infotel Business Solutions Limited. The loan carries 12% interest and is repayable on demand. Infotel Business Solutions Limited has the option to convert the loan including interest accrued into equity shares, subject to applicable pricing guidelines as per SEBI and other laws and regulations. On September 16, 2009 Infotel Business Solutions Limited ('IBSL') has entered into an assignment agreement with Domebell Electronics India Private Limited ('DEIPL'), wherein IBSL has assigned the above buyer's credit facility of Rs 410,700,000 to DEIPL. All the terms and conditions relating to the buyer's credit facility has remained the same. The interest accrues at the end of each quarter. During the year ended March 31, 2010 the Company has provided for interest amounting to Rs 12,322,225 @ 12% to IBSL for the three months ended June 30, 2009. and accordingly DEIPL on the basis of the assignment agreement dated September 16, 2009 has a right on the interest accruing from July 1, 2009 onwards, DEIPL have agreed to waive off the interest from July 1, 2009 till March 31, 2010, therefore no provision for such interest has been made by the Company.

11. Fixed Assets and Capital work-in-progress

- (a) Capital Work in Progress includes Goods in Transit of Rs 20,106,204 (March 31, 2009 - Rs 92,177).
- (b) As on March 31, 2010, telephone instruments aggregating to a net book value of Rs 155,534,655 (March 31, 2009 - Rs 219,610,995) and other assets aggregating to net book value of Rs 238,604,630 (March 31, 2009 - Rs 280,717,435) are located at customer premises, other parties and at other operator's sites, respectively.
- (c) During the year ended March 31, 2010, the Company has sold off Building for Rs 13,320,000 with gross book value of Rs 3,943,939 and accumulated depreciation of Rs 899,247, the net book value being Rs 3,044,692 and accordingly, recorded a gain of Rs 10,275,308 which has been disclosed under Gain on sale of Fixed Assets in the Profit and Loss Account.

12. Investments

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

13. License Entry Fees

During the year ended March 31, 2008, the Company has deposited the entry fee of Rs 1,517,500,000 with The Department of Telecommunication ('DOT') for the use of GSM Technology in addition to CDMA technology being used under the existing Unified Access Services Licence ('UASL') for the Punjab Service Area. The UASL has since been amended to incorporate the license for use of GSM technology on January 15, 2008 vide DOT's letter number F.No.10-15/2004/BS.II/HITL/ Punjab/17 dated January 15, 2008. DOT had provided the allocation of radio spectrum on trial basis for a period of three months till December 9, 2008 vide their letter number L14047/20/2006-NTG (Pt) dated September 10, 2008. The Company had submitted the spectrum trial reports to DOT vide letter number HFCL/DOT/2009-10/38A dated November 18, 2009. DOT has regularized the GSM Spectrum earmarked for Unified Access Services in Punjab Telecom Service Area vide letter number L-14043/37/2009-NTG (Pt-1) dated December 7, 2009 with immediate effect. The Company has launched its GSM services on March 29, 2010 in Punjab Circle.

14. Inventory for Network Maintenance

The Company holds inventory of network maintenance consumables and RUIM cards amounting to Rs 24,064,756 (March 31, 2009 - Rs 19,895,676). The quantity and valuation of inventory is taken as verified, valued and certified by the management.

15. Deferred Taxes

During the year, the Company has incurred losses of Rs 206,447,324 (accumulated losses of Rs 11,400,327,594) resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Income-tax Act, 1961. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

16. Current Liabilities and Provisions

- a) Sundry Creditors include amount payable to Micro and Small Enterprises as at March 31, 2010 of Rs 1,980,142 (March 31, 2009 - Rs 709,716). The information as required to be disclosed under the Micro, Small and Medium Enterprises Development Act, 2006 has been determined to the extent such parties have been identified on the basis of information and records available with the Company.

Information for the supplier covered under the Micro, Small and Medium Enterprise Development Act, 2006, as at March 31, 2010 is as under -

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Principal amount	1,980,142	709,716
Interest due thereon remaining unpaid to any supplier as at the end of each accounting year	-	-
The amount of interest paid by the buyer in terms of Section 16 of Micro, Small and Medium Enterprise Development Act, 2006, along with the amounts of the payment made to the supplier beyond the appointed day during each account year	-	-
The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under Micro, Small & Medium Enterprise Development Act, 2006.	-	-
The amount of interest accrued and remaining unpaid at the end of accounting year.	-	-

- b) During the year ended March 31, 2008, the Company had obtained advance of Rs 1,517,500,000 to fund the entry fee for using GSM Technology under the existing Unified Access Services License (UASL) for Punjab Service Area. The amount of aforesaid advance is adjustable or refundable on such terms and conditions as may be mutually agreed.

17. Loss per share

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

	For the year ended March 31, 2010	For the year ended March 31, 2009
Loss for the year (in Rs)	206,447,324	2,147,295,600
Weighted average number of equity shares	588,970,335	525,517,152
Nominal value per equity share (in Rs)	10	10
Loss per share - basic and diluted (in Rs)	0.35	4.09*

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

18. Operating leases

A. Company as a Lessee

- (a) The Company has entered into various cancelable lease agreements for leased premises. Gross rental expenses for the year ended March 31, 2010 is Rs 58,224,713 (March 31, 2009 - Rs 62,145,298).
- (b) The Company has entered into site sharing agreements with other operators for sharing of their infrastructure

sites. During the year, the Company has incurred Rs 267,620,888 (March 31, 2009 - Rs 143,008,106) towards infrastructure sharing expenses.

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

Particulars	As at March 31, 2010	As at March 31, 2009
Payable not later than one year	135,517,631	57,686,689
Payable later than one year and not later than five years	570,953,292	143,633,605
Payable more than five years	142,973,621	171,449,122
Total	849,444,544	372,769,415

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

B. Company as a Lessor

The Company has entered into cancellable site sharing agreements with other operators for sharing of its infrastructure sites. During the year, the Company has accrued Rs 4,437,292 (March 31, 2009- Rs 12,561,961) towards site sharing revenue.

The Company has entered into a non-cancellable lease arrangement to provide approximately 7525.11 Fibre pair kilometres of dark fibre on indefeasible right of use (IRU) basis for a period of 15 years. The gross block, accumulated depreciation and depreciation expense of the assets given on IRU basis is not readily determinable and hence not disclosed.

In respect of such leases, rental income of Rs 33,956,731 (March 31, 2009- Rs 24,074,532) has been recognised in the profit and loss account for the year ended March 31, 2010

Further lease receipts (under non-cancellable operating leases) will be recognised in the profit and loss account of subsequent years as follows:-

Particulars	As at March 31, 2010	As at March 31, 2009
Receivable not later than one year	33,956,731	33,956,731
Receivable later than one year and not later than five years	135,826,926	135,826,926
Receivable later than five years	206,006,685	239,963,417
Total	375,790,342	409,747,074

19. Segmental Reporting

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

20. Related party transactions

Relationship	Holding Company		Wholly owned Subsidiaries		Fellow Subsidiaries		Associates		Companies Under Key Management Personnel		Key Management Personnel		Total	
	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009
Nature of transaction														
Assets														
Purchase of Equity Shares	-	-	99,800	-	-	-	-	-	-	-	-	-	-	99,800
Purchase of Capital Goods	5,642,995	7,216,255	1,966,160	-	10,015,299	-	-	-	-	9,335,172	-	-	7,609,155	26,566,726
Payment against Capital Purchases / Services	4,537,254	12,449,065	-	-	8,584,921	-	-	-	-	-	-	-	4,537,254	21,033,986
Liabilities														
Amount received by Company	-	-	46,610,850	-	-	-	-	-	-	-	-	-	-	46,610,850
Balance - Payable	1,154,083	614,951	-	-	-	-	-	-	-	954,765,885	-	83,254	1,154,083	955,464,090
Balance - Receivable	-	-	32,352,453	32,821,606	9,389,196	7,763,302	1,149,999	1,149,999	23,960,762	-	10,243	200,000	66,862,653	41,934,908
Relationship														
	Holding Company		Wholly owned Subsidiaries		Fellow Subsidiaries		Associates		Companies Under Key Management Personnel		Key Management Personnel		Total	
Nature of transaction	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009	For the year ended March 31, 2010	For the year ended March 31, 2009
Income/Receipt														
Services Provided	-	-	-	-	4,882,990	5,048,932	-	-	-	-	-	-	4,882,990	5,048,932
Sale of Material	566,609	2,142,000	-	-	-	-	-	-	13,933,120	3,968,283	-	-	14,499,729	6,110,283
Debit Notes raised by us	-	945,479	523,836	41,736,581	409,944	-	-	-	17,181,032	33,998,573	-	-	18,114,812	76,680,633
Expenses/Payments														
Interest expense on ICD received	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debit Notes raised on us	566,609	-	307,295	-	861,717	-	-	-	586,734	454,424,620	-	-	2,322,355	45,424,620
Purchase of Consumables Goods/ Repair & Maintenances	-	472,074	-	-	117,019	324,687	-	-	-	-	-	-	117,019	796,761
Purchase of Services (Expenditure Nature)	-	-	72,594,535	25,564,973	-	-	-	-	4,706,552	124,952,322	26,210,429	13,122,490	103,511,516	161,639,785
Payment received by us	-	8,628,941	-	-	5,088,341	2,764,476	-	-	-	-	-	-	5,088,341	11,393,417
Assignment of Loan	-	-	-	-	-	-	-	-	910,199,886	-	-	-	910,199,886	-
Payments made by the Company	-	472,074	73,875,000	14,649,999	2,400,036	-	-	-	-	186,585,710	26,210,429	13,122,490	102,485,465	214,830,273
Advances Written Off	-	-	-	-	-	119,784	-	-	-	-	-	-	-	119,784

List of related parties

- Holding Company : Himachal Futuristic Communications Limited.
- 99.80 % Wholly owned Subsidiary : Infotel Tower Infrastructure Private Ltd., India w.e.f August 5, 2008,
- Companies under common control : WPPL Limited, HFCL Dacom Infocheck Limited, HFCL Kongsung Telecom Limited, Westel Wireless Limited, Pagepoint Services Pvt. Limited, Moneta Finance Pvt. Ltd., HFCL Bezeq Telecom Limited, Consolidated Futuristic Solutions Limited (Under liquidation)
- Associate enterprise : The Investment Trust of India Limited.
- Company under Key Managerial Personnel : Infotel Business Solutions Limited (erstwhile HFCL Internet Services Limited), Infotel Digicomm Pvt. Ltd.
- Key Managerial Personnel : Mr. Surendra Lunia (CEO) for year ended March 31, 2010.

Advances given to Key Managerial Personnel (Chief Executive Officer)

Interest Free Housing loan Rs Nil (March 31, 2009 - Rs 200,000), other advances Rs 10,243 (March 31, 2009 - Rs Nil)

Note: During April, 2010 Quadrant Enterprises Private Ltd. has by virtue of CDR settlement has acquired a significant stake in the Company (refer Note 26 (a)), since the change is effective post year end, QEPL has not been considered as related party for above disclosure.

21. Unclaimed deposits from public

During the year ended March 31, 2004, the Company surrendered its licence granted by Reserve Bank of India ('RBI') to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date, and the same have been transferred to the Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with, pending completion of which, the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. [Refer Schedule 11 & 14 and Schedule 22, Note 1(a)]. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related objects from the Memorandum of Association. Further, the Company submitted a letter dated July 7, 2004 for compliance and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised the Company to follow certain instructions till the balance in the escrow account is settled. The Registrar of Companies, Jalandhar, is yet to register the resolution of the shareholders due to delay in filing of the documents, for which the Company has moved an application to Central Government for condonation of delay. Ministry of Company Affairs vide letter no 17/23/2005-CL.V dated 07th July, 2005 has granted a condonation for filing of form 23, which was submitted to Registrar of Companies, Jalandhar vide letter No. HITL/C&L/S-31/05/347 dated July 13, 2005 and the registration certificate is yet to be obtained.

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

• Unclaimed Deposits From Public	Rs	164,397
• Interest accrued and due on public deposits upto September 15, 2003	Rs	103,342
• Interest accrued and due on deposits to be transferred to Investor Education and Protection Fund	Rs	490,507
• Cheques outstanding beyond 6 months	Rs	523,618
• Others (Under reconciliation)	Rs	28,911
	Rs	<u>1,310,775</u>
Balances with Scheduled banks in Escrow account	Rs	<u>1,310,775</u>

22. Debenture redemption reserve

Pursuant to the CDR scheme on October 16, 2004, the Company has issued OFCDs aggregating to Rs 166,776,100 repayable as on March 31, 2016. As per section 117C (1) of the Companies Act, 1956, a debenture

redemption reserve ('DRR') is to be created to which adequate amounts are to be credited out of the profits of each year until such debentures are redeemed.

During the year, the Company has incurred loss of Rs 206,447,324. Hence, in accordance with the clarification received from the Department of Company Affairs vide circular No 6/3/2001-CL.V dated April 18, 2002, the Company has not created Debenture redemption reserve.

23. Prior period expenditure (net)

Description	For the year ended March 31, 2010	For the year ended March 31, 2009
Revenue	(3,517,947)	
Revenue from Unified Access Services	(1,108,679)	-
Revenue from Internet Services	(31,224)	1,507,107
Revenue From Infrastructure Services	(2,378,044)	-
Other Income	104,560	
Sub Total - A	(3,413,387)	1,507,107
Expenses		
Infrastructure Sharing Rent	218,096	3,143,785
Port Charges	137,103	2,069,621
Interest to Others	-	1,255,744
Travelling and Conveyance	532,350	313,738
Legal & Professional Charges	1,288,544	413,653
Staff Welfare Expenses	14,675	451,206
Repair & Maintenance - Network	700,530	2,095,329
Electricity and Water	190,742	491,578
Salaries, Wages and Bonus	2,181,231	-
Interest on Term loan	999,099	-
Customer Acquisition Cost	864,627	-
VAT on Sale of Assets	-	7,926,988
Others	867,092	993,527
Sub Total - B	7,994,089	19,155,169
Grand Total (A + B)	4,580,702	20,662,276

24. Employee Benefits

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

Defined Contribution Plans

Particulars	For the year ended March 31, 2010	For the year ended March 31, 2009
Employer's Contribution to Provident Fund *	14,240,542	14,488,900
Employer's Contribution to ESI *	102,213	121,529

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

Defined Benefit Plans

The employee's gratuity fund scheme managed by Life Insurance Corporation of India and ICICI Lombard General Insurance Company Limited is a defined benefit plan and the same is 100% funded. The present value of obligation is determined based on actuarial valuation using Project Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation. The obligation for leave encashment is recognised in the same manner as gratuity.

Experience adjustments are Nil and have not been disclosed as required under Para 120 of Accounting Standard 15 relating to Employee benefits.

Particulars	2009-10		2008-09	
	Gratuity #	Leave Encashment #	Gratuity #	Leave Encashment #
Current service cost	3,430,706	3,078,048	5,939,721	3,106,398
Interest cost	1,162,573	885,327	985,033	707,335
Expected Return on plan assets	(52,513)	-	(65,308)	-
Actuarial (gain) / loss	1,318,645	(3,741,647)	(693,582)	(845,373)
Past service cost	-	-	-	-
Curtailment and Settlement cost / (credit)	-	-	-	-
Net cost	5,859,411	221,728	6,165,864	2,968,360

Included in the Salaries, Wages and Bonus

The Company expects to contribute Rs. 3,528,726 towards employers' contribution for funded defined benefit plans in 2010-11.

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

Particulars	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Discount Rate	8.00%	8.00%	7.50%	7.50%
Expected Rate of increase in Compensation	5.00%	5.00%	5.00%	5.00%
Expected Rate of Return on Plan Assets	8.00%	8.00%	7.50%	7.50%
Expected Average remaining working lives of employees (years)	22 years	22 years	21 years	21 years

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

Particulars	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Change in Projected Benefit Obligation (PBO)				
Projected benefit obligation at beginning of year	14,071,662	10,771,545	12,086,161	7,803,185
Current service cost	3,430,706	3,078,048	5,939,721	3,106,398
Interest cost	1,162,573	885,327	985,033	707,335
Benefits paid	(4,460,444)	-	(4,251,824)	-
Past service cost	-	-	-	-
Actuarial (gain) / loss	1,352,783	(3,741,647)	(687,429)	(845,373)
Projected benefit obligation at year end	15,557,280	10,993,273	14,071,662	10,771,545
Change in plan assets :				
Fair value of plan assets at beginning of year	1,416,216	-	1,596,579	-
Expected return on plan assets	52,513	-	65,308	-
Actuarial gain / (loss)	34,138	-	6,153	-
Employer contribution	-	-	-	-
Contribution by plan participants	3,674,378	-	4,000,000	-
Settlement cost	-	-	-	-
Benefits paid	(4,460,444)	-	(4,251,824)	-
Fair value of plan assets at year end	716,801	-	1,416,216	-
Net funded status of the plan	(14,840,479)	(10,993,273)	(12,655,446)	(10,771,545)
Net amount recognized	(14,840,479)	(10,993,273)	(12,655,446)	(10,771,545)

Particulars	2009-10		2008-09	
	Gratuity	Leave Encashment	Gratuity	Leave Encashment
Fair value of plan assets :				
Fair value of plan assets at beginning of year	1,416,216	-	1,596,579	-
Actual return on plan assets	86,651	-	71,461	-
Employer contribution	-	-	-	-
Contribution by plan participants	3,674,378	-	4,000,000	-
Settlement cost	-	-	-	-
Benefits paid	(4,460,444)	-	(4,251,824)	-
Fair value of plan assets at year end	716,801	-	1,416,216	-

- d) The expected rate of return on plan assets was based on the average long-term rate of return expected to prevail over the next 15 to 20 years on the investments made by the LIC. This was based on the historical returns suitably adjusted for movements in long-term government bond interest rates. The discount rate is based on the average yield on government bonds of 20 years.
- e) The Company made annual contributions to the LIC of an amount advised by the LIC. The Company was not informed by LIC of the investments made by the LIC or the break-down of plan assets by investment type.
- f) The estimates of rate of escalation in salary considered in actuarial valuation, taken into account inflation, seniority, promotion and other relevant factors including demand and supply in the employment market. The above information is certified by the actuary.
- g) The disclosure requirement as per Para 120 (n) of Accounting Standard - 15 'Employee Benefits' as below:

Particulars	Gratuity			Leave Encashment		
	2009-10	2008-09	2007-08	2009-10	2008-09	2007-08
Defined benefit obligation	15,557,280	14,071,662	12,086,161	10,993,273	10,771,545	7,803,185
Plan assets	716,801	1,416,216	1,596,579	-	-	-
Surplus / (deficit)	(14,840,479)	(12,655,446)	(10,489,582)	(10,993,273)	(10,771,545)	(7,803,185)
Experience adjustments on plan liabilities	-	-	-	-	-	-
Experience adjustments on plan assets	-	-	-	-	-	-

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

26. Subsequent Events

- a) Securities Exchange Board of India ('SEBI') has

vide its Order No. WTM/KMA/CFD/233/03/2010 dated March 3, 2010, granted an exemption to M/s Quadrant Enterprises Private Limited, - ('QEPL'), from the applicability of Regulation 10 & 12 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, for acquiring 32,67,05,000 (Thirty Two Crores Sixty Seven Lac and Five Thousand only) equity shares of the Company ('Shares') amounting to 53.3605% (approximately fifty three percent) of the issued, subscribed and paid up share capital of the Company, from the Company Himachal Futuristic Communications Limited ('HFCL'). The Order has been passed pursuant to the proposal for change of management sanctioned by the Corporate Debt Restructuring Cell in terms of its letter No. CDJ (JCP) No. 563/2009-10 dated August 13, 2009. The aforesaid shares have been acquired on April 3, 2010.

- b) In line with the stipulations of the CDR package as approved by the CDR Cell vide its Letter no. BY. CDR(JCP) No. 563/2009-10 dated August 13, 2009 stipulating a change in the management of the Company, the existing Directors except the nominees of Financial Institutions had resigned from the Board and therefore to complete the process of change in the management of the Company, as per the stipulations of the CDR package, the senior management team comprising of Mr. Surendra Lunia, Chief Executive Officer, Mr. G.D. Singh, Chief Operating Officer, and Mr. Vikash Agarwal, Vice President (Corporate Finance) and Chief Financial Officer have resigned from the Company on April 09, 2010.
- c) The Company has acquired 20 shares at face value of Rs 10 each of its Subsidiary Company Infotel Tower Infrastructure private limited on April 09, 2010, and it become 100 percent owned subsidiary w.e.f. April 09, 2010.

The above events do not have any financial impact at the Balance Sheet date.

27. Prior period comparatives

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

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

As per our report of even date

For S.R. BATLIBOI & ASSOCIATES

Firm registration number: 101049W

Chartered Accountants

per Prashant Singhal
Partner

Membership No. 93283

For and on behalf of the Board of Directors

Yatinder Vir Singh
Director

Kapil Bhalla
Manager & Company Secretary

Babu Mohanlal Panchal
Director

Sunil Jit Singh
Chief Financial Officer

Place : Mumbai

Date : June 25, 2010

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2010
(Unless and otherwise stated, all amounts are in rupees)

Particulars	For the period ended March 31, 2010	For the year ended March 31, 2009
A. CASH FLOW FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year before Prior Year Expenditure and Tax	(201,866,622)	(2,121,404,265)
Adjustments for:		
Depreciation and Amortisation	950,165,233	991,736,559
Foreign exchange Loss/ (Gain)	(16,668,380)	103,875,334
Excess Provision Written Back	-	(3,937,742)
Diminution in value of Investments	-	717,670,900
Loss/ (Gain) on Sold / Discarded Fixed Assets	4,699,286	(181,938,302)
Bad Debts Written Off	36,249,364	63,826,550
Provision for Doubtful Advances	802,642	(65,700,000)
Provision for Doubtful Debts	16,406,126	11,297,740
Finance Expenses [Refer Note 3 below]	(704,235,671)	678,294,362
Interest Income	(6,954,122)	(6,032,398)
Operating profit before working capital changes	78,597,856	187,688,738
Adjustment for changes in working capital:		
(Increase) / Decrease in debtors	8,162,491	(7,464,548)
(Increase) / Decrease in Loans and advances	5,952,660	52,336,704
(Increase) / Decrease in Inventory	(4,169,081)	772,141
Increase / (Decrease) in Current liabilities and provisions	377,182,418	196,951,597
Cash generated from operations	465,726,344	430,284,632
Direct Taxes paid (Net)	(13,665,740)	(11,843,606)
Prior Period (Expense) / Income (Net)	(4,580,702)	(20,662,276)
NET CASH GENERATED FROM OPERATING ACTIVITIES	(A) 447,479,902	397,778,750
B. CASH FLOW FROM INVESTING ACTIVITIES		
Adjustment for changes in:		
Purchase of fixed assets	(157,057,134)	(277,112,704)
Proceeds from sale of fixed assets	15,548,417	350,303,325
Sale of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	-	90,500,000
Purchase of Equity Share Capital of Subsidiary (Refer Schedule 22, Note 1 (a))	-	(99,800)
Fixed deposits	4,876,823	7,961,618
Wealth tax	-	24,597
Interest Received	1,909,700	1,557,212
NET CASH USED IN INVESTING ACTIVITIES	(B) (134,722,194)	173,134,248
C. CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of Equity Share Capital	(21)	-
Proceeds from Secured loan	450,000	3,735,000
Repayment of Secured Loan	(13,608,202)	(39,922,499)
Repayment of Public Deposits	(321,566)	(215,000)
Repayment to Unsecured Loan	(190,519,092)	(186,598,944)
Interest paid	(97,477,600)	(335,334,152)
Dividend paid [Refer Note 5 below]	(441,005)	(79,774)
NET CASH USED IN FINANCING ACTIVITIES	(C) (301,917,486)	(558,415,369)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	10,840,222	12,497,629
Cash and Cash Equivalents at the beginning of the year	52,521,285	40,023,656
Cash and Cash Equivalents at the end of the year	63,361,507	52,521,285
Cash and Bank Balances		
Cash in Hand	2,340,516	2,426,702
Cheques in Hand	14,493,617	7,964,046
Balances with Scheduled Banks		
In Current Account	45,216,599	40,466,719
In Fixed Deposit [Receipts pledged with Banks as margin money for guarantees and LCs issued Rs 60,552,113 (March 31, 2009 - Rs. 65,428,936)]	60,552,113	65,428,936
In Escrow Account	1,310,775	1,663,818
	123,913,620	117,950,221
Less : Margin Money pledged for Guarantees and LCs issued	60,552,113	65,428,936
Cash & Cash Equivalents	63,361,507	52,521,285

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement notified under Companies (Accounting Standard) Rules 2006, ('as amended')
2. Figures in brackets indicate cash outflow.
3. Finance expenses includes interest accrued but not due on secured loan as amounting to Rs 223,784,616 (March 31, 2009 - Rs 63,349,218) as per CDR Scheme.
4. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
5. Dividend paid includes amount transferred to Investor Education Fund Rs 441,005 (March 31, 2009, Rs 79,774) as more fully disclosed in Schedule 14

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

For S.R. BATLIBOI & ASSOCIATES

Firm registration number: 101049W

Chartered Accountants

per Prashant Singhal

Partner

Membership No. 93283

For and on behalf of the Board of Directors

Yatinder Vir Singh

Director

Kapil Bhalla

Manager & Company Secretary

Babu Mohanlal Panchal

Director

Sunil Jit Singh

Chief Financial Officer

Place : Mumbai
Date : June 25, 2010

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I	REGISTRATION DETAILS	
	Registration No.	197474
	State Code	11
	Balance Sheet	March 31, 2010
II	CAPITAL RAISED DURING THE YEAR (RUPEES)	
	Public Issue	NIL
	Bonus Shares	NIL
	Rights Issue	NIL
	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)	
	Total Liabilities	7,790,991,199
	Total Assets	7,790,991,199
	SOURCES OF FUNDS	
	Shareholders' Funds	6,772,602,680
	Reserves & Surplus	68,566,508
	Secured Loans	6,552,851,534
	Unsecured Loans	1,169,170,405
	APPLICATION OF FUNDS	
	Net Fixed Assets (Including Intangible Asset)	7,135,764,552
	Accumulated Losses	11,400,327,594
	Investments	99,800
	Net Current Liabilities	3,973,000,819
IV	PERFORMANCE OF THE COMPANY (RUPEES)	
	Turnover	1,978,161,069
	Total Expenditure	2,184,608,393
	Profit / (Loss) Before Tax	(206,447,324)
	Profit / (Loss) After Tax	(206,447,324)
	Earning Per Share	(0.35)
	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY	
	Item Code No(ITC Code)	N.A.
	Product Description	Unified Access Services

For and on behalf of the Board of Directors

Yatinder Vir Singh
DirectorBabu Mohanlal Panchal
DirectorKapil Bhalla
Manager & Company SecretarySunil Jit Singh
Chief Financial OfficerPlace : Mumbai
Date : June 25, 2010

ATTENDANCE SLIP

HFCL INFOTEL LIMITED

Registered Office : Autocars Compound, Adalat Road, Aurangabad - 431005 Maharashtra

PLEASE FILL ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL.

Joint Shareholders may obtain additional slip on request.

DP Id*	
Client Id*	

Registered Folio No.	
----------------------	--

NAME AND ADDRESS OF SHAREHOLDER _____

No. of Share(s) Held: _____

I hereby record my presence at the **63rd Annual General Meeting** of the Company held on **Thursday, 30th September, 2010** at 12.00 noon at the Registered Office of the Company at Autocars Compound, Adalat Road, Aurangabad - 431005 Maharashtra.

Signature of the Shareholder or Proxy

*Applicable for investors holding shares in electronic form

PROXY FORM

HFCL INFOTEL LIMITED

Registered Office : Autocars Compound, Adalat Road, Aurangabad - 431005 Maharashtra

DP Id*	
Client Id*	

Registered Folio No.	
----------------------	--

I/We..... of
..... being a member / members of HFCL Infotel Limited
hereby appoint of
..... or failing him
..... of.....

as my / our proxy to vote for me / us and on my / our behalf at the **63rd Annual General Meeting** of the Company to be held on **Thursday 30th September, 2010** at 12.00 noon at the Registered Office of the Company at Autocars Compound, Adalat Road, Aurangabad - 431005 Maharashtra, at any adjournments thereof.

Signed on this day of.....2010

Signature.....

No. of Shares held.....

*Applicable for investors holding shares in electronic form

Affix Revenue Stamp of Re. 1/-

Note:- The Proxy in order to be effective should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The proxy need not be a member of the Company.