CORPORATE INFORMATION

Board of Directors
Mr. Mahendra Nahata (Chairman)
Mr. Vinay Maloo
Mr. T. S. V Panduranga Sarma
Mr. K. B. Lal
Mr. S.Lakshmanan
Mr. M.P. Shukla
Mr. T. B. Ananthanarayanan
Dr. Ranjeet Mal Kastia
Mr. Shyam Sunder Dawra

Chief Operating Officer
Mr. Surendra Lunia

Audit Committee
Mr. T. S. V Panduranga Sarma (Chairman)
Mr. Mahendra Nahata
Mr. S.Lakshmanan
Mr. T. B. Ananthanarayanan

Share Transfer & Investors' Grievance Committee
Dr. Ranjeet Mal Kastia (Chairman)
Mr. K. B. Lal
Mr. T. S. V Panduranga Sarma

Remuneration Committee
Mr. S.Lakshmanan (Chairman)
Mr. Shyam Sunder Dawra
Mr. M.P. Shukla

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

Auditors
Chaturvedi & Partners, Chartered Accountants
Price Waterhouse & Co., Chartered Accountants
Internal Auditors
Khandelwal Jain & Co., CharteredAccountants

Compliance Officer
Mr. Sanjeev Vashishta
G.M. – (Corporate & Legal)
& Company Secretary

Bankers
State Bank of Patiala
Global Trust Bank Ltd./Oriental Bank of Commerece
Vysya Bank Ltd.
Punjab National Bank
Bank of Punjab Ltd.

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

Registrar & Share Transfer Agents
Cameo Corporate Services Ltd.
Unit:- HFCL Infotel Ltd.
"Subramaniam Building",
No.1, Club House Road,
Anna Salai, Chennai- 600 002.

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NOTICE

NOTICE is hereby given that the **Fifty Seventh Annual General Meeting** of HFCL Infotel Ltd. will be held on Thursday, the 30th day of September, 2004, at 12:00 P.M. at the Registered Office of the Company situated at B-71, Phase VII, Industrial Focal Point, Mohali 160 055, Punjab, to transact the following business: -

Ordinary Business

1. To receive, consider and adopt the audited accounts for the Financial Year ended March 31, 2004 alongwith the report of Auditors thereon as well as the Directors' Report and for that purpose to consider and if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

   "**RESOLVED THAT** the Company's Audited Balance Sheet as at March 31, 2004 and the audited Profit and Loss Account for the financial year ended on that date together with Directors' and Auditors' Report thereon be and are hereby approved and adopted."

2. To consider and, if thought fit, to pass, with or without modifications, if any, the following as an ORDINARY RESOLUTION:

   "**RESOLVED THAT** Mr. Mahendra Pratap Shukla, who retires by rotation in this Annual General Meeting be and is hereby re-elected as a Director of the Company whose office shall be liable to retirement by rotation."

Special Business

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

   "**RESOLVED THAT** pursuant to the provisions of Sections 224, 225 and other applicable provisions, if any, of the Companies Act, 1956, M/s. Chaturvedi & Partners, Chartered Accountants, New Delhi, be and are hereby appointed as Auditors of the Company, to hold office from the conclusion of this meeting upto the conclusion of the next Annual General Meeting of the Company, to examine and audit the accounts of the Company for the financial year 2004-05 on remuneration to be decided by the Board of Directors"

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** notice having been received from a member pursuant to Section 257 of the Companies Act, 1956, signifying his intention to propose Mr. K. B Lal as a Director, Mr. K. B. Lal who was appointed as a Director by the Board of Directors on 29.10.2003 to fill up the casual vacancy, ceases to hold office at the ensuing Annual General Meeting, be and is hereby appointed as a Director of the Company whose office shall be liable to determination by rotation."

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

   "**RESOLVED THAT** notice having been received from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Mr. Shyam Sunder Dawra as a Director, Mr. Shyam Sunder Dawra who was appointed as an Additional Director by the Board of Directors on 19.06.2004 and who holds office up to the date of ensuing Annual General Meeting, be and is hereby appointed as a Director of the Company whose office shall be liable to determination by rotation."

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

   "**RESOLVED THAT** notice having been received from a member pursuant to Section 257 of the Companies Act, 1956 signifying his intention to propose Dr. Ranjeet Mal Kastia as a Director, Dr. Ranjeet Mal Kastia who was appointed as an Additional Director by the Board of Directors on 19.06.2004 and who holds office up to the date of ensuing Annual General Meeting, be and is hereby appointed as a Director of the Company whose office shall be liable to determination by rotation."

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

   "**RESOLVED THAT** pursuant to the applicable provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 (herein after referred to as the "Delisting Guidelines") (including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted hereinafter)The Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed thereunder, Listing Agreement(s), and all other applicable laws, rules, regulations and guidelines and subject to approval(s),Consent(s), permission(s) or sanction(s),of the Securities and Exchange Board of India (SEBI), The Stock Exchange(s) where the shares of the Company are listed and other appropriate Authorities, Institutions, or Regulators as may be necessary and subject to such conditions and modifications as may be prescribed or imposed while granting such approval(s), permission(s) and sanction(s), which may be agreed to, by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any Committee thereof for the time being exercising the powers conferred on the Board by this Resolution),the consent of the Company be and is hereby accorded to the Board to delist Equity Shares of the Company from The Calcutta Stock Exchange Association Limited, Kolkata."

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to sign and submit all applications,forms papers and other documents and to comply with all other formalities / procedures and to do all such acts,deeds and things as may be required by the above Stock Exchange,SEBI,and/or by any other statutory/ regulatory authorit(ies),in connection with delisting of the equity shares of the Company from The Calcutta Stock Exchange Association Limited, Kolkata."

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

"**RESOLVED THAT** pursuant to the provisions of Section(s) 198, 269, 385, 386, 387 and 388 read with Section 2(24) and all other applicable provisions, if any, of the Companies Act, 1956 ("the Act") (including any statutory modification or re-enactment thereof, guidelines for managerial remuneration issued by the Central Government from time to time) read with Schedule XIII to the Act and subject to the approval of the Lenders, Central Government and such other approvals as may be necessary, consent of the Company be and is hereby accorded for the appointment of Mr. Surendra Lunia , Chief Operating Officer of the Company, who has recorded his consent to act as the Manager of the Company, for a term of three years with effect from 26th July, 2004, on the following terms and conditions including the remuneration as set out hereafter:-

1. **Remuneration :-**
   a) Basic Salary:- Upto a maximum of Rs.1,22,500/- per month;
   b) Performance Linked Incentive (PLI)/ Bonus: - Up to 150% of the Basic Pay.
2. **Allowances & Perquisites as depicted below, limited to 200% of the Basic Pay :-**
   a) House Rent Allowance
   b) Personal Pay
   c) Company Car with Driver
   d) Allowances (Including Medical, Leave Travel Concessions and Special Allowance)
   e) Perquisites (including Credit card, Club Membership and hard furnishings)
3. **The Contribution to Provident Fund & Gratuity shall be as per the rules of the Company.**
4. ***Other terms: -***
   a) The appointment may be terminated on either side by giving three months notice in writing or three months salary in lieu thereof. Salary here means cost to the Company.
   b) Mr. Surendra Lunia shall be entitled to reimbursement of entertainment, travelling and all other expenses incurred for the business of the Company as per the rules of the Company.
   c) Mr. Surendra Lunia shall also be eligible for housing and other loans and facilities in accordance with the rules of the Company.
   d) For all other terms and conditions not specifically spelt out above, the rules and regulations of the Company shall apply.
   e) Subject to the approval of the Board of Directors, Mr. Surendra Lunia shall be entitled to an increase in remuneration at any time within a period of three years, subject to a limit of 50% of the remuneration as specified above (points 1,2 & 3).

RESOLVED FURTHER THAT in accordance with the final approval granted by the Central Government, the Board of Directors of the Company (hereinafter "the Board" which term shall be deemed to include the Remuneration Committee constituted by the Board), be and are hereby authorised to alter and vary the terms and conditions of the said appointment and remuneration including salary, perquisites and other allowances, as may be agreed to between the Board of Directors and Mr. Surendra Lunia.

RESOLVED FURTHER THAT where in any financial year, the Company has no profits or its profits are inadequate, the Company may pay to Mr. Surendra Lunia the aforesaid remuneration as the minimum remuneration."

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

"**RESOLVED THAT** the consent of the Company be and is hereby accorded, to accept the Corporate Debt Restructuring Package as approved by the Corporate Debt Restructuring Cell under the Corporate Debt Restructuring System and as established under the purview of the Reserve Bank of India vide Circular DBOD. No. BP.BC.68/21.04.132/ 2002-03 dated February 5, 2003, by their letter dated March 10, 2004, and to the Company for restructuring its existing liabilities in terms of the aforesaid letter.

RESOLVED FURTHER THAT pursuant to Section 81, and other applicable provisions of the Companies Act, 1956, (including any statutory modification or re-enactment thereof, for the time being in force) and relevant provisions of the Memorandum and Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the Company's shares are listed and subject to necessary approval / consent, permission and / or sanction of the Central Government, Reserve Bank of India and any other appropriate Authorities, Institutions or Bodies, and subject to such conditions as may be prescribed by any of them while granting any such approval, consent, permission, and / or sanction, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board" which includes a duly authorised Committee thereof for the time being exercising the powers conferred by the Board, by this resolution), the Board of Directors of the Company or any Committee thereof be and is hereby authorized on behalf of the Company to issue, offer and allot any equity or/and preference shares or/and Debentures or/and any other financial instruments with an option to redeem / convert into equity and / or debt and / or securities and / or any instrument / securities convertible into equity shares / preference shares at the option of the Company and / or at the option of the holders of the security and / or securities linked to equity shares / preference shares and / or any equity shares, instruments or securities representing convertible securities such as convertible debentures, bonds or warrants convertible into equity shares / preference shares, or Convertible Notes / Securities with or without detachable warrants (hereinafter referred to as "Security(ies)"), pursuant to the Corporate Debt Restructuring Package approved under Corporate Debt Restructuring System and as established under the purview of the Reserve Bank of India vide Circular DBOD. No. BP.BC.68/21.04.132/ 2002-03 dated February 5, 2003, to be subscribed by Financial Institutions, Insurance Companies, Banks, Promoters and their group associates, Venture Funds (Foreign and / or Domestic), Foreign investors, Foreign Institutional Investors, Resident or Non-Resident Indians or any Bodies Corporate incorporated within India or abroad (whether Institutions and / or incorporated bodies and / or individuals or otherwise, whether or not such investors are members of the Company) to the extent not exceeding Rs.500 Crores (Rupees Five Hundred Crores)/-, whether for consideration receivable in cash or otherwise than by way of cash, at a price as determined under the relevant guidelines as specified by the Securities and Exchange Board of India or as otherwise approved by the Securities and Exchange Board of India, on private placement and / or preferential basis and/or by way of an public offering of Securities, from time to time in one or more tranches, on such terms and conditions as may be decided by the Board, including any modification/s, as may be required by any regulatory authority connected with the issue and subscription of the Securities, and subject to such conditions as may be specified by the regulatory authority connected with the issue and subscription of the Securities and as agreed by the Board.

RESOLVED FURTHER THAT in accordance with the provisions of Section 81 and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof, for the time being in force) and the provisions of the Memorandum and Articles of Association of the Company and the Listing Agreements to be entered into by the Company with the Stock Exchanges where the Company's shares are to be listed and subject to the approval of the Government of India ("GoI"), Securities and Exchange Board of India ("SEBI"), Reserve Bank of India ("RBI") and all other appropriate authorities, and such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board" which term shall include a duly authorised Committee thereof for the time being exercising the powers conferred on it by the Board), the consent of the Company be and is hereby accorded to the Board to create and offer/issue and allot equity shares and preferece shares of the face value of Rupees 10/- each and Rs 100 each, respectively, out of the authorised capital of the Company, to the following entities in the stated manner for the purposes of implementing the Corporate Debt Restructuring Package as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10, 2004"(CDR Package"), whether for consideration receivable in cash or otherwise than by way of cash, at a price as determinable either as per the relevant guidelines as specified by the Securities and Exchange Board of India or as specifically exempted by the Securities and Exchange Board of India, on private placement and / or preferential basis, from time to time in one or more tranches, on such terms and conditions as may be decided by the Board, including any modification/s, as may be required by any regulatory authority connected with the issue and subscription of the Securities, and subject to such conditions as may be specified by any regulatory authority connected with the issue and subscription of the aforesaid equity shares and as agreed by the Board:

i. Equity shares of the Company of the face value of Rs. 10/- each to be issued at par to ING Vysya Bank Limited aggregating to approximately Rs. 7.83 crores, by way of preferential allotment;

ii. Equity shares of the Company of the face value of Rs. 10/- each to be issued at par to Global Trust Bank Limited (since merged with Oriental Bank of Commerce) aggregating to approximately Rs. 12.66 crores, by way of preferential allotment;

iii. Equity shares of the Company of the face value of Rs. 10/- each to be issued at par to Himachal

Futuristic Communications Limited, the Promoters of the Company, aggregating to approximately Rs. 27.00 crores by way of preferential allotment; and

iv. Cumulative redeemable preference shares of Rs. 100/- each to be issued at par to the Himachal Futuristic Communications Limited, the Promoters of the Company, aggregating to approximately Rs. 65.00 crores, by way of preferential allotment.

RESOLVED FURTHER THAT pursuant to the provisions of Section 293(1)(d) of the Companies Act, 1956, the Board of Directors of the Company be and are hereby authorized to borrow moneys in excess of the aggregate paid up capital of the Company and its free reserves, for the purposes of implementing the Corporate Debt Restructuring Package as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10,2004 ("CDR Package") by the issue of debentures, fully or partially convertible into equity shares of the Company, to the lenders on the terms and conditions contained in the CDR Package.

RESOLVED FURTHER THAT the consent of the Company be and is hereby accorded in terms of Section 81 (3) of the Companies Act, 1956 to restructure its existing loans by the issue of the following debentures, fully or partially convertible into equity shares of the Company, to the named lenders on the terms and conditions contained in the CDR Package, including a right for each lender, at its option, to convert amounts owed to it by the Company into equity shares of the Company of Rs. 10/- each, as per then prevailing SEBI Guidelines:

i. Optionally Fully Convertible Debentures to be issued at par i.e. Rs 100/- each to Life Insurance Corporation of India aggregating to approximately Rs. 14.7 crores;

ii. Optionally Fully Convertible Debentures to be issued at par to State Bank of Patiala aggregating to approximately Rs. 1.95 crores;

iii. Optionally Fully Convertible Debentures to be issued at par to Industrial Development Bank of India aggregating to approximately Rs. 50.00 crores;

iv. Optionally Fully Convertible Debentures to be issued at par to ING Vysya Bank Limited aggregating to approximately Rs. 3.75 crores;

v. Optionally Fully Convertible Debentures to be issued at par to Life Insurance Corporation of India aggregating to approximately Rs. 9.38 crores;

vi. Optionally Fully Convertible Debentures to be issued at par to the State Bank of Patiala aggregating to approximately Rs. 3.13 crores; and

vii. Optionally Fully Convertible Debentures to be issued at par to the Global Trust Bank Limited (since merged with Oriental Bank of Commerce) aggregating to approximately Rs. 9.91 crore;

RESOLVED FURTHER THAT the Board of the Company be and is hereby authorized to determine the terms and conditions of the equity shares, debentures (fully or partially convertible at the option of the investor), preference shares convertible into equity shares (collectively "Security(ies)") to be issued as per and on the terms and conditions as specified in the Corporate Debt Restructuring Package as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10, 2004 ("CDR Package") including in relation to payment of dividend, interest, additional interest, terms for issue of such Securities or variation of the conversion price of the Securities during the duration of the Securities instruments and any debt service payments, and other such terms as are provided in issue of Securities of this nature issued on the terms mentioned against each Security, subject to such other conditions as may be required by any regulatory authority including the Securities and Exchange Board of India;

RESOLVED FURTHER THAT the Board or a Committee thereof be and is hereby authorized to issue and allot from time to time such number of equity shares as may be required to be issued and allotted upon conversion of any debenture or like instrument issued for the purpose of implementing the Corporate Debt Restructuring Package as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10, 2004 ("CDR Package") or as may be necessary in accordance with the terms of issue of such debentures, including a right for each lender, at its option, to convert amounts owed to it by the Company into equity shares of the Company of Rs. 10/- each, as per then prevailing SEBI guidelines, all such equity shares ranking pari passu with the then existing equity shares of the Company in all respects, excepting such right as to dividend, interest and as may be provided under the terms of the issue.

RESOLVED FURTHER THAT for the purposes of implementing the corporate debt restructuring of the Company as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10, 2004, and for the purposes of the issue and subscription of certain financial instruments in terms of the aforesaid letter, the Company is hereby authorized to enter into and execute all such arrangements or agreements or contracts or documents, as may be required, with any entity or person including banks, financial institutions, consultants, advisors, guarantors, depositories, custodians, corporate (whether incorporated in India or otherwise) and any other entity as may be required in the issue and subscription of certain financial instruments and to remunerate all such entities including the payment of commission, brokerage, fees or payment of their remuneration for their service or the like, and also to seek the listing of any such financial instrument ,issued pursuant to the aforesaid approved Corporate Debt Restructuring Scheme, in all Stock Exchanges where the Company's shares are listed/to be listed.

RESOLVED FURTHER THAT for the purposes of implementing the corporate debt restructuring of the Company as approved by the Corporate Debt Restructuring Cell vide their letter dated March 10, 2004, the Board / Committee be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may at its discretion deem necessary or desirable for such purpose, including settling on behalf of the Company any questions, difficulties or doubts that may arise with regard to the implementation of the CDR Package as it may in its absolute discretion deem fit.

RESOLVED FUTHER THAT the Board be and is hereby also authorized subject to approval of the Reserve Bank of India and the concerned authorities to secure the entire or any part of the issue by creation of the mortgage / charge on the Company's immovable and movable properties, present and future, such charge to rank either pari passu with or second, subsequent, subservient and subordinate to all the mortgages / charges created / to be created by the Company for all existing and future borrowings and facilities whatsoever."

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of the powers conferred herein to any Committee of Directors or Director or any other Officer or Officers of the Company to give effect to the aforesaid resolutions".

By Order of the Board
for HFCL Infotel Limited

Place: Ludhiana
Date : July 26, 2004

Sanjeev Vashishta
G.M. -(Corporate and legal)
& Company Secretary

Notes :

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING OF THE COMPANY 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 PROXIES SHOULD BE LODGED WITH THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING.

2. The Register of Members and the Transfer Books of the Company will remain closed from 23rd September, 2004 to 30th September, 2004 (both days inclusive).

3. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto and forms part of this notice.

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

5. Members who hold shares in dematerialised form are requested to notify immediately any change of address to their Depository Participants (DPs) and those who hold shares in physical form are requested to write to the Company's Registrar & Share Transfer Agents, M/s. Cameo Corporate Services Ltd., "Subramaniam Building", No.1,Club House Road, Anna Salai, Chennai 600 002.

6. 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.

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

8. Pursuant to the provisions of Section 205A of the Companies Act, 1956 the amount of dividend which remains unclaimed for a period of 7 years from the date of declaration would be transferred to the "Investor Education and Protection Fund" and the shareholders would not be able to make any claims as to the amount of dividend so transferred to the fund. As such, shareholders who have not yet encashed their dividend warrants are requested in their own interest to write to the Company immediately for claiming outstanding dividends declared by the Company during the years 1997 onwards. In respect of unclaimed dividends for periods prior to 1996, already transferred by the Company to the General Revenue Account of the Central Government, shareholders may claim the same by submitting their claims for dividend to the Registrar of Companies, Punjab, Himachal Pradesh & Chandigarh at Jalandhar, by quoting the Company's Registration No. 16-026718.

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

10. Members are requested to bring their copy of the Annual Report with them to the Annual General Meeting.

11. Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, additional information related to

Directors recommended for appointment/ re appointment at the Annual General Meeting, is appearing in the Explanatory Statement to this Notice.

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

Item No. 3

The Company has received notice from M/s Price Waterhouse & Co., Chartered Accountants, vide their letter dated July 26, 2004 expressing their inability to offer themselves for re-appointment at the forthcoming Annual General Meeting as Auditors of the Company for the Financial Year 2004-05.

Further to receipt of notice from Price Waterhouse & Co., the Company has also received a Special Notice from a shareholder pursuant to Section 225 of the Companies Act, 1956 proposing to appoint Chaturvedi & Partners, Chartered Accountants, New Delhi the present retiring Auditors, as sole Statutory Auditors at the Annual General Meeting. The other retiring auditors, while expressing their unwillingness to continue as Joint Statutory Auditors, have simultaneously informed that they have no representation to make, for notification to the members of the company.

In view of above, it is proposed to appoint Chaturvedi & Partners, Chartered Accountants, the present Joint Statutory Auditors as Sole Statutory Auditors from the conclusion of this Annual General Meeting till the conclusion of next Annual General Meeting on such remuneration to be decided by the Board of Directors.

M/s Chaturvedi & Partners have confirmed that they are eligible to be appointed as Auditors in accordance with Section 224(1B) of the Companies Act, 1956

None of the Directors is interested in aforesaid resolution.

Item No. 4

Mr. K. B. Lal was appointed as a Director in casual vacancy w.e.f 29.10.2003. The casual vacancy was caused by resignation of Mr. Panna Lal Maloo.

As per Section 262 of the Companies Act, 1956 a Director appointed in casual vacancy shall hold his office till the date up to which the Director in whose place he was appointed would have held office, if it had not been vacated.

Mr. Panna Lal Maloo, if he had not vacated the office by resignation, would have retired by rotation at this Annual General Meeting.

Consequently, Mr. K. B. Lal, who was appointed in casual vacancy caused by resignation of Mr. Panna Lal Maloo, will retire at this Annual General Meeting.

The Company has received a Notice under Section 257 from a member signifying his intention to propose Mr. K. B. Lal as a candidate for the office of the Director, liable to retire by rotation.

Mr. K. B. Lal is B. E (Hons) and M. B. A.

Mr. K. B. Lal started his career as an Associate Lecturer in Electrical Engineering in August 1965. He has 29 years of experience in telecom Industry. He has worked as Director (Switching) in Centre for Development of Telematics for about 5 years. He has also worked as Chief Operating Officer of HFCL Infotel Ltd. from April 2000 to March 2002. Presently, he is working as President (Technical), R & D Division of Himachal Futuristic Communication Limited.

Mr. K.B. Lal is not a Director on the Board of any other Company.

However, he is presently member of following Board committees of the HFCL Infotel Ltd:

1. Share Transfer and Investor Grievance Committee
2. Project Management and Review Committee

Your Directors recommend appointment of Mr. K.B. Lal, as Director.

Mr. K. B. Lal may be deemed to be interested in the resolution, as it relates to his own appointment.

None of the Directors, except Mr. K. B. Lal, as stated above is interested in the resolution.

Item No. 5

Mr. Shyam Sunder Dawra was appointed as an Additional Director on the Board of the company in the Board Meeting held on 19.06.2004.

In terms of Section 260 of the Companies Act, 1956 he can hold his office only upto the date of this 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. Shyam Sunder Dawra as a candidate for the office of Director, liable to retire by rotation.

Mr. Shyam Sunder Dawra was a member of the Indian Administrative Services (1967 batch).

Mr. Shyam Sunder Dawra started his career in August 1975 as a Director, Information & Public Relations, Govt. of Punjab. Since then he has held various Senior level positions in many Public Sector Enterprises viz. Managing Director, NAFED, Additional Secretary, Revenue, Govt. of India, Managing Director, Food Corporation of India , Director Enforcement, FERA, Govt. of India etc.

Mr. Shyam Sunder Dawra is a Post Graduate in English Literature and M.B.A in Agricultural Marketing, Marketing, Organization of Human Behaviour and Public Sector Enterprises.

Mr. Shyam Sunder Dawra is presently on the Board of following Companies:

- Steel Strips and Wheels Limited
- Indian Acrylics Limited

He is a member on the Remuneration Committee of HFCL Infotel Ltd.

Your Directors recommend the appointment of Mr. Shyam Sunder Dawra as a Director.

None of the Directors except Mr. Shyam Sunder Dawra is concerned or interested in this resolution.

Item No. 6

Dr. Ranjeet Mal Kastia was appointed as an Additional Director on the Board of the company in the Board Meeting held on 19.06.2004.

In terms of Section 260 of the Companies Act, 1956, he can hold his office only upto the date of this 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 Dr. Ranjeet Mal Kastia as a candidate for the office of Director, liable to retire by rotation.

Dr. Ranjeet Mal Kastia has been CEO and Director at Board level for several years in various Public Limited Companies. Presently, he is a Whole Time Director with Himachal Futuristic Communications Limited.

Dr. Ranjeet Mal Kastia has done his M.Sc & Ph.D and FBIM from London

He has been a pioneer in the manufacturing of entire range of high-tech telecom equipment. He has played a pivotal role in developing a vast base for the indigenous telecom equipment manufacturing industry in the country.

He has a long and sound experience in managing different industries like High Tension Insulators, Electro-Graphite, Industrial and Automotive Batteries etc.

Dr. Ranjeet Mal Kastia is presently on the Board of following companies: -

1. Nextera Technologies Pvt. Limited
2. HTL Limited
3. Himachal Futuristic Communications Limited

He is holding following committee positions:

Name of the Company	Name of Committee	Committee Position
Himachal Futurisitic Communications Limited	Share Transfer and Investor Grievance Committee	Member
HFCL Infotel Ltd.	Share Transfer and Investor Grievance Committee	Chairman

Your Directors recommend the appointment of Dr. Ranjeet Mal Kastia as a Director.

None of the Directors except Dr. Ranjeet Mal Kastia is concerned or interested in this resolution.

Item No. 7

The Company's Ordinary (Equity) Shares are presently listed on the following Stock Exchanges in India:

The Stock Exchange, Mumbai (BSE)

Madras Stock Exchange Limited; and

The Calcutta Stock Exchange Association Limited

Although, the shares of your company have been actively traded on the Mumbai Stock Exchange, there has not been transaction on the other stock exchanges. This is perhaps due to the fact that these exchanges donot have nationwide coverage. In consonance with the provisions of Securities and Exchange Board of India(Delisting of Securities) Guidelines, 2003, the Board of Directors of your company have recommended voluntary delisitng of Company's shares from The Calcutta Stock Exchange Association Limited. This decision has been taken keeping in view the nationwide coverage being provided by the Mumbai Stock Exchange where your company's shares would continue to be listed.

The proposed voluntary delisting of the Company's Ordinary (Equity) Shares from the Calcutta Stock Exchange Association Ltd., Kolkata, apart from the savings resulting from the non-payment of annual listing fees, will also reduce a lot of administrative work. The delisting will not adversely affect any investors including the shareholders located in the region where the Calcutta Stock Exchange Association Ltd., Kolkata is situated. Pursuant to the guidelines issued by SEBI on voluntary delisting by companies of their securities from the Stock Exchanges, it is now proposed to seek the shareholders' approval by way of a Special Resolution for voluntary delisting of the Company's Ordinary (Equity) Shares from Calcutta Stock Exchange Association Ltd., Kolkata as set out in the Resolution at Item No. 7.

The directors recommend the passing of the Resolution at Item No. 7 as a Special Resolution.

None of the Directors of the Company is concerned or interested in this item of business.

Item No. 8

In order to fill the casual vacancy caused by resignation of Mr. Sunil Batra (effective 25.03.2004), the Board of Directors, in their meeting held on 26.07.2004, have appointed Mr. Surendra Lunia as a Manager under Section 269 of the Companies Act, 1956, subject to the approval of shareholders, Central Govt. and the lenders.

Mr. Surendra Lunia, aged 42 yrs., is a Member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India and has more than 19 years of experience to his credit during which he has held various senior positions with reputed companies.

Mr.Surendra Lunia has been associated with the Company for over 4 years and was earlier occupying the position of the Chief Financial Officer. Subsequently, he was appointed as Chief Operating Officer of the Company w.e.f 25.03.2004

The statement under sub clause 1(C) of Section II of Part II of the Schedule XIII of the Companies Act, 1956, as required to be provided to the Shareholders alongwith notice calling the Annual General Meeting of the Company, is given here below:-

I. General Information:-

(1)	Nature of Industry	The present business of the Company consists of providing Basic Telephony Services in the State of Punjab and Union Territory of Chandigarh.
(2)	Date or expected date of commencement of commercial production	The Company is not engaged in any manufacturing activity. However, the Company had launched its current business of providing commercial telephony services in the State of Punjab and Union Territory of Chandigarh effective 16th October, 2000.
(3)	In case of new companies, expected date of commencement of activities as per the project approved by the financial institutions appearing in the prospectus.	—Not Applicable —
(4)	Financial performance based on given indicators	The financial performance of the Company for the financial year 2003-2004 is discussed in the Directors' Report and Management Discussion & Analysis Report. However, the performance based on the indicators is being reproduced as follows:
(5)	Export Performance and net foreign exchange collaborations	———Not Applicable ———
(6)	Foreign Investments or collaborators, if any.	———Nil———

Key Financial Indicators	(Rs. In Crores)
Revenues	191.67
EBITDA	37.78

II. Information about the Appointee:-

(1)	Background Details	The appointee is a post Graduate in Commerce and a member of Institute of Chartered Accountants of India and Institute of Company Secretaries of India and has more than 19 years of experience with reputed companies.
(2)	Past Remuneration	Prior to his appointment as the Manager under Section 269 read with Section 2(24) of the Companies Act, 1956, the appointee, in the capacity of Chief Operating Officer of the Company, was in receipt of gross remuneration of Approx. Rs.2.5 Lacs per month.
(3)	Recognition or Awards	The appointee was earlier working with HFCL Infotel Ltd. as Chief Financial Officer. Considering his performance, the management promoted the appointee as the Chief Operating officer of the Company w.e.f 25.03.2004 The appointee has also been appreciated for result oriented performance in all the previous assignments.
(4)	Job Profile & Suitability	Apart from being appointed as the Manager, the appointee has been working as the Chief Operating Officer of the Company, looking after the day-to-day management of the Company in consultation with other Senior Officials of the Company under the overall supervision and control of the Board of Directors of the Company. After his appointment as Manager, the appointee continues to be in charge of the day to day affairs of the Company under the supervision and control of the Board of Directors. The appointee has rich experience of 19 years during which he has been associated with reputed companies and has in depth knowledge of various business segments. The Directors consider the appointee to be a fit person to be appointed as Manager of the Company.
(5)	Remuneration Proposed	The maximum limit of the remuneration proposed to be paid to the appointee under various heads is as under:-

(Rs. Per Month)

Salary	Allowances & Perquisites	Others*	Stock Option / Commission/ Pension
1,22,500/-	Upto 200% of the Basic Pay	Upto 150% of the Basic Company	NIL

Provident Fund, Gratuity and Leave Encashment shall be as per the Rules.

	(A) Allowances include House Rent Allowance, Personal Pay Allowances, Medical, LTA , Special Allowance etc. Perquisites include Company Car with Driver, Credit card, Club Membership, hard furnishings etc. (B) Others include Performance Linked Incentives The above proposed remuneration is the maximum amount of remuneration payable to Mr. Surendra Lunia during the next three years. The actual remuneration payable shall be fixed by the Board, which shall be within the overall limits as specified above. It is proposed to authorize the Board to increase the aforesaid remuneration, subject to overall limit of 50%, beyond the present level, at any time / time to time with in three years.
(6) Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person.	The Company has posted an annual revenue of Rs.191.67 crores in the last financial year. This is likely to grow in the coming years. The proposed remuneration is in terms with the prevailing norms in the Telecom industry and is justifiable considering the area of operations of the company, profile and position of the appointee.
(7) Pecuniary relationship directly or indirectly with the Company or relationship with the managerial personnel, if any.	The appointee has no pecuniary relationship with the Company and is not related to any managerial personnel in the Company.

III . Other Information:-	
(1) Reasons for Loss or Inadequacy of Profits	Telecom business being capital intensive in nature, with Projects having long gestation periods and low initial paybacks, long term commitments are required. Losses are incurred during the initial years, when the network is being rolled out and new subscribers are being acquired. Once the breakeven is achieved, return on capital employed becomes attractive as the same infrastructure is used for generating additional revenues.
(2) Steps taken or proposed to be taken for improvement	The Management believes that the Company will sustain a healthy growth on account of following factors: - • The Company deploying a judicious mix of wireless systems, based on both CDMA and CorDECT technologies· • The Company intends to provide affordable broadband internet access &· • Bundled service offering Voice, Data and Video services (Triple Play)
(3) Expected increase in the productivity and profits in measurable terms	The Company expects to achieve Cash Profits in the Financial Year 2004-05 . In the first quarter of the financial year 2004-2005, the Company has already earned cash profits
IV. Disclosures:-	
(1) Remuneration Package of the Managerial Person	The remuneration paid to the managerial person is disclosed in the Notes to the Accounts.
(2) Disclosures under Corporate Governance	The disclosures as required under this head and applicable to the Company have been discussed in the Corporate Governance Report forming part of the Annual Report.

Shareholders approval is being sought confirming the appointment and remuneration payable to Mr. Surendra Lunia, on the terms and conditions as set out in the resolution contained in this notice.

The Company will make an application to the Central Government seeking approval for the appointment and remuneration payable to Mr. Surendra Lunia as a Manager.

Your Directors recommend the passing of the resolution.

None of the Directors is concerned or interested in this resolution.

Item No. 9

The Company proposes to issue and allot Equity / Cumulative Redeemable Preference Shares (CRPS)/ Optionally Fully Convertible Debentures (OFCDs)/ any instruments or securities upto a maximum amount of Rs 500 crores to by way of (a) the Term lenders of the Company viz., Industrial Development Bank of India, Life Insurance Corporation of India, Global Trust Bank Limited (since merged with Oriental Bank of Commerce), ING Vysya Bank Limited and State Bank of Patiala, (b) Promoter i.e. Himachal Futuristic Comminications Ltd.(HFCL) and (c) Public Issue : The proposed issues are required to be made by the Company pursuant to the Corporate Debt Restructuring Package approved by letter dated March 10, 2004. under Corporate Debt Restructuring System and as established under the purview of Reserve Bank of India vide Circular DBOD. No. BP.BC.68/21.04.132/2002-03 dated February 5, 2003 as whereby Term Lenders have approved (i) conversion of a part of their Principal Term Debts into Equity Shares of the Company and into OFCDs of the Company, (ii) the Conversion of interest on term loan accruing from January 1, 2004 till March 31, 2005 into OFCDs, (iii) Conversion of dues accured to Himachal Futuristic Communations Limited, the promoters of the Company for supply of telecom equipments and cash advances, into Cumulative Redeemable Preference Shares (CRPS) and (iv) raising fresh equity by way of Public Offer to redeem OFCDs(to be issued as per (ii) above to the lenders on Conversion of future interests) at premium, giving an yield of 12%. The details of the same are as follows:

1. **Objects of the issue:**

To overcome short term liquidity problem and to reduce the interest rates in line with the falling interest rate regime, the Company had submitted its restructuring plan to Corporate Debt Restructuring (CDR) Cell. CDR, has approved the restructuring plan submitted by the Company, which interalia includes the aforesaid issue of Equity/OFCDs/CRPS by the Company. The relevant features of approved restructuring package are as follows:

(a) Conversion of outstanding term loan, compound interest and liquidated damages as on January 1, 2004 into Principal Term Debts.

(b) Conversion of a part of Principal Term Debts aggregating about Rs. 101 Crore as on January 1, 2004 into Equity (about Rs. 84 Crore) /OFCDs (about Rs. 17 Crore),

(c) Conversion of interest on term loan accruing for the period from January 1, 2004 till March 31, 2005 into OFCDs (about Rs. 76 Crore), As the future interest on term loan would be falling due on quarterly / monthly basis, OFCDs of equivalent amount would be allotted accordingly.

(d) Issue of equity shares aggregating Rs. 27 crore to promoters for cash.

(e) Issue of 7.5% CRPS aggregating Rs 65 Crore to the Promoters, in lieu of conversion of their overdue arising on supply of telecom equipments and extending cash advances to the Company.

(f) Raising fresh equity aggregating Rs. 90 Crore by way of Public issue to redeem OFCDs(to be issued to the term lenders on conversion of their future interest) alongwith premium.

Summary of above Clauses is given in matrix below:

Name of the term lenders	Industrial Development Bank of India	Life Insurance Corporation of India	Global Trust Bank Limited (since merged with Oriental Bank of Commerce)	ING Vysya Bank Limited	State Bank of Patiala	Total
Principal Outstanding (1)	400.00	75.00	75.00	30.00	25.00	605.00
Interest, Compound interest & Liquidated Damages (2)	63.40	14.70	12.66	7.83	1.95	100.47
Principal Term Debt (3)=1)+(2)	463.40	89.70	87.66	37.83	26.95	705.47
To be converted into Equity of Rs. 10 each at par	63.40	0.00	12.66	7.83	0.00	83.89
To be converted into OFCDs of Rs 100 each at par, redeemable at premium	0.00	14.70	0.00	0.00	1.95	16.65
Interest accruing from January 1, 2004 till March 31, 2005	50.00	9.38	9.91	3.75	3.13	76.17
To be converted into OFCDs of Rs. 100 each at par, redeemable at par	50.00	9.38	9.91	3.75	3.13	76.17

2. **Intention of Promoters / Directors / Key Management persons to subscribe to Equity Shares or OFCDs**

In terms of the CDR package, neither the promoters nor Directors nor the Key Management Personnel of the Company are subscribing to the OFCDs. Further in terms of the CDR package as detailed above, neither the Directors nor the Key Management Personnel of the Company are subscribing to the issue of equity shares or the CRPS.

Further, in terms of the CDR package, the Company is required to convert its dues amounting to Rs. 65 Crores to Himachal Futuristic Communications Limited, its promoters into CRPS. The CDR package also stipulates the issue of equity shares of the Company aggregating Rs. 27 Crores to its Promoter.

It is proposed that our promoters finance the aforesaid subscription of the equity shares from the consideration received from the sale of their shareholding in the company by way of forthcoming offer for sale, or from such other means as the Promoters may decide.

The above issue of the equity, CRPS and OFCDs, in lieu of payment of interest till Financial Year 2004-05, would facilitate the Company to manage its financial resources during the implementation of the project.

3. Shareholding pattern – before the CDR approval as on July 9, 2004

	Pre Implementation of CDR		**Post Implementation of CDR**	
Category	**No. of Shares held**	**% of Share holding**	**No. of Shares held**	**% of Share holding**
Promoters Holding				
Promoters*				
- Indian Promoters	348705000	78.8%	324405000	50.4%
- Foreign Promoters	Nil	Nil	Nil	Nil
Persons Acting in Concert	Nil	Nil	Nil	Nil
Sub – Total (A)	348705000	78.8%	324405000	50.4%
Non-Promoters Holding				
Institutional Investors	Nil	Nil	Nil	Nil
Mutual Funds and UTI	Nil	Nil	Nil	Nil
Banks, Financial Institutions, Insurance Companies (Central/ s State Govt. Institutions/ Non-Government Institutions)	34841286	7.9%	118731286	18.5%
FIIS	46860	0.0%	46860	0.0%
Sub – Total (B)	34888146	7.9%	118778146	18.5%
Others				
Private Corporte Bodies	53626651	12.1%	53626651	8.3%%
Indian Public	4820108	1.1%	146120108	22.7%
NRIs/OCBs	397566	0.1%	397566	0.1%
Any other (Please Specify)	Nil	Nil	Nil	Nil
Clearing members	9593	0.0%	9593	0.0%
Sub - Total (C)	58853918	13.3%	200153918	31.1%
Grand Total(A+B+C)	442447064	100.0%	643337064	100.0%

Note : The effect of proposed Offer for Sale of 5,13,00,000 equity shares has been depicted in Promoter's post CDR shareholding and the counter effect has been made in the post CDR public holding.

4. **Terms of Issue :**

The Board will decide the exact terms and conditions of the issue including, the issue price and the amount payable on conversion of the said instrument into Equity Shares according to prevailing SEBI Guidelines.

5. **Proposed time limit within which the allotment will be complete:**

The allotment is proposed to be made before three months from the passing of the resolution/due date for issue of securities as per the CDR package.

6. **Identity of the proposed allottees and the percentage of post preferential issue capital that may be held by them:**

EQUITY:

Sl. No.	Name of the Allottee	Amount Lent (Rs. Cr.)	Offer Price Per Equity (Rs.)	No. of Equity proposed to be allotted (fig. In Crore) (approx.)	Previous holding, if any, (%)	Post allotment holding (%) (approx.)
1	Industrial Develop ment Bank of India	400.00	10	6.340	Nil	9.9%
2	ING Vysya Bank Limited	30.00	10	0.783	Nil	1.2%
3	Global Trust Bank Limited (since merged with Oriental Bank of Commerce)	75.00	10	1.266	1.1%	2.7%
4	HFCL Furistic communi-cations Ltd	Nil	10	2.7	78.8%	*58.4%

*Without considering the disinvestments of 5.13 Crores Equity shares by way of proposed Offer for Sale.

OFCDs:

Sl. No.	Name of the Allottee	Amount Lent (Rs. Cr.)	Offer Price Per Deben -ture (Rs.)	No. of Debenture proposed to be allotted (fig. In Lakhs) (approx.)	Previous holding, if any, (%)	Post allotment holding (%) (approx.)
1	Industrial Develop-ment Bank of India	400.00	100	50.00	Nil	53.9%
2	Life Insurance Corporation of India	75.00	100	24.08	Nil	25.9%
3	ING Vysya Bank Limited	30.00	100	3.75	Nil	4.0%
4	Oriental Bank of Commerce	75.00	100	9.91	Nil	10.7%
5	State Bank of Patiala	25.00	100	5.08	Nil	5.5%

CRPS:

SI. No.	Name of the Allottee	Amount Lent (Rs. Cr.)	Offer Price Per Shares (Rs.)	No. of Debenture proposed to be allotted (fig. In Lakhs) (approx.)	Previous holding, if any, (%)	Post allotment holding (%) (approx.)
	Himachal Futuristic Communi-cations Ltd.	65.00	100	65.00	Nil	100%

7. **Face Value of the Securities**:

The Face Value of the equity shall be Rs. 10/- and it shall be Rs. 100/- for the debentures/CRPS.

8. **Pricing of the Shares**:

The Equity Shares & Preference Shares shall be issued at par with a face value of Rs.10/- & Rs. 100/-, respectively and the necessary exemptions from SEBI, wherever required, shall be obtained by the Company. The Board shall determine the Price at which the conversion of the debentures into shares shall be made but such price shall be in accordance with the price as may be determined by SEBI, which shall be 30 days prior to the date of exercising their option of conversion.

9. **Lock in Period**:

The securities allotted will be under Lock in period as per prevailing SEBI Guidelines.

10. **Controlling Interest of Board of Directors:**

There will not be any consequential changes in the control of the Company or in the Board of Directors or in voting rights (except to the extent of the voting rights acquired by the allottees as equity shareholders on the equity shares so allotted) as a result of the proposed allotment.

11. **Interest of Directors:**

None of the Directors of the Company except Mr S Lakshmanan , Mr T B Anantanarayanan, Mahendra Nahata, Dr. Ranjeet Mal Kastia and Mr. Vinay Maloo are interested in the above resolution. Mr S Lakshmanan and Mr T B Anantanarayana are interested in the above resolution as Nominee Directors of LIC of India and IDBI respectively for which it is proposed to allot Equity/OFCDs on preferential allotment basis and Mr. Mahendra Nahata, Dr. Ranjeet Mal Kastia & Mr. Vinay Maloo are interested to the extent that they are on the Board of HFCL in whose favour additional Equity and Cumulative Redeemable Preference Shares(CRPS) are to be issued .

12. Terms of the Restructuring package

A summary of the major terms and condition of the approved restructuring package is as under:

- Cut-off date: April 01, 2003.
- Principal repayment of existing term loan is rescheduled so as to be paid on ballooning basis in 24 quarterly instalments commencing from October 1, 2007 till July 1, 2013
- Rate of interest on outstanding term loan to be charged on ballooning basis giving a yield of 12% i.e. @10% p.a. till FY 2005-06 and @14% p.a. thereafter.
- The interest rates on working capital loan reduced from 15.5% p.a. to 13% p.a.
- The Principal Term Debt (PTD) shall comprise of outstanding term loans, interest, and compound interest and liquidated damages as on January 1, 2004. A part of the PTD equivalent to dues on term loans including interest dues, compound interest and liquidated damages as on January 1, 2004, shall be converted into Equity Shares of the Company, after giving effect of ballooning of interest rate and disbursement of undisbursed loan. Such equity shall be issued at par i.e. at Rs. 10/- each. The balance portion of PTD would be termed as Rupee Term Loans.

Lenders have agreed that institutional investment in equity by way of conversion as stated above will not be off-loaded in the market before fresh Equity of Rs.90 crore is raised for redemption of OFCD by the company as per CDR package i.e, till FY 2005-06.

SBoP/LIC (as term lenders) would have option to convert the aforesaid part of PTD into Cumulative Redeemable Preference Shares(CRPS) or Optionally Fully Convertible Debentures (OFCDs) or any other instrument, which will not have charge on any assets of the company. To maintain parity among the term lenders the terms of CRPS/OFCD/any other instrument as mentioned above, shall be as under:

- CRPS/OFCD/any other instrument will carry 0% coupon rate.
- The repayment/redemption of CRPS/OFCD/any other instrument shall be made without premium on March 31, 2014 i.e., after repayment of entire term loans.

Interest on term loans accruing for the period from January 1, 2004 to March 31, 2005 would be converted into OFCDs carrying 0% p.a. coupon rate. Such OFCDs would be redeemed on March 31, 2006 with a premium giving a yield of 12%. Redemption of OFCDs including premium is proposed to be made out of proceeds of public issue / private placement to be made during FY 2005-06.

In case of default in redemption of OFCD on March 31, 2006, if decided by the lenders, an interest of 15% p.a. (Present yield of 12% + 3%) would be charged on defaulted amount w.e.f. April 1, 2006 and the same would be repayable as per the revised schedule for repayment of principal of existing term loan.

Option for exercising conversion to equity would rest with the OFCD holders. The price of equity shares to be issued on conversion of OFCDs into equity shares would be at par subject to then prevailing SEBI guidelines and provisions of the Companies Act, 1956.

- Disbursement of Rs.26.39 crore out of undisbursed Rupee Term Loan sanctioned by IDBI with retrospective date of April 1, 2003 to be adjusted towards the overdue interest as on cut-off date i.e. April 1, 2003.
- The company shall tie up fresh term loan of Rs.25 crore during FY 2005 from the existing or new term lender to meet Capital Expenditure requirements. Such fresh term loan would carry preferential terms viz., (a) there would be a bullet repayment of entire loan of Rs 25 crore on March 31, 2007, (b) the loan amount would carry an interest rate equivalent to the yield to the existing term lenders on the term loan sanctioned as per the restructuring package i.e. 12% p.a. Such interest would be payable on quarterly basis, as may be decided by the lender, and (c) the security on such loan would be in line with the security stipulated by the existing term lenders.
- The company is required to tie up for additional working capital of Rs 10 crore from existing or new banks.
- Additional equity (a) Company to raise additional equity of Rs.27 crore. This is proposed to be raised from HFCL out of the proceed to be collected by HFCL on divestment of equity shares of the Company by way of public offer, (b) Company shall raise additional equity by March 31, 2006 by way of IPO/ private placement to redeem the OFCD issued to the lenders along with premium.
- Conversion of Company's dues to HFCL towards equipment supply & services and cash advances aggregating Rs.65 crore into 7.5% CRPS. These CRPS would be redeemed after repayment of entire term loans of the Lenders. Declaration of dividend would be with prior approval of lenders. The voting rights under these CRPS would be assigned in favor of existing term lenders of the Company by way of pledge of the aforesaid CRPS.
- Additional Security

Term Loans: (a) Unconditional and irrevocable personal guarantee of Shri Mahendra Nahata and Shri Vinay Maloo and (b) Corporate Guarantee of HFCL

OFCDs: (a) assignment of licence, (b) extension of first pari-passu charge on all the assets of the company, (c) Corporate Guarantee of HFCL, (d)

Extension of pledge, (e) Personal Guarantee of Mr. Mahendra Nahata and Mr. Vinay Maloo and (f) All other securities applicable on existing term loans.

- The Company shall vest in the lenders the right of recompense in respect of the sacrifices undertaken by them.
- The lenders shall reserve the right to cancel, suspend, reduce or modify, including withdrawal with retrospective effect, all or any of the reliefs and concessions and / or amend or vary the terms and conditions thereof, in the event of default by the Company.
- Interest rates on loans would be subject to reset clause to be exercised at the options of the lenders after every 3 years from the cut off date.
- Term Lenders' would have a right to convert 20% of their outstanding principal into equity shares after FY 2010 at par subject to then prevailing applicable SEBI guidelines.
- The Company shall not undertake any new project or expansion or make any investments or take assets on lease or any divestments or sale without the prior approval of Monitoring Committee of Lenders.
- The Company and its promoters shall undertake not to dispose or revalue its investments and assets without approval of the Lenders.
- The Company shall not pay any dividend on the Equity Shares / Preference Shares without the prior written approval of Lenders.
- In the event of default to a Lender, such Lender shall have the right to convert all defaulted amounts into equity at par. The Company shall undertake to increase its authorised share capital so as to ensure that Lender(s) have the option to convert such defaulted amounts into equity.
- In case the cash flows of the Company so warrant, the lenders at their discretion will have the right to accelerate the repayments of their facilities.
- The funds raised by HFCL by way of dis-investment in the Company will be used subject to approval of IDBI.
- The equity holding of term lenders as envisaged in the restructuring proposal, together with shares jointly pledged in favour of the term lenders shall be at least 51% of the total paid up equity share capital of the Company. In case of shortfall, the company/promoters shall arrange for pledge of additional shares. While finalising the package, the controlling interest of 51% has been stipulated taking into account conversion of a part of PTD of around Rs. 104 crore into equity by all the term lenders.
- The company shall obtain all statutory approvals / consents for issue of Equity / OFCDs and terms of conversion thereof.
- Assignment of voting rights in respect of promoters' preference shares being by way of pledge of shares.

The Board recommends the above resolution for the approval of the members.

By Order of the Board
***for* HFCL Infotel Limited**

Sd/-

Place: Ludhiana **Sanjeev Vashishta**
Date : 26.07. 2004 **GM(Corporate and Legal)**
& Company Secretary

DIRECTORS' REPORT TO THE MEMBERS

Your Directors take pleasure in presenting the Fifty Seventh Annual Report of your Company together with the audited Accounts for the year ended 31st March, 2004.

SUMMARY OF FINANCIAL RESULTS

The summarised Financial Results are as under:-

(Rs. in Crores)

Particulars	Year Ended 31-03-2004	Year Ended 31-03-2003
Gross Income-		
- from telecom service	191.67	89.42
- from others	0.77	108.36
	192.44	**197.78**
Operating Profit before Finance Cost, Depreciation, Amortisation and Extra Ordinary Item	37.78	106.36#
Less:- Finance Cost	69.11	56.78
Less:-Depreciation, Amortisation and Write Offs	79.67	55.65
Loss before Prior Period Expenditure and Extra Ordinary Items	(-) 111.00	(-) 6.07
Add: - Prior Period Expenditure and Extra Ordinary Items (Loss on Sale of Undertaking)	2.61	16.05
Loss before Tax for the year	(-) 113.61	(-) 22.12
Add: Provision for taxation –		
- Current tax	-	1.64
- Deferred tax	-	4.81
Loss after Tax	(-)113.61	(-)28.57
Profit/(Loss) available for appropriation (including accumulated losses and loss taken over on amalgamation)	(-) 449.60	(-) 332.50
Appropriation - Interim dividend	-	3.49
Loss carried to balance sheet	(-)449.60	(-) 335.99

including Rs. 12.90 Crores from telecom services.

DIVIDEND

In view of the accumulated losses, which are inherent in the initial few years in any capital intensive business of basic telecom services, your directors are not in a position to recommend any dividend for the financial year 2003-04.

PERFORMANCE

The telecommunication business of the Company has shown excellent growth during the year. The Company has expanded its services to over 60 cities/towns in the State of Punjab. The total subscriber base stood at over 1.5 lacs as at the end of the year as compared to last year's figure of 1.1 Lacs, thus showing a growth of 36% over the previous year. The Company launched its Pre-Paid Mobile product during the year, which was received very well in the market. A complete range of innovative Value Added Services and Data Products were also launched during the year, which was followed by introduction of DSL – high-speed Internet product, in the month of May 2004. The revenue from telecom service increased from Rs. 89.42 Crores in the last year (period of 7 months) to Rs. 191.67 Crores in this year. The operating profit, i.e. earning before interest, depreciation, extra ordinary items and tax stood at Rs. 37.78 Crores as compared to the previous year's figure of Rs. 12.90 Crores from telecom services indicating a growth of 2.9 times.

Looking forward, your Directors are confident that the growth trend both in subscriber numbers and revenues would be continued and the Company would achieve cash breakeven during the current financial year.

SHIFTING OF REGISTERED OFFICE

The Registered Office of the Company was shifted from the State of Tamil Nadu to B-71, Phase VII, Industrial Focal Point, Mohali, Punjab 160 055, upon receiving the necessary approvals from the shareholders and Company Law Board.

SHARE CAPITAL

As per the scheme approved by the Hon'ble High Court of Punjab and Haryana and Hon'ble High Court of Madras and in consideration of the transfer of undertaking of erstwhile HFCL Infotel Ltd. (transferor Company), the Company issued 43,20,00,250 Equity shares of Rs. 10/- each to the existing shareholders of the transferor Company in the ratio of one equity share in the amalgamated Company for every one equity share held in the transferor Company. Company has already initiated necessary steps for listing of these shares and is awaiting SEBI's approval in respect of Public Offer for Sale by the Promoter(s) as required by the Stock Exchange for listing of newly allotted shares.

Prior to the allotment of shares to the shareholders of 'transferor Company', the Company has, as per the scheme, issued 3,05,31,672 warrants to the shareholders of the Company (as on June 11, 2003) in the ratio of four warrants for every one share held by the non-promoter shareholders and three warrants for one share held by the promoters. These warrants, at the option of the shareholders were convertible into equity shares in the ratio of 1:1 by paying an exercise price of Rs. 10/- per share. The option closed on September 16, 2003. At the close of option, 17,30, 814 equity shares were allotted at Rs.10/- per share. These additional shares issued during the year have been listed on the Madras and Mumbai Stock Exchanges.

CORPORATE DEBT RESTRUCTURING

During the year under report, the Company has approached its lenders viz. Banks and Financial Institutions for a financial restructuring package, which has since been approved under Corporate Debt Restructuring (CDR) Mechanism.

The Corporate Debt Restructuring includes interalia reduction of interest rate on loans with effect from April 1, 2003, rescheduling of loans' repayment and conversion of certain overdue interest and loan amounts into Equity/ Optionally Fully Convertible Debentures. This CDR package stipulates certain conditions to be complied with by the Company and its promoters. Your Company has already initiated necessary steps to ensure compliance with the conditions and is confident that all the conditions as stipulated will be complied with.

As per CDR approval, outstanding interest & liquidated damages payable upto December 31, 2003 aggregating to Rs.99.25 crore to IDBI and other lenders would get converted into Equity shares of Rs. 10 each at par or into 0% Optionally Fully Convertible Debentures (OFCDs) at the option of the Lenders. The dues payable to the Holding Company, Himachal Futuristic Communications Ltd. towards equipment supply & services and other advances aggregating Rs. 65 crores are proposed to be converted into 7.5% Cumulative Redeemable Preference Shares (CRPS).

UNIFIED ACCESS SERVICES LICENSE

During the year, Department of Telecommunication (DOT) notified guidelines on Unified Access Services Licence based on TRAI recommendations. The Company's request for migration of its licence from "Basic Services Licence" to "Unified Access Services Licence" was accepted by DOT w.e.f November 14, 2003. The amended licence bearing new number 10-15/2004/BS-II/ HITL/PUNJAB was signed on May 31, 2004.

Key benefits of migrating to the Unified Access Services Licence for the Company are:

- The Company can now offer high growth fully mobile services with the existing spectrum entitlement.
- The Company is not required to pay any additional entry fee for this additional right as the entry fee already paid is more than the entry fee paid by the 4th Cellular Licencee.
- The Company's service area now also includes Panchkula, a town in Haryana.
- The Unified Access Services Licence also settles the disputes the Company had with the Government over the differences in the Company's Entry Fee, Roll-Out Obligations, Performance Bank Guarantee's requirements vis-à-vis the other operators who were granted Basic Services Licences in 2001.

DIRECTORS

Mr. Sanjay Maloo, Mr. P.L.Maloo and Mr. G.S.Ganesh resigned from the Board w.e.f. 29.10.2003, 29.10.2003 and 12.12.2003 respectively. The Board wishes to place on record its sincere appreciation of the valuable services rendered by them during their tenure as directors of the Company.

Mr. K. B. Lal was appointed as director w.e.f. 29.10.2003 in the casual vacancy caused by the resignation of Mr. P.L. Maloo. He holds office upto the date of ensuing AGM, the period up to which Mr.P.L.Maloo would have continued, if not resigned. The company has received a notice in writing from a Member of the Company u/s.257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr.K.B.Lal as a director of the company.

Mr. T.S.V. Panduranga Sarma was appointed as director w.e.f. 12.12.2003 in the casual vacancy caused by the resignation of Mr. G.S. Ganesh.

Dr. Ranjeet Mal Kastia was appointed as an additional director on the Board w.e.f. 19.06.2004 and holds office upto the date of the ensuing AGM. The Company has received a notice in writing from a Member of the Company u/s.257 of the Companies Act, 1956 signifying his intention to propose the appointment of Dr.Ranjeet Mal Kastia as a director of the Company.

Mr.Shyam Sunder Dawra was appointed as an additional director on the Board w.e.f. 19.06.2004 and holds office upto the date of the ensuing AGM. The Company has received a notice in writing from a Member of the Company u/s.257 of the Companies Act, 1956 signifying his intention to propose the appointment of Mr.Shyam Sunder Dawra as a director of the Company.

IDBI, has appointed Mr. T.B. Ananthanarayanan, as its Nominee Director on the Board of the Company w.e.f 30.5.2004.

In accordance with the Articles of Association of the Company and the provisions of the Companies Act, 1956, Mr. M.P.Shukla retires by rotation at the ensuing AGM and being eligible, offers himself for reappointment to the office of a director on the Board of your Company.

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, 2004, 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, 2004 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, 2004 on a going concern basis.

SUBSIDIARY

During the year under review, The Investment Trust of India Ltd. (formerly known as Rajam Finance & Investments Company (India) Ltd.) has ceased to be a subsidiary of your Company with effect from the close of business on September 30, 2003.

CONSOLIDATED FINANCIAL STATEMENTS

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

FIXED DEPOSITS

During the current year, the Company had discontinued the businesses of Non Banking Financial Services and hence the Company had made an application to Reserve Bank of India (RBI) for surrender of its NBFC licence. RBI vide its letter dated May 24, 2004, has allowed the cancellation of the certificate of registration as NBFC. However, as per the RBI letter, the Company will 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 until such time the activities of Non-Banking Financial Company listed in the object clause of the Memorandum of Association of the Company are deleted.

In this connection, the Company has voluntarily foreclosed all the unclaimed deposits lying with it, and has parked the same alongwith interest accrued thereon till September 15, 2003, being the date of foreclosure, in an Escrow Account opened with the Global Trust Bank Limited, Mumbai. Shareholders' permission for deletion of the clause pertaining to carrying on of business relating to Non-Banking Financial Company is proposed to be taken in due course.

AUDITORS

M/s PriceWaterhouse & Co., Chartered Accountants and M/s Chaturvedi & Partners, Chartered Accountants, the Statutory Auditors of the Company, retire at the ensuing Annual General Meeting and are eligible for reappointment.

CORPORATE GOVERNANCE

Your Company has been practising principles of good Corporate Governance over the years and the Board of Directors lay strong emphasis on accountability, transparency and integrity.

Corporate Governance and Management Discussion and Analysis Reports as well as Corporate Governance Compliance Certificate are provided in separate Annexures.

STATUTORY STATEMENTS

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

During the year, there were no foreign exchange earnings for the Company. The total foreign exchange outgo was Rs. 16.57 Lacs.

PERSONNEL

Information in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this Report. As per provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956 the Report and Accounts are being sent to all the Shareholders of the Company excluding the statement of particulars of employees under Section 217 (2A) of the Companies Act, 1956. Any Shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company, and the same will be sent by post

ACKNOWLEDGEMENTS

Your Directors wish to express their gratitude for the wholehearted support received throughout the year from the Shareholders, Subscribers, Deposit Holders, Business Associates, Financial Institutions, Banks, State Government and The Department of Telecommunications.

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

for and on behalf of the Board

Place : Mohali (Mahendra Nahata)
Date : 19th June, 2004 **Chairman**

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Overview

The Company was licensed to provide Basic Telephony and Internet services in State of Punjab and Union Territory of Chandigarh. Effective 14th November 2003, the company has migrated to Unified Access Services License, which authorizes the company to provide all kinds of Fixed as well as Mobile services within the State of Punjab and Union territory of Chandigarh.

The telecommunication business of the Company has shown excellent growth during the year. The Company has expanded its services to over 60 cities/towns in the State of Punjab. The total subscriber base stood at over 1.5 lacs as at the end of the year as compared to last year's figure of 1.1 Lacs, thus showing a growth of 36% over the previous year. The Company launched its Pre-Paid Mobile product during the year, which was received very well in the market. A complete range of innovative Value Added Services and Data Products were also launched during the year, which was followed by introduction of DSL – high-speed Internet product, in the month of May 2004. The revenue from telecom service increased from Rs. 89.42 Crores in the last year (period of 7 months) to Rs. 191.67 Crores in this year. The operating profit, i.e. earning before interest, depreciation, extra ordinary items and tax stood at Rs. 37.78 Crores as compared to the previous year's figure of Rs. 12.90 Crores from telecom services indicating a growth of 2.9 times.

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, VSAT based services, Radio Paging services, Public Mobile Radio Trunking services, Global Mobile Personal Communications Services through Satellite

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

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

The regulatory functions of TRAI fall under two categories:

- Recommendatory Functions encompassing introduction of new service providers, terms and conditions of new licences, measures to facilitate competition & promote efficiency, efficient management of available spectrum.
- Regulatory & Supervisory Functions encompassing fixing & regulation of tariffs, fixing the terms & conditions of interconnection arrangements between operators, ensuring compliance with licensing conditions, setting standards for & ensuring quality of services, laying measures for protecting the interest of the consumers.

From time to time, TRAI issues regulations, orders, directives, etc. to perform the regulatory functions. All customer tariffs and inter-connection agreements with other operators are required to be approved by TRAI.

TDSAT has been granted powers to adjudicate disputes between the licensor (the GOI) and a licencee service provider, between service providers, and between operators and a group of consumers. TDSAT also has the jurisdiction over appeals against any regulation, direction or order of TRAI. The orders of TDSAT can be challenged in the Supreme Court of India.

Industry Developments

Growth & Market Trends

During the Financial Year 2003-04, Indian Telecom Services sector continued its high growth trajectory, mainly driven by intense competition and aggressive pricing. The mobile segment grew at an unprecedented growth, as new players entered the market with CDMA based services and existing operators extended their footprint to more circles. The growth of fixed and mobile subscribers during 2003-2004 is shown below:

Service	Subscribers as on (million)		Growth
	March 2003	March 2004	
Fixed including WLL(F)	41.48	42.58	3%
Mobile including Cellular & WLL (M)	13.00	33.58	160%
Gross Total	54.48	76.16	40%

Significantly, Punjab is the only state circle where the numbers of mobile subscribers crossed the fixed subscribers. Besides, three metro cities of Delhi, Mumbai and Chennai have also achieved this milestone.

A significant downward trend was witnessed in the tariffs: -

- STD charges for distance beyond 200 Kms have reduced by 25% from Rs. 4.80 per minute to Rs. 3.60 per minute.
- ILD charges have come down drastically. Calls to USA, Canada and Europe cost only Rs.7.20 per minute as against Rs.24.00 per minute that prevailed earlier showing a decline of 70%.
- The tariffs for domestic leased lines have also reduced significantly. The prevalent market tariff for different capacities of leased lines is around 50-70% of the tariff specified by TRAI.

Given the multiple competing options available to customers, TRAI loosened the requirements of tariffing constraints and reporting requirements. This gave the operators greater flexibility to react to market requirements.

Unified Access Licensing Regime & Other Licensing Related developments

In order to encourage the technology neutrality in the access provision leveraging on the technological developments, to ensure flexibility and efficient utilisation of resources, and to resolve the turf related issues between the operators so as to renew the focus on growth of telecom services in the country, in November 2003, TRAI recommended a Unified Access License regime to make the access provision technology agnostic, thus blurring the boundary between fixed and mobile access.

TRAI recommended that in about 6 months time, the country should move into a de-facto delicencing situation, wherein an operator would have to obtain an nominally priced automatic licence/ authorisation to provide any telecom carrier service in any part of the country using any technology. The operator would have to procure spectrum from the Government. It would have to observe the regulations on inter-connection, quality of service, etc.

As a first step, TRAI recommended that all the access service providers (Basic & Cellular) should be allowed to migrate immediately to a Unified Access Licence in their service area with changes in service area, roll-out obligation, Performance Bank Guarantee terms to make them identical to that of the Cellular Operator. By virtue of this, Basic Operators would be entitled to offer fully mobile services. TRAI also recommended that the migrating Basic Operators pay an additional entry fee equal to the entry fee paid by the 4th Cellular Licencee less the Entry Fee already paid for their Basic Service Licence.

TRAI's recommendations were accepted by the Government of India. Consequently, the Company migrated to the Unified Access Services regime on 14th November 2003. The amended licence was signed on 31st May 2004.

Key benefits of the migration to the Unified Access Services Licence for the Company are:

- The Company can now offer high growth fully mobile services with the existing spectrum entitlement.
- The Company was not required to pay any additional entry fee for this additional right as the entry fee already paid is more than the entry fee paid by the 4th Cellular Licencee.
- The Unified Access Services Licence also settles the disputes the Company had with the GOI over its Roll-Out Obligations, the need to provide performance bank guarantees and the macro-issue of Level Playing Field.

  TRAI is expected to make further recommendations later this year to move to a Unified Licencing Regime from the current Unified Access Licencing Regime.

  Other key developments on the Licencing front were:

- Annual Licence Fee applicable to the Company reduced from 10% of revenues to 8% of revenues with effect from April 1, 2004.
- Pursuant to another set of recommendations of TRAI, the Government has allowed Intra-circle mergers and acquisitions subject to competitive levels not being compromised.

Telecommunications Industry in the Union Budget for 2004-05

Significant announcements of the Union Budget for 2004-05 relevant for Telecommunications Industry are (some of these provisions would become applicable upon passing of the Finance Bill):

- Increase in the Foreign Investment (including direct and portfolio investment) from 49% to 74%. This would boost further investment in the sector.
- Increase in the Service Tax from 8% to 10%. In addition, an educational cess of 2% would be levied on the service tax payable. This increase is likely to be passed on to subscribers by the industry.
- Credit of tax paid on inputs against the service tax liability, which was available only for input services, has been extended to input goods also. Consequently, excise duty and countervailing duty paid on capital equipment and other items purchased by the Company can be used as a credit against the service tax liability of the Company.
- Reduction in the customs duty on Mobile Switching Centres from 5% to nil.
- Extension of the tax holiday available under section 80IA of the Income Tax to companies that commence operations before March 31, 2005. The Company is already availing this benefit.

New Inter-connection Usage Charges Norms

A new regulation on Inter-connection Usage Charges

(IUC) was implemented from 01st May 2003. Salient features of these regulations were:

- Inter-connection Usage Charges (IUC) were specified for all the call distances as well as all combination of originating/ terminating network. These were specified as absolute values (Rs/ min) instead of the earlier practice of percentage of marginal call charges.
- Against the earlier practice of splitting the subscriber charges between the originating network and the carrier, the new regulations specified IUC values in three parts for the call originating access network, carrier's network (NLD Operator) and the call terminating access network. This was subsequently modified so as to specify the IUC values for carrier's network and terminating network, leaving the residual of the subscriber charges as the originator's share.
- The specified IUC values were based on estimated unbundled cost of networks and the work done in carriage of calls
- An explicit value of Access Deficit Charge (ADC) was also specified for calls involving a fixed service subscriber on either end of the call. Earlier, the ADC was implicitly built into call charges. Access Deficit Charge was provided to fixed services network to cover the losses incurred in offering subsidized rental and short distance call charges.
- Simultaneously, TRAI disallowed charging the customer for incoming calls in case of mobile services.

  These regulations were reviewed and modified regulations were implemented from 01st February 2004. Salient changes from the first regulations were:

- ADC was imposed on all calls, except a few. In the earlier version of the regulations, the ADC was expected to be recovered only from the calls involving a fixed service subscriber. This was creating a market distortion where the calls from or to fixedline had to be priced above other calls and hence the traffic was shifting away from fixedline thereby defeating the very purpose of ADC recovery.
- The ADC values were revised downwards significantly, as the revised analysis showed that the capital cost had been on a decline, that the traffic had grown significantly and that the local call charges for fixedline services were not below cost and hence did not require a subsidy.

  The IUC values clubbed into a smaller set of segments, thereby easing the implementation and burden on billing systems.

OPPORTUNITIES AND THREATS

Opportunities

During the year, the Company expanded the reach of its wireline voice services to smaller towns. The response from the smaller towns has been encouraging and the Company expects the smaller towns to contribute a significant portion of new customers addition in the subsequent periods.

Following rapid decline in equipment prices, the Company is rapidly rolling out broadband internet access services in all the areas served by the Company's wireline services.

Cognizant of the affluent status and spending behavior of consumer in Punjab, the Company sees a significant opportunity in expanding the portfolio of its services to include video access services (broadcast television and interactive premium multimedia services) for the retail/ household segment alongwith the core services of voice telephony services and data services (internet access and point-to-point data links).

The market for video services in Punjab is large and growing. The market is under-served by large Multi-System Operators (MSOs). The Management believes that video services will provide synergistic boost to the uptake of the Company's core offering of voice and data services. Further, the Company can leverage the extensive fibre network and organizational set-up to capture large chunk of the market quickly.

The Management believes that the Company has entrenched itself deep into the market and now has a deep understanding of the market and customer requirements as well as strong relationships with the high usage customers and franchisees.

Given the overall attractiveness of Punjab for consumer services vis-à-vis other states, and the above factors, Infotel management believes that staying geographically focused and deepening the portfolio of services would enhance sustainable economic value for the stakeholders.

Threats

The competitive intensity in Punjab is set to rise a few notches as two large national operators – Hutch Group (focus primarily on mobile services) and Tata Group (both mobile and wireless fixedline services) are expected to launch their services in Punjab later this year. This would increase the number of players in Punjab to seven, and would increase the pressure on new customer acquisitions and retention of existing customers.

The Company derives substantial part of its earnings from wireline (copper based network) services. This market segment has witnessed sluggish growth in the last two years and this trend is expected to continue.

Outlook

The Management is optimistic about the outlook for the Company in the medium term. Though the overall market for fixedline services has witnessed a slower growth, the Management believes that the Company will sustain a healthy growth on account of following factors:

- The Company is deploying a judicious mix of wireless systems, based on both CDMA and CorDECT technologies to rapidly deepen the availability of services in the towns where the Company presently offers its services.

- Affordable broadband internet access is expected to be a significant growth contributor for telecom operators globally. Wireline systems (copper and co-axial cable) are seen as technologically more robust and cheaper than wireless systems. Wireless solutions are not seen to be capable of delivering high speeds and are much expensive. The Company sees increasing demand for high speed internet access as a key driver for its copper based wireline service. The Company has plans to offer video and internet access services over co-axial cable.
- Bundled service offering of voice, data and video services (known as "triple play" services is telecom operator parlance) is expected to boost the uptake of each of the individual services and would serve as a key differentiator against the competitors, especially the incumbent operator.

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. However, to attract new customers, and to offer new/ better services, the Company will need to continually make further investment in the expansion/ upgradation of its network.

As is the case for any other capital intensive infrastructure business, the deployment of telecommunication services infrastructure entails significant capital expenditure, a substantial portion of which needs to be incurred before the realization of adequate revenues. Consequently, like other infrastructure projects, the Company has been generating cash losses.

The Company incurred cash losses during the year. Though the Company has reported a cash profit during the first quarter of FY2004-05, the operating cash flows 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 and technological upgradation requirements. Any delay in planned capital expenditure might also increase the funding requirements.

2 *Market and Competition Risk*

The Company faces competition from other services providers in its service area. For its fixedline services, the Company currently faces competition primarily from Bharat Sanchar Nigam Ltd (BSNL), and Reliance Infocomm ("Reliance India Mobile" tradename).

For mobile telephony services, the Company faces competition from BSNL, Bharti Mobile ("Airtel" tradename), Spice Communications ("Spice" tradename) and Reliance Infocomm ("Reliance India Mobile" tradename). Hutchison Group ("Hutch" tradename) and Tata Teleservices ("Tata Indicom" tradename) are expected to commence services later this year. Though all the private sector operators are allowed to offer fixedline services, they have greater focus on mobility services till now.

Most of the Company's competitors have significantly greater financial resources, well-established brand names, country-wide networks and a large existing customer base.

Further, as the Company has only recently received the permission to provide full mobility services, it is yet to expand the footprint of its mobile telephony network to most of the service area and as such will have to compete with the established operators.

3. *Risk of Reducing tariffs & Business risks*

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

4 *Regulatory Risks*

The Indian telecommunication industry is extensively regulated. 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 and which could have an adverse effect on the business and operations of the Company.

5. *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.

6 ***Dependence on key personnel***

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

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The company possesses sound internal control system, which ensures safeguard of all assets, protection against loss from unauthorized use or disposition and correct recording and reporting of its transactions. The internal control system along with independent review by internal auditors ensures authenticity of financial and other data and consequently, of the financial statement prepared there from.

The observations made by the internal auditors along with management's reply thereon are periodically placed before the Audit Committee constituted by the Board. The committee also reviews the quarterly, half yearly and annual financial statements before they are submitted to the Board for adoption.

The company makes detailed budgets for various products and departments. The Actual performance is measured on monthly basis and a detailed analysis of the variances in a monthly review before Board is carried out to set right any material deviations.

CORPORATE DEBT RESTRUCTURING

During the year under report, the Company has approached its lenders viz. Banks and Financial Institutions for a Financial Restructuring Package, which has been approved under Corporate Debt Restructuring (CDR) Mechanism. As part of the restructuring scheme, a Monitoring Committee has been constituted by the CDR Cell. Subsequently, during the current year, the company has also received Letters of Approval from the consortium of lenders led by IDBI and other lenders.

The restructuring package approves (i) change in the scope of project, revision in the cost of project and means of finance, (ii) amalgamation of HFCL Infotel Ltd. with The Investment Trust of India Ltd., and (iii) restructuring of debts, which broadly comprises reduction & ballooning of interest rate on loans with effect from April 1, 2003, rescheduling & ballooning of loans repayment, conversion of certain overdue interest and future interest on term loans into Equity/Optionally Fully Convertible Debentures, OFCDs, conversion of vendor's dues into Cumulative Redeemable Preference Shares. The scheme also stipulates certain conditions to be complied with by the Company and its Promoters. Your company has already initiated necessary action to ensure compliance with the conditions and is confident that all the conditions as stipulated therein, will be complied with, in agreement with CDR monitoring committee of the lenders.

The restructuring package mainly approves, (i) a re-estimation of the project cost which has been estimated at Rs. 1347 Crore during the peak funding year FY 2005-06, (ii) conversion of outstanding term loan, interest, compound interest & liquidated damages till January 1, 2004, into Principal Term Debt (PTD) and conversion of a part of PTD into 8.386 Crore (approx.) equity shares of Rs. 10 each and 16.61 Lakh OFCDs of Rs 100 each to be redeemed on March 31, 2014, at par. (iii) Conversion of Interest accruing on term loan for the period from January 1, 2004 till March 31, 2005 into 75.63 Lakh (approx.) OFCDs of Rs. 100/- each to be redeemed on March 31, 2006 at premium either in case or by way of conversion into Equity, at the option of the lenders (iv) Conversion of the dues to HFCL towards equipment supply & services and cash advances aggregating Rs. 65 crores into 7.5% Cumulative Redeemable Preference Shares (CRPS) and further release of undisbursed portion of term loan of Rs. 26.39 Crore by IDBI.

SEGMENT AND PRODUCT WISE PERFORMANCE

The Company is operating in 66 towns in Punjab. It has built a state-of-the-art network, capable of providing basic and multimedia services across Pan Punjab and Union Territory of Chandigarh. It provides a large variety of services to its customers viz. voice and enhanced telephony, ISP services and infrastructure leasing and backbone services.

Revenues at glance are as follows: -

Parameter	2003-04 (Rs. in Crores)	2002-03 (Rs. In Crores)
Basic Telephony Service	187.15	88.63
Internet Services	2.04	0.79
Infrastructure Services	2.48	-
Income from Investments	-	93.95
Income from Hire Purchase & Finance Business	-	2.33
Other Income	0.77	12.08
Total	192.44	197.78

FINANCIAL PERFORMANCE

Key Financial Indicators

A. Telecom Business

Parameter	2003-04 (Rs. in Crores)	2002-03 (Rs. In Crores)
Revenue from Telephony Service	191.67	89.42
EBIDTA (Telecom Business)	37.78	12.90

B. On Gross Basis

Particulars	2003-04 (Rs. in Crores)	2002-03 (Rs. In Crores)
Gross Income	192.44	197.78
Operating Profit	37.78	106.36
Loss After Tax	(-) 113.61	(-) 28.57

Major Expenses at a glance are as follows:

Parameter	2003-04 (Rs. in Crores)	2002-03 (Rs. In Crores)
Network Operations Expenditure	95.53	35.92
Sales & Marketing Expenditure	12.23	12.61
Personnel Cost	19.37	14.70
Administration & Other Expenditure	27.53	28.18
Finance Cost	69.11	56.78
Total	**223.77**	**148.19**

*** Previous years figures depict 7 months working of Telecom Business & 5 Months of Hire Purchase & Leasing Business which was subsequently transferred to company's wholly owned subsidiary on September 01, 2003. Therefore, current year's figures are not comparable with that of the Previous year.**

Share Capital

The company has at present only one class of shares i.e., Equity shares. The number of Equity shares of the company, as on March 31, 2004 are 442,447,064 of Rs. 10/- each.

Advance against Share Application Money

Pursuant to Corporate Debt Restructuring Proposal entered in to by the Company with its lenders, during the year under report, Rs. 65 crores due to Promoter Company (HFCL) & Rs. 84.09 Crores due to Term lenders has been transferred to Advance against Share Application Money for the purpose of Cumulative Redeemable Preference Shares and Equity shares respectively. The Balance in the Advance against Share application Money as on 31st March 2004 was Rs. 149.09 Crores. The previous year figure under the above head stood at Nil.

Secured Loans

The Secured loans of the company decreased from Rs. 646.71 Crores as on March 31, 2003, to Rs. 626.05 Crores on 31st March 2004 mainly as a result of implementation of Corporate Debt Restructuring Proposal.

Unsecured Loans

The Unsecured loans of the company increased from Rs. 12.92 Crores as on 31st March 2003 to Rs. 20.37 Crores as on 31st March 2004. The increase in unsecured loans to the extent of Rs. 16.64 Crores was due to impact of Corporate Debt Restructuring. During the year, there were repayments of Public Deposits and Vendor Finance by the company, which led to decrease in Unsecured Loans

Fixed Assets

The Fixed Assets (Net Block) decreased from Rs. 814.71 Crores as on March 31, 2003 to Rs. 769.87 Crores as on March 31, 2004. The decrease in Net block, to the extent of Rs. 85.68 Crores, was on account of Depreciation and disposal of assets. Rs. 40.8 Crores worth of purchases were made during the year.

Investments

The Investments made by the company stood at Rs. 71.77 Crores as on 31st March 2004 in comparison to 75.20 Crores as on 31st March 2003 on account of sale of Government Securities made by the company during the year amounting to Rs. 3.43 Crores.

Current Liabilities and Provisions

The Current liabilities and provisions of the company stood at Rs. 65.44 Crores as on 31st March 2004 as against 137.30 Crores on 31st March 2003. During the year, Rs. 62.11 Crores were transferred to advance against OFCD's/CRPS' as per Corporate Debt Restructuring proposal.

Current Assets

The Current assets of the company stood at Rs. 39.15 Crores as on 31st March 2004 in comparison to Rs. 38.74 Crores on 31st March 2003.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCE

The company has always recognized the in-house pool of intellectual capital as the driving force behind the company's growth. The total staff strength at the year ended 31st March, 2004 was 594 with an average age of 29 years. 71 % of the total employees are professionals viz. Engineers, MBAs, C.As, Company Secretaries, ICWAs, and Law graduates etc.

The company has taken initiatives to develop functional/ technical and behavioral capacities in its employees for their growth and development and also to ensure high business growth on sustainable basis.

The pay structures have been revised with a view to link these to performances directly. The half yearly performance appraisals are done which encourages people to continuously perform better and contribute to the business goals of the company.

CAUTIONARY STATEMENT

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

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

CORPORATE GOVERNANCE

Corporate Governance is crucial to the very existence of the Company as it builds confidence, trust and long term relations 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.

At HFCL Infotel, we believe that our shareholders/ stakeholders have the right to have complete information about the Board, the Management of the Company, their interest in the organisation and the practices followed by them. We recognise that strong Corporate Governance is indispensable to resilient capital market and is therefore, an important instrument of investor protection.

1. **Company's 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.

2. **Board of Directors**

Presently, the Company's Board consists of nine Directors, including two Nominee Directors nominated by Life Insurance Corporation of India and IDBI, Term Lenders. All the Board Members possess adequate experience, expertise and skills. The Board oversees the business operations with the day-to-day affairs being managed by the Executive Committee consisting of senior officers of the Company.

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

S No.	Name of the Director	Category	No. of Other Directorships	No. of Committee Membership*	No. of Committee Chairmanship*
a.	Mr. Mahendra Nahata (w.e.f. 29.04.2003)	(C / NED /PD)	6	3	0
b.	Mr. M.P.Shukla (w.e.f 29.04.2003)	(NED/ID)	1	1	1
c.	Mr. Vinay Maloo (w.e.f 17.06.2003)	(NED/ PD)	6	1	0
d.	Mr. S.Lakshmanan (w.e.f 17.06.2003)	(NED/ID/Nominee)	0	2	1
e.	Mr. K.B. Lal (w.e.f 29.10.2003)	(NED/ID)	0	2	0
f.	Mr. T.S.V. Panduranga Sarma (w.e.f 12.12.2003)	(NED/ID)	0	1	1
g.	Mr. T. B. Ananthanarayanan	(NED/ID/Nominee)	1	3	0
h.	Mr. Shyam Sunder Dawra	(NED/ID)	2	1	0
i.	Dr. Ranjeet Mal Kastia	(NED/PD)	2	1	1

Name of Directors who have resigned during the year:

S No.	Name of the Director	Category	No. of Other Directorships	No. of Committee Membership*	No. of Committee Chairmanship*
a.	Mr. Sanjay Maloo	(NED/ID)	6	1	-
b.	Mr. P. L. Maloo	(NED/ID)	2	1	-
c.	Mr. G. S. Ganesh	(NED/ID)	2	-	-
d.	Mr. Dharmesh Doshi	(NED/ID)	6	-	-

Note:

**Committee Membership/Charimanship includes Membership / Chairmanship in HFCL Infotel Ltd.; Excludes Private Companies; IncludesMembership acquired after March 31, 2004; Committees considered are Remuneration Committee, Audit Committee, Share Transfer & Investors' Grievance Committee and Project Management Review Committee.*

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

All the Directors on the Board are Non Executive and the Independent Directors constitute more than 50% of the current strength of the Board.

None of the directors on the Board are members on more than ten Committees and/ or Chairman of more than five Committees across all companies in which they are directors.

The Board has constituted various Committees viz. Audit Committee, Share Transfer & Investors' Grievance Committee, Remuneration Committee and Project Management Review Committee. The Committees meet at regular intervals to review their respective areas of operation. The proceedings of all such Committee meetings are regularly placed before the Board. The Board meets every quarter to review and discuss the operating results and other items of agenda. Additional meetings are held whenever required. During the period 01.04.2003 to 31.03.2004, the Board has met 9 times on the following dates i.e., 29.04.2003, 17.06.2003, 30.06.2003, 31.07.2003, 30.08.2003, 29.10.2003, 12.12.2003, 31.01.2004 and 25.03.2004.

2.1 Attendance of Directors at the Board Meetings held during the year 2003-04 and at the last Annual General Meeting is as under:-

S No.	Name of Director	Attendance Held	Attended	Last AGM attended
1.	Mr. Mahendra Nahata *	9	8	No
2.	Mr. Vinay Maloo**	8	-	No
3.	Mr. M. P. Shukla *	9	8	Yes

4.	Mr. S. Lakshmanan***	8	8	Yes
5.	Mr. K. B. Lal #	4	3	No
6.	Mr. T.S.V. Panduranga Sarma ##	3	2	No
7.	Mr. Sanjay Maloo###	6	3	No
8.	Mr. Dharmesh Doshi####	1	-	No
9.	Mr. G.S.Ganesh@	7	4	No
10.	Mr. P. L. Maloo #@	6	1	No
11.	Mr. Tattamangalam Balakrishna Iyer Ananthanarayanan (nominee Director of IDBI w.e.f 31.05.2004)	-	-	-
12.	Mr. Shyam Sunder Dawra (appointed as an Additional Director w.e.f 19.06.2004)	-	-	-
13.	Dr. Ranjeet Mal Kastia (appointed as an Additional Director w.e.f 19.06.2004)	-	-	-
14.	Mr. S. S. Bhandari (appointed as an additional Director w.e.f 29.04.2003 & resigned on 01.05.2003)	1	-	-

* *appointed as Additional Directors w.e.f Board Meeting held on 29.04.2003 and re-appointed as a Directors Liable to retire by rotation in the Annual General Meeting held on 25.09.2003*

** *appointed as an Additional Director w.e.f. Board Meeting held on 17.06.2003 and re-appointed as a Director Liable to retire by rotation in the Annual General Meeting held on 25.09.2003*

*** *appointed as a Nominee Director by LIC w.e.f Board Meeting held on 17.06.2003*

\# *appointed in casual vacancy created by resignation of Mr. P. L. Maloo w.e.f 29.10.2003*

\## *appointed in casual vacancy created by resignation of Mr. G.S. Ganesh w.e.f 12.12.2003*

\### *ceased to be a director w.e.f 29.10.2003*

\#### *ceased to be a director w.e.f 22.04.2003*

@ *ceased to be a director w.e.f. 12.12.2003*

\#@ *ceased to be a director w.e.f 29.10.2003*

2.2 **Information Placed Before the Board:-**

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

a. Minutes of all Committee Meetings;
b. Quarterly Un-audited Financial Results of the Company;
c. Annual Operating Plans, budgets and updates thereon;
d. Information on recruitment and remuneration of all Senior Officers just below the Board level including appointment of Chief Operating Officer;
e. Show cause, demand, prosecution notices, penalty notices etc. which are materially important;
f. Material default in financial obligations, if any, to and by the Company or substantial non-payment for goods sold or services rendered by the Company;
g. Non-compliance of any regulatory and statutory requirements or listing requirements and shareholders' service;
h. Details of any joint venture or collaboration agreement;
i. Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

3. **Audit Committee**

During the year the Audit Committee comprised of: -

- Mr. T S V Panduranga Sarma, Chairman w.e.f 12.12.2003
- Mr. Mahendra Nahata, Member w.e.f 17.06.2003
- Mr. S Lakshmanan, Member w.e.f 17.06.2003
- Mr. M P Shukla, Member w.e f 30.06.2003
- Mr. G.S.Ganesh, Chairman till 12.12.2003
- Mr. Sanjay Maloo Member till 17.06.2003
- Mr. P. L. Maloo, Member till 17.06.2003

The constitution of the Audit Committee meets the requirements of section 292A of the Companies Act, 1956 as well as the requirements of the Listing Agreements. The Committee meets regularly and the Statutory Auditors, the Internal Auditors, Chief Financial Officer and other Senior Officers are invitees to the meetings. The quorum for the Audit Committee is 2 members.

The Board in their meeting held on 26th July, 2004 has changed the constitution of Audit Committee and the changed constitution is as follows:

- Mr. T.S. V. Panduranga Sarma, Chairman
- Mr. Mahendra Nahata
- Mr. S. Lakshmanan
- Mr. T. B. Ananthanarayanan

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

a. Review of quarterly/half-yearly and Annual Financial Statements;
b. Review of Company's Financial and Risk Management Policies;
c. Oversight of the Company's Financial Reporting Process;
d. Review of adequacy of Internal Control Systems and formulation of Internal and Statutory audit plans;

e. Periodical discussion with the Management and Internal Auditors;

f. Investigation of matters referred to by the Board;

g. Review and recommendations on Direct and Indirect tax legislations and other statutory compliances;

h. Access to information contained in the records of the Company and seeking external professional advice, if necessary and

i. Reviewing substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders and creditors.

During the year under review, the Audit Committee met on 8 occasions viz. 29.04.2003, 17.06.2003, 30.06.2003, 31.07.2003, 30.08.2003, 29.10.2003, 12.12.2003 and 31.01.2004. The attendance of the members at the meetings was as under:-

Name of Member	No. of Meetings Held During Tenure	No. of Meetings Attended During The Financial Year Ended 31.03.2004
Mr. Mahendra Nahata	7	7
Mr S Lakshmanan	7	7
Mr. M P Shukla	6	6
Mr. T S V Panduranga Sarma	2	1
Mr. G.S.Ganesh **	7	4
Mr. Sanjay Maloo***	1	1
Mr. P. L. Maloo****	1	1

** *Mr. G S Ganesh ceased to be a Director and consequently a Member of the Committee w.e.f. 12.12.2003.*

*** *Mr Sanjay Maloo ceased to be a member of the Committee w.e.f. 17.06.2003.*

**** *Mr PL Maloo ceased to be a member of the Committee w.e.f. 17.06.2003.*

4 **Remuneration Committee**

During the year the Remuneration Committee comprised of:

- Mr. S. Lakshmanan, Chairman w.e.f 17.06.2003
- Mr. Mahendra Nahata, Member w.e.f 17.06.2003
- Mr. M P Shukla, Member w.e.f 17.06.2003
- Mr. G.S.Ganesh, Chairman till 17.06.2003
- Mr. Sanjay Maloo Member till 17.06.2003
- Mr. P. L. Maloo, Member till 17.06.2003

The remuneration committee of the Board was originally constituted on 27.08.2002. During the year, the Remuneration Committee of the Company was re-constituted on 17.06.2003 with Mr. S Lakshmanan as Chairman, Mr. Mahendra Nahata and Mr. M. P. Shukla as the other Members.

The Board in their meeting held on 26th July, 2004 has changed the constitution of Remuneration Committee and the changed constitution is as follows:

- Mr. S. Lakshmanan, Chairman
- Mr. M. P. Shukla
- Mr. Shyam Sunder Dawra

The Committee is responsible for overseeing the following matters: -

a. Examination of the terms of agreement(s) entered into with Managing and other Executive Directors.

b. Determination of the remuneration packages i.e. salary and perquisites payable to the Managing and other Executive Directors.

c. Determination of the amount of bonus, stock option, pension rights and compensation payments to the Managing and other Executive Directors.

The Committee met twice during the year on 30.06.2003 and 30.08.2003. The attendance of the Members at the meetings was as under:-

Name of Member	No. of Meetings Held During Tenure	No. of Meetings Attended During The Financial Year Ended 31.03.2004
Mr. S Lakshmanan	2	2
Mr. Mahendra Nahata	2	2
Mr. M P Shukla	2	2

Details of Managerial Remuneration paid during the year are as under:-

Name	Position	Salary and Allowances	Perquisites	Total (in Rs.)
Mr. Sunil Batra**	Manager	24,47,785/-	1,73,844/-	26,21,629/-
Mr. Simon Solomon*	Manager	2,41,479/-	23,774/-	2,65,253/-

* Mr. Simon Solomon resigned from the post of Manager w.e.f 01.07.2003. His resignation was accepted in the Board meeting held on 31.07.2003

** Mr. Sunil Batra has resigned from the post of Chief Operating Officer and Manager of the Company with effect from 25.03.2004.

Appointment of Manager in terms of Section 269 of the Companies Act, 1956

The Board of Directors in their meeting held on

26.07.2004 have appointed Mr. Surendra Lunia as a Manager within the meaning of Companies Act, 1956 subject to approval of shareholders at Annual General Meeting, the lenders and of Central Government, at following remuneration as approved by the Remuneration Committee in their meeting held on 26.07.2004:

1 **Remuneration: -**

(a) Basic Salary:- Upto a maximum of Rs.1,22,500/- per month;

(b) Performance Linked Incentive (PLI)/ Bonus:- Upto 150% of the Basic Pay.

2. **Allowances & Perquisites as depicted below, limited to 200% of the Basic Pay:-**

a) House Rent Allowance

b) Personal Pay

c) Company Car with Driver

d) Allowances (Including Medical, Leave Travel Concessions and Special Allowance)

e) Perquisites (including Credit card, Club Membership and hard furnishings)

3. **The Contribution to Provident Fund & Gratuity shall be as per the rules of the Company.**

4. **Other terms: -**

a) The appointment may be terminated on either side by giving three months notice in writing or three months salary in lieu thereof. Salary here means cost to the Company.

b) Mr. Surendra Lunia shall be entitled to reimbursement of entertainment, travelling and all other expenses incurred for the business of the Company as per the rules of the Company.

c) Mr. Surendra Lunia shall also be eligible for housing and other loans and facilities in accordance with the rules of the Company.

d) For all other terms and conditions not specifically spelt out above, the rules and regulations of the Company shall apply.

e) Subject to the approval of the Board of Directors, Mr. Surendra Lunia shall be entitled to an increase in remuneration at any time within a period of three years, subject to a limit of 50% of the remuneration as specified above (points 1,2 & 3).

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

Name of Director	Sitting Fees Paid (Rs.)
Mr. Mahendra Nahata	1,00,000/-
Mr. Vinay Maloo	Nil
Mr. M P. Shukla	95,000/-
Mr. K B Lal	25,000/-
Mr. S Lakshmanan	95,000/-
Mr. T S V Panduranga Sarma	15,000/-
Mr. Sanjay Maloo	20,000/-
Mr. G. S. Ganesh	40,000/-
Mr. P. L. Maloo	10,000/-
Total	**4,00,000/-**

Note: Sitting Fees paid includes sitting fees paid meetings of Board and Committees thereof.

Note:- *Rs. 17,000/- paid to Directors of the erstwhile HFCL Infotel Limited as sitting fees for the Project Management Review Committee held on 18.04.2003 not included in above figures.*

No other remuneration is paid to Non-Executive Directors.

5. **Share Transfer and Investors' Grievance Committee**

The Board of Directors in their meeting held on 17.06.2003, have further reconstituted the Share Transfer and Investors' Grievance Committee which consisted of Mr. Sanjay Maloo, Non-Executive Director as the Chairman and Mr. P.L.Maloo and Mr. M.P.Shukla as the other members.

Due to further change in the Board of the company, the committee was once again reconstituted which currently consists of Mr. Mahendra Nahata, a non-Executive Director as Chairman, Mr. M. P. Shukla and Mr. K. B. Lal as Members.

The Board in their meeting held on 26th July, 2004 has changed the constitution of Share Transfer and Investors' Grievance Committee and the changed constitution is as follows:

- Dr. Ranjeet Mal Kastia, Chairman
- Mr. K. B. Lal
- Mr. T. S. V. Panduranga Sarma

During the year under review, the Committee met once on 17.01.2004 and the attendance of the Members at the meetings was as under: -

Name of Member	No. of Meetings Held During Tenure	No. of Meetings Attended During The Financial Year Ended 31.03.2004
Mr. Mahendra Nahata	1	1
Mr. M P Shukla	1	1
Mr. K B Lal	1	1
Mr. Sanjay Maloo	-	-
Mr. G S Ganesh	-	-
Mr. P L Maloo	-	-

Besides the Committee consisting of the Board Members, the Board has also constituted one In-House Share Transfer Committee, which comprised of Mr. Surendra Lunia, Chief Operating Officer and Mrs.Priya Manoj Jaswani, Manager Secretarial to handle all matters relating to shareholdings below 5000 in number. The Board of Directors in their meeting held on 19.06.2004, had reconstituted the Share Transfer In- House Committee which consisted of Mr.Surendra Lunia, Chief Operating Officer, Mr. Pradeep Goel, (G.M. Finance and the former Company Secretary), Mr. S Narasimhan, Deputy General Manager and Mrs. Priya Manoj Jaswani, Manager Secretarial, as the members.

Owing to appointment of Mr. Sanjeev Vashishta as a Company Secretary & Compliance Officer in the Board Meeting held on 26.07.2004, the committee has been once again reconstituted consisting of Mr. Sanjeev Vashishta, GM-Corporate & Legal and Company Secretary, Mr. Pradeep Goel G.M-Finance and Mrs Priya Manoj Jaswani, Manager as members, with all other terms of constitution remaining the same.

The Committees look into redressal of shareholders' complaints like transfer / transmission of shares, split and issue of duplicate certificates, non-receipt of dividend etc. The Committees oversee the performance of Registrar and Share Transfer Agents and recommends measures for overall improvement in quality of investor services.

During the year ended 31.03.2004, 21 meetings of In-House Share Transfer Committee were held. Total number of letters/ complaints received during the year under review were 142 and 141 complaints were replied to the satisfaction of the shareholders during the year under review. There were no share transfers pending at the year end. There were no complaints unresolved as on 31.03.2004 except one complaint regarding non receipt of dividend for the year 2002-03 which has since been resolved.

6. Project Management Review Committee

The Project Management Review Committee of the Company was constituted to comprise of Mr. M.P.Shukla (Chairman), Mr. Mahendra Nahata and Mr. S. Lakshmanan at the Board Meeting of the Company held on 17.06.2003. During the year, Mr. K B Lal was inducted as a member of the Committee at the Meeting of the Board of Directors held on 12.12.2003.

During the year under report, Project Management Review Committee met twice on 09.09.2003 and 24.12.2003.

All the Members of the Committee are non-executive of which Mr. M. P. Shukla, Mr. K B Lal and Mr. S. Lakshmanan are the Independent Directors.

The Board in their meeting held on 26th July, 2004 has changed the constitution of Project Management Review Committee and the changed constitution is as follows:

- Mr. M. P. Shukla, Chairman
- Mr. Mahendra Nahata
- Mr. S. Lakshaman
- Mr. K. B. Lal
- Mr. T.B. Ananathanarayanan

Scope of Review of the Committee includes: -

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

Powers of the Committee:-

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

7. General Body Meetings

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

Year	AGM No.	Location	Date	Time
2000-2001	54	Music Academy "Mini Hall", 306, T.T.K.Road, Chennai- 600 014.	21.09.2001	10.00 a.m.
2001-2002	55	Music Academy "Mini Hall", 306, T.T.K.Road, Chennai- 600 014.	24.09.2002	11.00 a.m.
2002-2003	56	Music Academy "Mini Hall", 306, T.T.K.Road, Chennai- 600 014.	25.09.2003	10.00 a.m.

During the year under report, the company conducted Postal Ballot during May, 2003 with R. Balasubramaniam as Scrutniser, to obtain the approval of the shareholders for following items: -

- Special Resolution under section 17 read with section 146 of the Companies Act, 1956 for shifting of the registered office of the company from the State of Tamil Nadu to the State of Punjab;
- Special Resolution under section 17(1) of the Companies Act, 1956, to alter the situation clause of the Memorandum of Association;
- Ordinary Resolution under section 228(3) of the Companies Act, 1956, for appointment of Branch Auditors of the Company.

The results of the above Postal Ballot were announced at the Extra-Ordinary General Meeting held on 06.06.2003 wherein all the resolutions were declared to have been approved by the requisite majority of the shareholders.

Following Special resolutions were passed at the last Annual General Meeting of the company:

- Approval for terms and conditions as to remuneration of Mr. Simon Solomon in terms of Section 198, 269, 385, and 387 read with Section 2(24) of the Companies Act, 1956, w.ef. 27.08.2002 to 01.07.2003
- Approval for appointment of Mr. Sunil Batra as a Manager of the Company and of terms and conditions as to his remuneration in terms of Section 198, 269, 385, and 387 read with Section 2(24) of the Companies Act, 1956, w.e.f 31.07.2003
- Amendment in Articles for inclusion of provision relating to Nominee Directors

8. Disclosures

a. 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. Non Compliance by the Company, penalties, 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 3 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 3 years.

9. Means of Communication

The Quarterly, Half Yearly and Audited Annual results were published in Trinity Mirror, English daily and in Makkal Kural, vernacular language paper till the Registered Office was shifted to Punjab and later in The Indian Express, English daily and Desh Sevak, vernacular language paper and forwarded to Stock Exchanges immediately. Press releases are also issued simultaneously.

The Financial Results of the company are also displayed on company's website www.hfclconnect.com

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

11. General Shareholder Information

1. 57th Annual General Meeting

Date	:	30th September, 2004
Time	:	12:00 p.m.
Venue	:	B-71, Industrial Focal Point, Phase VII, Mohali , 160 055, Punjab.

2. Dates of Book Closure

The Company's Register of Members and Share Transfer Books will remain closed from 23rd September, 2004 to 30th September, 2004 (both days inclusive).

3. Financial Calendar of the Company (Tentative)

Results for the quarter ending September 30, 2004	:	approved on July 26, 2004
Results for the quarter ending September 30, 2004	:	Third week of October 2004
Results for the quarter ending December 31, 2004	:	Third week of January 2005
Results for the quarter ending March 31, 2005	:	Third week of April 2005
Annual General Meeting	:	September 2005

The financial year covers the period from 1st April 2004 to 31st March 2005

4. Registered Office

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

5. Listing of Equity Shares on Stock Exchanges

The Company's shares are listed on the Stock Exchanges at Chennai, Mumbai and Kolkata. The requisite listing fees have been paid to all these Stock

Exchanges.

In accordance with the Scheme of Amalgamation, the Company has allotted 432,000,250, equity shares to the shareholders of erstwhile HFCL Infotel Ltd. The Company is in the process of complying with the formalities for making "An Offer for Sale" of 5,13,00,000 equity shares of the Company held by the Promoters of the Company, M/s. Himachal Futuristic Communications Limited as a pre-requisite for obtaining approval for the listing of the said shares on all the stock exchanges where the Company's shares are listed.

6. Stock Code

a. The Stock Exchange, Mumbai – 11116

b. Madras Stock Exchange Ltd. – ITR

c. The Calcutta Stock Exchange Ass. Ltd. – 19090

7. Stock Price Data

The reported high and low closing prices of the Company's shares traded during the fiscal 2003-2004 on the Stock Exchange, Mumbai are given below:

MONTH	HIGH Rs.	LOW Rs.
April 2003	15.25	11.00
May 2003	25.25	12.25
June 2003	23.40	16.30
July 2003	19.10	15.80
August 2003	24.10	16.00
September 2003	18.95	12.60
October 2003	19.75	12.20
November 2003	15.00	11.70
December 2003	22.95	12.50
January 2004	21.75	14.45
February 2004	15.70	11.50
March 2004	13.75	9.75

8. 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.

9. Escrow Account for Public Deposits

The Company has parked the entire public deposit amounts remaining unpaid / unclaimed as on September 15, 2003, being the date of preclosure of all deposits by the Company, in a separate Escrow Account with Global Trust Bank Limited (since merged with Oriental Bank of Commerce), Mumbai.

10. Registrars for Public Deposits

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

11. 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 thirty 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 effected in physical form.

With a view to expedite the process of share transfers, Mr. Sanjeev Vashishta, GM-Corporate & Legal and Company Secretary, Mr. Pradeep Goel G.M-Finance and Mrs Priya Manoj Jaswani, Manager are authorised to approve transfers / transmissions / issue of duplicate share certificates of shares below 5000 in number.

The Share Transfer and Shareholders / Investors Grievance Committee meets at regular intervals to consider the other transfer proposals and attend to shareholder grievances.

12. Distribution of Shareholding as on 31st March 2004

No. of Equity	Shareholders		Shareholding	
Shares Held	No.	%	No.	%
Upto 500	7752	84.49	1137330	0.26
501-1000	712	7.76	572421	0.13
1001-2000	390	4.25	575528	0.13
2001-3000	118	1.29	294914	0.07
3001-4000	53	0.58	193556	0.04
4001-5000	44	0.48	208466	0.05
5001-10000	52	0.56	377733	0.08
Above 10000	54	0.59	439087116	99.24
Total	**9175**	**100.00**	**442447064**	**100.00**

13. Categories of Shareholding as on 31st March 2004.

Name	Shareholding	
	No.	%
Resident Individuals	6318971	1.43
Non-Resident Indians / OCBs	393776	0.09
Foreign Institutional Investors	46860	0.01
Promoters	348705000	78.81
Bodies Corporate	52133198	11.78
Banks & Financial Institution	34841286	7.87
Directors & Relatives	-	-
Clearing Members	7973	0.00
Total	**442447064**	**100.00**

14. **Performance in comparison to BSE Sensex**

	HFCL Infotel Limited			BSE Sensex		
Month	High Rs.	Low Rs.	Average	High Rs.	Low Rs.	Average
Apr-03	15.25	11.00	13.13	3221.90	2904.44	3063.17
May-03	25.25	12.25	18.75	3200.48	2934.78	3067.63
Jun-03	23.40	16.30	19.85	3632.84	3170.38	3401.61
Jul-03	19.10	15.80	17.45	3835.75	3534.06	3684.91
Aug-03	24.10	16.00	20.05	4277.64	3722.08	3999.86
Sep-03	18.95	12.60	15.78	4473.57	4097.55	4285.56
Oct-03	19.75	12.20	15.98	4951.11	4432.93	4692.02
Nov-03	15.00	11.70	13.35	5135.00	4736.70	4935.85
Dec-03	22.95	12.50	17.73	5920.76	5082.82	5501.79
Jan-04	21.75	14.45	18.10	6249.60	5567.68	5908.64
Feb-04	15.70	11.50	13.60	6082.80	5550.17	5816.49
Mar-04	13.75	9.75	11.75	5951.03	5324.78	5637.91

15. Dematerialisation of Shares

89.60 % of the Equity Capital is held in a dematerialized form with National Securities Depository Limited and Central Depository Services (India) Limited as on 31st March, 2004. The 43,20,00,250 shares allotted to the erstwhile shareholders of HFCL Infotel Limited, in the Exchange Ratio as per the Scheme of Amalgamation, for whom share certificates / demat credits have not been given pending the approval from the Stock Exchanges for listing, have not been included in calculating the above percentage.

16. Head Office

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

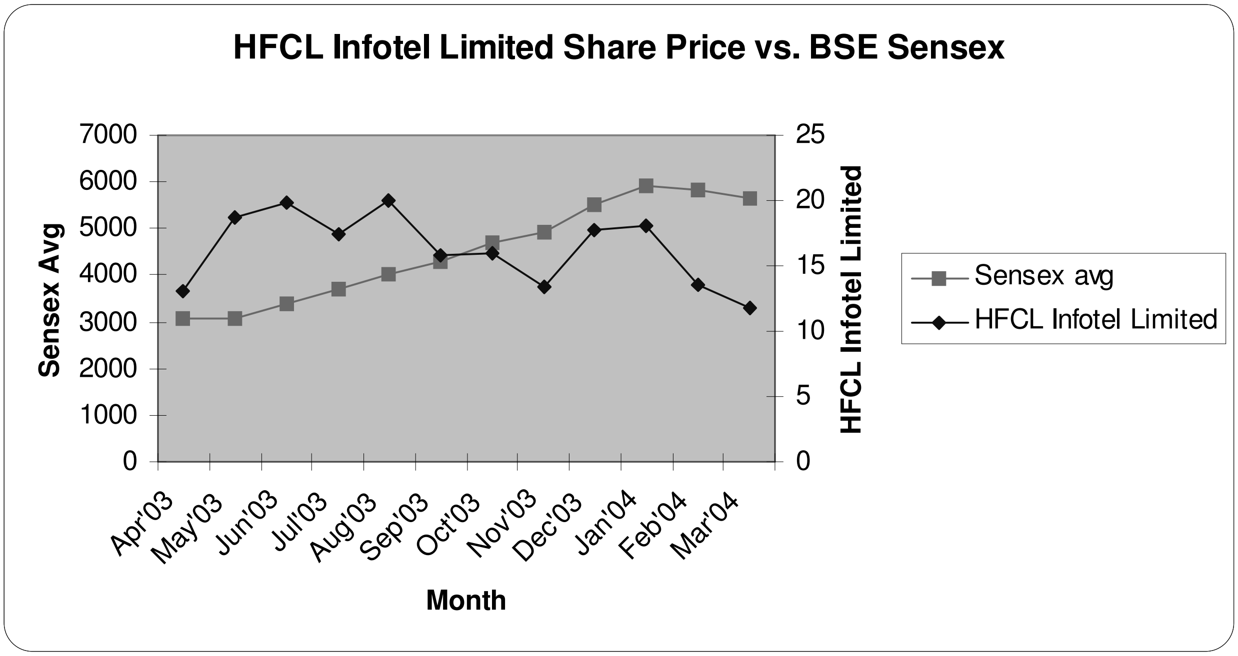
17. Address for Correspondence

Shareholders may correspond on all matters relating to transfer / dematerialisation of shares and any other query relating to shares of the Company with the Share Transfer Agents at :

Cameo Corporate Services Ltd.,
Unit : HFCL Infotel Limited,
"Subramaniam Building,"
No.1, Club House Road,
Anna Salai, Chennai 600 002
Telephone Nos. : 2846 0390 (5 lines)

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

16. Website:- http://www.hfclconnect.com



AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT(S)

To the Members of HFCL Infotel Limited

1. We have reviewed the implementation of Corporate Governance procedures by HFCL Infotel Limited (the Company) during the year ended March 31, 2004, with the relevant records and documents maintained by the Company, furnished to us for our review and the report on Corporate Governance as approved by the Board of Directors.

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

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

3. On the basis of our review and according to the information and explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the listing agreement with the stock exchange (s) have been complied with in all material respects by the Company.

For Chaturvedi & Partners
Chartered Accountants

Sd/-
R.N.Chaturvedi
Partner
Membership No. 092087

Place: New Delhi
Date: August 24, 2004

Sd/-
U. Rajeev
Partner
Membership No. F87191
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Postal Ballot Results

Pursuant to Section 192A of the Companies Act, 1956 read with Companies (Passing of the Resolutions by Postal Ballot) Rules, 2001, the Company had conducted a postal Ballot for passing following resolutions:

1. Special Resolution under Section 17 read with Section 192A of the Companies Act, 1956, for alteration of Object Clause of Memorandum of Association of the Company by deletion of Objects relating to carrying on the business of NBFC .

2. Special Resolution under Section 31, read with Section 192A of the Companies Act, 1956 for alteration of Articles of Association of the Company for insertion of provision relating to Postal Ballot.

The Notice for the said postal ballot was approved in the Board Meeting held on 19.06.2004. The same was dispatched to the members by 30th July, 2004. Postal Ballot forms received from members till August 2, 2004 were taken into account for determining the Postal Ballot results.

The result for aforesaid Postal Ballot was declared on 10th August 2004, at the registered office of the Company by Mr. K. B. Lal, Director of the Company. The result for the Postal Ballot was also published in one English Newspaper (Indian Express, Chandigarh version) and one newspaper in vernacular language (Desh Sewak, Punjabi).

As per the scrutiny of the Postal Ballot forms conducted by Mr. M. Damodaran, Scrutniser appointed for aforesaid Postal Ballot, 348836792 valid postal Ballot forms were received by 2nd August 2004. Of which 348835192 votes were casted in favor of aforesaid resolutions and 1600 votes were casted against aforesaid resolutions.

AUDITORS' REPORT

The Members of HFCL Infotel Limited

1. We have audited the attached Balance Sheet of HFCL Infotel Limited, as at March 31, 2004, and the related Profit and Loss Account and Cash Flow Statement for the year ended on that date annexed thereto, which we have signed under reference to this report. 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 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. Attention is drawn to Note 10 on Schedule 26. As indicated in the said note; the net worth of the Company as at March 31, 2004 has substantially eroded. However since the Company's proposal for Corporate Debt Restructuring has been approved by the lenders during the year these accounts have been drawn on the assumption that the Company will continue as a going concern.

4. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us, we further report that:

(i) (a) The company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.

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

(c)In our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the company during the year.

(ii) (a) The Company does not maintain any inventory, accordingly clauses (ii)(a) to (ii)(c) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(iii) (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Act. As indicated in Note 17 on Schedule 26, the company has taken interest free advances from its holding company covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year aggregates to Rs. 219,616,402, which as at year end being an amount of Rs. 205,161,760 has been transferred to Advance against Application Money for Cumulative Redeemable Preference Shares in terms of the Corporate Debt Restructuring Scheme as explained in Note 9 on Schedule 26.

(b) In our opinion, the terms and conditions of such advances are not prima facie prejudicial to the interest of the company.

(c) As per the information made available to us, the aforesaid advances taken by the company were repayable on demand and repayments made during the year were as mutually agreed.

(d) In respect of the aforesaid advances, there is no overdue amount as at year end.

(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 are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods. 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 procedures.

(v) In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into the register in pursuance of Section 301 of the Act. Accordingly, clause (v) (b) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(vi) As explained in Note 8 on Schedule 26, the Company has surrendered its NBFC license to RBI and foreclosed the fixed deposits and deposited the amount in an escrow account as directed by 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.

(vii) In our opinion, the company has an internal audit system commensurate with its size and the 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) According to the information and explanations given to us and the records of the company examined by us, in our opinion, the company is generally regular in depositing undisputed statutory dues including provident fund, employees' state insurance, sales-tax, wealth tax, customs duty, excise duty, cess and other material statutory dues as applicable, with the appropriate authorities except dues in respect of investor education and protection fund aggregating to Rs. 47,864 and minor delays in case of deposit of tax deducted at source. There are no amounts of statutory dues outstanding as at March 31, 2004, for a period of more than six months from the date they became payable, in respect of investor education and protection fund and tax deducted at source.

(b) According to the information and explanations given to us and the records of the company examined by us, there are no dues of sales-tax, income-tax, customs duty, wealth tax, excise duty and cess as at March 31, 2004 which have not been deposited on account of any dispute other than disputed income-tax amounting to Rs. 1,329,910, as indicated in Note 2 on Schedule 26.

(x) The accumulated losses of the Company as at March 31, 2004, are more than fifty percent of its net worth as at that date and it has incurred cash losses during the financial year. The Company has not incurred cash losses in the immediately preceding financial year.

(xi) In view of the Corporate Debt Restructuring Scheme being approved by the CDR cell during the year as explained in Note 9 on schedule 26 and according to the records of the company examined by us and the information and explanations given to us, the company has not defaulted in repayment of dues to any financial institution or bank or debenture holders as at the Balance Sheet date.

(xii) The company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly clause (xii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xiii) In our opinion, and according to the information and explanations given to us, the provisions of any special statute applicable to chit fund / nidhi / mutual benefit fund / societies are not applicable to the company. Accordingly clause (xiii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xiv) In our opinion, the company is not a dealer or trader in shares, securities, debentures and other investments. Accordingly clause (xiv) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xv) In our opinion, and according to the information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly clause (xv) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xvi) In our opinion, and according to the information and explanations given to us, on an overall basis, the term loans have been applied for the purposes for which they were obtained.

(xvii) On the basis of an overall examination of the balance sheet of the company, in our opinion and according to the information and explanations given to us, there are no funds raised on a short-term basis which have been used for long-term investment, and vice versa.

(xviii) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Act during the year. Accordingly clause (xviii) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xix) The Company does not have any debentures issued and outstanding as at the year end. Accordingly clause (xix) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xx) The company has not raised any money by public issue during the year. Accordingly clause (xx) of Para 4 of the Companies (Auditor's Report) Order, 2003 is not applicable to the company for the current year.

(xxi) During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, no fraud (i.e., intentional material misstatements resulting from fraudulent financial reporting and misappropriation of assets) on or by the company has been noticed or reported during the year by the Company.

5. Further to our comments in paragraph 4 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 Act;

(e) On the basis of written representations received from the directors as on March 31, 2004 and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

(f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto, give in the prescribed manner the information required by the Act 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, 2004;

(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 Chaturvedi & Partners Chartered Accountants R.N.Chaturvedi Partner Membership No. 092087	U. Rajeev Partner Membership No. F87191 For and on behalf of Price Waterhouse & Co. Chartered Accountants

Place: New Delhi
Date: May 19th, 2004

HFCL INFOTEL LIMITED

BALANCE SHEET AS AT 31St March, 2004

PARTICULARS	SCHEDULE	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SOURCES OF FUNDS			
Shareholders' Funds			
a) Share Capital	1	4,424,470,640	87,160,000
b) Advance Against Share App. Money	2	1,490,926,946	-
b) Share Capital Suspense	3	-	4,320,002,500
c) Reserves and Surplus	4	269,919,182	269,919,182
		6,185,316,768	4,677,081,682
Loan Funds			
a) Secured Loans	5	6,260,517,760	6,467,050,659
b) Unsecured Loans	6	203,733,711	129,270,051
		6,464,251,471	6,596,320,710
TOTAL		12,649,568,239	11,273,402,392
APPLICATION OF FUNDS			
Fixed Assets	7		
a) Gross Block		9,800,012,849	9,153,657,283
b) Less: Depreciation		(2,245,878,721)	(1,453,906,606)
c) Net Block		7,554,134,128	7,699,750,677
d) Capital Work in Progress (including Capital Advances)		144,607,180	447,391,467
		7,698,741,308	8,147,142,144
Investments	8	717,670,900	752,003,134
Current Assets, Loans and Advances			
a) Sundry Debtors	9	103,778,782	59,162,575
b) Cash and Bank Balances	10	85,924,119	34,638,026
c) Other Current Assets	11	113,550,872	76,356,368
d) Loans and Advances	12	88,300,939	217,257,288
		391,554,712	387,414,257
Less : Current Liabilities and Provisions	13		
a) Current Liabilities		647,878,121	1,367,636,636
b) Provisions		6,535,295	5,378,007
		654,413,416	1,373,014,643
Net Current Liabilities		(262,858,704)	(985,600,386)
Profit and Loss Account		4,496,014,735	3,359,857,500
TOTAL		12,649,568,239	11,273,402,392
Significant Accounting Polices	25		
Notes on Accounts	26		

The Schedules referred to above and the Notes to Accounts form an integral part of the Balance Sheet
This is the Balance Sheet referred to in our report of even date

For CHATURVEDI & PARTNERS
Chartered Accountants

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Surendra Lunia
Chief Operating Officer

Pradeep Goel
Company Secretary

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : May 19th, 2004

HFCL INFOTEL LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31St March, 2004

PARTICULARS	SCHEDULE	For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
INCOME			
Billing Revenue	14	**1,916,730,166**	894,154,751
Revenue from Hire Purchase and Finance Business	15	**-**	23,316,275
Income from Investments	16	**1,487,442**	939,466,816
Other Income	17	**6,145,343**	120,856,908
Total		**1,924,362,951**	1,977,794,750
EXPENDITURE			
Network Operation Expenditure	18	**955,270,970**	359,208,145
Cost of Goods Sold	19	**1,385,492**	-
Personnel Expenditure	20	**193,670,754**	147,037,740
Sales and Marketing Expenditure	21	**122,272,237**	126,055,071
Administrative and Other Expenditure	22	**273,933,472**	281,848,759
Total		**1,546,532,925**	914,149,715
Operating Profit Before Finance Expenses, Amortisation And Depreciation		**377,830,026**	1,063,645,035
Finance Expences	23	**691,118,058**	567,784,342
Depreciation		**796,737,087**	448,733,711
Lease Equilisation Charge and Loss on Repossessed Assets	24	**-**	66,988,092
Amortisation		**-**	40,856,299
Loss For The Year Before Prior Period Expenditure		**(1,110,025,119)**	(60,717,409)
Prior period Expenditure (Refer Note 27 on Schedule 26)		**26,132,116**	-
Loss For The Year Before Tax & Extraordinary Items		**(1,136,157,235)**	(60,717,409)
Extraordinary items-Loss on sale of undertaking		**-**	160,501,115
Loss Before Tax		**(1,136,157,235)**	(221,218,524)
Taxation earlier year		**-**	16,354,228
Deferred tax (Refer Note 10 on Schedule 25 and Note 12 on Schedule 26)		**-**	48,063,406
		(1,136,157,235)	(285,636,158)
(Loss) brought forward from pervious year		**(3,359,857,500)**	(192,050,591)
(Loss) taken over on amalgamation		**-**	(2,847,306,751)
(Loss) available for appropriation		**(4,496,014,735)**	(3,324,993,500)
APPROPRIATIONS			
Interim Dividend declared and paid out of profit of the company before decision for merger was taken		-	(34,864,000)
(Loss) Carried to the Balance Sheet		**(4,496,014,735)**	(3,359,857,500)
EARNINGS PER SHARE - Basic and Diluted of Rs. 10 each			
Before Extraordinary item		**(2.57)**	(0.28)
After Extraordinary item		**(2.57)**	(0.65)
(Refer Note 12 on Schedule 25 and Note 26 on Schedule 26)			
Significant Accounting Polices	25		
Notes ot Accounts	26		

The Schedules referred to above and the Notes to Accounts form an intergral part of the Profit & Loss Account
This is the Profit and Loss Account referred to in our report of even date

For CHATURVEDI & PARTNERS
Chartered Accountants

Surendra Lunia
Chief Operating Officer

For and on behalf of the Board

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Pradeep Goel
Company Secretary

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : May 19th, 2004

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
1,000,000,000 Equity shares (Prev. year 10,000,000) of Rs.10/- each	**10,000,000,000**	100,000,000
20,000,000 Preference Shares (Prev. year 1,500,000) of Rs.100/- each	**2,000,000,000**	150,000,000
	12,000,000,000	250,000,000
Issued, Subscribed and Paid up		
442,447,064 Equity Shares of Rs. 10 each fully paid up (Previous Year 8,716,000 Equity Sharess of Rs. 10 each)	**4,424,470,640**	87,160,000
	4,424,470,640	87,160,000

Note:

1.Of the above, 490,750 (Previous Year 490,750) equity shares of Rs. 10 each ,were alloted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.

2. Out of the above 348,705,000 (Previous Year 427,160,000, kept in Share Capital Suspense) Equity shares are held by Himachal Futuristic Communications Limited (Holding Company).

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 2		
ADVANCE AGAINST SHARE APPLICATION MONEY		
(Refer Note 9 on Schedule 26)		
Advance Against Equity Share Application Money	**840,926,946**	-
Advance Against Application Money for Cumulative Redeemable Preference Shares	**650,000,000**	-
	1,490,926,946	
SCHEDULE 3		
SHARE CAPITAL SUSPENSE		
432,000,250 Equity shares of Rs. 10 each fully paid to be issued pursuant to the scheme of amalgamation of erstwhile HFCL Infotel Limited with The Investment Trust of India Limited.	**-**	4,320,002,500
	-	4,320,002,500
SCHEDULE 4		
RESERVES AND SURPLUS		
Capital Reserve	**34,032,776**	34,032,776
Securities Premium	**119,548,250**	119,548,250
Statutory Reserve	**11,900,000**	11,900,000
General Reserve	**104,438,156**	104,438,156
	269,919,182	269,919,182

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 5		
SECURED LOANS		
(Refer Note 9 on Schedule 26)		
Term Loans from Financial Institutions	**4,750,000,000**	4,486,075,426
Interest Accrued & due on Term loans from Financial Institutions	**-**	466,605,951
Term Loans from Banks	**1,300,000,000**	1,285,585,285
Interest accrued & Due on Term loans from Banks	**-**	144,369,286
Advance against application Money for Optionally Fully		
Convertible Debentures	**151,588,366**	-
Vehicle Loans	**5,689,828**	3,405,730
Bank Overdraft	**53,239,566**	75,000,000
Interest Accrued and Due on Bank Overdraft	**-**	6,008,981
	6,260,517,760	6,467,050,659
Amount repayable within a year-Vehicle Loan	**2,460,137**	1,723,407

Notes:

1. Term loans from financial Institutions are secured by:

a) First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.

b) First pari passu charge of mortgage of immovable properties of the Company.

c) Assignment of all rights, title, benefits and interest in, to and under the Project Documents and Project Contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis.

d) Further term loans from Financial Institutions amounting to Rs. 4,000,000,000 are secured by pledge of 163,000,000 equity shares of the Company held by the Holding Company and corporate guarantee given by the Holding company

2. Term loans from Banks are secured by:

a) First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.

b) First pari passu charge of mortgage of immovable properties of the Company.

c) Further term loans from Banks amounting to Rs.250,000,000 are secured by assignment of all rights, title, benefits and interest in, to and under the Project Documents and Project Contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Term loan from banks amounting to Rs. 1,050,000,000 are further secured by corporate guarantee given by the holding company.

3. Vehicle loans are secured by hypothecation of the respective vehicles.

4. Bank Overdraft is secured by:

a) First charge on all current assets.

b) Second pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables, both present & future.

c) Corporate guarantee given by the Holding company

SCHEDULE 6		
UNSECURED LOANS		
(Refer Note 9 on Schedule 26)		
Advance against Application Money for Optionally Fully		
Convertible Debentures	**166,483,409**	-
Deposits from Public	**-**	15,058,085
Vendor Finance Facilities	**36,050,881**	111,027,011
Interest accrued and due on Vendor Finance Facilities	**1,199,421**	3,184,955
	203,733,711	129,270,051

Note :

1. Vendor Finance Facilities repayable within one year Rs. 36,050,881 (Previous Period Rs 111,027,011)
2. Vendor Finance Facilities are guaranteed by the Holding Company

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET
SCHEDULE 7
FIXED ASSET
(Refer Note 2 and 3 on Schedule 25)

Assets	Gross Block				Depreciation				Net Block	
	As at 01.04.2003	Additions (b)	Sale/ adjustment	As at 31.03.2004	As at 01.04.2003	For the year	On Sale Adjustment (c)	As at 31.03.2004	As at 31.03.2004	As at 31.03.2003
Tangible Assets										
Land-Freehold	16,142,623	-	-	**16,142,623**	-	-	-	**-**	**16,142,623**	16,142,623
Land-Leasehold	27,532,549	-	(18,636,130)	**8,896,419**	1,610,016	249,929	(1,396,590)	**463,355**	**8,433,064**	25,922,533
Buildings	181,822,166	-	(7,000,000)	**174,822,166**	9,526,118	3,358,835	(706,667)	**12,178,286**	**162,643,880**	172,296,048
Leasehold Improvements	64,136,444	1,859,728	(411,640)	**65,584,532**	11,721,271	7,292,996	(77,372)	**18,936,895**	**46,647,637**	52,415,173
Network Equipments	2,354,222,183	241,260,796	(6,027,464)	**2,589,455,515**	450,597,550	266,110,215	11,410,296	**728,118,061**	**1,861,337,454**	1,903,624,633
Optical Fiber cable and Copper Cable	3,446,827,277	363,906,226	-	**3,810,733,503**	386,758,251	243,082,670	7,483,226	**637,324,147**	**3,173,409,356**	3,060,069,026
Telephone Instruments at Customer Premises	352,220,471	59,616,601	(23,586,939)	**388,250,133**	135,940,911	88,604,599	(18,624,074)	**205,921,436**	**182,328,697**	216,279,560
Computers	191,843,418	33,562,432	(196,988)	**225,208,862**	59,784,766	35,708,726	(46,509)	**95,446,983**	**129,761,879**	132,058,652
Office Equipments	27,343,150	4,810,632	(1,857,590)	**30,296,192**	4,860,622	2,261,403	(512,224)	**6,609,801**	**23,686,391**	22,482,528
Furniture & Fixtures	33,422,256	725,903	(279,525)	**33,868,634**	13,204,533	1,743,724	(30,047)	**14,918,210**	**18,950,424**	20,217,723
Vehicles	21,304,278	5,577,669	(6,968,145)	**19,913,802**	4,735,245	2,039,527	(2,265,011)	**4,509,761**	**15,404,041**	16,569,033
Intangible Assets										
Portal Software	6,471,479	-	-	**6,471,479**	2,384,229	4,087,250	-	**6,471,479**	**-**	4,087,250
Licence Entry Fees	2,430,368,989	-	-	**2,430,368,989**	372,783,094	142,197,213		**514,980,307**	**1,915,388,682**	2,057,585,895
TOTAL	**9,153,657,283**	**711,319,987**	**(64,964,421)**	**9,800,012,849**	**1,453,906,606**	**796,737,087**	**(4,764,972)**	**2,245,878,721**	**7,554,134,128**	**7,699,750,677**
Capital Work in Progress(a)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**144,607,180**	**-**
Previous Year (2002-2003)	**9,564,145,700**	**238,060,168**	**(648,548,585)**	**9,153,657,283**	**1,360,082,127**	**448,733,711**	**(354,909,232)**	**1,453,906,606**	**7,699,750,677**	**307,221,045**

(a) Capital Work in Progress include Capital Advances, Capital Goods in Transit and Telephone instruments to be installed at customers' Premises aggregating Rs 214,699 (Previous Year Rs. 209,790) Rs. 1,219,275 (Previous Year 3,474,235) and Rs. 6,118,866 (Previous Year Rs. 9,221,450) respectively.

(b) Addition during the year include foreign exchange gain of Rs. 4,851,892 (Previous Year foreign exchange loss of Rs. 1,289,008)

(c) Sale/Adjustment includes prior period depreciation amounting to Rs. 20,644,173 (Previous Year Rs. Nil)

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 8
INVESTMENTS
(Non Trade - Long term)
(Refer Note 4 on Schedule 25)

	AS AT March 31,2004			AS AT March 31,2003		
	Nos	**Cost**	**Market Value**	Nos.	Cost	Market Value
Quoted:						
Government and approved securities (Note 1 below)		-	-		34,620,910	35,152,855
Unquoted:						
Investment in The Investment Trust of India Limited - subsidiary company (since ceased):						
Equity shares	**1,750,000**	**18,000,000**	-	1,750,000	18,000,000	-
Optionally Fully Convertible Debentures (Note 2 below)	**6,996,709**	**699,670,900**	-	6,996,709	699,670,900	-
		717,670,900	-		752,291,810	35,152,855
Less: Provision for diminution in value of investments		-			(288,676)	-
Total		**717,670,900**	-		752,003,134	35,152,855

Note :

Name of The Company	**As on 31.03.2004**		**As on 31.03.2003**	
	Face value	**Cost**	**Face value**	**Cost**
GOVERNMENT AND APPROVED SECURITIES - QUOTED				
11.50% Maharastra State Road Development Corpn. Bonds	-	-	15,000,000	15,025,000
15% Sardar Sarovor Narmada Nigam Ltd., Bonds	-	-	6,500,000	6,743,750
13.50% Maharastra State Electricity Board Bonds	-	-	100,000	100,250
13.50% Maharastra State Govt. Bonds	-	-	509,000	554,810
13% Gujarat State Govt. Bonds	-	-	500,000	562,500
13% Jammu & Kashmir State Govt. Bonds	-	-	700,000	742,000
12% Tamil Nadu State Govt. Bonds	-	-	70,000	75,600
12% Andhra Pradesh State Govt. Bonds	-	-	110,000	118,250
12% Gujarat State Govt. Bonds	-	-	650,000	698,750
12% Andhra Pradesh Power Finance Corpn., Bonds	-	-	10,000,000	10,000,000
Total	-	-	34,139,000	34,620,910

2 **Terms and conditions associated with debentures are:**

(i) The Optionally Fully Convertible Debentures (OFCDs) each of Rs. 100 are convertible into 10 equity shares (with pari passu right with the existing equity shares in terms of the present Articles of Association of the Company) of Rs. 10 each after three years at the option of the holder.

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

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

(iv) The Company has an option to issue the OFCDs in dematerialised form.

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 9		
SUNDRY DEBTORS		
(Refer Note 6 on Schedule 25 and Note 11 on Schedule 26)		
Outstanding for more than six months		
- Secured Considered Good	**31,967,048**	2,504,178
- Unsecured Considered Good (*)	**-**	1,257,425
- Unsecured Considered Doubtful (*)	**9,423,244**	6,079,613
Other Debts		
- Secured Considered Good	**12,020,529**	24,859,781
- Unsecured Considered Good	**59,791,205**	30,541,191
- Unsecured Considered Doubtful	**3,876,517**	4,012,863
	117,078,543	69,255,051
Less: Provision for Doubtful Debts	**13,299,761**	10,092,476
	103,778,782	59,162,575

Note:
1. Debtors are secured by way of security deposit received form them.
2. (*) It also includes Rs. Nil (Previous year Rs. 371,149) recoverable on account of sale of handsets made under deferred payment plan.

SCHEDULE 10		
CASH AND BANK BALANCES		
Cash in Hand	**725,711**	860,822
Cheques in Hand	**7,919,270**	-
Balance with Scheduled Banks		
- in Current account	**31,090,097**	15,328,709
- in Fixed Deposits (Receipts pledged with Banks as Margin money for guarantees and LCs issued Rs. 42,865,101, Previous year Rs. 18,448,495)	**42,865,101**	18,448,495
- in Escrow Account	**3,323,940**	-
	85,924,119	34,638,026
SCHEDULE 11		
OTHER CURRENT ASSETS		
Interest Accrued on Fixed Deposit	**175,354**	151,018
Interest Accrued on Investment	**75,670**	2,482,127
Accured Billable Revenue	**113,299,848**	73,723,223
	113,550,872	76,356,368
SCHEDULE 12		
LOANS AND ADVANCES		
(Unsecured , considered good except otherwise stated)		
Advances Recoverable in Cash or in Kind or for Value to be Received		
- Considered Good	**65,604,166**	179,284,181
- Considered Doubtful	**134,859,908**	134,070,240
Due from The Investment Trust of India Ltd. - Associate	**650,321**	-
Security Deposits		
- Considered Good	**12,861,223**	17,617,423
- Considered Doubtful	**1,211,265**	-
Advance Tax (Net of provision Rs. 3,772,300 Previous Year Rs. 4,291,207)	**9,185,229**	20,355,684
	224,372,112	351,327,528
Less Provision for Doubtful Advances	**136,071,173**	134,070,240
	88,300,939	217,257,288

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 13		
CURRENT LIABILITIES AND PROVISIONS		
(Refer Note 9 on Schedule 25)		
CURRENT LIABILITIES		
Sundry Creditors	**353,160,712**	881,411,279
Book Overdraft	**1,146,626**	4,263,141
Due to The Investment Trust of India Ltd (Formerly Rajam Finance and Investment Co. (India) Ltd) (Subsidiary Company - since ceased)	**-**	20,829,466
Advance Against Booking	**1,183,168**	5,449,283
Advance From Customers and Unaccrued Income	**47,512,811**	44,451,823
Security Deposits Received from Subscribers	**197,846,013**	185,572,906
Security Deposits Received from Others	**12,027,301**	13,699,346
Investor Education and Protection Fund		
- Unclaimed Dividends	**864,801**	1,089,039
- Unclaimed Deposits from Public	**2,349,283**	-
- Interest accrued and due on Public Deposits	**327,041**	-
Other Liabilities	**29,180,598**	33,059,247
Interest Accrued but not Due on Loans	**2,279,767**	177,811,106
Sub-Total (A)	**647,878,121**	1,367,636,636
PROVISIONS		
Wealth Tax	**54,000**	57,900
Leave Encashment	**3,202,993**	2,717,841
Gratuity	**3,278,302**	2,602,266
Sub-Total (B)	**6,535,295**	5,378,007
GRAND TOTAL (A+B)	**654,413,416**	1,373,014,643

SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
SCHEDULE 14		
BILLING REVENUE		
(Refer Note 6 on Schedule 25)		
Revenue from Basic Telephony Services	**1,871,511,355**	886,295,524
Revenue from Infrastructure Services	**24,824,274**	-
Revenue from Internet Services	**20,394,537**	7,859,227
	1,916,730,166	894,154,751
SCHEDULE 15		
REVENUE FROM HIRE PURCHASE AND FINANCE BUSINESS		
Hire Purchase	**-**	9,875,869
Leasing	-	11,585,947
Interest income on Loans	**-**	1,733,361
Income from Securities Trading Operations	**-**	121,098
	-	23,316,275

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
SCHEDULE 16		
INCOME FROM INVESTMENTS		
Dividends (Gross)	-	48,953
Interest on Debentures (Gross)	-	509
Profit/Loss on sale of Investments (Net)	-	933,015,689
Profit/Loss on sale of Government Securities	**487,590**	(426,375)
Interest on Government Securities (Gross)	**999,852**	5,758,119
Income from Mutual Fund Units	-	1,069,921
	1,487,442	939,466,816
SCHEDULE 17		
OTHER INCOME		
Interest Income (Gross)	**1,603,995**	1,342,961
(Tax deducted at source Rs 253,370, Previous Year Rs. 169,092)		
Interest on Tax Refunds	**369,959**	2,837,817
Interest Others (Gross)	-	2,028,643
Rent Receipts (Gross)	-	341,215
Excess Provision written back	**1,530,398**	112,817,424
Sale of Telephone sets, Modems etc.	**1,611,476**	-
Miscellaneous Income	**1,029,515**	1,488,848
	6,145,343	120,856,908
SCHEDULE 18		
NETWORK OPERATION EXPENDITURE		
Access Charges	**635,110,295**	180,276,831
Port Charges	**27,030,477**	12,985,026
Testing and Technical Survey Expenses	**930,000**	3,454,650
Licence Fees on Revenue Share Basis	**126,727,024**	70,854,303
WPC Charges	**7,719,619**	6,871,940
Stores and Spares Consumed	**24,969,795**	14,056,411
Rent	**17,350,667**	9,396,214
Electricity & Water	**28,903,515**	16,045,926
Security Charges	**3,182,351**	5,230,734
Repair & Maintenance - Network	**68,474,234**	33,793,158
Bandwidth Charges	**14,872,993**	6,242,952
	955,270,970	359,208,145
SCHEDULE 19		
COST OF TRADED GOODS SOLD		
Opening Stock	-	-
Purchases	**1,385,492**	-
Less Closing stock	-	-
	1,385,492	-

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS		For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
SCHEDULE 20			
PERSONNEL EXPENDITURE			
(Refer Note 16 on Schedule 26)			
Salaries, Wages and Bonus		**169,906,109**	126,027,941
Employer's Contribution to Provident and Other Funds		**12,355,996**	9,640,109
Staff Welfare Expenses		**8,120,784**	5,025,015
Recruitment & Joining Expenditure		**3,287,865**	6,344,675
		193,670,754	147,037,740
SCHEDULE 21			
SALES & MARKETING EXPENDITURE			
Sales and Business Promotion		**22,179,509**	2,720,703
Advertisement Expenses		**24,728,300**	12,128,369
Commision to PCO Operators and Dealers		**24,826,554**	85,217,735
Customers Acquisition Costs		**50,537,874**	25,988,264
		122,272,237	126,055,071
SCHEDULE 22			
ADMINISTRATIVE AND OTHER EXPENDITURE			
Legal and Professional Expenses		**16,956,136**	20,478,202
Travelling and Conveyance		**27,889,895**	20,489,086
Communication Expenses		**3,733,717**	3,932,121
Rent		**14,109,257**	10,840,676
Auditors' Remuneration		**4,860,795**	2,461,748
Security Charges		**2,914,353**	1,753,021
Repairs and Maintenance - Building		**787,216**	996,688
Repairs and Maintenance - Others		**6,824,659**	6,839,863
Electricity and Water		**9,382,232**	4,932,762
Insurance		**6,899,462**	3,980,267
Rates and Taxes		**23,037,873**	2,634,458
Printing and Stationary		**4,886,548**	3,628,862
Billing and Collection Expenses		**40,137,455**	12,952,751
Software Expenses		**169,685**	2,584,703
Directors' Fees		**417,000**	295,000
Donations		**-**	8,000
Interest Tax		**596,997**	1,569,969
Provision for diminution in value of Investments (Net)		**-**	4,136,678
Provision for Doubtful Advances		**2,000,933**	-
Bad Debts Written off		**65,276,255**	157,123,974
Provision for Doubtful Debts	**9,503,196**		
Less Transferred to Bad Debts Written off	**(6,295,911)**	**3,207,285**	5,889,495
Loss on Sold/Discarded Fixed Assets and Capital Work in Progress		**20,606,549**	5,153,836
Project Scrap written off		**10,203,114**	4,900,330
Wealth Tax		**56,800**	77,357
Miscellaneous Expenses		**8,979,256**	4,188,912
		273,933,472	281,848,759

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
SCHEDULE 23		
FINANCE EXPENSES		
(Refer Note 9 on Schedule 26)		
Interest on Public Deposits	**693,529**	13,966,537
Interest on Term Loans	**669,567,240**	531,165,168
Interest to Others	**13,254,794**	16,717,443
Bank Guarantee Commision	**5,805,614**	2,915,971
Processing Fees	**155,000**	100,000
Other Finance Charges	**1,641,881**	2,919,223
	691,118,058	567,784,342
SCHEDULE 24		
LEASE EQUILISATION CHARGE AND LOSS ON REPOSSESSED ASSETS		
Loss on sale of Repossessed Assets	-	90,003
Lease Equilisation Charge	-	66,898,089
	-	66,988,092

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF ACCOUNTS

Schedule 25

Significant Accounting Policies

The significant accounting policies adopted by the Company in respect of these financial statements, are set out below:

1. Basis Of Preparation

These financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles in India and the provisions of the Companies Act, 1956 as adopted consistently by the Company.

2. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Machinery spares/standby equipments are capitalised as part of the related fixed assets.

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

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e. Entry Fee, has been capitalised as an asset along with the related borrowing costs.

Costs incurred to purchase and related costs of the portals upto the date of launch are capitalised.

3. Depreciation

Depreciation is provided on straight line basis at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 except as follows:

(a)	Leasehold Land:	Over the primary period of the lease
(b)	Leasehold Improvements:	Over the primary period of the lease or ten years whichever is lower
(c)	Optical Fibre Cable and Copper Cable	Over a period of fifteen years
(d)	Testing Equipments (included in Network Equipments)	Over a period of five years
(e)	Telephone Instruments at customer's premises	Over a period of five years, except for instruments costing less than Rs.5,000 each
(f)	Billing and Allied Software (included under Computers)	Over a period of five years
(g)	Fixed Assets costing less than Rs. 5,000	Fully depreciated when they are put to use
(h)	Plant & Machinery	Over a period of 9.67 years
(i)	Portal	Portal Costs are written off over a period of two years from the date of purchase of these portals

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

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

The Entry Fee capitalised is being amortised equally over the balance period of the license from the date of commencement of commercial operations.

Portal Costs are written off over a period of two years from the date of purchase of these portals.

4. Investments

Long term Investments are valued at cost. Provision is made for diminution in value to recognise a decline, if any, other than that of temporary nature.

5. Revenue Share Licence Fee and WPC Charges

The variable Licence fee and WPC charges computed at prescribed rates of revenue share are being charged to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue as per the license agreement.

6. Revenue Recognition and Receivables

Revenue from Basic Telephony Services is recognised on completion of provision of services and is net off rebates and discounts.

Revenue on account of Internet Services and Revenue from Infrastructure services is recognised in accordance with the terms of the related contracts.

Income on account of interest and other investment activities are recognised on an accrual basis. Dividends are accounted for when the right to receive the payment is established.

Provision for Doubtful Debts for subscribers is made for all dues outstanding from de-activated subscribers as well as other subscribers who have balances outstanding for more than 90 days, other than those covered by security deposit or in specific cases where management is of the view that the amounts are recoverable.

Provision for doubtful debts, in case of Other Telecom Operators on account of Interconnect Usage Charges (IUC), is made for dues outstanding for more than 120 days from the date of billing net of dues if any payable to the other operator or in specific cases where management is of the view that the amounts are recoverable.

7. Foreign currency transactions

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as income or expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

8. Borrowing costs

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

9. Retirement benefits

Company's contribution to provident fund and superannuation fund is charged to the Profit & Loss Account.

The Company makes contribution to a Group Gratuity Scheme with Life Insurance Corporation of India to cover the gratuity liability for its employees. Such contribution is charged to the Profit and Loss Account of the year. Liability at the period-end is determined based on actuarial valuation done by Projected Unit Credit method. Provision is made for shortfall, if any, in the contribution made as compared to the actuarial valuation at the close of the period.

Provision in the accounts for leave encashment benefits to employees is based on actuarial valuation done by Projected Unit Credit method at the period-end.

10. Income Tax

Tax expense for the year, comprising current tax and deferred tax is included in determining the net profit/ (loss) for the year.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent there is reasonable certainty that sufficient future taxable profit will be available against which such deferred tax assets can be realised.

Deferred tax asset to the extent it pertains to brought forward losses and unabsorbed depreciation, is recognised only to the extent that there is virtual certainty of realisation, based on expected profitability in the future as estimated by the Company.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

11. Operating Leases

Lease of assets under which significant risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expense in the profit and loss account, on a straight-line basis over the lease term.

12. Earnings per Share

The earnings considered in ascertaining the Company's EPS comprises the net profit / (loss) after tax. The number of shares used in computing basic EPS is the weighted average number of shares outstanding during the year. The diluted EPS is calculated on the same basis as basic EPS, after adjusting for the effects of potential dilutive equity shares unless the effect of adjustments becomes anti-dilutive.

Schedule 26

Notes to Accounts

1. Nature of Operations

The Company provides Basic Telephony Services, Internet Services and Leasing of telecom infrastructure (telecom services) in the state of Punjab by virtue of the respective licences obtained by way of amalgamation of the erstwhile HFCL Infotel Limited (herein after called as HIL). As explained in note 8 below, the Company has surrendered the NBFC license with the Reserve Bank of India (RBI) as the NBFC business earlier carried on by the Company has since been transferred to The Investment Trust of India Ltd., a subsidiary of the Company (upto September 30,2003).

2. Contingent liabilities not provided for in respect of :

	As at March 31, 2004(Rupees)	As at March 31, 2003(Rupees)
a) Income tax matters under appeal	**1,329,910**	5,157,841
b) Claims against the Company not acknowledged as debt	**5,020,787**	5,002,847
c) DOT Access Charges	**23,000,000**	-

Of the above, details of unpaid amounts together with forum where dispute is pending as at March 31, 2004 are set out below:

Nature of the Statute	**Rupees**	**Forum where dispute is pending**
The Income Tax Act 1961	1,329,910	Commissioner of Income Tax (Appeals)
	1,329,910	

3. Financial bank Guarantees outstanding as at year end amount to Rs. 68,630,000 (Previous year Rs. 48,500,000).These guarantees to the extent of Rs.50,000,000 (Previous Year Rs. 30,000,000) and Performance Bank Guarantees of Rs. 2,327,436 (Previous Year Rs. 500,000) are secured against

- First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.
- First pari passu charge of mortgage of immovable properties in Mohali, Jalandhar and Mumbai of the Company
- Further secured by corporate guarantee given by the holding company

The company has furnished Counter Guarantee of Rs. 5,225,000,000 (Previous Year Rs. 5,225,000,000) to Holding Company against the Corporate guarantee given by the Holding Company to the lenders of the Company.

4. In a case involving the Uttar Pradesh Trade Tax Department and the DoT, the Supreme Court of India has ruled that a telephone connection along with a telephone set provided by a company rendering basic services tantamount to a "transfer of right to use the telephone system" and the rentals collected by DoT towards this right to use should attract sales tax. Subsequent to the passing of this order, the Cellular Operators as well as the basic operators agitated the same issue before the Supreme Court by way of a Petition under Article 32 of the Constitution. The Hon'ble Supreme Court has admitted the Petitions and vide order dated September 25, 2003 referred the matter to a larger bench for determination of dispute on merits and further directed that in future there shall be no coercion for recovery of any dues. In respect of the assessments already completed as on September 25, 2003, the Hon'ble Supreme Court directed that the operators should file statutory appeals against the assessment orders.

   As per the management the maximum liability in the event of dismissal of the petitions is estimated at Rs.98,693,699 (Previous Year 60,760,712) as at March 31, 2004. Provision if required shall be made on the basis of decision of the Apex Court.

5. Loans & Advances include amounts recoverable from Essar Investments Limited (EIL) aggregating to Rs.134,070,240. The Company had made payments in earlier years to EIL for takeover of certain accounted liabilities and certain unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and erstwhile HFCL Infotel Ltd. EIL has failed to settle the dues with the respective parties and a winding up petition u/s 434 of the Companies Act, 1956 has already been served upon EIL. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

6. Upon migration to Variable License Fee Regime, introduced under National Telecom Policy (NTP 1999), HIL, had eventually paid certain amount of interest demanded by DoT being interest on delay in payment of fixed licence fee. After initially disputing the manner of computation. HIL, had filed a petition with Telecom Dispute Settlement & Appellate Tribunal (TDSAT) for refund of excess interest charged by DoT. In accordance with the principles laid down in the Supreme Court judgment dated March 4, 2003 and TDSAT order dated March 17, 2003, the DoT had, on May 7, 2003 confirmed a refund aggregating Rs.187,340,864 to HIL which is included under Loans & Advances. As per claim of the Company refund amount comes to Rs 301,728,714. Adjustment to balance claim of Rs 114,387,850 shall be made when the claim is finally settled by DoT.

7. Estimated amount of contracts remaining to be executed on Capital account and not provided for, net of capital advances of Rs. 1,980,836 (Previous year Rs. 209,790) Rs. 29,003,048 (Previous Year 18,358,208).

8. The Company, during the year, has surrendered its licence granted by RBI to carry out NBFC business. Necessary confirmation order with regard to this matter is yet to be received from RBI. In accordance with the directions of RBI, the Company had invoked its discretionary power to foreclose the deposits as contained in the terms and conditions of the application form for acceptance of deposits and all unpaid / unclaimed deposits were foreclosed as on 15th September, 2003 and the interest accruing thereon as of that date have been calculated and transferred along with the deposit amount to the Escrow Account in February 2004.

9. a) The Company had approached its lenders viz. Banks and Financial Institiutions for a financial restructuring package, which has been approved under the Corporate Debt Restructuring mechanism (CDR) by the CDR Empowerment group of lenders vide their letter dated March 10, 2004. Subsequent to the year end, the Company has also received the in-principle approvals from IDBI, the lead financial institution and certain other financial institutions and banks. The CDR scheme includes interalia reduction of interest rate on loans with effect from April 1, 2003, rescheduling of loan repayments, and conversion of certain overdue interest and loan amounts into Equity/Optionally Fully Convertible Debentures (OFCDs). The above scheme also stipulates conditions to be complied with by the Company and its promoters relating interalia to fresh infusion of additional equity by promoters, arrangement of additional infusion of term loan and working capital from existing or new lenders and bringing in equity by promoters to bridge shortfall of funding if any.

b) The Company has initiated necessary action to ensure compliance with the above conditions, and is confident that all the conditions as stipulated will be complied with in agreement with the CDR Monitoring Committee of the lenders. Accordingly, the impact of the CDR scheme as above has been incorporated in these financial statements as below:

Profit and Loss Account

(i) Interest to banks and financial institutions has been accounted for at the reduced rates as per the scheme with effect from April 1, 2003 aggregating to Rs.677,354,578 instead of the original contracted amount of Rs.1,024,882,733 with consequential impact on the loss for the year and net assets of the Company.

Balance Sheet

(ii) Outstanding interest and liquidated damages payable upto December 31, 2003 aggregating to Rs. 840,926,946 to IDBI, ING Vysya Bank Ltd and Global Trust Bank Ltd transferred from Interest Accrued and Due/ Not due to Advance Against Equity Share Application Money included under Advance Against Share Application Money towards conversion of the said overdue amounts into Equity Shares of Rs. 10 each at par.

(iii) Outstanding interest and liquidated damages payable upto December 31, 2003 aggregating to Rs. 166,483,409 to LIC and State Bank of Patiala transferred from Interest Accrued and Due/ Not due to Advance Against Application Money towards conversion of the said overdue amount into OFCDs which will not have a charge on any assets of the Company, and will carry 0%(zero) coupon rate, and the repayment/ redemption shall be made without premium on March 31,2014 i.e. after repayment of the entire term loan.

(iv) Outstanding interest on term loan for the last quarter ended March 31, 2004 pertaining to all Financial Institutions and Banks aggregating to Rs. 151,588,366 now transferred from Interest accrued and due/not due to Advance Against Application Money for Optionally Fully Convertible Debentures towards conversion of the said overdue amount into OFCD carrying 0%(zero) coupon rate redeemable on March 31,2006 with a premium giving yield of 12% per annum or convertible into Equity Shares at the option of the OFCD holders at a price to be at par subject to prevailing SEBI guidelines.

(v) Overdue Interest and liquidated damages payable to IDBI to the extent of Rs.263,924,574 transferred from Interest accrued and Due/not due to Secured Loans.

(vi) Amounts due to the holding company towards equipment supply and services of Rs.444,838,240 and advances received of Rs.205,161,760 transferred from Sundry Creditors and Unsecured advances respectively into Advance Against Application Money for Cumulative Redeemable Preference Shares (CRPS) towards conversion of the said outstanding amounts into 7.5% CRPS, redeemable after repayment of the entire term loans of lenders with restrictions on declaration of dividend and voting rights.

c) The CDR scheme also grants a right to term loan lenders to convert 20% of their outstanding principal aggregating to Rs.1,210,000,000, into equity shares of Rs. 10 each after financial year 2010 at par subject to the prevailing applicable SEBI guidelines.

10. As at the year end, the accumulated losses of the Company aggregating to Rs.4,496,014,735 has resulted in a substantial erosion of the net worth of the Company. However in view of the implementation of the CDR scheme as explained in the note above, the Company is confident of being able to continue and operate the business on a going concern and accordingly these financial statements have been prepared on a going concern basis.

11. Till the previous year, Provision for Doubtful Debts on telephony revenue was made for period end dues outstanding for more than 90 days other than those covered by security deposit and received subsequent to period end upto the date of finalisation of financial statements.

During the year ended March 31, 2004, the Company revised the method of provision to provide for all dues outstanding for more than 90 days, as on Balance Sheet date other than those covered by security deposit or in specific cases where management is of the view that the amounts are recoverable. The impact of this change is not quantifiable.

12. The net Deferred Tax Assets as on March 31, 2004 amounts to Rs. Nil (Previous Year: Rs. Nil). The amount has been arrived at as follows:

Deferred Tax Assets arising from:	**2003-2004 (Rupees)**	2002-2003 (Rupees)
(i) Unabsorbed depreciation allowance and unabsorbed business loss carried forward (to the extent considered realizable)	**227,416,046**	-
	227,416,046	-
Less: Deferred Tax Liabilities arising from: (i)Difference between carrying amount of fixed assets in the financial statements and the Income Tax Return.	**227,416,046**	-
Net Deferred Tax Assets / (Liability)	-	-

The Tax impact for the above purpose has been arrived at by applying a tax rate of 35.875 % being the prevailing tax rate for Indian companies under the Income Tax Act 1961.

13. Billing Revenue in the profit and loss account is net of rebates and discount of Rs. 9,969,817 (Previous year Rs.8,853,935).

14. Interest payable on vendor finance facilities amounting to Rs.3,479,188 as at March 31,2004 (Previous Year Rs.2,025,448) is yet to be remitted pending approval from Reserve Bank of India.

15. Sundry Creditors include amount payable to Small Scale Industrial Undertakings (SSI's) as at March 31, 2004 Rs. Nil (Previous Year Rs. Nil) (based on the information, to the extent available with the Company, and as certified by the management).

16. Central Government have approved the total remuneration of Rs.587,903 for Mr Sunil Batra, manager of the company as against Rs. 2,621,629 approved by the shareholders. Approval for the balance remuneration amounting to Rs.2,033,726 shall be granted by the Central Government on furnishing of No objection certificate (NOC) from the Banks and Financial Institutions to whom the company has made default. Company has since received NOC from the lenders and shall be furnishing the same to the Central Government shortly for approving the balance remuneration. In view of this, full remuneration paid to Mr Sunil Batra has been charged to Profit and Loss account. The Manager has since resigned from the company.

17. Related Party Disclosures
In accordance with the requirements of Accounting Standard (AS-18) on Related Party Disclosures, the names of the related parties where control exists and/or with whom transactions have taken place during the year and description of relationships, as identified and certified by the management are:

Holding Company	Wholly Owned Subsidiary	Fellow Subsidiary	Associate Enterprise	Other companies under common Control	Company under Key Management Personnel	Key Management Personnel
Himachal Futuristic Communications Limited (HFCL)	The Investment Trust of India Limited (wholly owned subsidiary till September 30, 2003)	HTL Limited	The Investment Trust of India Limited (Associate Enterprise from October 1, 2003)	Microwave Communications Ltd. Himachal Exicom Comm. Limited HFCL Satellite Comm. Limited HFCL Nine Bordcasting (I) Pvt. Limited Westel Wireless Ltd. Platinum EDU Ltd. HFCL Kongsung Telecom Limited HFCL Dacom Infocheck Limited WPPL Limited Consolidated Futuristic Solutions Limited Excel Netcommerce Ltd. HFCL Bezeq Telecom Ltd. ITI Financials Services Ltd. Pagepoint Services India Ltd. Pioneer ITI AMC Ltd.	HFCL Internet Services Limited	Mr. M.Nahata, Director Mr. Sunil Batra (Manager & COO – Since resigned) Mr. Surendra Lunia (CFO upto March 25, 2004 and COO since March 26, 2004) Mr Sarvdeep Garg (VP Technical) Mr. Simon Solomon (Manager and Executive Director – Since resigned)

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at March 31, 2004 and for the year then ended are presented in the following table:

(Amount in Rupees)

Particulars	Holding Company	Fellow Subsidiary	Wholly Owned Subsidiary	Associate Enterprises	other Companies under Common Control	Company under Key Management Personnel
Purchase of Capital Goods	83,457,361	-	-	-	12,517,047	-
Services received for Capital Goods	27,721,731	-	-	-	-	-
Short term funds received by Company	40,000,000	35,635	140,028	-	-	-
Payments made by Company on their behalf	15,175,609	35,635	4,040,241	-	-	-
Payment made by Company against supplies, services and to employees	93,832,940	-	-	6,500,000	4,022,367	18,418,471
Payment made by them on Company's behalf	841,550	-	3,316,695	-	-	-
Purchase of goods	4,482,457	-	-	-	657,349	1,518,265
Sale of goods	-	-	-	-	1,097,000	219,048
Sale of Investments	-	-	32,703,000	2,405,500	-	-
Expenses debited by them	1,178,963	-	20,507,417	222,814	1,087,686	19,719,852
Expenses debited to them	473,637	-	18,000	-	1,813	123,275
Counter Guarantees given by Company to them - given during the year - closing balance	 5,225,000,000	-	-	-	-	-
Guarantees given by them for funds borrowed by Company - given during the year - closing balance	 5,225,000,000	-	-	-	-	-
Guarantees given by them for securing Vendor Finance facilities - given during period - closing balance	 150,020,000	-	-	-	-	-
Closing balance Creditors	68,211,946	-	-	-	28,424,249	-
Closing Debit balances	-	-	-	650,321	1,097,000	1,227,334

Particulars	Holding Company	Fellow Subsidiary	Wholly Owned Subsidiary	Associate Enterprises	other Companies under Common Control	Company under Key Management Personnel
Advance against application for 7.5% Cumulative Redeemable Preference Shares (as per CDR)	650,000,000	-	-	-	-	-

The remuneration paid to key management personnel is as under:

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Salaries, Wages and Allowances	**9,558,622**	3,694,827
Employer's Contribution to Provident and Other Funds	**414,456**	298,574
Perquisites	**772,299**	449,712
Exgratia	**61,254**	515,900
Total	**10,806,631**	4,959,013

18. Operating lease - As a Lessee

The lease rentals charged during the year for cancellable/non cancellable leases relating to rent of building premises sites as per the agreements and maximum obligations on long-term non-cancellable operating leases are as follows:

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Lease Rentals		
Obligations on non cancellable leases:		
Not later than one year	**1,680,000**	1,680,000
Later than one year and not later than five years	**4,242,000**	5,922,000
Later than five years	-	-
Total	**5,922,000**	7,602,000

19. Managerial Remuneration

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Salary and Allowances	**2,579,801**	1,756,640
Contribution to Provident Fund and other funds	**109,463**	206,769
Perquisites	**197,618**	81,858
Exgratia	**-**	531,800
Total	**2,886,882**	2,577,067

As explained in note 16 above, of the above Managerial Remuneration, Rs.2,033,726 is pending approval of the Central Government.

20. Amount paid/payable to Auditors

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Audit Fee*	**4,576,710**	1,368,000
Tax Audit Fee	**200,000**	252,000
Company Law Matters	**-**	93,750
Others	**5,000**	718,075
Reimbursement of Expenses	**79,085**	29,923
Total	**4,860,795**	2,461,748

* Including Rs. 2,500,000 (Previous Year Rs. Nil) for conducting audit for the limited purpose of offer document.

21. Expenditure in Foreign Currency (on accrual basis)

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Travelling	**203,196**	1,132,556
Legal & Professional Fee	**-**	2,532,267
Interest-others	**1,453,740**	1,176,499
Total	**1,656,936**	4,841,322

22. CIF Value of Imports

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Capital Goods	**83,817,655**	2,338,011
Telephone Instruments	**23,569,113**	10,539,375
Others	**28,066**	-
Total	**107,414,834**	12,877,386

23. Consumption of Stores & Spares

	Year ended 31st MARCH 2004 (Rupees)		Year ended 31st MARCH 2003 (Rupees)	
	Value (Rupees)	**Percentage**	Value (Rupees)	Percentage
Indigenous	**24,898,502**	**97.64**	13,803,976	98.87
Imported	**6,02,708**	**2.36**	252,435	1.13
Total	**25,501,210**	**100.00**	14,056,411	100.00

24. The Company operates only in one business segment of providing basic telephony services in the Punjab circle. Therefore segment information reporting as per AS-17 is not applicable.

25. Quantitative Information - Trading Goods :

(Rupees)

	Opening Balances April 1, 2003		Purchases*				Sales/Utilisation				Closing Balances As at March 31, 2004	
			2003-04		2002-03		2003-04					
	Qty Nos.	Value	Qty Nos.	Value	Qty Nos.	Value	Qty Nos.	Value	Qty Nos.	Value	Qty Nos.	Value
Router	—	—	17	325,312	—	-	17	417,411	—	-	—	—
Nt-1	—	—	17	29,750	-		17	34,911	—	-	—	—
Modem	—	—	14	208,040	-	-	14	218,286	—	-	-	-
Ethernet converter	—	—	2	54,000	-	-	2	72,704	—	-	-	-
Optimux	—	—	2	58,000	—	—	2	88,339	—	-	—	—
Beetel clip phone	—	—	310	177,040	—	—	310	190,540	—		—	—
Cisco—- 3725 router	—		1	533,350	—-	—	1	589,285	—		—	—
Total	—	—	363	1,385,492	—	—	363	1,611,476			—	-

*Includes cost transferred from fixed assets

26.Earnings Per Share:

	Year ended 31st MARCH 2004 (Rupees)	Year ended 31st MARCH 2003 (Rupees)
Basic and Diluted Earnings per Share		
Profit / (Loss) attributable to Equity Shareholders before extraordinary item (Rs.) (A)	**(1,136,157,235)**	(125,135,043)
Profit / (Loss) attributable to Equity Shareholders after extraordinary item (Rs.) (B)	**(1,136,157,235)**	(285,636,158)
Weighted Average Number of Equity Shares Outstanding during the year (C)	**441,524,909**	440,716,250
Nominal Value of Equity Shares (Rs.)	**10/-**	10/-
Basic and Diluted Earnings per Share Before Extraordinary items (Rs.) (A) / (C)	**(2.57)**	(0.28)
Basic and Diluted Earnings per Share after Extraordinary items (Rs.) (B) / (C)	**(2.57)**	(0.65)

27.Details of prior period expenditure:

PRIOR PERIOD EXPENDITURE	**Year ended 31st MARCH 2004 (Rupees)**	Year ended 31st MARCH 2003 (Rupees)
Staff Welfare Expenses	**4,192**	-
Advertisement expenses	**23,940**	-
Sales Commission and Incentive	**787,910**	-
Printing & Stationary	**25,363**	-
Consumables	**36,887**	-
Rent	**77,712**	-
Software Expenses	**312,500**	-
Legal and Professional Expenses	**2,086,990**	-
Travelling and Conveyance	**18,528**	-
Communication Expenses	**250,492**	-
Repairs and Maintenance	**93,562**	-
Access Charges	**31,430**	
Electricity and Water	**265,306**	-
Billing and Collection	**38,251**	-
Freight and Cartage	**1,405,528**	-
Miscellaneous Expenses	**29,352**	-
Depreciation	**20,644,173**	-
TOTAL	**26,132,116**	-

28. Previous year figures are reclassified / rearranged, wherever necessary, to conform to the current year classification. Further, the Hire purchase and Leasing business of the company subsequent to Amalgamation of erstwhile HFCL Infotel Limited w.e.f. the appointed date of September 1, 2002 was transferred to its wholly owned subsidiary and hence the current year figures are not comparable with those of the previous year.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31St MARCH, 2004

PARTICULARS	FOR THE YEAR ENDED 31st MARCH 2004 (Rs.)	FOR THE YEAR ENDED 31st MARCH 2003 (Rs.)
Cash Flow from Operating Activities		
A. Net Profit / (Loss) as per Profit and Loss Account	**(1,136,157,235)**	(285,636,157)
Adjustments for:		
Depreciation	**796,737,087**	363,983,882
Prior Period Expense / (Income) (Net)	**26,132,116**	-
Excess Provision Written Back	**(1,530,398)**	-
Loss on Fixed Assets Sold / Discarded	**20,606,549**	5,153,836
Project Scrap Written off	**10,203,114**	4,900,330
Amortization of Miscellaneous Expenditure	-	43,240,528
Amortization of License Entry Fees	-	82,365,599
Bad Debts Written Off	**65,276,255**	157,123,974
Provision for Doubtful Advances	**2,000,933**	-
Provision for Doubtful Debts	**3,207,285**	5,889,495
Finance Expenses	**691,118,058**	552,072,494
Interest Income	**(2,603,847)**	(1,201,457)
Profit on Sale of Investment	**(487,590)**	426,375
Taxation (including deferred tax)	-	64,417,634
Wealth tax	**56,800**	77,357
Interest tax	-	1,569,969
Interest recd on tax refund	-	(2,837,817)
Interest paid on Income Tax	-	1,373,900
Provision for NPA (net)	-	(112,817,424)
Provision for dimunition in value of investments	-	4,136,678
Loss on sale of undertaking	-	160,501,115
(Profit)/Loss on sale of Investments	-	(933,015,689)
Lease equilisation charge	-	66,898,089
Interest on Govt. Securities	-	(5,758,119)
Dividend received	-	(48,953)
Interest on Debentures	-	(509)
Income from Mutual Funds	-	(1,069,921)
Operating Profit / (Loss) before Working Capital Changes	**474,559,127**	171,745,209
Adjustments for:		
Trade and Other Receivables	**(1,782,908)**	(41,722,305)
Trade and Other Payables	**78,152,021**	51,523,204
Cash Generated from Operations	**550,928,240**	181,546,108
Direct Taxes (Net)	**4,623,377**	(1,003,131)
Prior Period Expense / (Income) (Net)	**(5,487,943)**	-
Gross Cash Generated from Operations	**550,063,674**	180,542,977
Collection from/(Deployed for)		
Lease	-	1,794,500
Hire Purchase	-	29,271,089
Mortgage & Hypothecation Loan	-	662,047
Deposit Loan	-	1,057,106
Staff Loan	-	103,442
Inter Corporate Deposits and others	-	(47,187,766)
Net Cash flow from Operating Activities (A)	**550,063,674**	166,243,395
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets - Addtion during the period	**(377,569,426)**	(170,612,018)

Sale of Fixed Assets	**18,948,727**	3,863,564
Net Sale / (Purchase) of investments	**(288,676)**	537,542,410
Realization of Fixed Deposits	**(24,416,606)**	15,231,235
Sale / (Purchase) of Mutual Fund Units	**-**	(101,568,980)
Interest on Govt. Securities	**-**	5,758,119
Interest on debentures	**-**	509
Dividend received	**-**	48,953
Slump sale of Finance undertaking	**-**	34,863,999
Interest Received	**4,985,968**	2,277,952
Net Cash used in Investing Activities (B)	**(378,340,013)**	327,405,743
C. Cash Flow from Financing Activities		
Proceeds from Equity Share Capital	**17,308,140**	-
Proceeds from Long Term Loans	**14,414,710**	42,812,935
Repayment of Bank Overdraft	**(21,760,434)**	-
Repayment of Public Deposits	**(12,708,802)**	(204,896,013)
Proceeds from Short Term Loans	**(74,976,130)**	-
Vehicle Loans Taken	**2,284,098**	2,327,000
Repayment of Vehicle Loans	**-**	(824,744)
Interest on Term Loans	**(62,368,811)**	(168,300,936)
Repayment of loans	**-**	(160,637,018)
I.C.D. (Repaid)/Received	**-**	(4,293,626)
Loan from Subsidiary / Associate (Net)	**(6,822,707)**	20,829,466
Dividend Paid	**(224,238)**	(34,309,901)
Net Cash used in Financing Activities (C)	**(144,854,174)**	(507,292,837)
Net Decrease in Cash and Cash Equivalents (A+B+C)	**26,869,487**	(13,643,699)
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	**16,189,531**	29,833,230
Cash and Cash Equivalents at the end of the year (Closing Balance)	**43,059,018**	16,189,531

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. Previous year figures have been regrouped and recast wherever necessary to conform to current year classification.
4. Cash & Cash Equivalents include :

	As at 31st March , 2004	As at 31st March , 2003
Cash in Hand	**725,711**	860,822
Cheques in Hand	**7,919,270**	-
Balances with Scheduled Banks		
- In Current Account	**31,090,097**	15,328,709
- In Escrow Account	**3,323,940**	-
	43,059,018	16,189,531

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

For CHATURVEDI & PARTNERS
Chartered Accountants

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Surendra Lunia
Chief Operating Officer

For and on behalf of the Board

Pradeep Goel
Company Secretary

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : May 19th, 2004

HFCL INFOTEL LIMITED
Schedule forming part of Balance Sheet

[as required in terms of Paragraph 9 BB of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998]

		PARTICULARS	(Rs. In lakhs) AS AT 31.03.04	
		Liabilities side		
(1)		**Loans and advances availed by the NBFC inclusive of interest accrued thereon but not paid**	**Amount Outstanding**	**Amount Overdue**
	(a)	Debentures : Secured	Nil	Nil
		: Unsecured	Nil	Nil
		(other than falling with in the meaning of public deposit)		
	(b)	Deferred Credits	Nil	Nil
	(c)	Term Loans (Pertaining to Telecom business of the Company)	60500.00	
	(d)	Inter - Corporate loans & borrowing	Nil	Nil
	(e)	Commercial paper	Nil	Nil
	(f)	Public Deposits (included in current liablities)	26.76	
	(g)	Other loans (specify nature)	4142.51	
		(Vehicle loans, Vendor finance facilities, Cash credits & bank overdrafts, Advances against application money for optionally fully convertible debentures)		
(2)		**Break - up of (1) (f) above (Outstanding public deposits inclusive on interest accrued thereon but not paid):**		
	(a)	In the form of Unsecured debentures	Nil	Nil
	(b)	In the form of partly secured debentures i.e. debentures where there is a shortfall in the value of security	Nil	Nil
	(c)	Other public deposits (included in current liablities)	26.76	
		Asset Side	**Amount Outstanding**	
(3)		Break -up of loans and Advances including bills receivables (Other than those included in (4) below):-	Nil	
	(a)	Secured	Nil	
	(b)	Unsecured	883.01	
(4)		**Break up of leased Assests and stock on hire and hypothecation loans counting towards EL/HP activities**		
		(i) Lease assests including lease rentals under sundry debtors		
	(a)	Financial Lease	Nil	
	(b)	Operating lease	Nil	
		(ii) Stock on hire including hire charges under sundry debtors		
	(a)	Assets on hire	Nil	
	(b)	Repossessed assets	Nil	
		(iii) Hypothecation loans counting towards EL/HP activities		
	(a)	Loans where assets have been repossessed	Nil	
	(b)	Loans other than (a) above	Nil	
(5)		**Break-up of Investments**		
		Current Investments		
		Quoted		
	(a)	Shares : (a) Equity	Nil	
		(b) Preference	Nil	
	(b)	Debentures and Bonds	Nil	
	(c)	Units of mutual funds	Nil	
	(d)	Government Securities	Nil	
	(e)	Others (please specify)	Nil	
		Unquoted		
	(a)	Shares : (a) Equity	Nil	
		(b) Preference	Nil	

	(b)	Debentures and Bonds		Nil	
	(c)	Units of mutual funds		Nil	
	(d)	Government Securities		Nil	
	(e)	Others (please specify)		Nil	
		Long Term Investments			
		Quoted			
	(a)	Shares : (a) Equity		Nil	
		(b) Preference		Nil	
	(b)	Debentures and Bonds		Nil	
	(c)	Units of mutual funds		Nil	
	(d)	Government Securities		Nil	
	(e)	Others (please specify)		Nil	
				Nil	
		Unquoted			
	(a)	Shares : (a) Equity		180.00	
		(b) Preference		Nil	
	(b)	Debentures and Bonds		6996.71	
	(c)	Units of mutual funds		Nil	
	(d)	Government Securities		Nil	
	(e)	Others (please specify)		Nil	
(6)		**Borrower group - wise classification of all lease assets, stock on hire and loans and advances :** please see note 2 below			
		Category		Amount net of provisions	
		Related Parties	Secured	Unsecured	Total
	(a)	Subsidiaries	Nil	Nil	Nil
	(b)	Companies in the same group	Nil	10.97	10.97
	(c)	Other related parties	Nil	18.78	18.78
		Other than related parties	Nil	853.26	853.26
		Total		883.01	883.01
(7)		**Investor group-wise classification of all investments (Current and long term) in shares and securities (both quoted and unquoted)**		Market Value/Break up or fair value or NAV	Book Value (Net of Provisions)
		please see note 3 below			
		Category			
		Related Parties			
	(a)	Subsidiaries		Nil	Nil
	(b)	Companies in the same group		Nil	Nil
	(c)	Other related parties		7176.71	7176.71
		Other than related parties		Nil	Nil
		Total		7176.71	7176.71
(8)		**Other Information**			
		Particulars			
		Gross Non - Performing Assests			
	(a)	Related Parties		Nil	
	(b)`	Other than related parties		Nil	
		Net Non - Performing Assests			
	(a)	Related Parties		Nil	
	(b)	Other than related parties		Nil	
		Assests acquired in satisfaction of debt		Nil	

For CHATURVEDI & PARTNERS
Chartered Accountants

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Surendra Lunia
Chief Operating Officer

Pradeep Goel
Company Secretary

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : May 19th, 2004

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

	Balance Sheet Abstract and Company's General Business Profile			
I	REGISTRATION DETAILS			
	Registration No.	26718	State Code	16
	Balance Sheet	31-03-2004		
II	CAPITAL RAISED DURING THE YEAR (RUPEES)			
	Public Issue	NIL	Rights Issue	17,308,140
	Bonus Shares	NIL	Private Placement	NIL
III	POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (RUPEES)			
	Total Liabilities	8,807,966,920	Total Assets	8,807,966,920
	SOURCE OF FUNDS			
	Shareholders' Funds	5,915,397,586	Reserves & Surplus	269,919,182
	Secured Loans	6,260,517,760	Unsecured Loans	203,733,711
	APPLICATION OF FUNDS			
	Net Fixed Assets	7,698,741,308	Investments	717,670,900
	Accumulated Losses	4,496,014,735	Misc. Expenditure	-
	Net Current Assets	(262,858,704)		
IV	PERFORMANCE OF THE COMPANY (RUPEES)			
	Turnover	1,924,362,951	Total Expenditure	3,034,388,070
	Profit /(Loss) Before Tax	(1,136,157,235)	Profit /(Loss) After Tax	(1,136,157,235)
	Earning Per Share	(2.57)	Dividend	Nil
V	GENERIC NAMES OF THREE PRINCIPAL PRODUCTS /SERVICES OF THE COMPANY			
	Item Code No(ITC Code)	N.A.	Product Description	Basic Telecom Services

For and on behalf of the Board

Surendra Lunia
Chief Operating Officer

Mahendra Nahata
Director

M.P. Shukla
Director

Pradeep Goel
Company Secretary

Place : New Delhi
Date : May 19th, 2004

AUDITORS' REPORT
to the Board of Directors of HFCL INFOTEL LIMITED on the consolidated financial statements of HFCL INFOTEL LIMITED and its subsidiary

1. We have audited the attached consolidated Balance Sheet of HFCL Infotel Limited and The Investment Trust of India Limited ("ITI"), subsidiary up to September 30, 2003 (and associate thereafter), as at March 31, 2004, the consolidated Profit and Loss Account for the year ended on that date annexed thereto, and the consolidated Cash Flow Statement for the year ended on that date, which we have signed under reference to this report. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. Attention is drawn to Note 11 on Schedule 27. As indicated in the said note; the net worth of the Company as at March 31, 2004 has substantially eroded. However since the Company's proposal for Corporate Debt Restructuring has been approved by the lenders during the year these accounts have been drawn on the assumption that the Company will continue as a going concern.

4.1 We did not audit the financial statements of ITI, whose financial statements reflect a net asset value of Rs. 28,632,287 as at March 31, 2004 and profit for the year of Rs. 22,638,930 for the year ended on that date. These financial statements of ITI have been audited by another auditor whose report has been furnished to us, including report on financial statements for the six months ended September 30, 2003 of ITI, consolidated with its associate held for part of the year, and our opinion, insofar as it relates to the amounts included in respect of ITI and its associate is based solely on the reports of the other auditor.

4.2 As explained in Note 6 of the Cash Flow Statement, the Company did not prepare a consolidated Cash Flow Statement for the previous year ended March 31,2003, and accordingly, comparative figures for the previous period have not been presented in the consolidated cash flow statement for the year ended March 31,2004.

5. We report that subject to the matter stated in para 4.2 above, the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of HFCL Infotel Limited and ITI, included in the consolidated financial statements.
6. On the basis of the information and explanations given to us and on consideration of the separate audit reports of individual audited financial statements of HFCL Infotel Limited and ITI, in our opinion, the consolidated financial statements,
   a) give a true and fair view in conformity with the accounting principles generally accepted in India:
   (i) in the case of the consolidated Balance Sheet, of the consolidated state of affairs of HFCL Infotel Limited and ITI as at March 31, 2004;
   (ii) in the case of the consolidated Profit and Loss Account, of the consolidated results of operations of HFCL Infotel Limited and ITI for the year ended on that date; and
   (b) give subject to the matter stated in para 4.2 above a true and fair view in conformity with the accounting principles generally accepted in India, in the case of the consolidated Cash Flow Statement, of the consolidated cash flows of HFCL Infotel Limited and ITI for the year ended on that date.

For Chaturvedi & Partners
Chartered Accountants
R.N.Chaturvedi
Partner
Membership No. 092087

U. Rajeev
Partner
Membership No. F87191
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Place: New Delhi
Date: June 19th, 2004

HFCL INFOTEL LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31St MARCH, 2004

PARTICULARS	SCHEDULE	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	1	4,424,470,640	87,160,000
Advance Against Share Application Money	2	1,490,926,946	-
Share capital Suspense	3	-	4,320,002,500
Reserve and Surplus	4	269,919,182	272,396,785
		6,185,316,768	**4,679,559,285**
Loan Funds			
Secured Loans	5	6,260,517,760	6,467,050,659
Unsecured Loans	6	203,733,711	129,270,051
		6,464,251,471	**6,596,320,710**
TOTAL		**12,649,568,239**	**11,275,879,995**
APPLICATION OF FUNDS			
Fixed Assets	7		
Gross Block		9,800,012,849	9,176,606,064
Less: Depreciation		(2,245,878,721)	(1,454,520,353)
Less: Lease Equlisation Charge		-	(3,916,753)
Net Block		**7,554,134,128**	**7,718,168,958**
Capital Work-In-Progress (Including Capital Advances)		144,607,182	447,391,467
		7,698,741,310	**8,165,560,425**
Investments	8	735,205,998	**315,110,851**
Current Assets, Loans and Advances			
Sundry Debtors	9	103,778,782	61,487,850
Cash and Bank Balances	10	85,924,119	67,415,189
Other Current Assets	11	113,550,872	156,839,964
Loans and Advances	12	88,300,939	489,484,621
		391,554,712	**775,227,624**
Less: Current Liabilities and Provisions	13		
Current Liabilities		647,878,121	1,362,246,227
Provisions		6,535,295	11,151,362
		654,413,416	**1,373,397,589**
Net Current Liabilities		**(262,858,704)**	**(598,169,965)**
Miscellaneous Expenditure (to the extent not written off or adjusted)	14	**-**	**-**
Profit and Loss Account		4,478,479,635	3,393,378,684
TOTAL		**12,649,568,239**	**11,275,879,995**
Significant Accounting Polices	26		
Notes to Accounts	27		

The Schedules referred to above form an integral part of the Balance Sheet.
This is the balance sheet referred to in our report of even date

For CHATURVEDI & PARTNERS
Chartered Accountants

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Surendra Lunia
Chief Operating Officer

Pradeep Goel
Company Secretary

For and on behalf of the Board

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : June 19th, 2004

HFCL INFOTEL LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31St MARCH, 2004

PARTICULARS	SCHEDULE	FOR THE YEAR ENDED 31st MARCH 2004 (Rs.)	FOR THE YEAR ENDED 31st MARCH 2003 (Rs.)
Income			
Billing Revenue	15	1,916,730,166	894,982,915
Revenue from Hire Purchase and Finance Business	16	51,863,118	48,006,638
Income from Investments	17	4,073,633	939,466,816
Other Income	18	7,456,365	8,879,853
Total		**1,980,123,282**	**1,891,336,222**
Expenditure			
Network Operation Expenditure	19	955,270,970	359,208,145
Cost of Goods Sold	20	1,385,492	-
Personnel Expenditure	21	199,379,338	157,375,549
Sales and Marketing Expenditure	22	122,275,412	126,060,913
Administrative and Other Expenditure	23	273,427,309	203,372,271
Loss on Dilution of Investment in Subsidiary (Refer note 25 on Schedule 27)		12,236,290	-
Total		**1,563,974,811**	**846,016,878**
Operating (Profit) before Finance Expenses, Amortisation and Depreciation		(416,148,471)	(1,045,319,344)
Finance Expenses	24	691,134,615	567,920,063
Depreciation and Amortisation		797,683,500	449,391,129
Provisions, Lease Equilisation Charge	25	1,079,860	76,678,200
Amortisation of Goodwill (Refer note 9 on Schedule 27)		154,140	-
Miscellaneous Expenditure written off		-	40,856,299
Loss for the period before Prior Period Expenditure		**1,073,903,644**	**89,526,347**
Prior Period Expenditure (Refer Note 22 on Schedule 27)		17,577,856	-
Loss for the period before tax & Extraordinary items		**1,091,481,500**	**89,526,347**
Extraordinary items- Loss on sale of undertaking		-	160,501,115
Loss before tax		**1,091,481,500**	**250,027,462**
Taxation:			
Current Tax		2,065,000	1,900,000
Current Tax - Earlier year		-	16,353,828
Deffered tax		-	48,063,406
Loss after Tax		**1,093,546,500**	**316,344,696**
Share of (Profit) of Associate		(8,445,549)	-
Net Loss		**1,085,100,951**	**316,344,696**
Loss brought forward from previous year		3,393,378,684	191,912,633
Loss taken over on amalgamation		-	2,847,306,752
Loss available for appropriation		**4,478,479,635**	**3,355,564,081**
APPROPRIATIONS			
Captial Profit on consolidation		-	2,950,603
Interim dividend declared and paid out of the profit of the company before decision of merger was taken		-	34,864,000
Loss carried forward to the Balance Sheet		**4,478,479,635**	**3,393,378,684**
EARNINGS PER SHARE-Basic and Diluted of Rs. 10/- each (Refer Note 21 on Schedule 27)			
Before Extraordinary item		**(2.46)**	**(0.35)**
After Extra ordinary item		**(2.46)**	**(0.72)**
Significant Accounting Polices	26		
Notes to Accounts	27		

The Schedules referred to above form an integral part of the Profit & Loss Account
This is the Profit and Loss Account referred to in our report of even date

For CHATURVEDI & PARTNERS
Chartered Accountants

Surendra Lunia
Chief Operating Officer

For and on behalf of the Board

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Pradeep Goel
Company Secretary

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : June 19th, 2004

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 1		
SHARE CAPITAL		
Authorised		
1,000,000,000 Equity shares (Prev. year 10,000,000) of Rs.10/- each	**10,000,000,000**	100,000,000
20,000,000 Preference Shares (Prev. year 1,500,000) of Rs.100/- each	**2,000,000,000**	150,000,000
	12,000,000,000	250,000,000
Issued, Subscribed and Paid up		
442,447,064 Equity Shares of Rs. 10 each fully paid up	**4,424,470,640**	87,160,000
(Previous Year 8,716,000 Equity Sharess of Rs. 10 each)	**4,424,470,640**	87,160,000

Note:
1.Of the above, 490,750 (Previous Year 490,750) equity shares of Rs. 10 each ,were alloted as fully paid bonus shares in the earlier years by way of capitalisation of reserves.
2. Out of the above 348,705,000 (Previous Year 427,160,000, kept in Share Capital Suspense) Equity shares are held by Himachal Futuristic Communications Limited (Holding Company).

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 2		
ADVANCE AGAINST SHARE APPLICATION MONEY		
(Refer Note 10 on Schedule 27)		
Advance Against Equity Share Application Money	**840,926,946**	-
Advance Against Application Money for Cumulative Redeemable Preference Shares	**650,000,000**	-
	1,490,926,946	
SCHEDULE 3		
SHARE CAPITAL SUSPENSE		
432,000,250 Equity shares of Rs. 10 each fully paid to be issued pursuant to the scheme of amalgamation of erstwhile HFCL Infotel Limited with The Investment Trust of India Limited.	**-**	4,320,002,500
	-	4,320,002,500
SCHEDULE 4		
RESERVES AND SURPLUS		
Capital Reserve	**34,032,776**	34,032,776
Capital Reserve on Consolidation		
Beginning of the year	**2,450,603**	-
Prior Period Adjustment (Refer Note 9 on Schedule 27)	**(2,450,603)**	2,450,603
	-	2,450,603
Securities Premium	**119,548,250**	119,548,250
Statutory Reserve		
Beginning of the year	**11,927,000**	11,927,000
Adjusted for Dilution of Investment in Subsidiary	**(27,000)**	-
	11,900,000	11,927,000
General Reserve		
Beginning of the year	**104,438,156**	109,125,000
Adjustment for Deferred Tax Liability	**-**	(4,686,844)
	104,438,156	**104,438,156**
	269,919,182	**272,396,785**

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 5		
SECURED LOANS		
(Refer Note 10 on Schedule 27)		
Term Loans from Financial Institutions	**4,750,000,000**	4,486,075,426
Interest Accrued & due on Term loans from Financial Institutions	**-**	466,605,951
Term Loans from Banks	**1,300,000,000**	1,285,585,285
Interest accrued & Due on Term loans from Banks	**-**	144,369,286
Advance against application Money for Optionally Fully Convertible Debentures	**151,588,366**	-
Vehicle Loans	**5,689,828**	3,405,730
Bank Overdraft	**53,239,566**	75,000,000
Interest Accrued and Due on Bank Overdraft	**-**	6,008,981
	6,260,517,760	6,467,050,659
Amount repayable within a year-Vehicle Loan	**2,460,137**	1,723,407

Notes:

1. Term loans from financial Institutions are secured by:

a) First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.

b) First pari passu charge of mortgage of immovable properties of the Company.

c) Assignment of all rights, title, benefits and interest in, to and under the Project Documents and Project Contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis.

d) Further term loans from Financial Institutions amounting to Rs. 4,000,000,000 are secured by pledge of 163,000,000 equity shares of the Company held by the Holding Company and corporate guarantee given by the Holding company

2. Term loans from Banks are secured by:

a) First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.

b) First pari passu charge of mortgage of immovable properties of the Company.

c) Further term loans from Banks amounting to Rs.250,000,000 are secured by assignment of all rights, title, benefits and interest in, to and under the Project Documents and Project Contracts including Basic Telephony Licence of Punjab Circle, all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Term loan from banks amounting to Rs. 1,050,000,000 are further secured by corporate guarantee given by the holding company.

3. Vehicle loans are secured by hypothecation of the respective vehicles.

4. Bank Overdraft is secured by:

a) First charge on all current assets.

b) Second pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables, both present & future.

c) Corporate guarantee given by the Holding company

SCHEDULE 6		
UNSECURED LOANS		
(Refer Note 10 on Schedule 27)		
Advance against Application Money for Optionally Fully Convertible Debentures	**166,483,409**	-
Deposits from Public	**-**	15,058,085
Vendor Finance Facilities	**36,050,881**	111,027,011
Interest accrued and due on Vendor Finance Facilities	**1,199,421**	3,184,955
	203,733,711	129,270,051

Note :

1. Vendor Finance Facilities repayable within one year Rs. 36,050,881 (Previous Period Rs 111,027,011)
2. Vendor Finance Facilities are guaranteed by the Holding Company

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET
SCHEDULE 7
FIXED ASSET
(Refer Note 2 and 3 on Schedule 26)

Assets	Gross Block					Depreciation					Net Block	
	As at April 1, 2003	Additions (b)	Sale/ adjustment	Adjustment for Dllution of Investment in Subsidiary (d)	As at March 31, 2004	As at April 1, 2003	For the year	On Sale/ adjustment (c)	Adjustment for Dllution of Investment in Subsidiary (d)	As at March 31, 2004	As at March 31, 2004	As at March 31, 2003
Intangible Assets												
Portal Software	6,471,479	-	-	-	6,471,479	2,384,229	4,087,250	-	-	6,471,479	-	4,087,250
Licence Entry Fees	2,430,368,989	-	-	-	2,430,368,989	372,783,094	142,197,213	-	-	514,980,307	1,915,388,682	2,057,585,895
Tangible Assets												
I. Owned and Used												
Land - Freehold	16,907,623	-	-	(765,000)	16,142,623	-	-	-	-	-	16,142,623	16,907,623
Land - Leasehold	27,532,549	-	(18,636,130)	-	8,896,419	1,610,016	249,929	(1,396,590)	-	463,355	8,433,064	25,922,533
Building	192,829,166	-	(7,000,000)	(11,007,000)	174,822,166	9,630,776	3,449,524	(706,667)	(195,347)	12,178,286	162,643,880	183,198,390
Leasehold Improvements	64,136,444	1,859,728	(411,640)	-	65,584,532	11,721,271	7,292,996	(77,372)	-	18,936,895	46,647,637	52,415,173
Network Equipment	2,354,222,183	241,260,796	(6,027,464)	-	2,589,455,515	450,597,550	266,110,215	11,410,296	-	728,118,061	1,861,337,454	1,903,624,633
Optical Fibre Cable and Copper Cable	3,446,827,277	363,906,226	-	-	3,810,733,503	386,758,251	243,082,670	7,483,226	-	637,324,147	3,173,409,356	3,060,069,026
Telephone Instruments at Customers Premises	352,220,471	59,616,601	(23,586,939)	-	388,250,133	135,940,911	88,604,599	(18,624,074)	-	205,921,436	182,328,697	216,279,560
Computers	193,650,918	33,562,432	(196,988)	(1,807,500)	225,208,862	59,955,174	36,057,200	(46,509)	(518,882)	95,446,983	129,761,879	133,695,744
Office Equipment	27,593,150	4,881,882	(1,858,590)	(320,250)	30,296,192	4,867,549	2,367,827	(512,268)	(113,307)	6,609,801	23,686,391	22,725,601
Furniture & Fixture	33,622,256	725,903	(282,525)	(197,000)	33,868,634	13,211,801	1,925,234	(30,218)	(188,607)	14,918,210	18,950,424	20,410,455
Vehicles	22,081,662	5,612,539	(6,973,446)	(806,953)	19,913,802	4,773,942	2,076,963	(2,265,515)	(75,629)	4,509,761	15,404,041	17,307,721
II. Owned and Leased out												
Plant & Machinery	6,811,908	-	(4,678,464)	(2,133,444)	-	212,086	129,389	(208,375)	(133,100)	-	-	6,599,822
Vehicles	1,329,989	-	(370,314)	(959,675)	-	73,703	52,491	(27,429)	(98,765)	-	-	1,256,286
TOTAL	**9,176,606,064**	**711,426,107**	**(70,022,500)**	**(17,996,822)**	**9,800,012,849**	**1,454,520,353**	**797,683,500**	**(5,001,495)**	**(1,323,637)**	**2,245,878,721**	**7,554,134,128**	**7,722,085,712**
Capital Work in Progress (a)											144,607,182	
Previous Year	**9,564,145,700**	**261,429,602**	**(648,969,238)**	**-**	**9,176,606,064**	**1,360,082,127**	**449,391,129**	**(354,952,903)**		**1,454,520,353**	**7,722,085,712**	

Notes:

(a) Capital Work In Progress include Capital Advances, Capital Goods in Transit and Telephone Instruments to be installed at Customers' Premises aggregating Rs 214,699 (Previous Year Rs 209,790), Rs 1,219,275(Previous Year 3,474,235) and Rs 6,118,866 (Previous Year Rs 9,221,450) respectively.

(b) Addition during the year include foreign exchange gain of Rs. 4,851,892 (Previous Year foreign exchange loss of Rs 1,289,008).

(c) Adjustment includes prior period Deprecation amounting toRs. 20,644,173 (Previous Year nil)

(d) Gross Block and Accumulated Depreciation have been reduced on account of dilution of shareholding in the subsidiary. (Refer Note 2 on Schedule 26)

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

SCHEDULE 8
INVESTMENTS
(Other than Trade - Long term)
(Refer Note 5 on Schedule 26)

	AS AT 31st MARCH 2004 Cost	AS AT 31st MARCH 2003 Cost
Quoted:		
Government securities (Refer Note 23 on Schedule 27)	-	34,620,910
Redeemable Debentures		
25 Debentures in Amforge Industries Limited	-	100
400 Debentures in Synthetics and Chemicals Limited	-	100
Total Value of Quoted Investments	-	34,621,110
Unquoted:		
Investment in associate company:		
1,750,000 equity shares in The Investment Trust of India Limited of Rs. 10,each fully paid (See Note 2)	35,535,098	-
6,996,709 Optionally Fully Convertible Debentures (See Note 1)	699,670,900	-
Other Investments		
143,994 equity shares in ITI Financial Services Limited of Rs. 10, each fully paid	-	100
250 equity shares in Lord Krishna Bank Limited of Rs. 10, each fully paid	-	100
960 equity shares in Matheson Bosanquet Enterprises Limited of Rs. 10, each fully paid	-	100
1,500 equity shares in Sesa Industries Limited of Rs. 10, each fully paid	-	100
100 equity shares in Uniworth Textiles Limited of Rs. 10, each fully paid	-	100
1,200,000, 6% Reedemable non-cumulative Preference Shares of Rs. 10 each	-	10,777,917
Application money paid - shares pending allotment (Refer Note 24 on Schedule 27)	-	270,000,000
Total Value of Unquoted Investments	**735,205,998**	**280,778,417**
Provision for diminution in value of investments	-	(288,676)
Total	**735,205,998**	**315,110,851**

Notes

1 Terms and conditions associated with debentures are:

(i) The Optionally Fully Convertible Debentures (OFCDs) each of Rs. 100 in ITI are convertible into 10 equity shares (with pari passu right with the existing equity shares in terms of the present Articles of Association of the Company) of Rs. 10 each after three years at the option of the holder.

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

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

(iv) The Company has an option to issue the OFCDs in dematerialised form.

2 Break up of the carrying value of investment in associate:

	Current Year	**Previous Year**
Cost	18,000,000	-
Add:		
Adjustment for net assets upto September 30,2003, net of loss on dilution of investment in subsidiary of Rs. 12,606,131	9,089,549	-
Share of Profit in Associate	8,445,549	-
Total Value	**35,535,098**	**-**

3 Aggregate market value of Quoted Investment — - — 35,152,855

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 9		
SUNDRY DEBTORS		
(Refer Note 8 on Schedule 26)		
Outstanding for more than six months		
- Secured Considered Good	**31,967,048**	2,504,178
- Unsecured Considered Good (*)	**-**	1,257,425
- Unsecured Considered Doubtful (*)	**9,423,244**	6,079,613
Other Debts		
- Secured Considered Good	**12,020,529**	24,859,781
- Unsecured Considered Good	**59,791,205**	32,866,466
- Unsecured Considered Doubtful	**3,876,517**	4,012,863
	117,078,543	71,580,326
Less: Provision for Doubtful Debts	**13,299,761**	10,092,476
	103,778,782	61,487,850

Note:

1. Debtors are secured by way of security deposit received form them.
2. (*) It also includes Rs. Nil (Previous year Rs. 371,149) recoverable on account of sale of handsets made under deferred payment plan.

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 10		
CASH AND BANK BALANCES		
Cash in Hand	**725,711**	958,850
Cheques in Hand	**7,919,270**	-
Balance with Scheduled Banks		
- in Current account	**31,090,097**	47,456,380
- in Fixed Deposits (Receipts pledged with Banks as Margin money	**42,865,101**	18,999,959
for guarantees and LCs issued Rs. 42,865,101 Previous year		
Rs. 18,448,495)	-	-
- in Escrow Account	**3,323,940**	-
	85,924,119	67,415,189

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 11		
OTHER CURRENT ASSETS		
Stock on Hire under Hire Purchase	-	7,411,364
(at agreement values less amount received and provisions made)		
Stock-in-Trade-Securities	-	69,767,893
Interest Accrued on Fixed Deposit	**175,354**	3,425,132
Interest Accrued on Investment	**75,670**	2,482,125
Accured Billable Revenue	**113,299,848**	73,723,223
Rent Receivable	-	30,227
	113,550,872	156,839,964

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 12		
LOANS AND ADVANCES		
(Unsecured, considered good except otherwise stated)		
Loans- Secured		
By Hpothececation of Machinery		
- Considered Good	-	984,254
- Considered Doubtful	-	-
	-	984,254
Less Provision	-	-
	-	984,254
Loans to Bodies Corporate & Others (Unsecured		
- Considered Good	-	269,368,311
- Considered doubtful	-	29,398,704
	-	298,767,015
Less Provision	-	29,398,704
	-	269368,311
Advances Recoverable in Cash or in Kind or for Value to be Received		
- Considered Good	**65,604,166**	179,591,777
- Considered Doubtful	**134,859,908**	134,070,240
Due from The Investment Trust of India Ltd. - Associate	**650,321**	-
Security Deposits		
- Considered Good	**12,861,223**	19,096,483
- Considered Doubtful	**1,211,265**	-
Advance Tax (Including Tax Refund Recievable Rs. Nil Previous Year Rs. 9,288,145)(Net of Provision Rs. 3,772,300)	**9,185,229**	20,443,796
	224,372,112	623,554,861
Less Provision for Doubtful Advances	**136,071,173**	134,070,240
	88,300,939	489,484,621
SCHEDULE 13		
CURRENT LIABILITIES AND PROVISIONS		
(Refer Note 11 on Schedule 26)		
CURRENT LIABILITIES		
Sundry Creditors	**353,160,712**	883,277,332
Book Overdraft	**1,146,626**	4,263,141
Advance Against Booking	**1,183,168**	5,449,283
Advance From Customers and Unaccrued Income	**47,512,811**	44,451,823
Security Deposits Received from Subscribers	**197,846,013**	185,572,906
Security Deposits Received from Others	**12,027,301**	13,699,346
Finance Charges Unmatured	-	3,021,965
Interest Unmatured	-	185,842
Investor Education and Protection Fund		
- Unclaimed Dividends	**864,801**	1,089,039
- Unclaimed Deposits from Public	**2,349,283**	-
- Interest accrued and due on Public Deposits	**327,041**	-
Other Liabilities	**29,180,598**	43,424,444
Interest Accrued but not Due on Loans	**2,279,767**	177,811,106
Sub-Total (A)	**647,878,121**	1,362,246,227

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF BALANCE SHEET

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
PROVISIONS		
Wealth Tax	**54,000**	57,900
Leave Encashment	**3,202,993**	2,717,841
Gratuity	**3,278,302**	2,602,266
Provision for premium on debenture redemption	-	5,773,355
Sub-Total (B)	**6,535,295**	11,151,362
GRAND TOTAL (A+B)	**654,413,416**	1,373,397,589

PARTICULARS	AS AT 31st MARCH 2004 (Rs.)	AS AT 31st MARCH 2003 (Rs.)
SCHEDULE 14		
MISCELLANEOUS EXPENDITURE		
(to the extent not written off or adjusted)		
1. Preliminary Expenses	-	-
Opening Balance	-	-
Add: Adjustments Consequent to Amalgamations (Net)	-	5,324,783
	-	5,324,783
Less: Amortised during the period/ year	-	(5,324,783)
Closing Balance	-	-
2. Launch Expenditure		
Opening Balance	-	-
Add: Adjustments Consequent to Amalgamations (Net)	-	5,695,445
	-	5,695,445
Less: Amortised during the period/ year	-	(5,695,445)
Closing Balance	-	-
3. Customers Acquisition Costs		
Opening Balance	-	-
Add: Adjustments Consequent to Amalgamations (Net)	-	3,412,841
	-	3,412,841
Less: Amortised during the period/ year	-	(3,412,841)
Closing Balance	-	-
4. Indirect Expenditure not Related to Construction Activity		
Opening Balance	-	-
Add: Adjustments Consequent to Amalgamations (Net)	-	26,423,230
	-	26,423,230
Less: Amortised during the period/ year	-	(26,423,230)
Closing Balance	-	-
Total	**-**	**-**

SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	FOR THE YEAR ENDED 31st MARCH 2004 (Rs.)	FOR THE YEAR ENDED 31st MARCH 2003 (Rs.)
SCHEDULE 15		
BILLING REVENUE		
Revenue from Basic Telephony Services	**1,871,511,355**	886,295,524
Revenue from Infrastructure Services	**24,824,274**	-
Revenue from Internet Services	**20,394,537**	7,859,227
USO Support/Subsidy	-	828,164
	1,916,730,166	894,982,915
SCHEDULE 16		
REVENUE FROM HIRE PURCHASE AND FINANCE BUSINESS		
Hire Purchase	**10,907,756**	31,839,405
Leasing	**6,468,289**	24,648,365
Interest income on Loans (Gross of TDS Rs. 320,979, Previous Year Rs. 1,720,335)	**(763,040)**	9,293,191
Income from Securities Trading Operations	**35,250,113**	(17,774,323)
	51,863,118	48,006,638
SCHEDULE 17		
INCOME FROM INVESTMENTS		
Dividends (Gross of TDS Rs. NIL, Previous Year Rs. 9,680)	**1,746,122**	48,953
Interest on Debentures (Gross)	-	509
Profit/Loss on sale of Investments (Net)	-	933,015,689
Profit/Loss on sale of Government Securities	**487,590**	(426,375)
Interest on Government Securities (Gross of TDS Rs. NIL, Previous Year Rs. 808,874)	**1,839,921**	5,758,119
Income from Mutual Fund Units	-	1,069,921
	4,073,633	939,466,816
SCHEDULE 18		
OTHER INCOME		
Interest Income (Gross)	**1,827,113**	2,523,404
(Tax deducted at source Rs 300,578, Previous Year Rs. 318,662)		
Interest on Tax Refunds	**369,959**	2,837,817
Interest Others (Gross of TDS Rs. NIL, Previous Year Rs.37,697)	-	2,028,643
Rent Receipts (Gross of TDS Rs. 31,500, Previous Year Rs. 63,000)	**404,958**	813,665
Excess Provision written back	**1,929,102**	-
Sale of WLL Handsets/Modems	**1,611,476**	-
Miscellaneous Income	**1,313,757**	676,324
	7,456,365	8,879,853
SCHEDULE 19		
NETWORK OPERATION EXPENDITURE		
Access Charges	**635,110,295**	180,276,831
Port Charges	**27,030,477**	12,985,026
Testing and Technical Survey Expenses	**930,000**	3,454,650
Licence Fees on Revenue Share Basis	**126,727,024**	70,854,303
WPC Charges	**7,719,619**	6,871,940
Stores and Spares Consumed	**24,969,795**	14,056,411
Rent	**17,350,667**	9,396,214
Electricity & Water	**28,903,515**	16,045,926
Security Charges	**3,182,351**	5,230,734
Repair & Maintenance - Network	**68,474,234**	33,793,158
Bandwidth Charges	**14,872,993**	6,242,952
	955,270,970	359,208,145

SCHDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS		FOR THE YEAR ENDED 31st MARCH 2004 (Rs.)	FOR THE YEAR ENDED 31st MARCH 2003 (Rs.)
SCHEDULE 20			
COST OF TRADED GOODS SOLD			
Opening Stock		-	-
Purchases		1,385,492	-
Less Closing stock		-	-
		1,385,492	-
SCHEDULE 21			
PERSONNEL EXPENDITURE			
Salaries, Wages and Allowances		174,213,955	134,718,830
Employer's Contribution to Provident and Other Funds		13,391,047	11,034,506
Staff Welfare Expenses		8,486,471	5,276,638
Recruitment & Joining Expenditure		3,287,865	6,345,575
		199,379,338	157,375,549
SCHEDULE 22			
SALES & MARKETING EXPENDITURE			
Sales and Business Promotion		22,179,509	2,720,703
Advertisement Expenses		24,731,475	12,134,211
Commision to PCO Operators and Dealers		24,826,554	85,217,735
Customers Acquisition Costs		50,537,874	25,988,264
		122,275,412	126,060,913
SCHEDULE 23			
ADMINISTRATIVE AND OTHER EXPENDITURE			
Legal and Professional Expenses		17,323,711	20,644,469
Travelling and Conveyance		28,618,667	21,458,920
Communication Expenses		4,173,387	5,121,230
Rent		15,287,902	12,696,571
Auditors' Remuneration		4,860,795	2,515,748
Security Charges		2,914,353	1,753,021
Repairs and Maintenance - Building		787,216	996,688
Repairs and Maintenance - Others		7,289,002	7,283,976
Electricity and Water		9,816,320	5,557,990
Insurance		6,899,462	4,078,071
Rates and Taxes		23,379,206	3,354,239
Printing and Stationary		4,981,901	3,783,243
Billing and Collection Expenses		40,137,455	12,952,751
Software Expenses		169,685	2,584,703
Directors' Fees		417,000	295,000
Donations		-	8,000
Interest Tax		596,997	1,569,969
Provision for diminution in value of Investments (Net)		269,000	4,133,972
Provision for Doubtful Advances		2,000,933	-
Bad Debts Written off		65,276,255	157,123,974
Provision for Doubtful Debts	9,503,196	-	5,889,495
Less Transferred to Bad Debts Written off	(6,295,911)	3,207,285	-
Provision for Non-performing Assets		450,000	(83,817,424)
Loss on Sold/Discarded Fixed Assets and Capital Work in Progress		15,273,433	4,165,519
Project Scrap written off		10,203,114	4,900,330
Wealth Tax		56,800	77,357
Miscellaneous Expenses		9,037,430	4,244,459
		273,427,309	203,372,271

HFCL INFOTEL LIMITED
SCHEDULES FORMING PART OF PROFIT AND LOSS ACCOUNT

PARTICULARS	For the Year Ended 31st MARCH 2004 (Rs.)	For the Year Ended 31st MARCH 2003 (Rs.)
SCHEDULE 24		
FINANCE EXPENSES		
Interest on Public Deposits	**693,529**	13,966,537
Interest on Term Loans	**669,567,240**	531,165,168
Interest to Others	**13,254,794**	16,717,443
Bank Guarantee Commision	**5,805,614**	2,915,971
Processing Fees	**155,000**	100,000
Other Finance Charges	**1,658,438**	3,054,944
	691,134,615	567,920,063
SCHEDULE 25		
PROVISIONS, LEASE EQUILISATION CHARGE		
Loss on sale of Repossessed Assets	**-**	90,003
Lease Equilisation Charge	**1,079,860**	70,814,842
Provision for Premium on Redemption of Optionally Fully Convertible Debentures	-	5,773,355
	1,079,860	76,678,200

Schedule 26: Significant Accounting Policies

The significant accounting policies adopted by the Company and its subsidiary (hereinafter referred to as the "Group") in respect of these financial statements, are set out below:

1. Basis Of Preparation

These financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles in India and reporting requirements of Accounting Standard 21 'Consolidated Financial Statements' and Accounting Standard 23 'Accounting for Investments in Associates in Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India, consolidated as per Para 2 below for the year ended March 31, 2004.

2. Principles of Consolidation

These accounts represent consolidated accounts of the Company and its wholly owned subsidiary (upto September 30, 2003) and its associate thereafter, incorporated in India, as follows:

Entity	Principal Business/ Service	Relationship	Percentage of ownership interest and voting power
The Investment Trust of India Limited (ITI) (formerly known as Rajam Finance and Investment Company (India) Limited)	Hire Purchase and Finance business	Subsidiary of the Company	100% till September 30,2003.
		Associate of the Company	46.67% w.e.f. October 1, 2003.
ITI Financial Services Limited	Hire Purchase and Finance business	Associate of an Associate, ITI.	48% till September 30,2003.
		Associate of an Associate, ITI.	22.40% w.e.f. October 1, 2003. (Subsequently sold in October 2003)

Investment in associate Companies where significant influence is exercised are accounted for by using the 'equity method'.

The Investment Trust of India Limited (formerly known as Rajam Finance and Investment Company (India) Limited) (ITI), issued further share capital of Rs. 20,000,000 to shareholders other than the Company resulting in dilution of the Company's holding in ITI and thus making it an associate from a wholly owned subsidiary. Consequently ITI together with its associate ITI Financial Services Limited (upto October 2003) has been consolidated upto the date it ceases to be a subsidiary and henceforth has been accounted for by using the 'equity method'.

The difference between the carrying values of the net assets of ITI, attributable to the Company's interest (including attributable Goodwill) before and after it ceases to be a subsidiary has been accounted for as Loss on Dilution of Investment in Subsidiary.

All material unrealized profits and losses resulting from transactions between the Company and ITI have been eliminated to the extent of the Company's share in ITI.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the previous year the group bought and sold 3,756,762 shares in Pioneer ITI AMC Limited, representing 47.5% ownership and voting power which was not accounted for under equity method as the shares were purchased with a view to dispose these shares during the year.

3. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and lease equalisation charge. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Machinery spares/standby equipments are capitalised as part of the related fixed assets.

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

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e. Entry Fee, has been capitalised as an asset along with the related borrowing costs.

Costs incurred to purchase and related costs of the portals upto the date of launch are capitalised.

4. Depreciation

Depreciation is provided on straight line basis at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 except as follows:

(a)	Leasehold Land:	Over the primary period of the lease
(b)	Leasehold Improvements:	Over the primary period of the lease or ten years whichever is lower
(c)	Optical Fibre Cable and Copper Cable	Over a period of fifteen years
(d)	Testing Equipments (included in Network Equipments)	Over a period of five years
(e)	Telephone Instruments at customer's premises	Over a period of five years, except for instruments costing less than Rs.5,000 each
(f)	Billing and Allied Software (included under Computers)	Over a period of five years
(g)	Fixed Assets costing less than Rs. 5,000	Fully depreciated when they are put to use
(h)	Plant & Machinery	Over a period of 9.67 years
(i)	Portal	Portal Costs are written off over a period of two years from the date of purchase of these portals
(J)	Leased Assets	Cost of leased assets is being written off over the primary lease period of the lease contracts.

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

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

The Entry Fee capitalised is being amortised equally over the balance period of the license from the date of commencement of commercial operations.

Portal Costs are written off over a period of two years from the date of purchase of these portals.

5. Investments

Long term Investments other than those in subsidiaries and associates are valued at cost (also refer Note 2 above). Provision is made for diminution in value to recognise a decline, if any, other than that of temporary nature. Stock in trade Securities are valued at lower of cost or market value, such comparisons being made on global basis.

6. Stock on hire

Stock on hire is stated at cost as reduced by the amounts received.

7. Revenue Share Licence Fee and WPC Charges

The variable Licence fee and WPC charges computed at prescribed rates of revenue share are being charged to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue as per the license agreement.

8. Revenue Recognition and Receivables

Telecommunication business:-

Revenue from Basic Telephony Services is recognised on completion of provision of services and is net off rebates and discounts.

Revenue on account of Internet Services and Revenue from Infrastructure services is recognised in accordance with the terms of the related contracts.

Income on account of interest and other investment activities are recognised on an accrual basis. Dividends are accounted for when the right to receive the payment is established.

Provision for Doubtful Debts for subscribers is made for all dues outstanding from de-activated subscribers as well as other subscribers who have balances outstanding for more than 90 days, other than those covered by security deposit or in specific cases where management is of the view that the amounts are recoverable.

Provision for doubtful debts, in case of Other Telecom Operators on account of Interconnect Usage Charges (IUC), is made for dues outstanding for more than 120 days from the date of billing net of dues if any payable to the other operator or in specific cases where management is of the view that the amounts are recoverable.

Hire Purchase and Finance Business:-

Income from hire purchase contracts put through prior to 01.04.2001 is reckoned on " Sum of Digits Method." In respect of contracts put through after 01.04.2001 the company has followed the IRR method. Lease rentals are recognized in instalments as accrued over the period of Lease. In respect of loans, the company is following the "Even Spread Method."

The company has followed the Prudential Norms for Income recognition and provisioning for Non-Performing Assets as prescribed by the Reserve Bank of India for Non Banking Financial Companies (NBFC's).

In respect of stock on hire,

The difference between the gross asset value taken over and the consideration paid is divided into two portions:

(a) the unmatured finance charges / interest as included in the gross asset value and

(b) the balance after deducting the unmatured finance charges / interest.

The unmatured finance charges / interest is recognized over the balance tenure of the contract as envisaged in the policy given above.

The balance 'income' is recognized on receipt basis.

9. Foreign currency transactions

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as income or expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

10. Borrowing costs

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

11. Retirement benefits

Group's contribution to provident fund and superannuation fund is charged to the Profit & Loss Account.

The Group makes contribution to a Group Gratuity Scheme with Life Insurance Corporation of India to cover the gratuity liability for its employees. Such contribution is charged to the Profit and Loss Account of the year. Liability at the period-end is determined based on actuarial valuation done by Projected Unit Credit method. Provision is made for shortfall, if any, in the contribution made as compared to the actuarial valuation at the close of the period.

Provision in the accounts for leave encashment benefits to employees is based on actuarial valuation done by Projected Unit Credit method at the period-end.

12. Goodwill

Goodwill on consolidation is stated as an excess of the purchase consideration over the Company's interest in the fair value of the net identifiable assets acquired. Goodwill is carried at cost and is written off in the year in which it arises.

13. Income Tax

Tax expense for the year, comprising current tax and deferred tax is included in determining the net profit/ (loss) for the year.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent there is reasonable certainty that sufficient future taxable profit will be available against which such deferred tax assets can be realised.

Deferred tax asset to the extent it pertains to brought forward losses and unabsorbed depreciation, is recognised only to the extent that there is virtual certainty of realisation, based on expected profitability in the future as estimated by the Company.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

14. Operating Leases

Lease of assets under which significant risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expense in the profit and loss account, on a straight-line basis over the lease term.

15. Earnings per Share

The earnings considered in ascertaining the Company's EPS comprises the net profit / (loss) after tax. The number of shares used in computing basic EPS is the weighted average number of shares outstanding during the year. The diluted EPS is calculated on the same basis as basic EPS, after adjusting for the effects of potential dilutive equity shares unless the effect of adjustments becomes anti-dilutive.

Schedule 27: Notes to Accounts

1. Nature of Operations

The Company provides Basic Telephony Services, Internet Services and Leasing of telecom infrastructure (telecom services) in the state of Punjab by virtue of the respective licences obtained by way of amalgamation of the erstwhile HFCL Infotel Limited (herein after called as HIL). As explained in note 8 below, the Company has surrendered the NBFC license with the Reserve Bank of India (RBI) as the NBFC business earlier carried on by the Company has since been transferred to The Investment Trust of India Ltd.(ITI) , a subsidiary of the Company (upto September 30,2003).

ITI is a registered Non-Banking Finance Company engaged in the Hire-Purchase, Finance, Leasing and Securities operations business.

2. Contingent liabilities not provided for in respect of :

	AS AT 31st MARCH 2004 (Rupees)	AS AT 31st MARCH 2003 (Rupees)
a) Income tax matters under appeal	1,329,910	5,157,841
b) Claims against the Company not acknowledged as debt	5,020,787	5,002,847
c) DOT Access Charges	23,000,000	-
d) Sales Tax on Lease Contracts under writ (Group's Share of Contingency of the Associate)	606,710	13,00,000

3. Financial bank Guarantees outstanding as at year end amount to Rs. 68,630,000 (Previous year Rs. 48,500,000).These guarantees to the extent of Rs.50,000,000 (Previous Year Rs. 30,000,000) and Performance Bank Guarantees of Rs. 2,327,436 (Previous Year Rs. 500,000) are secured against :-

- First pari passu charge by way of Hypothecation of movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and also book debts and receivables, both present & future.
- First pari passu charge of mortgage of immovable properties in Mohali, Jalandhar and Mumbai of the

  Company
- Further secured by corporate guarantee given by the holding company

The Company has furnished Counter Guarantee of Rs. 5,225,000,000 (Previous Year Rs. 5,225,000,000) to Holding Company against the Corporate guarantee given by the Holding Company to the lenders of the Company.

4. In a case involving the Uttar Pradesh Trade Tax Department and the DoT, the Supreme Court of India has ruled that a telephone connection along with a telephone set provided by a company rendering basic services tantamount to a "transfer of right to use the telephone system" and the rentals collected by DoT towards this right to use should attract sales tax. Subsequent to the passing of this order, the Cellular Operators as well as the basic operators agitated the same issue before the Supreme Court by way of a Petition under Article 32 of the Constitution. The Hon'ble Supreme Court has admitted the Petitions and vide order dated September 25, 2003 referred the matter to a larger bench for determination of dispute on merits and further directed that in future there shall be no coercion for recovery of any dues. In respect of the assessments already completed as on September 25, 2003, the Hon'ble Supreme Court directed that the operators should file statutory appeals against the assessment orders.

   As per the management the maximum liability in the event of dismissal of the petitions is estimated at Rs.98,693,699 (Previous Year 60,760,712) as at March 31, 2004. Provision if required shall be made on the basis of decision of the Apex Court.

5. Loans & Advances include amounts recoverable from Essar Investments Limited (EIL) aggregating to Rs.134,070,240. The Company had made payments in earlier years to EIL for takeover of certain accounted liabilities and certain unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and erstwhile HFCL Infotel Ltd. EIL has failed to settle the dues with the respective parties and a winding up petition u/s 434 of the Companies Act, 1956 has already been served upon EIL. Pending such recovery, provision for doubtful advance is being carried in the financial statements. However, provision for claims of third parties shall be made as and when the claims are settled.

6. Upon migration to Variable License Fee Regime, introduced under National Telecom Policy (NTP 1999), HIL, had eventually paid certain amount of interest demanded by DoT being interest on delay in payment of fixed licence fee. After initially disputing the manner of computation. HIL, had filed a petition with Telecom Dispute Settlement & Appellate Tribunal (TDSAT) for refund of excess interest charged by DoT. In accordance with the principles laid down in the Supreme Court judgment dated March 4, 2003 and TDSAT order dated March 17, 2003, the DoT had, on May 7, 2003 confirmed a refund aggregating Rs.187,340,864 to HIL which is included under Loans & Advances. As per claim of the Company refund amount comes to Rs 301,728,714. Adjustment to balance claim of Rs 114,387,850 shall be made when the claim is finally settled by DoT.

7. Estimated amount of contracts remaining to be executed on Capital account and not provided for, net of capital advances of Rs. 1,980,836 (Previous year Rs. 209,790) Rs. 29,003,048 (Previous Year 18,358,208).

8. The Company, during the year, has surrendered its licence granted by RBI to carry out NBFC business. Subsequent to the year-end the RBI vide. its letter dated May 24,2004 has confirmed the cancellation of the NBFC licence. However it has 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 Reserve Bank of India from time to time. The Company is in the process of complying with the above mentioned conditions.

9. The Company had accounted for Rs. 2,450,606 as Capital reserve on consolidation in the previous year. However a revised computation on Consolidation results in Goodwill amounting to Rs. 330,299. The Goodwill has been computed on the basis of financial statements of the Subsidiary certified by the management of the Company as at date of acquisition. The net prior period adjustment on account of this rectification amounts to Rs. 2,780,905.

   The movement of Goodwill during the year is set out below:

	Amount in Rupees
Goodwill Arising on Consolidation	330,299
Less:	
Adjustment for Dilution of Investment in Subsidiary	(176,159)
Balance written off during the year	(154,140)
Balance as at year end	-

10. a) The Company had approached its lenders viz. Banks and Financial Institutions for a financial restructuring package, which has been approved under the Corporate Debt Restructuring mechanism (CDR) by the CDR Empowerment group of lenders vide their letter dated March 10, 2004. Subsequent to the year end, the Company has also received the in-principle approvals from IDBI, the lead financial institution and certain other financial institutions and banks. The CDR scheme includes interalia reduction of interest rate on loans with effect from April 1, 2003, rescheduling of loan repayments, and conversion of certain overdue interest and loan amounts into Equity/Optionally Fully Convertible Debentures (OFCDs). The above scheme also stipulates conditions to be complied with by the Company and its promoters relating interalia to fresh infusion of additional equity by promoters, arrangement of additional infusion of term loan and working capital from existing or new lenders and

bringing in equity by promoters to bridge shortfall of funding if any.

b) The Company has initiated necessary action to ensure compliance with the above conditions, and is confident that all the conditions as stipulated will be complied with in agreement with the CDR Monitoring Committee of the lenders. Accordingly, the impact of the CDR scheme as above has been incorporated in these financial statements as below:

Profit and Loss Account

(i) Interest to banks and financial institutions has been accounted for at the reduced rates as per the scheme with effect from April 1, 2003 aggregating to Rs.677,354,578 instead of the original contracted amount of Rs.1,024,882,733 with consequential impact on the loss for the year and net assets of the Company.

Balance Sheet

(ii) Outstanding interest and liquidated damages payable upto December 31, 2003 aggregating to Rs. 840,926,946 to IDBI, ING Vysya Bank Ltd and Global Trust Bank Ltd transferred from Interest Accrued and Due/ Not due to Advance Against Equity Share Application Money included under Advance Against Share Application Money towards conversion of the said overdue amounts into Equity Shares of Rs. 10 each at par.

(iii) Outstanding interest and liquidated damages payable upto December 31, 2003 aggregating to Rs. 166,483,409 to LIC and State Bank of Patiala transferred from Interest Accrued and Due/ Not due to Advance Against Application Money towards conversion of the said overdue amount into OFCDs which will not have a charge on any assets of the Company, and will carry 0%(zero) coupon rate, and the repayment/redemption shall be made without premium on March 31,2014 i.e. after repayment of the entire term loan.

(iv) Outstanding interest on term loan for the last quarter ended March 31, 2004 pertaining to all Financial Institutions and Banks aggregating to Rs. 151,588,366 now transferred from Interest accrued and due/not due to Advance Against Application Money for Optionally Fully Convertible Debentures towards conversion of the said overdue amount into OFCD carrying 0%(zero) coupon rate redeemable on March 31,2006 with a premium giving yield of 12% per annum or convertible into Equity Shares at the option of the OFCD holders at a price to be at par subject to prevailing SEBI guidelines.

(v) Overdue Interest and liquidated damages payable to IDBI to the extent of Rs.263,924,574 transferred from Interest accrued and Due/not due to Secured Loans.

(vi) Amounts due to the holding company towards equipment supply and services of Rs.444,838,240 and advances received of Rs.205,161,760 transferred from Sundry Creditors and Unsecured advances respectively into Advance Against Application Money for Cumulative Redeemable Preference Shares (CRPS) towards conversion of the said outstanding amounts into 7.5% CRPS, redeemable after repayment of the entire term loans of lenders with restrictions on declaration of dividend and voting rights.

c) The CDR scheme also grants a right to term loan lenders to convert 20% of their outstanding principal aggregating to Rs.1,210,000,000, into equity shares of Rs. 10 each after financial year 2010 at par subject to the prevailing applicable SEBI guidelines.

11. As at the year-end, the accumulated losses of the Company have resulted in a substantial erosion of the net worth of the Company. However in view of the implementation of the CDR scheme as explained in note 10 above, the Company is confident of being able to continue and operate the business on a going concern and accordingly these financial statements have been prepared on a going concern basis.

12. Till the previous year, Provision for Doubtful Debts on telephony revenue was made for period end dues outstanding for more than 90 days other than those covered by security deposit and received subsequent to period end upto the date of finalisation of financial statements.

    During the year ended March 31, 2004, the Company revised the method of provision to provide for all dues outstanding for more than 90 days, as on Balance Sheet date other than those covered by security deposit or in specific cases where management is of the view that the amounts are recoverable. The impact of this change is not quantifiable.

13. The net Deferred Tax Assets as on March 31, 2004 amounts to Rs. Nil (Previous Year: Rs. Nil). The amount has been arrived at as follows:

Deferred Tax Assets arising from:	**2003-2004 (Rupees)**	**2002-2003 (Rupees)**
(i)Unabsorbed depreciation allowance and unabsorbed business loss carried forward (to the extent considered realizable)	227,416,046	-
	227,416,046	-
Less: Deferred Tax Liabilities arising from: (i) Difference between carrying amount of fixed assets in the financial statements and the Income Tax Return.	227,416,046	-
Net Deferred Tax Assets / (Liability)	-	-

The Tax impact for the above purpose has been arrived at by applying a tax rate of 35.875 % being the prevailing tax rate for Indian companies under the Income Tax Act 1961.

14. Interest payable on vendor finance facilities amounting to Rs.3,479,188 as at March 31,2004 (Previous Year Rs.2,025,448) is yet to be remitted pending approval from Reserve Bank of India.

15. Central Government have approved the total remuneration of Rs 587,903 for Mr Sunil Batra, manager of the Company as against Rs. 2,621,629 approved by the shareholders. Approval for the balance remuneration amounting to Rs.2,033,726 shall be granted by the Central Government on furnishing of No objection certificate (NOC) from the Banks and Financial Institutions to whom the company has made default. Company has since received NOC from the lenders and shall be furnishing the same to the Central Government shortly for approving the balance remuneration. In view of this, full remuneration paid to Mr Sunil Batra has been charged to Profit and Loss account. The Manager has since resigned from the company.

16. **Segmental Information**

I. Business Segment

i) 2003-04 **(Rupees)**

	Telecom Business	Hire Purchase and Finance Business	Others	Elimination	Total
Revenues					
Billing Revenue/ Hire Purchase and Finance Business	1,916,730,166	51,863,118	-	-	1,968,593,284
Income from Investments and Other Income	7,632,785	3,897,212	-	-	11,529,997
Total Revenue	**1,924,362,951**	**55,760,330**	-	-	**1,980,123,281**
Results					
Segment Result	418,907,061	(48,528,460)	12,390,428	-	**382,769,029**
Operating (Profit)/Loss before finance expenses	**418,907,061**	**(48,528,460)**	**12,390,428**	-	**382,769,029**
Finance Expenses	-	-	691,134,615	-	691,134,615
Prior Period Expenditure	-	-	17,577,856	-	17,577,856
Extraordinary Item	-	-	-	-	-
Net (Profit)/Loss before tax	**418,907,061**	**(48,528,460)**	**721,102,899**	-	**1,091,481,500**
Provision for tax	-	-	2,065,000	-	2,065,000
Deferred Tax	-	-	-	-	
Net (Profit/Loss after tax	**418,907,061**	**(48,528,460)**	**723,167,899**	-	**1,093,546,500**
Share of Profit of Associate	(7,509,484)	(936,065)	-	-	(8,445,549)
Net Loss	**411,397,577**	**49,464,525**	**723,167,899**	-	**1,085,100,951**
Other Information					
Segment Assets	8,816,316,791	-	-	-	8,816,316,791
Inter Segment Assets	-	-	-	-	
Advance Tax (net of provision)	-	-	9,185,229	-	9,185,229
Total Assets	**8,816,316,791**	-	9,185,229	-	8,825,502,020
Segment Liabilities	7,118,664,887	-	-	-	7,118,664,887
Inter Segment Liabilities	-	-	-	-	-
Total Liabilities	**7,118,664,887**	-	-	-	**7,118,664,887**
Capital Expenditure	711,319,987	106,120	-	-	711,426,107
Depreciation	796,737,086	946,414	-	-	797,683,500
Non-Cash Expenses other than Depreciation (Amortisation/lease Equalisation charge)	-	1,079,860	154,140	-	1,234,000

a) Revenue from Hire Purchase and Finance Business is up to the date of cessation of erstwhile subsidiary of the Company i.e. September 30, 2003.

b) As explained in Note 2 on Schedule 26, ITI has ceased to be a subsidiary w.e.f September 30, 2003 and has therefore been accounted for as an associate thereafter. Therefore with effect from September 30,2003 the Group now operates in only one single business segment,viz. basic telephony service in the Punjab Circle.

ii) 2002-2003 **(Rupees)**

	Telecom Business	Hire Purchase and Finance Business	Others	Elimination	Total
Revenues					
Billing Revenue/ Hire Purchase and Finance Business	894,982,915	48,006,638	-	-	942,989,553
Income from Investments and Other Income	1,772,312	946,574,357	-	-	948,346,669
Total Revenue	**896,755,227**	**994,580,995**	-	**-**	**1,891,336,222**
Results					
Segment Result	348,742,945	(827,136,661)	-	**-**	**(478,393,716)**
Operating (Profit)/Loss before finance expenses	**348,742,945**	**(827,136,661)**	**-**	**-**	**(478,393,716)**
Finance Expenses	-	-	567,920,063	-	567,920,063
Prior Period Expenditure	**-**	-	-	-	-
Extraordinary Item	-	-	160,501,115	-	160,501,115
Net (Profit)/Loss before tax	**348,742,945**	**(827,136,661)**	**728,421,178**	-	**250,027,462**
Provision for tax	**-**	-	18,253,828	-	18,253,828
Deferred Tax			48,063,406	-	48,063,406
Net (Profit/Loss after tax	**348,742,945**	**(827,136,661)**	**794,738,412**	-	**316,344,696**
Share of Profit of Associate	**-**	-	-	-	-
Net Loss	**348,742,945**	**(827,136,661)**	**794,738,412**	-	**316,344,696**
Other Information					
Segment Assets	8,494,404,236	750,339,011	-	-	9,244,743,247
Inter Segment Assets	717,670,900	20,829,469	-	(738,500,369)	-
Advance Tax (net of provision)	**4,099,064**	6,998,687	-	-	11,097,751
Total Assets	**9,216,174,200**	778,167,167	-	(738,500,369)	9,255,840,998
Segment Liabilities	7,897,705,148	71,955,247	-	-	7,969,660,395
Inter Segment Liabilities	20,829,469	717,670,900	-	(738,500,369)	-
Total Liabilities	**7,918,534,617**	**789,626,147**	**-**	**(738,500,369)**	**7,969,660,395**
Capital Expenditure	238,060,168	23,369,434	-	-	261,429,602
Depreciation	436,917,142	12,473,986	-	-	449,391,128
Non-Cash Expenses other than Depreciation (Amortisation/lease Equalisation charge)	40,856,299	70,814,842	-	-	111,671,141

Notes :

1. 'Others' represents the unallocated revenue, profit/(loss), assets & liabilities of the Company.
2. Capital expenditure pertains to gross additions made to fixed assets during the year.
3. Segment Assets include Fixed Assets, Capital Work in progress, Investments, Current Assets and Miscellaneous Expenditure to the extent not written off.
4. Segment Liabilities include Secured and Unsecured loans, Current Liabilities.
5. Inter segment assets/liabilities represent the inter segment account balances.

II. Geographical Segment

The Group caters only to the needs of the Indian market representing a singular economic environment with similar risks and rewards and hence there are no reportable geographical segments.

2. **Related Party Disclosures**

In accordance with the requirements of Accounting Standard (AS-18) on Related Party Disclosures, the names of the related parties where control exists and/or with whom transactions have taken place during the year and description of relationships, as identified and certified by the management are:

Holding Company	Fellow Subsidiary	Associate Enterprise	Other companies under common Control	Company under Key Management Personnel	Key Management Personnel
Himachal Futuristic Communications Limited (HFCL)	HTL Limited	The Investment Trust of India Limited (Associate Enterprise from October 1, 2003) ITI Financial Services Ltd.	Microwave Communications Ltd. Himachal Exicom Comm. Limited HFCL Satellite Comm. Limited HFCL Nine Bordcasting (I) Pvt. Limited Westel Wireless Ltd. Platinum EDU Ltd. HFCL Kongsung Telecom Limited HFCL Dacom Infocheck Limited WPPL Limited Consolidated Futuristic Solutions Limited Excel Netcommerce Ltd. HFCL Bezeq Telecom Ltd. Pagepoint Services India Ltd. Pioneer ITI AMC Ltd.	HFCL Internet Services Limited	Mr. M.Nahata, Director Mr. Sunil Batra (Manager & COO – Since resigned) Mr. Surendra Lunia (CFO upto March 25, 2004 and COO since March 26, 2004) Mr Sarvdeep Garg (VP Technical) Mr. Simon Solomon (Manager and Executive Director – Since resigned)

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at March 31, 2004 and for the year then ended are presented in the following table:

Particulars	Holding Company	Fellow Subsidiary	Associate Enterprises	Other Companies under Common Control	Company under Key Management Personnel
Purchase of Capital Goods	83,457,361	-	-	12,517,047	-
Services received for Capital Goods	27,721,731	-	-	-	-
Short term funds received by Company	40,000,000	35,635	-	-	-
Payments made by Company on their behalf	15,175,609	35,635	-	-	-
Payment made by Company against supplies, services and to employees	93,832,940	-	6,500,000	4,022,367	18,418,471
Payment made by them on Company's behalf	841,550	-	-	-	-
Purchase of goods	4,482,457	-	-	657,349	1,518,265
Sale of goods	-	-	-	1,097,000	219,048
Rent Recieved	-	-	134,958	-	-
Sale of Investments	-	-	2,405,500	-	-
Expenses debited by them	1,178,963	-	222,814	1,087,686	19,719,852
Expenses debited to them	473,637	-	413,793	1,813	123,275
Counter Guarantees given by Company to them - given during the year - closing balance	 5,225,000,000	-	-	-	-
Guarantees given by them for funds borrowed by Company - given during the year - closing balance	 5,225,000,000	-	-	-	-
Guarantees given by them for securing Vendor Finance facilities - given during period - closing balance	 150,020,000	-	-	-	-
Closing balance Creditors	68,211,946	-	-	28,424,249	-
Closing Debit balances	-	-	650,321	1,097,000	1,227,334

Particulars	Holding Company	Fellow Subsidiary	Associate Enterprises	other Companies under Common Control	Company under Key Management Personnel
Advance against application for 7.5% Cumulative Redeemable Preference Shares (as per CDR)	650,000,000	-	-	-	-

The remuneration paid to key management personnel is as under:

(Rupees)

	Year ended 31st March 2004 (Rupees)	Year ended 31st March 2003 (Rupees)
Salaries, Wages and Allowances	**9,558,622**	3,694,827
Employer's Contribution to Provident and Other Funds	**414,456**	298,574
Perquisites	**772,299**	449,712
Exgratia	**61,254**	515,900
Total	**10,806,631**	4,959,013

18. Profit on Securities Trading Operations (Net) of Rs. 35,250,113/- (Previous Year – Loss Rs.17,774,323) shown under Schedule 16 is arrived as under:

(Rupees)

A. Stock in Trade – Shares	**2003-2004**		**2002-2003**	
Sales		82,091,174		4,667,338
Add: Increase/(Decrease) in Stock				
- Closing Stock	22,169,081		58,267,893	
- Opening Stock	58,267,893	(36,098,812)	-	58,267,893
		45,992,362		62,935,231
Less: Purchases		10,592,632		83,207,314
Profit/ (Loss) (A)		**35,399,730**		**(20,272,083)**

B. Stock in Trade – Mutual Funds Units (MF)	**2003-2004**		**2002-2003**	
Sales		21,905,419		187,863,361
Add: Increase/(Decrease) in Stock				
- Closing Stock	10,000,000		11,500,000	
- Opening Stock	11,500,000	(1,500,000)	-	11,500,000
		20,405,419		199,363,361
Less: Purchases		20,000,000		196,976,317
Profit/(loss)		405,419		2,387,044
Add: Dividend Received		298,884		484,075
Total Income from MF (B)		**704,303**		**2,871,119**

Net Profit (A+B)	**36,104,033**	**(17,400,964)**
Less: Service Charges	(853,920)	**(373,359)**
Profit on Securities Operations	**35,250,113**	**(17,774,323)**

19. Particulars of Hire – Purchase contracts executed on or after 01.04.2001 are as follows:

a) Reconciliation between Gross Investment in Hire Purchase and Present Value of Instalment receivable:

	2003-04 (Rupees)	**2002-03 (Rupees)**
Gross Investment in Hire Purchase as on 31.03.2004	-	7,411,364
Less: Unearned finance income as on 31.03.2004	-	3,021,965
Present value of Installments receivable as on 31.03.2004	-	4,389,399

b) Year wise break – up of Gross Investments in Hire Purchase and Present Value of Instalment receivable

Particulars		**Receivable (Rs.)**			
		Not later than 1 year	**later than 1 year and not later than 5 years**	**later than 5 years**	**Total**
Gross Investment in HP as at 31.03.2004	2003-04	-	-	-	-
	2002-03	7,411,364	-	-	7,411,364
Present Value of Instalments receivable as on 31.03.2004	2003-04	-	-	-	-
	2002-03	4,389,399	-	-	4,389,399

c) Other Particulars

	2003-04	2002-03
Unguaranteed residual value accruing to the benefit of the Group	-	-
Accumulated provision for uncollectible instalments of Hire Purchase contracts	-	-
Contingent rents recognised in P & L Account	-	-

The accounting of advances given on Hire purchase is in accordance with Accounting Standard 19 – "Leases" issued by The Institute of Chartered Accountants of India.

20. **Operating lease - As a Lessee**

The lease rentals charged during the year for cancelable/non cancelable leases relating to rent of building premises sites as per the agreements and maximum obligations on long-term non-cancelable operating leases are as follows:

	Year Ended 31st March 2004 (Rs.)	**Year Ended 31st March 2003 (Rs.)**
Lease Rentals		
Obligations on non cancellable leases:		
Not later than one year	1,680,000	1,680,000
Later than one year and not later than five years	4,242,000	5,922,000
Later than five years	-	-
Total	**5,922,000**	**7,602,000**

21. **Earnings Per Share:**

	Year ended March 31, 2004	Year ended March 31, 2003
Basic and Diluted Earnings per Share		
Profit / (Loss) attributable to Equity Shareholders before extraordinary item (Rs.) (A)	(1,085,100,951)	(155,843,581)
Profit / (Loss) attributable to Equity Shareholders after extraordinary item (Rs.) (B)	(1,085,100,951)	(316,344,696)
Weighted Average Number of Equity Shares Outstanding during the year (C)	441,524,909	440,716,250
Nominal Value of Equity Shares (Rs.)	10/-	10/-
Basic and Diluted Earnings per Share Before Extraordinary items (Rs.) (A) / (C)	(2.46)	(0.35)
Basic and Diluted Earnings per Share after Extraordinary items (Rs.) (B) / (C)	(2.46)	(0.72)

22. **Details of prior period expenditure:**

PRIOR PERIOD EXPENDITURE	Year ended March 31, 2004	Year ended March 31, 2003
Staff Welfare Expenses	4,192	-
Advertisement expenses	23,940	-
Sales Commission and Incentive	787,910	-
Printing & Stationary	25,363	-
Consumables	36,887	-
Rent	77,712	-
Software Expenses	312,500	-
Legal and Professional Expenses	2,086,990	-
Travelling and Conveyance	18,528	-
Communication Expenses	250,492	-
Repairs and Maintenance	93,562	-
Access Charges	31,430	
Electricity and Water	265,306	-
Billing and Collection	38,251	-
Freight and Cartage	1,405,528	-
Miscellaneous Expenses	29,352	-
Depreciation	20,644,173	-
Adjustment of Capital Reserve wrongly accounted for in the previous year (Refer Note 9 above)	(2,780,905)	-
Adjustment on account of Premium on Debenture Redemption wrongly accounted for in previous year	(5,773,355)	-
Total	**17,577,856**	**-**

23. **Details of Government Securities**

	As at March 31, 2004		As at March 31, 2003	
	Face Value	Cost	Face Value	Cost
11.50% Maharashtra State Road Development Corpn. Bonds	-	-	15,000,000	15,025,000
13% Gujarat State Govt. Bonds	-	-	500,000	562,500
12% Tamil Nadu State Govt. Bonds	-	-	70,000	75,600
12% Andhra Pradesh State Govt. Bonds	-	-	110,000	118,250
13% Jammu & Kashmir State Govt. Bonds	-	-	700,000	742,000
13.50% Maharashtra State Govt. Bonds	-	-	509,000	554,810
12% Gujarat State Govt. Bonds	-	-	650,000	698,750
15% Sardar Sarovor Narmada Nigam Ltd. Bonds	-	-	6,500,000	6,743,750
13.50% Maharashtra State Electricity Board Bonds	-	-	100,000	100,250
12% Andhra Pradesh Power Finance Corpn. Bonds	-	-	10,000,000	10,000,000
TOTAL	**-**	**-**	**34,139,000**	**34,620,910**

24. Details of Application money paid - shares pending allotment

	As at March 31, 2004	As at March 31, 2003
Toplight Vinimay Private Limited	-	90,000,000
Yashodham Merchants Private Limited	-	50,000,000
Shankar Sales Promotion Private Limited	-	65,000,000
Vinsan Brothers Private Limited	-	25,000,000
Baldev Commercial Private Limited	-	40,000,000
Total	**-**	**270,000,000**

25. **Impact of Disposal of Dilution of Investment in Subsidiary:**

As indicated in Note 2 on Schedule 26, there was a dilution in the holding in the erstwhile subsidiary of the Company on September 30, 2003, ITI, upon which ITI became an associate of the Company. Consequently ITI has been consolidated upto the date it ceases to be a subsidiary, under AS 21, and thereafter has been accounted for by using the 'equity method' under AS 23.

ITI contributed revenues of Rs. 5,449,309 for the period April 1,2003 to September 30,2003 (previous year Rs. 24,690,364) and its net total assets and total liabilities at September 30,2003 were respectively Rs 773,520,551 (previous year Rs. 707,839,733) and Rs. 741,107,354 (previous year Rs. 720,883,311).

The following is the detail of Loss on Dilution of Investment in Subsidiary for the year

Particulars	Year Ended 31st March 2004 (Rs.)	Year Ended 31st March 2003 (Rs.)
Net Assets Value Before dilution of Investment in Subsidiary	40,112,745	-
Less:Net Assets Value After dilution of Investment in Subsidiary	28,052,614	-
Net Loss on Dilution of Investment in Subsidiary adjusted against Carrying Value of Investments (Refer Schedule 8)	**12,060,131**	-
Net Loss on Dilution of Investment in Subsidiary adjusted against Value of Goodwill	176,159	-
Net Loss on Dilution of Investment in Subsidiary	**12,236,290**	-

26. Previous year figures are reclassfied / rearranged, wherever necessary, to conform to the current year classification. Futher, the Hire purchase and Leasing business of the company subsequent to Amagamation of erstwhile HFCL Infotel Limited w.e.f. the appointed date of September 1, 2002 was transferred to ITI and as explaned in Note 2 on Schedule 26, ITI has ceased to be a subsidiary during the year and has since been accounted for as an associate. Hence the current year figures are not comparable with those of the previous year.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2004

PARTICULARS	FOR THE YEAR ENDED 31st MARCH 2004 (Rs.)
Cash Flow from Operating Activities	
A. Net Profit / (Loss) as per Profit and Loss Account	(1,085,100,953)
Adjustments for:	
Depreciation	797,683,501
Share in Profit of Associate	(8,445,549)
Prior Period Expense / (Income) (Net)	17,577,856
Excess Provision Written Back	(1,929,102)
Loss on Fixed Assets Sold / Discarded	15,273,433
Project Scrap Written off	10,203,114
Amortisation of Goodwill	154,140
Bad Debts Written Off	65,276,255
Provision for Doubtful Advances	2,000,933
Provision for Doubtful Debts	3,207,285
Finance Expenses	691,134,615
Interest Income	(3,667,034)
Profit on Sale of Investment	(487,590)
Wealth tax	56,800
Interest recd on tax refund	(369,959)
Interest paid on Income Tax	2,065,000
Provision for NPA (net)	450,000
Provision for diminution in value of investments	269,000
Lease equilisation charge	1,079,860
Dividend received	(1,746,122)
Rent Receipts	(404,958)
Loss on Dilution in Subsidiary	12,236,290
Operating Profit / (Loss) before Working Capital Changes	**516,516,815**
Adjustments for:	
Trade and Other Receivables	(15,041,319)
Trade and Other Payables	17,316,037
Cash Generated from Operations	**518,791,532**
Direct Taxes (Net)	4,213,122
Prior Period Expense / (Income) (Net)	(5,487,943)
Net Cash flow from Operating Activities (A)	**517,516,712**
B. Cash Flow from Investing Activities	
Purchase of Fixed Assets - Addition during the period	(377,675,546)
Sale of Fixed Assets	26,694,467
Net Sale / (Purchase) of investments	554,810
Investment in Fixed Deposits	(24,416,606)
Dividend received	1,746,122
Rent Receipts	404,958
Interest Received	7,653,215
Net Cash flow from Investing Activities (B)	**(365,038,580)**
C. Cash Flow from Financing Activities	
Proceeds from Equity Share Capital	37,308,140
Proceeds from Long Term Loans	14,414,710
Repayment of Bank Overdraft	(21,760,434)
Repayment of Public Deposits	(12,708,802)
Proceeds from Short Term Loans	(74,976,130)
Vehicle Loans Taken	2,284,098
Interest on Term Loans	(62,385,368)
Dividend Paid	(224,238)
Net Cash flow from Financing Activities (C)	**(118,048,024)**
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	**34,430,108**
Cash and Cash Equivalents at the beginning of the year (Opening Balance)	48,966,694

Adjustment for Dilution of investment in Subsidiary (Refer Note 5)	(40,337,784)
Cash and Cash Equivalents at the end of the year (Closing Balance)	43,059,018

Notes:

1. The cash flow statement has been prepared under the indirect method as set out in the Accounting Standard 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
2. Figures in brackets indicate cash outflow.
3. As indicated in Note 2 on Schedule 26, there was a dilution in the holding in the erstwhile subsidiary of the Company on September 30, 2003, ITI, upon which ITI became an associate of the Company. Consequently ITI has been consolidated upto the date it ceases to be a subsidiary, under AS 21, and thereafter has been accounted for by using the 'equity method' under AS 23.

   ITI contributed cash flow from operating activities of Rs. 6,988,231 , cash flow from investing activities of Rs.(19,411,053) and cash flow from financing activities of Rs.19,983,443. for the period April 1,2003 to September 30,2003.
4. The details of adjustment in cash and cash equivalents consequent to dilution of investment in subsidiary are as follows

Cash Flow from Operating Activities	
Adjustments for:	
Trade and Other Receivables	405,048,594
Trade and Other Payables	(13,476,298)
Direct Tax (net)	(1,196,674)
Net Cash flow from Operating Activities (A)	**390,375,622**
Cash Flow from Investing Activities	
Sale of Fixed Assets	14,085,503
Net Sale / (Purchase) of investments	(426,468,963)
Interest Received	1,670,054
Net Cash flow from Investing Activities (B)	**(410,713,406)**
Cash Flow from Financing Activities	
Proceeds from Equity Share Capital	(20,000,000)
Net Cash flow from Financing Activities (C)	**(20,000,000)**
Net Decrease in Cash and Cash Equivalents (A+B+C)	**(40,337,784)**

5. Cash & Cash Equivalents include :	**As at March 31, 2004**
Cash in Hand	725,711
Cheques in Hand	7,919,270
Balances with Scheduled Banks	
- In Current Account	31,090,097
- In Escrow Account	3,323,940
Total	**43,059,018**

Fixed Deposit of Rs. 42,865,101 (Previous Year Rs. 18,448,495) is not included under cash and cash equivalents since these receipts are pledged with the banks against issue of Guarantees and Letter of Credits and therefore are not readily convertible to cash.

6. The Consolidated financial statements were prepared for the first time during the previous year. Consequently consolidated figures for the financial year 2001-2002 were not presented by the Company as part of the previous year financials. In absence of consolidated figures for the financial year 2001-2002, previous year consolidated cash flow statements had not been prepared. Accordingly,comparitive figures for the previous year have not been presented above.

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

For CHATURVEDI & PARTNERS
Chartered Accountants

R.N.Chaturvedi
Partner

U. Rajeev
Partner
For and on behalf of
Price Waterhouse & Co.
Chartered Accountants

Surendra Lunia
Chief Operating Officer

For and on behalf of the Board

Pradeep Goel
Company Secretary

Mahendra Nahata
Director

M.P.Shukla
Director

Place : New Delhi
Date : June 19th, 2004

ATTENDANCE SLIP

HFCL INFOTEL LIMITED

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

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 57th Annual General Meeting of the Company held on Thursday, the 30th day of September, 2004 at 12.00 p.m. at B-71, Phase VII, Industrial Focal Point, Mohali, Punjab – 160 055

Signature of the Shareholder or Proxy ………………………………………………….

* Applicable for investors holding shares in electronic form.

……………………………………………………………………………………………………...

PROXY FORM

HFCL INFOTEL LIMITED

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

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 57th Annual General Meeting to be held on Thursday, the 30th day of September, 2004 at 12.00 p.m. at B-71, Phase VII, Industrial Focal Point, Mohali, Punjab – 160 055 or at any adjournments thereof.

Signed this ………. day of ………………. 2004

* Applicable for investors holding shares in electronic form.

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.