DRAFT OFFER FOR SALE DOCUMENT

CONNECT
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HFCL INFOTEL LIMITED

HFCL Infotel Limited, an unlisted company, (originally known as Essar Commvision Limited) incorporated on March 30, 1995 under the Companies Act, 1956 (the "**Act**") with the Registrar of Companies, Gujarat, at Ahmedabad (and whose registered office was subsequently shifted to the State of Punjab with effect from August 22, 2000) was merged with The Investment Trust of India Limited ("**ITI**"), a non-banking financial company, listed on the Mumbai, Calcutta and Madras Stock Exchanges and having its registered office in Chennai, under the provisions of sections 391-394 of the Act, w.e.f. September 1, 2002. The scheme of amalgamation (the "**Scheme**") was sanctioned by the Hon'ble High Court of Punjab & Haryana and the Hon'ble High Court of Madras, vide their orders dated March 6, 2003 and March 20, 2003, respectively. The name of The Investment Trust of India Limited was changed to HFCL Infotel Limited (the "**Company**"), w.e.f. May 12, 2003 and the registered office of the Company was shifted to the State of Punjab w.e.f. January 5, 2004. After the scheme of amalgamation came into effect, the non-banking financial business of ITI was transferred w.e.f. September 1, 2002, by way of a slump sale to its then wholly owned subsidiary, Rajam Finance and Investments Company (India) Limited (name changed to The Investment Trust of India Limited w.e.f. June 17, 2003).

REGISTERED OFFICE CUM HEAD OFFICE:

B-71, Industrial Focal Point, Phase VII, Mohali, Punjab - 160 055, India.
Tel.: +91 172 509 1276; Fax: +91 172 509 1275; Email: secretarial@hfclconnect.com
Website: www.hfclconnect.com; **Contact Person**: Mr Sanjeev Vashishta

(The registered office of the Company was shifted from "Kothari Buildings", 117 Uthamar Gandhi Salai, Nungambakkam, Chennai – 600 034 to "Mashkur Buildings", 1 Krishnama Road, Nungambakkam, Chennai – 600034 w.e.f. January 12, 2000. The registered office was shifted to the current address w.e.f. January 5, 2004 with the approval of the Company Law Board)

OFFER FOR SALE OF 80,00,000 EQUITY SHARES OF RS.10/- EACH FOR CASH AT A PRICE BAND OF Rs.14 - 16 EACH AGGREGATING TO Rs. 11.20 CRORE AT THE MINIMUM PRICE AND Rs. 12.80 CRORE AT THE MAXIMUM PRICE IN THE BAND (HEREINAFTER REFERRED TO AS THE 'OFFER'). (THE COMPANY SHALL DETERMINE THE FINAL PRICE BEFORE FILING THE OFFER FOR SALE DOCUMENT WITH ROC.) THE OFFER WOULD CONSTITUTE 1.52% OF THE FULLY DILUTED POST OFFER PAID UP CAPITAL OF THE COMPANY. THE FACE VALUE OF THE EQUITY SHARE IS RS.10/- EACH. THE ISSUE PRICE IS 1.4 TIMES OF THE FACE VALUE AT LOWER PRICE BAND AND 1.6 TIMES OF THE FACE VALUE AT THE HIGHER PRICE BAND.

GENERAL RISKS

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Offer unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Offer. For taking an investment decision, investors must rely on their own examination of the Company, the Selling Shareholder and the Offer including the risks involved. The securities have not been recommended or approved by Securities and Exchange Board of India ("**SEBI**") nor does SEBI guarantee the accuracy or adequacy of this document. The attention of the investors is drawn to the statement of Risk Factors appearing on page no. (viii) herewith of this Draft Offer Document.

THE SELLING SHAREHOLDER'S / COMPANY'S ABSOLUTE RESPONSIBILITY

The Selling Shareholder and the Company, having made all reasonable inquiries, accept responsibility for and confirm that this Offer Document contains all information with regard to the Company and the Offer which is material in the context of the Offer, that the information contained in this Offer Document is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Offer Document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

BOOK RUNNING LEAD MANAGERS TO THE OFFER

KJMC Global Market (India) Limited
168, Atlanta, 16th Floor, Nariman Point,
Mumbai 400021, India
Tel No.: +91 022 2288 5201;
Fax No.: +91 022 2285 2802
Email: mbd@kjmc.com
SEBI Registration No.: INM000002509

Global Trustcapital Finance Pvt. Ltd.
Ground Floor, Sethna Building, 55 M.K. Road,
Marine Lines,Mumbai 400002, India
Tel: +91 022 2206 0006;
Fax: +91 022 2206 5820
Email: sameerkakar@trustcap.com
SEBI Registration No: INM000010783

REGISTRAR TO THE OFFER

Karvy Computershare Private Limited
"Karvy House", 46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad – 500 034,
Andhra Pradesh, India Tel: +91 40 23320251 / 23312454;
Fax: +91 40 23431551
E-mail : mailmanager@karvy.com
SEBI Registration No.: INR/00000022

ISSUE PROGRAMME

ISSUE OPENS ON: **ISSUE CLOSES ON:**

LISTING

1. The post-merger paid up, subscribed and issued equity share capital of the Company consists of 52,55,17,152 equity shares of Rs. 10/- each. Out of this, 1,04,46,814 equity shares i.e., pre-merger 87,16,000 equity shares and 17,30,814 equity shares allotted pursuant to conversion of warrants issued to the shareholders of ITI as per the Scheme of Amalgamation, are listed on the BSE and the MSE. The Board of Directors of the Company has, in their meeting held on July 26, 2004, recommended delisting of shares from the CSE, to the shareholders. All the formalities with regard to delisting the shares from CSE have been completed, though the CSE has not formally delisted the shares as yet.
2. 43,20,00,250 equity shares allotted to the shareholders of erstwhile HFCL Infotel Limited pursuant to the Scheme and 8,30,70,088 equity shares allotted to the Lenders (IDBI, OBC, ING Vysya) on October 16, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring mechanism, are yet to be listed on BSE and MSE.
3. BSE has vide its letter no. List/smg/km/2003 dated August 11, 2003 advised the Company that the listing of 43,20,00,250 equity shares issued pursuant to the merger would be considered after the Company undertakes an "Offer for Sale" to raise the shareholding of non-promoters to the minimum level required as per the SEBI (DIP) Guidelines, which would also ensure complete disclosure of information after the merger of the Company. Accordingly, the Company filed the Draft Offer for Sale Document with SEBI in December 2003 for divestment of 5,13,00,000 equity shares of the Company held by the promoter. However pursuant to the fresh allotment of 8,30,70,088 equity shares to the Company's lenders and exercise of transfer option by Bank of Punjab for 3,00,00,000 shares pledged with BoP, the non promoter holding of the Company had gone up. Accordingly, the Company approached BSE for listing of above shares without an Offer for Sale being made. However, BSE vide its letter no. DCS\SMG\RCG\2004\511116 dated November 11, 2004 reiterated its earlier direction. The Company, thereafter, through its Lead Manager, vide their letter no. KISL/MBD/HFCL/04-05 dated November 25, 2004, withdrew the Draft Offer document owing to the change in the capital structure of the Compay and filed an Appeal against the decision of the BSE in Hon'ble SAT. The appeal was finally disposed off with the mutual consent of BSE and HFCL Infotel, wherein the Hon'ble SAT advised the BSE to take up the matter in their Listing Committee. Based on the directions of the Listing Committee, BSE, vide its letter Ref No. DCS/SMG/RCG/2005/511116 dated November 2, 2005 agreed for listing of HFCL Infotel's shares subject to certain conditions, which includes promoter to divest atleast 1.33% of the paid up share capital to the Indian public by April 5, 2006 by way of an offer for sale or the Company to undertake public offer in the domestic market to raise the non promoter holding to 25%. Therefore, this offer for sale is being made as per the direction of Hon'ble SAT / BSE.
4. All the equity shares mentioned at (2) above will be listed on BSE and MSE on completion of the Offer.

Name of the Stock Exchange	Letter No. & Date
Bombay Stock Exchange Limited, Mumbai (BSE / Designated Stock Exchange)	
The Madras Stock Exchange Ltd (MSE)	

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I. DEFINITIONS / ABBREVIATIONS

General Terms:	
Act	The Companies Act, 1956
BSE/ Designated Stock Exchange	Bombay Stock Exchange Limited, Mumbai
CAGR	Compounded Annual Growth Rate
CSE	The Calcutta Stock Exchange Association Limited
CDSL	Central Depository Service (India) Limited
EBITDA	Earning Before Interest, Tax, Depreciation and Amortization
EPS	Earnings Per Share
FII	Foreign Institutional Investors
Guidelines	Securities & Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 and all amendments thereto
IRR	Internal Rate of Return
MOU	Memorandum of Understanding
MSE	Madras Stock Exchange
NAV	Net Asset Value
NRI	Non Resident Indian
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
OCB	Overseas Corporate Bodies
OFCDs	Optionally Fully Convertible Debentures
P/E	Price / Earning
ROC	Registrar of Companies, Punjab, Himachal Pradesh and Chandigarh at Jalandhar
RONW	Return on Net Worth
SEBI	Securities & Exchange Board of India
SEBI (SAST) Regulations, 1997	Securities & Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997

Issue Related Terms	
Draft Offer Document/ Offer Document/ Offer for sale/ OFS	This Offer for Sale Document
KJMC	KJMC Global Market (India) Limited
Offer	Offer for Sale by HFCL through this Draft Offer Document to the extent of 80,00,000 equity shares of Rs.10/- each at a price band of Rs.14- 16/- each.
Registrar/ KCL	Registrars to the Offer viz., Karvy Computershare Private Limited
Selling Shareholder/ Promoter/ HFCL	Himachal Futuristic Communications Limited

Company / Industry related terms	
ADC	Access Deficit Charge
ADPCM	Adaptive Digital Pulse Code Modulation
ADSL	Asymetric Digital Subscriber Line
AGR	Adjusted Gross Revenue
ARPU	Average Revenue Per User
Articles	Memorandum & Articles of Association of the Company
AS	Accounting Standard
AUSPI	Association of Unified Telecom Service Providers of India
BoD	The Board of Directors of HFCL Infotel Ltd
BRI	Basic Rate Interface
BSNL	Bharat Sanchar Nigam Limited
CAS	Conditional Access System
CATV	Cable TV
CBO	Connect Broadband Operator
CBoP	Centurion Bank of Punjab Limited

CBS	Compact Base Station
CBSL	Connect Broadband Services Limited
CDMA	Code Division Multiple Access
CDR	Corporate Debt Restructuring 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
CEGAT	Custom Excise and Gold Control (Appellate) Tribunal
CEO	Chief Executive Officer
CFSL	Consolidated Futuristic Communications Limited
CIRR	Commercial Interest Reference Rate
CIT (A)	Commissioner of Income Tax (Appeal)
CMTS	Cable Modem Termination System
CorDECT	Is a variant of European Digital European Cordless Telephony
CPE	Customer Premise Equipment
CRPS	Cumulative Redeemable Preference Share
CS	Company Secretary
CTO	Cable TV Operator / Chief Technical Officer
DCA	Department of Company Affairs
DIU	DECT interface Unit
DLC	Digital Loop Carriers
DoT	Department of Telecommunications in the Ministry of Communications & Information Technology
DSL	Digital Subscriber Line
DTH	Direct-to-Home
E&D	Enhanced & Data Services
EDFA	Erbium Doped Fibre Amplifiers
EIL	Essar Investment Limited
EPABX	Electronic Private Automatic Branch Exchange
ERP	Enterprises Resource Planning
F&A	Finance & Accounts
FCCB	Foreign Convertible Currency Bond
FWP	Fixed Wireless Phone
GDR	Global Depository Receipts
GOI	Government of India
GSM	Global Standard for Mobile Communication
HBIL	HFCL Bezeq Telecom Limited
HDIL	HFCL Dacom Infocheck Limited
HECL	Himachal Exicom Communications Limited
HFC	Hybrid Fibre Co-axial
HFCL	Himachal Futuristic Communications Limited
HISL	HFCL Internet Services Ltd.
HITS	Headend-in-the-sky
HKTL	HFCL Kongsung Telecom Limited
HP	Himachal Pradesh
HSCL	HFCL Satellite Communications Limited
HTL	HTL Limited
HUF	Hindu Undivided Family
ICAI	Institute of Chartered Accountants of India
ICE	Information, Communication and Entertainment
IDBI	Industrial Development Bank of India
IFSL	ITI Financial Services Limited
ILDO	International Long Distance Operator

IN	Intelligent Network
ING Vysya / ING / IVBL	ING Vysya Bank Ltd
IOC	Independent Cable Operator
ISD	International Trunk Dialing
ISDN	Integrated Switch Data Network
ISP	Internet Service Provider
IT	Information Technologies
IT & OSS	Information Technology & Operation Support System
IT Act	Income Tax Act
ITAT	Income Tax Appellate Tribunal
ITeS	IT enables Services
ITFSL	ITI Financial Services Limited
ITIL / ITI	The Investment Trust of India Limited
IUC	Interconnect Usage Charge
J&K	Jammu and Kashmir
LAN	Local Area Network
LCO	Local Cable Operator
LDCA	Long Distance Charging Area
LICI /LIC	Life Insurance Corporation of India
LM	Lead Manager
MAT	Minimum Alternate Tax
MCL	Microwave Communications Limited
MNC	Multinational Company
MQAM	Multi Quasi Amplitude Modulation
MRA	Master Restructuring Agreement
MSO	Multi System Operator
MSU	Main Switching Unit
MTNL	Mahanagar Telephone Nigam Limited
NBFC	Non Banking Finance Company
NLDO	National Long Distance Operator
NMS	Network Management System
NTP’94	National Telecom Policy. 1994
NTP’99	National Telecom Policy. 1999
OBC/ Global Trust Bank Limited/ GTBL	Oriental Bank of Commerce
PABX	Private Automatic Branch Exchange
PAN	Permanent Account Number
PC	Personal Computer
PCO	Public Call Office
PEL	Platinum Edu Limited
PIAL	Pioneer ITI AMC Limited
PNB	Punjab National Bank
PoP	Point of Presence
PPV	Pay Per View
PRI	Primary Rate Interface
PSIPL	Pagepoint Service (India) Private Limited
PSTN	Public Switch Telephone Network
PSU	Public Sector Undertaking
PTD	Principal Term Debt
PTD	Principal Term Debt
R&D	Research & Development
RBI	Reserve Bank of India

RFL	Rajam Finance and Investments Company (India) Ltd.
SACFA	Standing Advisory Committee Frequency Allocation
SAN	Storage Area Network
SBoP	State Bank of Patiala
Scheme	Scheme of amalgamation of The Investment Trust of India Limited with the erstwhile HFCL Infotel Limited
SDCA	Short Distance Charging Area
SDH	Synchronous Digital Hierarchy
SME	Small and Medium Enterprises
SSA	Secondary Switching Area
STD	Subscriber Trunk Dialing
TDMA	Time Division Multiple Access
TDSAT	Telecom Dispute Settlement Appellate Tribunal
The Company/ HITL/ Infotel	HFCL Infotel Limited (formerly known as The Investment Trust of India Limited)
TRA	Trust and Retention Account
TRAI	Telecom Regulatory Authority of India
Triple Play Service	Voice, Video (Cable TV) and Data (Internet)
Trustcap	Global Trustcapital Finance Private Limited
TTL	Tata Tele-services Limited
UASL	Unified Access Services Licence
UIN	Unique Identification Number
USD	US Dollar
UTI	Unit Trust of India
VOD	Video on Demand
VOIP	Voice Over IP
VPN	Virtual Private Network
VSNL	Videsh Sanchar Nigam Limited
WAN	Wise Area Network
Wi Fi	Wireless Fidelity
WLL (M)	Wireless In Local Loop (Mobile)
WLN	Wireline
WPC	Wireless Planning Commission
WPPL	WPPL Ltd.
WS	Wall Set
WWL	Westel Wireless Limited

II. RISK FACTORS

1. Forward-Looking Statements & Market Data

Statements included in this Draft Offer Document which contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward-looking statements”.

Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with the Company’s expectations with respect to, but not limited to, the Company’s ability to successfully implement its strategy, its growth and expansion, technological changes, its exposure to market risks, general economic and political conditions in India which have an impact on its business activities or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic and foreign laws, regulations and taxes and changes in competition in the industry.

For further discussion of factors that could cause the Company’s actual results to differ, see the section entitled “Risk Factors” beginning on page no. (viii) of this Draft Offer Document. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. In accordance with SEBI requirements, the Company will ensure that investors are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

Market data used throughout this Draft Offer Document was obtained from internal company reports, data and industry publications. Industry publications database generally state that the information contained in those publications has been obtained from sources believed to be reliable, but that their accuracy and completeness and underlying assumptions are not guaranteed and their reliability cannot be assured. Although, the Company believes that the market data used in this Draft Offer Document is reliable, it has not been independently verified. Similarly, internal Company reports and data, while believed to be reliable, have not been verified by any independent source.

2. Risks Envisaged and Management Proposals to Address the Risks

An investment in equity shares involves a degree of risk. Investors should consider carefully the following risk factors, together with the other information contained in this Draft Offer Document, before they decide to invest in the Company's equity shares. If any of the following risks actually occur, the Company's business, financial condition and results of operations could suffer, the trading price of the Company's equity shares could decline and investors may lose all or part of their investment. As the Non Banking Financing business of the Company has been hived-off after the effectiveness of the Scheme, the following risk factors have been identified only in respect to the telecommunication services business of the Company.

A. Internal to the Company

(a) Past and future losses

The Company’s business is an infrastructure business with high capital intensity. By its very nature, 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. Though the Company has been generating net losses in the telecommunications business from the beginning, it has started earning cash profits from the first quarter of the financial year i.e. 2004-2005. The profitability of the Company is expected to improve further in the future.

(b) Need for additional financing and inability to achieve financial closure

The Company has made substantial investments in laying the network infrastructure and launch of services. In order to attract new customers, to cater to the increased demand and to offer new/ better services, the Company will need to continually make further investment in the expansion/ upgradation of its network. The Company’s success will depend, among other things, on its ability to timely secure significant additional amounts of external financial resources to fund its capital expenditure plans and to meet future requirements of working capital, debt service and cash flow deficits. 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.

Post migration to Unified Access Services License Regime, the consortium of lenders led by Industrial Development Bank of India ("**IDBI**") approved, through the Corp orate Debt Restructuring ("**CDR**") mechanism, the change in scope of the project. Consequently, peak funding requirement was revised upwards from Rs.1180 Crore as appraised by IDBI in March 2000 to Rs.1347 Crore. Further, the CDR Cell, in June 2005, approved the Company's plans to launch Triple Play Services and expand its services into the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir. Thus, the consolidated project cost of Rs.1547 Crore till the peak funding requirement in FY 2006-07 has been approved. Against the revised peak fund requirement, the Company has a funding gap of Rs. 206 Crore, net of estimated internal generations. The Company proposes to bridge the gap by way of fresh loans/ quasi equity/equity. As per the medium-Long term strategy of the Company, the Companiy also propose to launch Triple Play services Pan India followed by North India Region.

There can be no assurance that the Company will be able to raise additional financing on satisfactory terms or at all. In the event that the Company is unable to obtain additional financing on acceptable terms or insufficient amounts, the Company will be required to delay the implementation of its business plan, which could have a material adverse effect on the Company's business, operating results and financial conditions.

(c) Inability to meet debt service obligations

The Company's ability to meet its debt obligations will largely depend on cash flow from operations. As the Company's operating cash flows were not adequate to meet the debt servicing obligations, the Company had approached its term lenders for reschedulement of its debt servicing obligations, reduction of interest rate, and mandatory conversion of some Optionally Fully Convertible Debentures ("**OFCDs**"). The Company's proposal has been approved by the consortium of lenders led by IDBI through the CDR mechanism.

Even though the interest and debt servicing obligations have been reduced to below the level of internal generation, the Company cannot assure that its operating cash flow in the medium-long term will be adequate to satisfy its debt servicing obligations.

(d) Limitations imposed by restrictive covenants in financing agreements and the encumbrances on the assets of the Company to secure credit facilities granted by the lenders

The agreements entered by the Company to avail financing from Financial Institutions and Banks stipulate a number of restrictive covenants, which might affect the conduct of the business in terms of limiting the Company's flexibility in carrying out expansion plan in the interest of the stakeholders.

All the movable and immovable assets of the Company have been hypothecated/ mortgaged to secure credit facilities from its lenders. Further, a significant portion of the shares of the Company held by the Promoters has been pledged in favor of the lenders. If the Company defaults on repayment of debt, its lenders could enforce their security interests on the Company's assets, limiting the Company's ability to carry out its operations, including implementation of the Project and could have a material adverse effect on the Company. Further, as per the restructuring package approved by the lenders, it has been stipulated that term lenders would have an option to convert upto 20% of their loan amount into equity at par, subject to applicable provisions of SEBI Guidelines, on or after April 1, 2010. In addition, any default under the Company's credit facilities in future could limit the Company's ability to raise additional funds in the future.

(e) Failure to manage subscriber growth, network rollout etc.

As an important element of the Company's business plans which includes plans to launch Triple Play and expand its services in neighbouring states viz., Haryana, H.P. and J&K, the Company intends to grow its subscriber base of voice and data services. The Company's success will depend, among other things, on its ability to expand its network in anticipation of expected demand, assess potential markets, provide prompt services to the customers, provide wide portfolio of services to meet the specific and entire needs of customers, provide good grade of service to customers, implement efficient operations support systems and other back office systems such as the Company's billing system, provide services as per customer preferences, monitor operations, control costs, maintain sufficient operational and financial controls, etc.

The Company cannot assure that it will be able to successfully manage future growth or that it will be able to successfully sell its comprehensive range of services. Its inability to manage its growth effectively could have a material adverse effect on the quality of its services and its ability to attract and retain key personnel, and consequently, on its business, operating results and financial conditions.

(f) Failure to receive regulatory/ government approvals

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. Further, the Company would require licence from DOT for the new states it plans to expand into. 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.

(g) Dependence on license and failure to comply with its terms

Failure to meet the Roll-Out Obligations and other general obligations can potentially lead to imposition of penalties, and/ or invocation of the performance bank guarantee provided and/ or termination of the license, which might cause financial and business loss to the Company and have material adverse effect on its business and operations.

(h) Dependence on interconnection with competitors' networks and gateways

Like any other telecom service provider, the Company is dependent on interconnection with other access service operators, National Long Distance Operators ("**NLDO**") and International Long Distance Operators ("**ILDO**") for ensuring complete call delivery services to its customers. Though the Company has interconnect arrangements with other operators to ensure delivery of all calls made by its customers, it has to continually increase the number of such interconnections based on the growth of its customer base and increase in the volume of call traffic.

(i) 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. The Company believes that its success will depend, to a large extent, on its continued ability to attract and retain skilled and quality personnel. There can be no assurance that the Company will be able to obtain or retain the services of personnel necessary for its operations and growth.

(j) Contingent Liabilities and Outstanding litigations filed against/by the Company

Contingent Liabilities as on June 30, 2005:

- Counter Guarantees to HFCL against the HFCL's Corporate Guarantees to the Company's Lenders – Rs. 522.50 Crore.
- Income Tax matters under appeal - Rs. 7.20 Crore,
- Claims against the Company not acknowledged as debt - Rs. 0.39 Crore,
- Guarantees given to suppliers and government agencies - Rs.17.33 Crore.
- Contract remaining to be executed on Capital Account - Rs.19.98 Crore.
- Lease tax matter under appeal – Rs.13.64 Crore.

Outstanding litigations filed against/by the Company

I. Litigation filed against the Company (updated upto November 30, 2005)

There are 23 Consumer Disputes Cases pending against the Company in State Consumer Disputes Redressal Forum and District Consumer Disputes Redressal Forum for an aggregate claimed amount of about Rs. 13,35,910/- and most of the cases are for deficiency in services provided by the Company related to incorrect or inflated bills, wrongful disconnection, connection not installed in time and non refund of security deposit etc.

There are 5 civil suits filed and the liability in 2 of these cases is not quantifiable. The total amount claimed in the rest of the three cases where the liability of the company is quantifiable is Rs.27,18,165/-.

1. One M/s Top Gear Marketeer (P) Ltd. has filed a suit for recovery of Rs.16,68,165/- on account of six month salary of its personnel employed by the company without obtaining its prior approval despite the termination of the contract between it and the company. The company has filed an application under Section 89 read with Section 151 of CPC for invoking the Arbitration Clause in the agreement relied upon by the plaintiff. The case is adjourned for January 16, 2006.

2. One suit for permanent injunction and one for temporary injunction was filed before the Civil Judge Sunam, Distt Sangrur by Mr. Radhey Sham and others restraining the company to install or further increase the height of the CDMA tower near their houses. The temporary injunction suit became infructuous and hence dismissed on December 23, 2004. In the suit for permanent injunction the same has been adjourned for January 24, 2005.

3. A claim has been filed by Ms. Jaswinder Kaur, wife of one Mr. Ravinder Singh who died after falling into a pit that had been dug by the Company for laying the cables before the District Court Ropar. The case has been filed against the Chairman of TRAI, Incharge-Telecommunication Authority, Mohali, Collector Ropar and the Company, jointly and severally for an amount of Rs. 10,00,000/-. On November 17, 2005, HFCL filed its reply. The matter is subjudice before the Court.

4. M/s K. S. Industries, a partnership firm, has filed a suit before the Civil Court, Ludhiana, seeking rectification of lease deed and seeking mandatory injunction directing the Company to remove the encroachment made in the leased premises and to restore the position as agreed in accordance with terms of lease deed executed between the Company and M/s. K.S. Industries. No pecuniary relief has been claimed against the Company. The next date of hearing is fixed for February 14, 2006.

5. Mr. Sham Sunder applied for telephone connection and the company failed to provide it. The company failed to refund the security amount as well. The complainant claims of installation of telephone connection, and Rs.50,000 as damages. The next date fixed for this case is January 10, 2006.

II. Litigation filed by the Company (updated upto November 30, 2005)

1. The Company has filed 38 recovery suits involving an amount of Rs. 17,62,425/-.

2. A system of Arbitration Proceedings for recovery of outstanding dues has been initated by the Company, whereby the dispute in various agreements is referred to a single arbitrator appointed by the Company. The total amount claimed by the Company is Rs. 1,14,22,034.

3. The Company has filed certain matters before the Lok Adalat at Chandigarh and Patiala for recovery of dues outstanding from subscribers. The total amount claimed by the Company is Rs. 7,87,416/- in 123 cases at Chandigarh and Rs 3,46,606/- in 33 cases at Patiala.

4. The Company has filed 762 cases under section 138 of the Negotiable Instruments Act, 1881 against its subscribers, in various courts in State of Punjab and Union Territory of Chandigarh, claiming a total amount of Rs. 41,25,662/-, all relating to non-payment of dues.

5. The company has filed a Winding up petition against M/s Punjab Wools Combers Ltd. for non payments of the dues to the amount of Rs. 1,49,149/-. Since the respondent is under BIFR proceedings, the High Court has put the matter in abeyance till the outcome of the proceeding in BIFR.

6. The Company has also filed a winding up petition against Arihant Cotsyn Ltd. in order to recover the dues to the extent of Rs.95,536/-. Respondent company has gone into liquidation. The matter is before the official Liquidator.

7. The Company has also filed a winding up petition before the Hon'ble High Court of Punjab & Haryana against M/s Ojas Customers Services (P) Ltd. for the recovery of Rs. 6,27,863/- alongwith interest @ 18% p.a., till the realization of the amount. The matter has been listed for admission.

8. The Company had filed a petition No. 372 of 2004 titled "HFCL Infotel Ltd. Vs M/s Essar Investments Limited" before the Hon'ble High Court at Mumbai, under Section 434 of the Companies Act 1956 for recovery of Rs.13.14 crores from M/s Essar Investments Limited as the it had failed to pay certain liabilities agreed in a Principal Agreement signed between the parties. The aforesaid petition came up for hearing and the Hon'ble High Court vide its order dated 24.03.2005 dismissed the said petition on the grounds that the primary issue arising out of the petition was the interpretation of the terms and conditions of the Principal Agreement and as such there is no acknowledged debt/liability by the respondent Company. The Company there after initiated two-fold strategy in this case:-

   a. Firstly it has invoked the Arbitration clause as envisaged under Cl.20 of the Principal Agreement and
   b. Secondly, it has also filed an appeal before the Division bench of the Hon'ble Mumbai High Court.

   The Company has been informed that Honb'le High Court vide its Order dated 21st November 2005 disposed off the appeal with remarks that no case is made for interference in the impugned order. However the High Court agreed to the contention of both the parties to refer the dispute regarding the claim of the Appellant (HITL) to the Sole Arbitration of Justice D.R.Dhanuka.It also took on record and accepted the statement made by counsel for Respondent Company (EIL) acknowledging that the sum of Rs.14.10 crores is an 'assigned liability'. The Company is initiating the Arbitration proceedings as directed by the Honb'le Mumbai High Court.

9. The Company has also filed an injunction suit against the Municipal Corporation, Sunam and others before the Civil Judge Jr. Div. Sunam, restraining the defendants to de-install the already installed towers of the company on the roof tops of the residents in Sunam, Company has already obtained the stay against the respondents. The suit challenges the levy of Rs 15000/- for the towers by the Municipal Council.

10. The Company has brought a criminal action for an accident involving one of its employees (State V/s Harpreet Kaur). Challan was presented on May 26, 2005 before the Court of Ms. Poonam Ratti JMIC. The vehicle has been released by the court on superdari.

III. Regulatory Matters

The Company is also a party to the following regulatory matters all pending before the Telecom Dispute Settlement Appellate Tribunal ("TDSAT"):

The AUSPI has challenged the definition of 'adjusted gross revenue' in terms of which a telecom service operator is required to share the revenue on the adjusted gross income of the company and not just that of its telecom business. Presently, the Company is paying the license fees under protest, stating that the only income generated from the License should be considered for the impact of License Fees. The Company may be entitled to a refund if the case goes in its favor. The matter is being adjudicated by the TDSAT.

The AUSPI has filed an Appeal against the discriminatory treatment between BSNL and other operators in respect of mechanism for ADC distribution under the revised IUC regulations implemented from February 1, 2005. No additional financial liability would result from this, if the case is lost.

BSNL has levied a unilateral charge of Rs.15000 per annual for interconnection facility. There will be an additional outflow for the Company of around Rs. 20 lacs per annum on account of this.

BSNL reduced the customer tariff for intra-circle 50-200 km calls, but did not extend the benefit to calls made to customers of other operators. AUSPI has sought refund of access charges paid following non-extension by BSNL of the benefit of reduced customer tariff. TDSAT appointed a Commissioner to assess/ review/ decide the claims. The Company filed claims of Rs 1.27 crore on BSNL. BSNL objected to claim calculation basis in TDSAT and also filed a appeal in Supreme Court. Meanwhile, the TDSAT appointed Commissioner resigned. TDSAT has decided to wait for Supreme Court case before deciding on the claims.

The AUSPI has brought the action for Refund of Port Charges paid by them under protest as per TDSAT's order. The various petitions filed by AUSPI & BSNL regarding the Access Charges and Port Charges regime during the period May 01, 1999 to mid Dec 2001, have been settled favorably by the TDSAT. All demands based on these letters have since been set aside by TDSAT.

Overdue Interest/Principal as on December 15, 2005

The overdue interest as on December 15, 2005, stands at Rs. 1.96 Crore towards the term lenders of the Company. None of the lenders have issued any recall notice.

(k) <u>Inquiry by SEBI & DCA against HFCL Group including the Company</u>

A Joint Parliamentary Committee ("JPC") constituted in the year 2001 to enquire into the irregularities and manipulations in the transactions relating to the Stock Scam 2001 and to fix the responsibilities of the persons, institutions, and authorities in respect of such transactions submitted its report in December 2002, stating its findings and observations. In the follow up of the report, SEBI and Department of Company Affairs ("DCA") initiated enquiry against those companies whose scrips showed very wide fluctuations in the stock market during the relevant period. Amongst such companies, HFCL's name was also included. HFCL received summons dated July 19, 2001 from SEBI requiring HFCL to submit information and documents in respect of certain transactions undertaken by HFCL, which were complied with. Thereafter, the Promoters/Associates of HFCL received show cause notice under Section 11(4)(b) of SEBI Act 1992 read with Regulation 11 of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Markets) Regulations, 2003 from SEBI in August/ September, 2004, alleging that some entities related to Ketan Parekh have taken the funds from HFCL Group and utilized the same to meet settlement obligations of broking entities controlled and managed by KP, to make payments to various stock brokers with whom KP entities maintained client accounts and to make payments to bank.

In the replies filed by HFCL Group in June, 2005, HFCL Group has categorically denied all charges and explained that funds were passed to certain Ketan Parekh's entities in order to acquire shares in Companies engaged in media and 'new economy' business. Since the amount was advanced for making certain specific investments, delivery was completed in respect of investments amounting to Rs 165 Crore. HFCL has filed recovery suit for the balance amount of Rs. 283.30 Crore in respect of which delivery could not be completed and the same is pending adjudication.

Notices no. IVD/ID2/HFCL/ 19147/2004 dated August 30, 2004 and IVD/ID2/HFCL/ 20918/2004 dated September 17, 2004, addressed to HFCL Infotel Limited and some of it's Directors were also sent by SEBI, repeating the charges as alleged against the HFCL group and mentioned in the para supra. In it's consolidated reply, on behalf of the Company and the directors, the company has clarified that Company had only one transaction with M/s Goldfish Computers Limited (stated to be one of the KP entities), wherein the Company placed Rs 65 crore with them for the purpose of making strategic acquisitions in the ICE Sector Companies in line with the business focus of the Company. The said entity had presented to the Company with emerging opportunities to invest in the ICE sector. However, Goldfish was unable to provide any fruitful lead and thus the Company got back it's money along with the market driven interest within a span of just 20 days.

Neither SEBI nor DCA has passed any adverse order against HFCL and HFCL Infotel Ltd. in this matter. Any adverse ruling by SEBI or DCA in future may have an adverse impact on the trading price of the Company's Equity Shares and could limit the Company's ability to raise additional funds in the future.

(l) <u>Contingent Liabilities, Outstanding litigation against, defaults and statutory dues by the Promoter Company i.e. HFCL</u>

<u>*Contingent Liabilities not provided for as on March 31, 2005*</u>

- Unexpired Letters of Credit (margin money paid Rs. 7.95 Crore) - Rs. 147.14 Crore
- Guarantees given by banks on behalf of HFCL (margin money kept by way of fixed deposits Rs. 13.39 Crore) - Rs. 93.05 Crore.
- Counter Guarantees given by HFCL to the Financial Institutions/Banks for providing guarantees on behalf of companies promoted by HFCL (margin money kept by the banks by way of fixed deposits Rs. 1.17 Crore) - Rs. 668.43 Crore*
  ** This excludes HFCL's counter guarantees of Rs.56.70 Crore in respect of guarantees provided by the banks and institutions on behalf of HFCL Bezeq Telecom Ltd. for bid bonds to Department*

of Telecommunications (DoT) towards tender for operation of basic telephone services as the guarantees have already expired and the Hon'ble Delhi High Court vide its order dated September 19, 1997 granted permanent injunction restraining the DoT from invoking the said guarantees. The appeal filed by DoT against this also stands dismissed. The DoT has filed application for restoration of appeal before the Double Bench of the Hon'ble High Court of Delhi which is yet to be allowed.

- Arrears of Dividend on Cumulative Redeemable Preference Shares (net of advances) – Rs 38.69 Crore
- Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) – Rs 2.83 Crore
- Claims against the Company towards sales tax, income tax and others in dispute not acknowledged as debt – Rs 1.87 Crore.

Outstanding Litigation (against and for) as on November 30, 2005

- 4 civil suits filed and pending against HFCL for an aggregate claimed amount of Rs.60.73 Crore.
- 3 Labor related cases filed before the Labour Court by ex-employees of HFCL, challenging their termination and praying for reinstatement with back wages. 1 labor related case, where HFCL is a party, filed before the labout Court by ex-employee of CFSL due to the non-payment of full and final dues from CFSL.
- In 1 case the Income Tax Dapartment has disputed the allowance given by CIT (A) in respect of purchase of Software as revenue expenditure and also for allowance u/s 80 HHE regarding export sale. Department has gone into appeal before Hon'ble ITAT, Delhi against the order of CIT(A). Appeals proceedings are going on before ITAT. If the case goes against HFCL, the tax liability Rs. 1,49,87,451/-, plus interest
- In 1 case the Income Tax Department disputed the allowance given by ITAT in respect of interest and upfront fee on capital borrowed; A.Y. 1996-97 Rs. 4,09,23,695/- and 1,13,88,596/- and A.Y. 1997-98 Rs. 15,23,11,501/- and Rs. 52,50,000/- respectively. Department has gone into appeal before Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. In the light of various judgments given by Supreme Court in this regard, there is unlikely to be any liability. Yet, ff case goes against HFCL, the tax liability will be Rs. 4,38,42,048/-plus interest.
- In 1 case Income Tax Department has disputed the decision of CIT (A) not to charge interest u/s 234B and 234 C in respect of income under MAT beyond the tax liability calculated as per normal provisions. Department has gone into appeal before Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. Income Tax Liability may arise for Rs. 24,10,722/- plus interest, in case the decision goes against HFCL.
- In 1 case demand of Rs. 2,37,43,000/-raised by the Income Tax Department against the exempted sales treating the same as first point taxable items. Stay was granted by the Hon'ble High Court against deposit of Rs. 50 Lacs.
- 8 regulatory cases relating the encashing the Bank Guarantee has been filed by HFCL.
- In 1 regulatory case, HFCL has filed claim on DoT for Rs. 56.49 crores plus interest for non payment of claim on account of post closing adjustments on account of acquisition of 74% stake of HTL Limited, which DoT has disputed.
- In 2 Civil cases, HFCL has filed suits to recover Rs. 322.04 Crore.
- In 2 cases, HFCL has filed suit against Joint Commissioner (Appeal) for wrong assessment of sales tax and capital goods.
- In 2 cases, HFCL has filed suit against CIT. HFCL has treated interest on margin money as derived from industrial undertaking and deduction under section 80HH & 80I of the Income Tax, 1961. But on Department's appeal ITAT had decided it against HFCL. The Company has already paid the tax as per demand and if the case is decided in favour of the Company there will be refund only.

Overdue Interest/Principal as on March 31, 2005

As on March 31, 2005, there is no overdue interest/principal, as HFCL's debts were restructured under the CDR mechanism vide their letter dated April 6, 2004 with a cut off date of the scheme being October 1, 2003.

(m) Contingent Liabilities, Outstanding litigation against, defaults and statutory dues by the Group Companies

HTL Ltd (HTL)

Contingent Liabilities not provided for as on March 31, 2005

- Unredeemed Bank Guarantees– Rs. 0.27 Crore,
- Sales Tax demands being disputed by HTL – Rs. 0.89 Crore,
- Liability for interest on late deposit of sales tax dues – Rs. 4.16 Crore,
- Income Tax demand being disputed by HTL – 0.37
- Show Cause / Demand Notice received form Excise, being disputed by HTL – Rs 1.46 Crore.

Outstanding Litigation (against and for) as on September 30, 2005

By the Company

Sales Tax: In aggregate 9 appeals are pending before the Appellate Tribunal & Madras High Court, aggregating to Rs.41.15 Crores, 1 appeals are pending before the Appellate Tribunal (aggregating to Rs. 0.76 Crores and 1 appeals are pending before Dy. Commissioner Appeal and Appellate Tribunal totaling to Rs. 0.77 Crores.

Civil Cases: 2 cases have been filed by the HTL claiming refund of advance payment made to the defendant Company under liquidation, Proof of debt filed Rs. 0.03 Crores.

Excise and Customs: In aggregate 2 appeals have been filed by the Commissioner of Central Excise (Rs.1.30 Crore) and the Commissioner of Customs (Rs.1 Crore).

Labor Related: 2 cases are pending out of which one is pending in the Supreme Court and other in High Court relating to employee related issues aggregating to Rs. 20 lakhs.

Against the Company

Excise and Customs: In 2 cases pending, where the department has gone in appeal to CEGAT against the order of Commissioner, the aggregate amount in of Rs. 1.46 Crores

Labor Related Matters: 13 cases have been filed against HTL which are pending before the High Court of Madras amounting to – Rs.2.5 Crores), and 12 other cases are pending with the Labor Court, in employee related issues amounting to Rs. 9.68 Lacs approximately.

Civil Cases: 11 case have been filed against the Company in civil Courts, aggregating to claim of Rs. 4.90 Crores plus interest in some cases. Out of the 11 cases 2 cases are for winding up of the Company filled by supplier for realization of outstanding amount.

Income Tax: 1 appeal is pending adjudication before the Income Tax Appellate Tribunal filed by HTL on account of wrongful provisioning for non-moving inventories involving an amount of Rs. 1.27 Crore.

Statutory Payment not made as on March 31, 2005

Sales Tax: Rs. 3266.37 Lacs
Income Tax: Rs. 5.35 Lacs
PF & ESI: Rs. 59.08 Lacs & Rs. 0.40 Lacs respectively
Central Excise: Rs. 4.2 Lacs

Overdue Interest/Principal as on March 31, 2005

The principal overdue to Govt. of India, as on March 31, 2005, stands at Rs. 4.84 Crore. Further, as on March 31, 2005, the total amount overdrawn from working capital banks is Rs. 86.68 Crore.

Himachal Exicom Communications Limited (HECL)

Contingent Liabilities not provided for as on March 31, 2005

- Unexpired Letters of Credit - Rs.1.34 Crore,

- Guarantees given by banks on behalf of the HECL (margin money kept by way of fixed deposits Rs. 4.37 Crore) – Rs.11.80Crore)
- Excise Claims against HECL in dispute and not acknowledgement as debts - Rs.0.56 Crores.
- Additional demand of custom duty rasied on HECL – Rs. 0.07 Crore
- Income tax demands against which appeal has been preferred – Rs.0.17 Crore
- Claim against HECL not acknowledged as debts – Rs. 0.004 Crore.

Outstanding Litigation as on September 30, 2005

- 2 Excise and Customs cases of undervaluation of MRP pending with Excise wherein in one case Department has gone into appeal in Supreme Court against the stay order, involving an total amount of Rs. 81.16 lakh. 5 other case are pending with Excise Department under various authorities, involving an amount aggregating to Rs. 47.30 lakh and 1 appeal pending before the Commissioner of Customs (Appeal), involving an amount of Rs. 6.98 lakh.
- 1 Income Tax appeal is pending before the Commissioner of Income Tax (appeal) Delhi, involving an amount of Rs. 16.96 lakh.
- A recovery suit is pending – Rs.1.76 lakhs plus interest. An employee of the Company has filed a civil suit against the company against his termination before Local Civil Court, Solan. The case is yet to be decided.

HFCL Satellite Communications Limited (HSCL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HSCL (margin money kept by way of fixed deposits Rs. 2.48 Crore) - Rs.2.21Crore
- Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) - Rs.36.81 Crore.

Outstanding Litigation as on September 30, 2005

- 2 cases have been filed by the HSCL for dishonour of cheque issued by 2 Corporate clients amounting to Rs. 17.00 Lakhs
- 1 Income Tax appeal is pending before the Income Tax Appellant Tribunal, involving an amount of Rs. 11.10 lakh in the matter of Disallowance of expenses. 1 more appeal is pending before the Commissioner of Income Tax (Appeals), involving an amount of Rs. 4.44 lakhs in the matter of Disallowance of expenses.
- 4 Sales Tax appeals have been filed by HSCL, out of which 3 are pending before the Sales Tax Dy. Commissioner, and one before Asst. Commissioner in relation to different matters involving an amount of Rs. 92.73 Lakhs.
- 2 other Cases are pending for dishonour of cheque amounting to Rs. 123.25 Lakhs

Statutory dues as on March 31, 2005

An amount of Rs.83 lakhs, Rs.109 lakhs and Rs. 49 are payable towards Provident Fund, Sales Tax and Tax Deducted at Source, respectively.

Overdue interest / principal as on March 31, 2005

Bank/Financial Institute	Amount in Lacs
Global Trust Bank Ltd.	
Principal	230
Interest	73
IFCI Limited	
Principal	288
Interest	122
Funded Interest	51

Overdue Interest/Principal as on March 31, 2005

As on March 31, 2005, HSCL’s total ovedue stands Rs. 11.05 Crore towards Financial Institution / Bank.

Microwave Communications Limited (MCL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HFCL (margin money kept by way of fixed deposits Rs. 0.85 Crore) - Rs.11 Crore
- License fee and penalty in respect of Uttar Pradesh Rs. 4.32 Crores
- Suit against MCL but not acknowledge as debt – Rs.0.53 Crores

Outstanding Litigation as on September 30, 2005

5 cases pending before the High Court of Delhi and before ADJ, Delhi, wherein 1 cases, DOT has objected against the order passed by Sh. O. P. Nahar, wherein DOT is claiming Rs. 1.25 Crores by invoking the Bank Guarantee. The case is fixed of September 6, 2005 for argument for condonation of delay. In 1 other case MCL have obtained an injunction order restraining the DoT from invoking the bank guarantees till the final disposal of the dispute amounting to Rs. 50 Lakhs, the next date of hearing fixed for November 5, 2005. In 1 other suit for recovery has been filed against MCL by M/s. Network Limited in the High Court at New Delhi for recovery of about Rs. 5,00,000/-. There are 3 other civil recovery cases against MCL the monetary value in totality amount to Rs. 36.71 is not yet quantified.

Details of Statutory Dues Payable as on September 30, 2005

Particulars	Amount (Rs. in Lakh)
Tax Deducted at Source	2.34
Provident Fund	0.92

Apart from above, as on March 31, 2005, a sum of Rs. 18.99 Crores is payable towards institutional dues.

Overdue Interest/Principal as on March 31, 2005

The overdue (Principal & Interest) towards IDBI, as on March 31, 2005, stands at Rs. 15.89 Crore.

Pagepoint Service (India) Private Limited (PSIPL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HFCL (margin money kept by way of fixed deposits Rs. 0.13 Crores) - Rs.0.50 Crore,
- Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) - Rs.3.12 lakh.

Outstanding Litigation as on Septermber 30, 2005

There is one suit filed against the company for recovery of rent outstanding amounting to Rs. 7.12 Lacs.

Details of Statutory Dues Payable as on September, 2005

Particulars	Amount (Rs. in Lakh)
Provident Fund	0.00
Tax Deducted at Source	4.89
Service Tax	57.89
Others	7.58

Overdue Interest/Principal as on March 31, 2005

The overdue (Principal & Interest) towards ICICI, as on March 31, 2005, stands at Rs. 0.06 Crore.

Platinum Edu Ltd. (PEL)

Contingent Liabilities not provided for as on March 31, 2005

- Bank Guarantee (margin money Rs. 0.30 lakh) Rs. 0.30 lakh.
- Income Tax matter under appeal Rs. 4.14 lakh

Outstanding Litigation as on September 30, 2005

1 appeal related to income tax pending before Appellate Tribunal against the demand of Rs.4,14,000/- made by Income Tax Authorities.

Consolidated Futuristic Solutions Ltd. (CFSL)

Contingent Liabilities not provided for as on March 31, 2005

Nil

Outstanding Litigation as on September 30, 2005

The Hon'ble High Court of Delhi, has passed the order dated December 16, 2003 for winding up of the Company, against the petition filed by former employees of U.K. Branch and has appointed the official liquidator to take over the assets and the records of the company. The Hon'ble High Court of Delhi invited the bids for selling of the assets of the Company, which were sold out at a price of Rs. 2,83,000/- by the official liquidator appointed by the Court.

WPPL Ltd. (WPPL)

Contingent Liabilities not provided for as on March 31, 2005

Nil

Outstanding Litigation as on Septermber 30, 2005
Nil

HFCL Bezeq Telecom Ltd. (HBTL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks / FIs on behalf of HBTL (margin money kept by way of fixed deposits Rs. 2.86 Crores) - Rs.105 Crore,

Outstanding Litigation as on September 30, 2005
Nil

HFCL KONGSUNG TELECOM LTD. (HKTL)

Contingent Liabilities not provided for as on March 31, 2005
Nil

Outstanding Litigation as on Septermber 30, 2005
Nil

HFCL DACOM INFOCHECK LIMITED (HDIL)

Contingent Liabilities not provided for as on March 31, 2005

Nil

Outstanding Litigation as on Septermber 30, 2005
Nil

WESTEL WIRELESS LIMITED (WWL)

Contingent Liabilities not provided for as on March 31, 2005
Nil

Outstanding Litigation as on Septermber 30, 2005
Nil

HFCL Internet Services Ltd. (HISL)

Contingent Liabilities not provided for as on March 31, 2005

Guarantee Outstanding: Rs. 1,30,000/-

Outstanding litigation Against the Company as on September 30, 2005

One case has been filed by Mr. Karminder Singh against the Company before the Consumer Disputes Redressal Commission at Chandigarh, wherein the complainant has paid for obtaining a telephone connection but the same was not installed and the amount that he had paid was also not refunded. The company has appeared and has pleaded that HFCL Infotel Ltd should be made necessary party and not the Company. The case is pending for the consideration on whether to implead HITL as necessary party in it. The next date of this case is 04.01.2006 and the likely liabilities of Rs. 0.50 Lacs may arise.

Connect Broadband Services Ltd. (CBSL)

Contingent Liabilities not provided for as on March 31, 2005
Nil

Outstanding litigation Against the Company as on September 30, 2005
Nil

The Investment Trust of India Limited

Contingent Liabilities not provided for as on March 31, 2005
- Sales tax on lease contracts in certain states writ Rs.13.00 lacs previous year.

Outstanding litigation Against the Company as on November 30, 2005

Cases Against ITI

Civil Cases

Name of case	Court	Dispute matter	Amount of claim / present status
Roy T. Tharian (IA 1333/96)	Sub-Court, Kottayam	OS 71/95	Filed by a third party against Hirer. Vehicle attached and sold and sale proceeds deposited in court. While suit was pending, ITI filed an application to lift the attachment. As the case was decreed on 30/7/98, ITI have filed affidavit for disbursement of the amount to ITI. No monetary claim against ITI.
Thankachan	Sub-Court, Mavelikara	OS 153/01	Party has filed the case. Vehicle met with an accident. ITI got the claim amt. Party given the complaint that ITI has forged his signature and taken the money filed the counter, Court has taken sworn statement from ITI. Insurance Company is the main accused. No monetary claim against ITI. Posted to 08.02.2006
Prakasan	Munsiff Court, Kottarakara	OS 546/00	Liquidated Damages due from party. No monetary claim against ITI. Posted to 10.02.2006
T.M. Philip	Munsiff Court, Pathanamthitta	OS 43/01	Party has filed the case for issue of HP termination. ITI has filed a counter. Claim of Rs 76,331/- towards Liquidated Damages due from party. No Monetary claim against ITI. Posted to 16.02.2006

K.V.S. Narimani	Civil Court, Vizag	OS 607/00	Party filed suit for restraining ITI from repossessing the vehicle. Suit dismissed for default. Party filed restoration petition. ITI has filed a petition to dismiss the restoration petition. Posted to 21.02.2006 No monetary claim against ITI.
Ashraf (Wilson)	Sub-Court Cochin	AS 352/04	Appeal filed against the Order of the Munsiff-Court.
P.M.Najeeb	Munsiff Court, Ernakulam	OS 1568/00	Suit filed by Najeeb against ITI not to repossess the vehicle. No monetary claim against ITI.
Sunny Mathew	Munsiff Court, Ernakulam	OS 1212/01	Suit for injuntion not to repossess the vehicle. Injunction made absolute. ITI filed an appeal before th District Court against that order. Appeal allowed and recommended the matter for fresh trial. Posted to 30.01.2006. No monetary claim against us.
Vijayalakshmi	City Civil Court, Bangalore	OS 15983/00	Mr Anand Kumar, purchaser filed a suit for injunction not to repossess the vehicle. ITI has filed a counter claim for the amount due to ITI. Posted to 9.10.03. No monetary claim against ITI.

Criminal cases:

Accused	Amount	CC No.	Status	Next Hrg. Date
Mahaveer Jain	10000.00	4355-02	Trail	18-01-2006

(n) Loss making / negative networth group companies:

(Rs Crore)

Name of the Company	(Loss) / Profit during FY 04-05	As on March 31, 2005		
		Share Capital	(Accumulated Losses) / Reserves & Surplus	Networth
HTL Limited	(25.22)	15.00	(159.86)	(145.84)
Microwave Communications Ltd.	(12.63)	37.50	(151.34)	(113.85)
Platinum EDU Ltd.	(0.004)	0.05	(6.45)	(6.40)
HFCL Satellite Communications Ltd.	(35.53)	8.00	(42.39)	(34.39)
Pagepoint Services (India) Pvt. Ltd.	(3.86)	0.01	22.39	22.40
Westel Wireless Ltd.	0.03	0.31	(1.47)	(1.15)
HFCL Kongsung Telecom Ltd.	(0.13)	2.93	(5.03)	(2.10)
HFCL Dacom Infocheck Ltd.	0.00	4.70	(5.24)	(0.54)
WPPL Ltd.	(0.03)	0.05	(9.28)	(9.23)

In case of Consolidated Futuristic Solutions Ltd., one of the Group Company of HFCL, the Hon'ble High Court has passed the order dated December 16, 2003 for winding up of the Company, against the petition filed by former employees of U.K. Branch and has appointed the official liquidator to take over the assets and the records of the Company.

HTL Ltd., one of the group companies is a sick company within the meaning of Clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 and a reference in this regard has been made to the Board of Industrial & Financial Reconstruction under sub-section (1) of Section 15 of the said Act.

(o) Dividend policy

The Company has not been paying dividend for last 2 years.
The Company will not be in a position to pay dividends in the near future. The declaration and payment of any dividends in the future will be recommended by the Board of Directors (the "**BoD**"), at its discretion, and will depend on a number of factors, including the Company's earnings, positive cashflows from

operations, capital requirements and overall financial condition. In addition, the Company's ability to declare and pay dividends may be restricted by the terms of its financing agreements executed with term lenders.

(p) M/s Bharat Sanchar Nigam Limited (BSNL) have raised demand on the Fixed Wireless Phones of the Tata Teleservices Limited & Maharashtra Tata Teleservices Ltd. (collectively called TTL), branded as 'WALKY', to be treated as Limited Mobility Phones or WLL(M) phones thereby liable to pay ADC on the same. The contention of BSNL is that TTL have advertised there WLL phones as Mobile phones available at Fixed Line Tariff thereby luring customer and avoiding ADC on the same.

BSNL has through its letter dated 14/01/2005, addressed to TTL has advised this reclassification and has demanded increased Interconnection Usage Charges (IUC) /Access Deficit Charges (ADC) on telephone traffic to and from these Fixed Wireless Phone (FWPs) w.e.f. 14th November 2004. TTL have been asked to pay the additional amounts immediately on receipt of the said letter.

M/s TTL protested to BSNL vide their letter of 27/01/2005 and also sent their representations to Telecom Regulatory Authority of India (TRAI) complaining of the unilateral action of BSNL. TRAI refused to intervene as the matter being dispute between the two operatos and subsequently TTL went to TDSAT against the same. TTL lost the case in TDSAT and action taken by BSNL was held as correct. DOT too has passed instruction against TTL and RIL to start paying ADC on their WLL (M) service, however no such instruction has been passed against HITL, Shyam Telecom and Bharti (MP Circle). Thus the instruction of DOT is not a policy change, but only an action taken against specific complaints received by them. The point which is to be kept in mind is that the strategy followed by these two Companies to advertise the WLL(M) as "Walky"/ "Unlimited Cordless" has drawn the flak from BSNL side. .

TTL has filed an appeal with the Apex Court. The matter is pending before the Supreme Court.

As on date it is difficult to comment on whether BSNL will be raising similar demand against the Company, HITL have never advertised their FWP/T to be mobile in nature and have never informed the customer of these services being mobile. However it cannot be denied if the case goes against TTL there is a possibility of some demand being raised against HITL.

(q) Conversion of OFCD's by existing Term lenders

Pursuant to the restructuring package approved under CDR mechanism, the Company had issued 16,67,761 no. of OFCD's to SBoP & LIC with the conversion option valid till April 15, 2006, afterwhich these OFCDs shall become NCDs. The Company had also issued 75,51,178 no. of OFCD's to IDBI, LIC, OBC, IVBL, SboP which are compulsorily to be converted into Equity shares by March 31, 2006. The conversion of OFCDs would be made at a price to be determined as per then prevailing SEBI (DIP) Guidelines.

The conversion of the aforesaid debentures into Equity shares will lead to dilution of existing Equity share capital of the Company.

(r) As on date the Company is holding 17,50,000 unquoted equity shares (worth Rs. 3.55 Crore) and 69,96,709 unquoted OFCDs (worth Rs. 69.96 Crore) in The Investment Trust of India Limited. The aforesaid OFCDs (face value of Rs. 100 each) may be (i) converted into 10 equity shares of Rs. 10 each after FY 2007-08 at the option of the Company or (ii) redeemed after FY 2014-15 at a premium of Rs. 60 per OFCD.

If the Company excercises the conversion option, the shareholding of the Company in ITI might increase beyond 50% leading to subdiarization of ITI. Further, there is a risk of default in redemption of such OFCDs amounting to Rs. 69.96 Crore, which may result in a loss to the Company.

(s) HTL Ltd., one of the group companies is a sick company within the meaning of Clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 and a reference in this regard has been made to the Board of Industrial & Financial Reconstruction under sub-section (1) of Section 15 of the said Act.

(t) The Company has applied for delisting of its equity shares from the Calcutta Stock Exchange. The Company has complied with the necessary formalities with respect to delisting of Equity shares from CSE and thereby not paying the Listing fees. However CSE is yet to respond to the communications sent by the Company. Any financial implications arising out of this will be met by the Company.

(u) Upon merger of erstwhile HFCL Infotel Limited with the Company, the Company requested NSDL for taking corporate action thereby allotting fresh ISIN (earlier ISIN no. was INE 306F01012) to the securities of the erstwhile HFCL Infotel Limited that got merged with the Company. However, NSDL, vide its letter no. JS/AG/MISC/1968/03 dated June 26, 2003 advised the Company to obtain inprinciple approval from BSE and for submitting the undertaking stating that the shares issued are pari passu in all respects with the existing shares of the Company.

The Company has now filed with NSDL, the BSE's inprincipal approval letter no. DSC/SMG/RCG/2005/511116 dated December 8, 2005 along with the corporate action form, certified copies of the resolutions, undertaking and draft of Rs. 551/- in favor of NSDL and has re-applied for corporate action. Therefore, the Selleing shareholder is not able to open an 'Escrow Account' in favor of Registrar to the offer and transfer the shares being offered through this OFS, in the said account.

(v) As on date 1.99% of the shares issued and paid up capital of the Company are listed. The Company has taken necessary steps as detailed above, to get the balance 51,50,70,338 shares representing 98.01% of the issued & paid up capital of the Company and the same shall be listed simultaneously with this Offer for Sale.

B. External to the Company

(a) Licence Conditions and Regulatory Scenario of Telecommunications Industry

The Company conducts its business in a highly regulated environment and is subject to the conditions, restrictions and obligations under its Unified Access Services Licence Agreement, executed with the Department of Telecommunications under the Ministry of Communications and Information Technology, GOI. The details of the regulatory environment governing the Company's business are set out in the section on "Business of the Company" on page no. 27 in this Draft Offer Document.

(b) Competition from Other Service Providers

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

Investors should consider the risks, expenses and difficulties frequently encountered in connection with the operation and development of a business competing with the incumbent competitor and other large operators who have substantially larger scale of operations and financial resources.

(c) Risk of rapid technological changes

The telecommunication services industry is characterized by rapid technological change and significant capital requirements. 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.

(d) Sectoral Cap of 74% for foreign investment

In accordance with the current foreign investment policy for telecommunication, although the maximum permissible foreign shareholding has been enhanced from 49% to 74%, yet this may limit the Company's ability to raise capital to an extent.

(e) Risk of Force Majeure, Political, Economic and War Risks

The Company's operations are dependent upon its ability to protect its network infrastructure against damage from fire, earthquakes, floods, power loss and similar events and to construct networks that are not vulnerable to the effects of such events. The occurrence of a natural disaster or other unanticipated problem at the Company's facilities or at the sites of its switches could cause interruptions in the services provided by the Company. Additionally, failure of the other telecommunications providers to provide voice and data communications capacity required by the Company as a result of natural disaster, operation disruption or for any other reason could cause interruptions in the services provided by the Company. Any damage or failure that causes interruptions in the Company's operations could have a material adverse effect on the Company's business, operating results and financial condition.

The Company's performance may be affected by a number of factors beyond its control including political and economic developments both inside and outside India.

(f) Churn rate of customers in telecommunication services sector is high and this may result in the operators incurring additional costs.

Customer attrition or churn, results in loss of future revenues from customers whose services are disconnected and also the inability of the Company to recoup any unrecovered costs incurred in acquiring the customer. A high rate of churn may adversely affect the Company's business and profitability.

(g) There have been allegations in recent years that there may be health risks associated with the use of portable mobile communication devices, which could adversely affect the Company's business.

Portable communication devices have been alleged to pose health risks due to radio frequency emissions from these devices. While several mobile communications equipment manufacturers have undertaken studies concerning the health risk from using mobile communications devices and have publicly announced their belief that no such risk exists, the actual or perceived risk of mobile communications devices in India could adversely affect the Company through a reduced subscriber growth rate or a reduction in subscribers or reduced network usage per subscriber.

Notes:

- The networth of the Company as per the restated Financial Accounts of the Company as on March 31, 2005 is Rs. 72.54 Crore and as on June 30, 2005 is Rs. 45.47 Crore and the size of the Offer is Rs. 11.20 Crore at a minimum price and Rs 12.80 Crore at a maximum price in the band of Rs.14/- - Rs.16/- per share. (The Company shall determine the price before filing the Offer Document with RoC).
- The promoters/ directors/ key management personnel of the Company have no interest other than reimbursement of expenses incurred or normal remuneration or benefits.
- Please read this Draft Offer Document and the instructions contained herein carefully before taking any action.
- All enquiries in connection with the offer Document or the Application Form should be addressed to the Registrar to the offer; Karvy Computershare Private Limited, (Unit: HFCL Infotel Limited), quoting the name of the first / Sole applicant and the Application Serial No. as mentioned in the Application Form.
- This being an Offer for Sale, the minimum subscription clause is not applicable in terms of clause. 6.3.8.4.1 of Chapter VI of the Guidelines.
- The Selling Shareholder/Company accepts full responsibility for the accuracy of the information given in this offer document and confirm that to the best of their knowledge and belief, there are no other facts, the omission of which make any statement in this Offer Document misleading, and they further confirm that thay have made all reasonable enquiries to ascertain such facts.
- The investors are advised to refer to the Para on "Basis for Offer Price" before making any investment in this Offer.
- Investors may note that in case of over – subscription, allocation shall be on proportionate basis and will be finalized in consultation with the Stock Exchange, Mumbai (Designated Stock Exchange). If the Offer is oversubscribed, the Executive Director / Managing Director/Authorized person of the Designated Stock Exchange alongwith Post-issue Lead Merchant Banker and Registrar to the Offer shall be responsible to ensure that the basis of allocation is finalized in a fair and proper manner.
- The Promoter Group/ directors of the Company/ directors of the Promoter have not purchased and or sold/ financed any shares of the Company during the past six months other than 10,00,000 shares sold by the Promoters i.e. M/s HFCL during the last 6 months to Mr. Ramesh Kr. Gupta on September 29, 2005 out of the shares earlier pledged with Lord Krishna Bank.
- The offeror acquired the shares consequent upon amalgamation of erstwhile ITI Ltd. With the Company pursuant to a scheme of amalgamation as sanctioned by the Hon'ble High Court of Punjab & Haryana & Hon'ble High Court of Madras.

III. INTRODUCTION

1. Summary

You should read the following summary with the Risk factors included from page no. viii and the detailed information about the Company and its financial statements included in this Draft prospectus.

Brief Introduction to the Telecom Industry

The telecommunication services sector operates in a licenced and regulated environment. The GOI is empowered to decide on the policies that govern the telecommunication services sector and issue licences to the private sector players. The GOI exercises these powers through the DoT and the Telecom Commission, both functioning under the Ministry of Communications and Information Technology.

From time to time, TRAI (an autonomous body with quasi-judicial powers) issues regulations, orders, directives, etc. in performance of its regulatory functions. All customer tariffs and inter-connection agreements with other operators are required to be approved by TRAI. TRAI periodically monitors the performance of the Company and other operators against Quality of Service parameters and Licence Conditions.

TDSAT is an Appellate body and has been granted powers to adjudicate any dispute 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.

Until the mid 1990s, the telecommunications industry was a monopoly, managed and controlled by the GOI Department of Telecommunications and a few Public Sector Undertakings ("**PSUs**"). In May 1994, taking a comprehensive view on the Industry, the Government announced the National Telecom Policy 1994 ("**NTP'94**"). With the objective of accelerating the penetration of telecommunications services, NTP'94 entailed entry of private sector operator in the Basic Telecommunication Services (fixedline services through wireline and wireless systems) and introduction of Cellular Mobile Services (mobility services through wireless systems) in the Country through the private sector. Following the tendering for the licences, GOI issued Basic Services Licences in 1997 and 1998 to six private sector players, including the Company, one each in six Telecom Circles. Based on the licence fee bid, the licenced operators were required to pay fixed annual licence fee over the 15-year term of the licence. In November 1998, Internet Service Provider ("**ISP**") business was opened up to operators other than DoT and VSNL.

Most of the licenced Basic Service Operators were unable to start their services even after almost two years of issue of licence. The primary reason for this was difficulties that the operations fared in arranging financing for the projects and delays in getting Rights of Way for establishing the underground cables and other network infrastructure. Appreciating the difficulties faced by the operators, concerned about the slow growth in the penetration of telecommunication services and looking at the emerging trends in convergence, the GOI announced a New Telecom Policy in 1999 ("NTP'99") to provide a growth impetus to the industry, whereby a fixed annual license fee was replaced by revenue share licence fee, right to duopoly was withdrawn and replaced with a multi-operator scenario and the license tenure was extended from 15 to 20 years, and later extendable by an additional 10-year period.

Opening up the Basic Services for unlimited competition, in January 2001, the GOI announced guidelines and norms for issue of new Basic Services Licences. Among other aspects, these guidelines included the right to offer mobile services limited to a Short Distance Charging Area ("**SDCA**"), commonly known as WLL (M) Services. Existing operators, including the Company, were also allowed to offer such mobility services. In order to encourage the technology neutrality in the access provision leveraging on the technological developments, to ensure flexibility and efficient utilization 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 October 2003, TRAI recommended a United Access Servics License regime to make the access provision technology agnostic, thus blurring the boundary between fixed and mobile access. Accepting the TRAI Recommendations, Government of India permitted all the access service providers (Basic & Cellular) to migrate to a Unified Access Licence in their service area. By virtue of this, Basic Operators were entitled to offer fully mobile services. As recommended by TRAI, the migrating Basic Operators were required to 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.

Other recent key developments on the Licencing front are:

- 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 provided competitive levels are not compromised.

Regulations in the telecom sector have evolved considerably over the past decade and after several hic-cups have reached a stage where there is a strong regulator (TRAI) in place and there is considerable clarity in terms of the way forward. Key issues are:

- Licensing
    - 74% foreign equity permitted
    - Unified Licensing regime is in place for access services (mobile and fixed) through an automatic process involving registration and compliance with published guidelines
    - License available freely; however, spectrum subject to availability
    - It is expected that the unified Licensing regime will be extended to all telecom services including Domestic and International Long Distance.
- Interconnection
    - Compulsory and non-discriminatory interconnection
    - Charges suggested by TRAI- although operators are allowed to negotiate rates lower than the specified
    - Differential rates for off-net and on-net calling allowed.
    - Access deficit charges are in place – will be phased out in medium term
- Spectrum
    - Priced on a revenue share basis (similar to license fee)
    - Linked to allocation of spectrum – which is linked to subscriber base
- Roaming and infrastructure sharing
    - Not compulsory: based on mutual consent

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

- Increasing Household incomes as the economy grows
- Increased coverage by network operators – reaching out to untapped markets
- Higher affordability through lower tariffs as regulatory and equipment costs decline
- India's booming economy would further drive growth
- Sectors such as IT Services and IT enabled Services are growing sharply
- Services such as banking, insurance, hospitality, etc. are showing growth with increased demand and competitive activity.
- As Multinational Corporations increase their presence in India and Indian Companies expand overseas, India will integrate with the global economy giving further impetus to telecom growth
- As Companies organise their operations using ERPs and expand their networks for SCM, CRM, etc., the need for telecom services expands sharply.

While a number of estimates are provided for the growth in the telecom sector, CRIS INFAC has projected that India's tele-density would reach a level of 24.3% by 2009-10. As such, the total subscriber base is projected to increase from the 98.1 mn in 2004-05 to a level of around 285 mn by 2009-10. While urban tele-density is expected to cross the 50% mark over this period, rural tele-density would be just about reaching double figures by the end of this period.

Brief introduction to the Indian Cable Industry

Television has the highest reach across all socio-economic classes in India. More importantly, the time spent watching television is increasing, as it is the cheapest form of entertainment for any household in the country, especially for low-income households.

Key milestones in the development of the Indian Cable TV industry are provided below:

1961: Doordarshan starts TV services
1982: Colour TV services started
1991: CNN coverage of Gulf War creates demand for Cable TV
Start of Star TV, Zee and India specific programming provides impetus for the proliferation of the Indian cable TV (CATV)
Growth initially driven by small Operators

1995:	Cable TV Networks (Regulation) Act passed. Consolidation of the CATV operators into MultiSystem Operators
1998:	ISP market opened up for private parties and Internet-on-cable permitted
1998-2002:	Channels turn pay to increase revenues through subscription
2001:	Government appoints task force for considering introduction of Conditional Access System
2002:	VOIP permitted for ISPs
2003 till date:	CAS Bill yet to be implemented

Prior to the introduction of cable TV in 1991, Indian television households received reception from only one state-owned terrestrial broadcaster, Doordarshan. In terms of number of channels, there are an estimated 350 TV channels available today over the Indian skies. An urban cable home in the four metros currently receives approximately 90 TV channels in the analogue mode. 50 of these channels are free-to-air and the balance are pay, which are bundled together into bouquets.

The Cable TV industry has hitherto been an un-regulated one. Starting of cable TV operations requires a simple registration with the district's main post office. There is no limit on the number of operators in an area. Most LCOs have their network in a limited physical area & collect anywhere between Rs 75 to Rs 400 per month depending upon the number of channels offered, social strata of the subscribers and competition level. In most areas, there is a situation of monopoly or oligopolistic duopoly. There are an estimated 50,000 – 60,000 Local Cable Operators (LCOs) in India.

The table below illustrates the typical distribution chain in place in India today.

	Profile	**Services**
MSO Head-end	Digital and/or Analogue	All technical facilities Contract negotiation for content, marketing
Distributors	Each distributor typically controls between 50 and 200 LCOs	Channel Management Collection from LCOs
Local Cable Operator	Each LCO manages between 400-1000 homes	Manage subscribers and collect revenue

In most cases, the LCOs actually bill the subscribers, collect the cash and then pass it on to the MSOs and distributors. The MSOs have legal contracts binding the LCOs to them. The MSOs provide all technical infrastructures except, in most cases, last mile connectivity. MSOs also forge agreements with channel providers for content.

India's Cable industry witnessed the entry of organized sector MSOs such as SitiCable (a part of the Zee Network), InCable, and Hathway. These organized sector MSOs have established about 200 head-ends in metros and major towns to provide services to cable operators. Independent operators have consolidated their networks and are providing services in mostly semi-urban and rural areas.

In the absence of independent audits or 'addressability' systems, there is a massive under-reporting of subscriber base by the LCOs to the MSOs/ broadcasters for the pay channels.

It is estimated that the eventual reporting to the broadcasters is around 20 to 40% of the actual base. Under-declaration continues to be an unresolved issue between the broadcasters and MSOs/ LCOs.

India's Cable industry witnessed the entry of organized sector MSOs such as SitiCable (a part of the Zee Network), InCable, and Hathway. These organized sector MSOs have established head-ends in metros and major towns to provide services to cable operators. Independent operators have consolidated their networks and are providing services in mostly semi-urban and rural areas.

Some of the smarter and larger cable operators have started modernizing their network infrastructure. Optic fibre have been deployed in some networks, thereby improving the quality of service vastly and serving as high as 80 broadcast channels. With the optic fibre, cable networks are now being used for Internet access and will be able to host other value added services like Pay per view (PPV), Video on Demand (VOD), Distance Learning and Voice Telephony.

The government introduced the Broadcast Bill and an open sky policy in 1997 with the aim of opening up markets to licenses for terrestrial radio, satellite radio, satellite TV broadcasting, Direct-to-home and cable market. However, India's legislation guiding cable and satellite broadcasting has been confusing and sometimes contradictory. Some of the milestones of the cable industry are as follows:

1995	Cable TV Networks (Regulation) Act passed.
1997	Consolidation of the CATV operators into MSOs is completed with two major operators – IMCL and SitiCable – and the upcoming Hathaway.
1998	Broadcasters initiate pay channels on subscription basis to increase revenues.
2002	By December, the Parliament passes the Cable Television Networks (Amendment) Act, 2002. This mandates that, over time, all homes in India desiring pay channels must have addressable set top boxes.

The Bill has paved the way for introduction of Conditional Access System in India. The bill seeks to regulate the operation of Cable TV networks through the mandatory installation of an addressable system for accessing pay channels. With this move the set-top boxes will enter the customer's premises. The implementation of CAS was planned in a phased manner but the resistance from all quarters has been so intense that the government has not succeeded in evolving a palatable formula for all the concerned stakeholders. In January 2004, the Government has mandated the Telecom Regulatory Authority of India (TRAI) to act as a regulatory body to define the rules in the new era of CAS.

Company and Business Overview

The Company is the first and the largest private sector fixedline telecommunication service provider in Punjab Telecom Circle, which comprises of the state of Punjab, the Union Territory of Chandigarh and Panchkula (a town in Haryana). Infotel's services have been operational since September 2000.

The Company provides a full range of communication services in Punjab Telecom Circle:
- Fixedline Telephony – through wireline, CorDECT wireless and CDMA wireless technologies
- Mobile Telephony – through CDMA technology
- Highspeed Internet Access
- Data Networking Solutions
- Analog Broadcast (Cable TV) services

The Company provides the above services under two licences that it holds for Punjab Telecom Circle:
- Unified Access Services Licence: This licence enables the Company to provide Telephony services – both fixedline and mobile – using any technology, as well as Data Networking services. This licence is valid till September 30, 2017.
- Internet Services Licence: This licence enables the Company to provide Internet Access Services. This licence is valid till June 27, 2015.

The Company's services are offered under the brandname "CONNECT". At the end of November 2005, the Company had 294,900 telephony subscribers, including 233,118 for fixedline segment and 61,782 for mobile segment. In addition, the Company had 12,000 broadband internet access (access speeds upto 256 kbps or more) subscriber including nearly 10,000 dial up internet access subscribers at end November 2005.

The Company's core network runs on a very extensive network of optic fibre cables that has a deep penetration upto the local access network. Local access network, in case of wireline fixed telephony segment, is typically less than 1 km long. On this extensive network, the Company also provides infrastructure leasing services to other telecom operators. Three other telecom operators – Spice Communications, Hutchison Essar Group, and Tata Teleservices – have leased Company's optic fibre of over 3000 fibre pair kms for their core networks in Punjab.

With a deep penetration of network, the Company provides services in about 130 cities/ towns out of the approx. 160 census cities/ towns in its service area. These cities/ towns are spread over 51 of the 55 Short Distance Charging Areas ("SDCA") as defined by the Department of Telecommunications, Government of India.

Infotel has commercially launched the video access service in Khanna, Doraha, Phagwara, Goraya, Mandi Gobindgarh, substantial part of Patiala and parts of Sirhind & Ludhiana. The Company plans to launch full-scale triple play services across Punjab in due course of time.

Key highlights of the operating and financial performance for the financial year are:

- CDMA wireless network was upgraded to the contemporary 3G1x standards.
- In October 2005, Infotel has commercially lauched analoge broadcast Cable TV services.
- Further investments in video access services (distribution of broadcast TV and interactive premium multimedia content) were initiated.
- Infotel has recently gone for SAP R/3 versions, where it has successfully implemented Finance and Accounts, Materials Management, Sales & Distribution applications. This has leveraged Integrated approach of all information under one umbrella and has empowered the organization by providing state of the art solutions to these functions as on-line status of all such functions is available to all in the organization.
- Subscriber base grew by 63% from 151,000 at the end of March 2004 to 246,700 at the end of March 2005. As at end November 2005, Infotel reached a subscriber base of 294,900, implying an annalized growth of ~30% over the March 2005 subscriber base.
- Gross Revenue grew by 33 % from Rs 192.4 Crore in FY2003-04 to Rs 255.5 Crore in FY2004-05. For the 3 months ending June 2005, Infotel's registered revenues of Rs. 70.9 Crore, implying an annualized growth of 11%.
- Gross operating revenue (excluding infrastructure services) of Rs 248.66 Crore achieved during FY 2004-05, translates to an overall blended average revenue per user (ARPU) of Rs 1042/ month (based on opening and closing subscriber base). This ARPU is amongst the highest in the country.

The key milestones in the operating history of the Company are:

October 2000	Launch of Telephony Services
January 2001	Launch of Internet Services
February 2001	Launch of Limited Mobility Services
QE June 2002	EBIDTA Break-even
October 2002	100,000 subscribers
QE June 2004	Cash Break-even
July 2004	Launch of broadband Internet access service
September 2004	200,000 subscribers
October 2005	Launch of analog broadcast video (Cable TV) service

Summary Financial Data of the Company

The following summary financial data should be read together with our restated unconsolidated financial statements for each of the fiscal years ended March 31, 2001, March 31, 2002, March 31, 2003, March 31, 2004, March 31, 2005 and the quarter ended June 30, 2005 including notes thereto and the reports thereon and 'Management Discussion and Analysis", which appear elsewhere in this Draft Offer Document.

I Summary of Profit and Loss Account, as restated

(Figures in Rs.)

	For the period ended	For the year ended				
	June 30,2005	**March 31,2005**	**March 31,2004**	**March 31,2003**	**March 31,2002**	**March 31,2001**
No. of Months	**3**	**12**	**12**	**12**	**12**	**12**
Income						
Service Revenue	7,050.00	25,331.78	19,167.30	8,941.54	-	-
Revenue from Hire Purchase & Finance Business	-	-	-	233.16	1,117.55	1,680.93
Sale of Goods	-	-	16.11	-	-	-
Income from Investments	-	-	14.87	9,394.67	19.08	285.40
Other Income	8.83	222.45	45.34	1,167.20	114.53	10.28
Total	**7,058.83**	**25,554.23**	**19,243.62**	**19,736.57**	**1,251.16**	**1,976.61**
Expenditure						
Network Operation Expenditure	3,096.53	10,940.15	9,552.71	3,592.08	-	-
Cost of Goods Sold	-	-	13.85	-	-	-
Personnel Expenditure	914.67	2,244.88	1,936.71	1,470.38	177.87	200.86
Sales and Marketing Expenditure	270.98	1,570.89	1,222.72	1,260.55	6.45	15.75
Administrative and Other Expenditure	1,010.18	3,483.66	2,739.33	2,778.02	1,289.12	1,192.87
Total	**5,292.36**	**18,239.58**	**15,465.32**	**9,101.03**	**1,473.44**	**1,409.48**
Operating Profit / (Loss) before Finance Expenses, Amortisation and Depreciation	**1,766.47**	**7,314.65**	**3,778.30**	**10,635.54**	**(222.28)**	**567.13**
Finance Expenses	1,461.04	6,272.31	6,911.18	5,677.84	671.76	953.45
Depreciation	2,409.20	8,663.91	6,333.48	3,545.27	323.21	426.56
Lease Equilisation charge	-	-	-	668.98	200.00	300.00
Amortisation	412.61	1,619.36	1,633.89	1,350.63	-	-
Loss before Prior Period Expenditure	**2,516.38**	**9,240.93**	**11,100.25**	**607.18**	**1,417.25**	**1,112.88**
Prior Period Expenditure	(0.05)	80.86	261.32	-	-	-
Loss before tax & Extraordinary Items	**2,516.33**	**9,321.79**	**11,361.57**	**607.18**	**1,417.25**	**1,112.88**
Taxation						
Current	-	38.47	-	163.54	-	11.57
Fringe Benefit Tax	14.72					
Deferred Tax	-	-	-	480.63	(527.50)	-
Loss after tax but before Investment Allowance reserve written back and extraordinary Items	**2,531.05**	**9,360.26**	**11,361.57**	**1,251.35**	**889.75**	**1,124.45**
Investment allowance reserve written back	-	-	-	-	-	41.60
Extra-ordinary Items:						

Loss on sale of undertaking	-	-	-	1,605.01	-	-
Loss as per audited statement of account	**2,531.05**	**9,360.26**	**11,361.57**	**2,856.36**	**889.75**	**1,082.85**
Impact of material adjustments and prior period items	0.05	6.73	(403.68)	(1,030.88)	222.93	(359.11)
Adjusted Loss	**2,531.10**	**9,366.99**	**10,957.89**	**1,825.48**	**1,112.68**	**723.74**

II Summary of Assets and Liabilities, as restated

(Figures in Rs.)

	For the period ended	**As at year ended**				
	June 30,2005	**March 31,2005**	**March 31,2004**	**March 31,2003**	**March 31,2002**	**March 31,2001**
Net Block (A)	56,247.87	54,976.56	55,775.82	55,634.37	3,072.21	3,603.45
Capital Work in Progress (B)	3,995.94	4,409.29	1,446.07	4,473.91	-	-
Intangible Assets, net (C)	17,169.65	17,564.70	19,070.35	20,396.73	-	-
Investments, net (D)	7,181.71	7,181.71	7,176.71	7,520.03	1,318.47	1,643.95
Current Assets, Loans & Advances (E)	5,320.01	5,108.87	4,623.28	4,567.19	2,603.84	4,424.92
Current Liabilities and Provisions (F)	13,831.93	11,105.03	6,473.76	13,777.52	673.25	945.68
Loan Funds (G)	71,535.77	70,882.43	64,642.51	65,963.21	3,848.85	4,949.33
Net worth (A+B+C+D+E+F-G)	**4,547.48**	**7,253.67**	**16,975.96**	**12,851.50**	**298.66**	**1,411.34**
Networth, represented by						
Share Capital (H)	59,051.72	59,051.72	44,244.71	44,071.63	871.60	871.60
Advance Against Share Application Money (I)	-	-	14,909.27	-	-	-
Reserve & Surplus (J)	2,317.93	2,493.02	2,746.06	2,746.06	2,746.06	2,746.06
Profit & Loss Account (K)	(56,822.17)	(54,291.07)	(44,924.08)	(33,966.19)	(3,319.00)	(2,206.32)
Net Worth (H+I+J+K)	**4,547.48**	**7,253.67**	**16,975.96**	**12,851.50**	**298.66**	**1,411.34**

Offering Details

Equity Shares offered

Fresh Issue by the Company	This being an offer for sale, there is no fresh issue taking place. The offer is being made for 80,00,000 equity Shares of Rs.10/- each for cash at a price band of Rs.14 - Rs. 16/- per share.
Equity Shares outstanding prior to the Issue	52,55,17,152
Equity Shares outstanding after the Issue	52,55,17,152
Utilization of Issue proceeds	Being offer for sale of equity shares of the Company held by HFCL, the proceeds of the offer would directly go to HFCL and the manner of utilization of sale proceeds would be as per prior written approval of IDBI.

2. General Information

HFCL Infotel Limited, an unlisted company, (originally known as Essar Commvision Limited) incorporated on March 30, 1995 under the Companies Act, 1956 (the "**Act**") with the registrar of companies, Gujarat, at Ahmedabad (and whose registered office was subsequently shifted to the State of Punjab with effect from August 22, 2000) was merged with The Investment Trust of India Limited ("**ITI**"), a non-banking financial company, listed on the Mumbai, Calcutta and Madras Stock Exchanges and having its registered office in Chennai, under the provisions of sections 391-394 of the Act, w.e.f. September 1, 2002. The scheme of amalgamation (the "**Scheme**") was sanctioned by the Hon'ble High Court of Punjab & Haryana and the

Hon'ble High Court of Madras vide their orders dated March 6, 2003 and March 20, 2003, respectively. The name of The Investment Trust of India Limited was changed to HFCL Infotel Limited (the "**Company**"), w.e.f. May 12, 2003 and the registered office of the Company was shifted to the State of Punjab w.e.f. January 5, 2004. After the scheme of amalgamation came into effect, the non-banking financial business of ITI was transferred w.e.f. September 1, 2002, by way of a slump sale to its wholly owned subsidiary, Rajam Finance and Investments Company (India) Limited (name changed to The Investment Trust of India Limited w.e.f. June 17, 2003).

Board of Directors of the Company

Name of Director	Designation	Status
Mr.Mahendra Nahata	Chairman	Chairman, Non Executive & Promoter Director
Mr.Vinay Maloo	Director	Non Executive & Promoter Director
Mr. S. Lakshmanan	Director	Non Executive, Independent & Nominee Director (LIC)
Mr. M.P.Shukla	Director	Non Executive and Indepentent Director
Mr. Krishna Behari Lal	Director	Non Executive and Indepentent Director
Mr. T. S. V. Panduranga Sarma	Director	Non Executive and Indepentent Director
Mr. Shyam Sunder Dawra	Director	Non Executive and Indepentent Director
Dr. Ranjeet Mal Kastia	Director	Non Executive & Promoter Director
Mr. R. K. Bansal	Director	Non Executive, Independent & Nominee Director (IDBI)

Brief details of Chairman and Manager & Chief Executive Officer:

Mr. Mahendra Nahata, Chaiman

Mr. Mahendra Nahata, aged 46, is a commerce graduate from Calcutta University. He has more than 22 years' business experience. He provides HFCL with strategic guidance as well as mentoring to the top Management. Mr. Nahata is the visionary behind the HFCL Group's R&D, technology partnership, business development and marketing initiatives. Mr. Nahata has played a pivotal role in the development of a variety of indigenous telecom products and was instrumental in forging alliances in R&D and technology. Mr. Nahata was conferred with Telecom Man of the Millennium Award in year 2001 for his contributions to the telecom sector.

Mr. Surendra Lunia, Manager & Chief Executive Officer

Mr. Surendra Lunia is a Chartered Accountant and Company Secretary. He joined Infotel in 2000 as Chief Financial Officer. He has over 17 years of experience in corporate finance and commercial activities. He worked with A.F. Ferguson & Co., Calcutta and Intercorporate Financers & Consultants Ltd., Calcutta, before joining the Indian Express Group in 1988. He worked with the Indian Express group till 1998 in different capacities as General Manager holding charge of Finance, Commercial, Corporate Affairs. He was with South Asian Petrochems Ltd., Calcutta as Vice President (Finance) from 1998 to 2000.

For details of other directors, please refer the caption, "Management" on page No. 52

Company Secretary	Legal Advisor
Mr. Sanjeev Vashishta G. M. – Corporate, Legal & Regulatory HFCL Infotel Limited, B-71, Industrial Focal Point, Mohali, Punjab - 160 055 (India) Tel.: +91 172 509 1276 Fax.: +91 172 509 1275 Email: sanjeev.vashishta@hfclconnect.com	Vaish Associates, Advocates Apptts. Nos. 5-7, 2nd Floor, 10, Hailey Road, New Delhi- 110 001 Tel:+91 011 52492525 Fax: +91 011 52492600
Bankers to the Company	
Punjab National Bank Main Branch, Sector 17B, Chandigarh. Tel. No. +91 0172 2721808 Fax. No. +91 0172 2704669	Centurion Bank of Punjab S.C.O. 59-63, Sector - 9 D, Chandigarh – 160 017. Tel. No. +91 0172 5077915, 5077916 Fax. No. +91 0172 2741642

Oriental Bank of Commerce S.C.O. 47 & 48, Sector 8-C, Madhya Marg, Chandigarh - 160 018 Tel.No. +91 0172 2541099, 2541101,02, 03, 04 Fax. No. +91 0172 2541098	State Bank of Patiala , S.C.O.- 106, Sector- 8-C, Chandigarh - 160 009. Tel.No. +91 0172 2773285
ING Vysya Bank Limited Poonam Chambers ‘A’ Wing Dr. A.B. Raos, Worli Mumbai – 400 018 Tel.No. +91 022 56666400 Fax. No. +91 022 56666430	
Compliance Officer	**Auditors to the Company**
Mr. Sanjeev Vashishta General Manager – (Corporate, Legal & Regulatory) & Company Secretary HFCL Infotel Limited, B-71, Industrial Focal Point, Mohali, Punjab – 160 055 (India) Tel.: +91 172 509 1276 Fax.: +91 172 509 1275 Email: sanjeev.vashishta@hfclconnect.com Investors may note that in case of any pre Issue/ post Issue related problems such as non-receipt of letters of allotment / share certificates / refund orders, etc. they should contact the Compliance Officer.	M/s. S.R. Batliboi & Associates Chartered Accountants, Ernst & Young Tower B-26, Qutab Institutional Area, New Delhi – 110016 India Tel. No : +91 011 26611004-09 Fax. No.:+91 011 26611012-13 Email: prashant.singhal@in.ey.com & M/s Chaturvedi & Partners Chartered Accountants, 203, Kushal Bazar, 32-33 Nehru Place, New Delhi – 110 019. Tel. No.: +91 011 2643 2388 / 2646 3013 Fax. No.: +91 011 2646 7586 Email: achat7@hotmail.com
Lead Managers	
KJMC Global Market (India) Limited, 168 Atlanta, 16th Floor, Nariman Point, Mumbai – 400 021 Tel. No.: +91 022 2288 5201 Fax No.: +91 022 2285 2802 Email: mbd@kjmc.com SEBI Regn No.: INM000002509 Contact Person: Ms. Arpita Goyal	Global Trustcapital Finance Pvt. Ltd. Ground Floor, Sethna Building, 55 M. K. Road, Marine Lines, Mumbai – 400 002 Tel: +91 22 2206 0006 Fax: +91 22 2206 5820 Email: sameerkakar@trustcap.com SEBI Regn No: INM000010783 Contact Person: Mr. Sameer Kakar
Registrar to the Issue	
Karvy Computershare Private Limited “Karvy House”, 46, Avenue 4,Street No.1, Banjara Hills, Hyderabad 500 034 Andhra Pradesh, India Tel: +91 40 23320251/23320751 Fax: +91 40 23431551 E-mail: mailmanager@karvy.com SEBI Regn. No. INR/000000221	
Banker to the Issue	
UTI Bank SCF No. 36, Phase VII, Mohali District Ropar, Punjab Tel. No.: +91 0172 2260998 / 2260984 Fax No.: +91 0172 2271984	

Interse Allocation of Responsibilities

The responsibilities and co-ordination for various activities in this issue have been distributed amongst the LMs as under:

Sr. No.	Activities	Responsibilities	Coordinator
1.	Capital structuring with the relative components and formalities such as type of Instruments etc.	KJMC	KJMC
2	Due diligence of the Company's operations /management/business plans/legal etc.	KJMC / Trustcap	KJMC
3	Drafting and Design of Letter of Offer and of statutory advertisement including memorandum containing salient features of the Letter of Offer. The LM shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, Registrar of Companies and SEBI.	KJMC	KJMC
4	Drafting and approval of all publicity material other than statutory advertisement as mentioned in (3) above including corporate advertisement, brochure, etc.	KJMC / Trustcap	KJMC
5	Selection of various agencies connected with the Issue, including Registrar, Printers, Advertising Agency, Bankers to the Issue etc.	KJMC	KJMC
6	Offer document and RoC Filing etc.	KJMC	KJMC
7	Formulate the Marketing Strategy to tap investor	KJMC / Trustcap	KJMC
8	Marketing of the issue, which will cover *inter alia* ➢ Formulate marketing strategy ➢ Preparation of publicity budget ➢ Finalize Media and PR strategy ➢ Finalising centers for holding conferences for brokers, press etc. ➢ Follow-up on distribution of publicity and issue material including form, prospectus and deciding on the quantum of the issue material.	KJMC / Trustcap	Trustcap
9	The post issue activities including, Management of escrow accounts, Co-ordinate non-institutional allocation, intimation of allocation, Dispatch of refund to bidders etc.	KJMC / Trustcap	KJMC
10	Company positioning Pre-marketing exercise	KJMC / Trustcap	KJMC
11	The post issue activities for the Issue will involve essential follow up steps, co-ordination with the various agencies connected with the work such as the Registrars to the Issue, bankers to the Issue and the bank handling refund business. Even if many of these activities will be handled by other intermediaries, the designated LM shall be responsible for ensuring that these agencies fulfill their functions and enable it to discharge this responsibility through suitable agreements with the Company.	KJMC / Trustcap	KJMC

Brokers to the Issue

All the members of the recognised Stock Exchanges would be eligible to act as Brokers to the Issue.

Appraising Entity

This being an Offer for Sale of equity shares by the existing shareholders, the issue has not been appraised by any separate entity.

Credit Rating/Debenture Trustee

This being an Offer for Sale of equity shares by the existing shareholders, neither Credit Rating nor appointment of Debenture Trustee is required.

Underwriters to the Offer

The equity shares being offered for sale are not being underwritten.

3. CAPITAL STRUCTURE OF THE COMPANY

	Particulars	Nominal Value (Rs.)
A	**AUTHORISED ***	
	100,00,00,000 equity shares of Rs.10/- each. 2,00,00,000 preference shares of Rs. 100/- each	1000,00,00,000 200,00,00,000
B	**ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL**	
	52,55,17,152 equity shares of Rs.10/- each (Of the above 4,90,750 equity shares of Rs. 10/- each were allotted as fully paid up by way of bonus issue of shares) 65,00,000 preference shares of Rs. 100/- each	525,51,71,520 65,00,00,000
C	**PRESENT OFFER FOR SALE**	
	80,00,000 Equity shares of Rs.10/- each at a price of Rs. 14 - 16/- per share (The premium amount will not reflect in the share premium account of the Company)	8,00,00,000
D	**TOTAL PAID UP CAPITAL AFTER THE OFFER FOR SALE #**	
	52,55,17,152 equity shares of Rs.10/- each 65,00,000 preference shares of Rs. 100/- each	525,51,71,520 65,00,00,000
E	**SHARE PREMIUM ACCOUNT**	
	Before the Offer (as on June 30, 2005) After the Offer	7,67,35,681 7,67,35,681

* Earlier the Authorized Share Capital of the Company comprised of 1,00,00,000 equity shares of Rs. 10/- each aggregating to Rs. 10 crore and 1,50,00,000 preference shares of Rs. 10/- each aggregating to Rs. 15 crore, totaling to Rs. 25 crore. The authorized capital of the Company has since been increased from Rs. 25 crore to Rs. 1200 crore i.e., to 100,00,00,000 equity shares of Rs.10/- each aggregating to Rs.1000 crore and 2,00,00,000 preference shares of Rs.100/- each aggregating to Rs. 200 crore in terms of special resolution passed through postal ballot on March 24, 2003.

This is an Offer for Sale by existing shareholder (i.e. HFCL) and hence it will not have any impact on the equity share capital of the Company after implementation thereof.

NOTES TO CAPITAL STRUCTURE

(a) Capital History

HFCL Infotel Limited, an unlisted company, (originally known as Essar Commvision Limited) incorporated on March 30, 1995 under the Companies Act, 1956 (the "**Act**") with the Registrar of Companies, Gujarat, at Ahmedabad (The registered office was subsequently shifted to the State of Punjab with effect from August 22, 2000) was merged with ITI, a non-banking financial company, listed on the Mumbai, Calcutta and Madras stock exchanges and having its registered office in Chennai, under the provisions of sections 391-394 of the Act, w.e.f. September 1, 2002. The scheme was sanctioned by the Hon'ble High Court of Punjab & Haryana and the Hon'ble High Court of Madras vide their orders dated March 6, 2003 and March 20, 2003, respectively. The name of The Investment Trust of India Limited was changed to HFCL Infotel Limited (the "**Company**"), w.e.f. May 12, 2003 and the registered office of the Company shifted to the State of Punjab w.e.f. January 5, 2004. Pursuant to the Scheme, the whole of the business undertakings of the Transferee Company inclusive of its assets & liabilities stand transferred w.e.f September 1, 2002 by way of a slump sale to its then wholly owned subsidiary, Rajam Finance and Investments Company (India) Limited (name changed to The Investment Trust of India Limited w.e.f. June 17,2003).

Details of present equity share capital of the Company are as follows:

Sr. No.	Date of Allotment	Face Value (Rs.)	Issue Price (Rs.)	No. of Shares	Nature of the Issue	Consideration	% to the issued Capital
1.	Upto March 31, 1985	10	10	600000	Includes capital issued since date of incorporation i.e. August 2, 1946	Cash	0.11
2.	March 25, 1986	10	15	381700	Rights Issue	Cash	0.07
3.	December 26, 1989	10	N.A.	490750	Bonus	NIL	0.09
4.	July 22, 1991	10	25	706550	Rights Issue	Cash	0.13
5.	November 21, 1994	10	40	2179000	Rights Issue	Cash	0.41
6.	January 12, 2000	10	20	4358000	Preferential allotment	Cash	0.83
7.	June 17, 2003	10	10	432000250	Allotment as per Scheme of Amalgamation	Refer Note #	82.20
8.	October 13, 2003	10	10	1730814	Allotment on Conversion of Warrants issued in terms of scheme of amalgamation	Refer Note @	0..33
9.	October 16, 2004	10	10 & 10.50*	83070088*	Equity Shares have been allotted pursuant to the Corporate Debt Restructuring package worked out with the Term Lenders in lieu of the outstanding dues (Interest, Compound Interest, Liquidated Damages) as on 1st January 2004	Refer Note $	15.81
	Total			**525517152**			**100.00**

Notes:

\# 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 the 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.

@ Prior to the allotment of shares to the shareholders of "transferor company", the Company had issued, as per the Scheme, 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 every 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 the option, 17,30,814 equity shares were allotted at Rs. 10/- per share.

$ The company has allotted 8,30,70,088 equity shares to its term lenders pursuant to CDR package, converting their part of outstanding dues.

* 6,33,73,110 shares were allotted at Rs. 10.00 per share and the balance 1,96,96,978 shares were allotted at Rs. 10.50 per share i.e at a share premium of Rs. 0.50 per share.

As on March 31, 2005, the Company's totat Share premium was Rs. 8,40,38,460/-, which was utilized to the extent of Rs. 73,02,779/- during 3 months period ended June 30, 2005 towards the premium payable on redemption of secured OFCDs issued to lenders, pursuant to the restructuring package approved under CDR mechanism. As on June 30, 2005, the share premium stands Rs. 7,67,35,681/-

(b) Details of Shares Offered For "Offer for Sale"

The Selling Shareholder, HFCL is offering 80,00,000 equity shares of Rs. 10/- each for cash at a price band of Rs.14-Rs.16/- per share aggregating to Rs. 11.20 Crore at the minimum price and Rs.12.80 Crore at the maximum price band. The aforesaid equity shares are covered by the "non-disposal" undertaking given by HFCL, the Promoter of the Company, to the Company's consortium of Financial Institutions and Banks led by IDBI. IDBI, vide letter dated December 19, 2005 has granted the necessary approval for the aforesaid disinvestment and thereby releasing the equity shares covered under non-disposal undertaking, given by HFCL, to the term lenders of the Company led by IDBI.

(c) Promoters Holding and Lock-In

The Promoter, HFCL is holding 32,57,05,000 equity shares of Rs. 10/- each, constituting 61.98% of the total paid up equity share capital of the Company. Other than HFCL, none of the Directors of the Promoter or other companies forming part of the Promoter Group or the Directors of Promoter Group are holding any shares in the Company. Out of its holding, HFCL is offering 80,00,000 equity shares constituting ~1.52% of the paid up equity capital of the Company through this Draft Offer Document.

Out of the balance holding, following shares shall be under lock in as detailed below:

Date of allotment	Date when fully paid up	Consideration	No. of shares	Face value	Issue price	% of new capital issued pursuant to the scheme of amalgamation	Lock-in period from the date of listing
June 17, 2003	June 17, 2003	As per scheme of amalgamation	10,80,00,063	10/-	10/-	25%	3 years

As per SEBI (DIP) Guideline, 2005, clause no. 4.2.1, not less than 20% of the post issue paid up share capital of the Company's shares is required to under lock-in for 3 year which effectively comes out to be 10,51,03,431. However BSE has vide its letter ref no. DCS/SMG/RCG/2005/511116 dated November 2, 2005 has directed the Company that 25% of the New capital issued pursuant to the scheme of amalgamation will be under lock-in for 3 years from the date of listing which effectively comes out to be 10,80,00,063 equity shares. However, these shares may be transferred to and amongst promoter/ promoter group or to a new promoter or persons in control of the Company, subject to continuation of lock-in in the hands of transferees for the remaining period and compliance of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable. The Promoter may pledge locked-in equity shares only with Banks or Financial Institutions as collateral security for loans granted by such Banks or Financial Institutions provided the pledge is one of the terms of sanction of the loan. Relevant provisions of Clause 4.6 of the Guidelines have been complied with for determining promoter's contribution.

Further, BSE vide letter ref no. DCS/SMG/RCG/2005/511116 dated November 2, 2005 has directed the Company that 100% shareholding of the Promoters together with Persons Acting in Concert will be kept under lock-in until the Company comes out with a further Public Offer or an Offer for sale in the domestic market.

(d) Pre-Offer and Post-Offer Shareholding Pattern

Pre-Offer and post-offer shareholding pattern of the Company assuming full subscription of the present Offer is given below:

Particulars	Pre Offer Capital as on December 09, 2005		Post Offer Capital assuming full response to Offer for Sale	
	No. of Equity Shares	%	No. of Equity Shares	%
Promoters:				
HFCL	32,57,05,000	61.98	31,77,05,000	60.46
Non-promoters:				
Corporate Bodies	9,87,39,798	18.79		
FIs/Banks	8,79,10,731	16.73		
NRI / OCBs	15,989	0.00		
FIIs	25,826	0.01		
Clearing Members	20,606	0.00		
Public	1,30,99,202	2.49	20,78,12,152	39.54
Total	52,55,17,152	100.00	52,55,17,152	100.00

(e) The ten largest shareholders two years prior to date of filing of this Draft Offer Document with ROC is as follows:

Sr. No.	Name of the Shareholder	No. of Shares	% to issued capital
1	Himachal Futuristic Communications Ltd.	37,87,05,000	85.59
2	Masitia Capital Services Ltd.	1,50,00,000	3.39
3	August Trading Pvt. Ltd.	1,00,00,000	2.26
4	Linear Commercial Pvt. Ltd.	1,00,00,000	2.26
5	Moolsons Holdings Pvt. Ltd.	1,00,00,000	2.26
6	Global Trust Bank Ltd.	48,40,000	1.09
7	Malu Financial Securities Ltd.	34,55,000	0.78
8	TCK Finance Leasing (P) Limited	43,32,328	0.98
9	Basant Marketing (P) Limited	8,11,727	0.18
10	Nucleus Investments Securities	3,66,978	0.08

(f) The ten largest shareholders 10 days prior to date of filing of this Draft Offer Document with ROC is as follows:

Sr. No.	Name of the Shareholder	No. of Shares	% to issued capital
1	Himachal Futuristic Communications Ltd.	32,57,05,000	61.98
2	IDBI	6,33,73,110	12.05
3	Mantu Housing Projects Ltd	2,00,00,000	3.80
4	Masitia Capital Services Ltd.	1,50,00,000	2.85
5	Micro Management Ltd	1,25,00,000	2.38
6	Oriental Bank of Commerce	1,21,71,778	2.32
7	August Trading Pvt. Ltd	1,00,00,000	1.90
8	Linear Commercial Pvt. Ltd	1,00,00,000	1.90
9	M.K.J.Enterprises Ltd	1,00,00,000	1.90
10	Moolsons Holding Pvt. Ltd	1,00,00,000	1.90

(g) The ten largest shareholders as on date of filing of this Draft Offer Document with ROC are as follows:

Sr No.	Name of the Shareholder	No. of Shares	% to issued capital
1	Himachal Futuristic Communications Ltd.	32,57,05,000	61.98
2	IDBI	6,33,73,110	12.05
3	Mantu Housing Projects Ltd	2,00,00,000	3.80
4	Masitia Capital Services Ltd.	1,50,00,000	2.85
5	Micro Management Ltd	1,25,00,000	2.38
6	Oriental Bank of Commerce	1,21,71,778	2.32
7	August Trading Pvt. Ltd	1,00,00,000	1.90
8	Linear Commercial Pvt. Ltd	1,00,00,000	1.90
9	M.K.J.Enterprises Ltd	1,00,00,000	1.90
10	Moolsons Holding Pvt. Ltd	1,00,00,000	1.90

(h) The Promoter Group/ directors of the Company/ directors of the Promoter have not purchased and or sold/ financed any shares of the Company during the past six months other than 10,00,000 shares sold by the Promoters i.e. M/s HFCL during the last 6 months to Mr. Ramesh Kr. Gupta on September 29, 2005 out of the shares earlier pledged with Lord Krishna Bank.

(i) The Company, its promoters, its directors and the Lead Managers to this Offer have not entered into any buy back and/ or stand by arrangements for purchase of equity shares of the Company from any person in respect of this Offer.

(j) There are no outstanding warrants, options or rights to convert debentures or other instruments into equity shares as on date, other than those Optionally Fully Convertible Debentures (OFCD) that have been issued to the Lenders pursuant to the Corporate Debt Restructuring of the Company as per the details given hereunder:

A. Maturing in March, 2016

S No.	Name of Term Lenders	No. of OFCDs	Issue Price per OFCD (Rs.)	Amount (In Rs.)	Remarks
1.	State Bank of Patiala	193104	100	19310400	The conversion option is valid till April 15, 2006 whereafter these OFCDs shall become Non Convertible.
2.	Life Insurance Corporation of India	1474657	100	147465700	
	Total	**1667761**		**166776100**	

B. Maturing/Converting in FY. 2005 - 2006

Sl. No.	Name of Term Lenders	No. of OFCD	Issue Price per OFCD (Rs.)	Total Amount	Remarks
1.	Industrial Development Bank Of India	4997260	100	499726000	Lenders have the right to select the date of conversion. However, upto March 31, 2006, these OFCDs have to be necessarily converted.
2.	Life Insurance Corporation of India	936986	100	93698600	
3.	Oriental Bank of Commerce	929490	100	92949000	
4.	ING Vysya Bank Limited	375046	100	37504600	
5.	State Bank of Patiala	312396	100	31239600	
	Total	**7551178**		**755117800**	

(k) The Company does not currently have any Employee Stock Option Plan

(l) The Company has not raised any bridge loan against the proceeds of this Offer.

(m) The Company had 9377 members/shareholders as on December 15, 2005.

(n) No single applicant can make an application for number of securities, which exceeds the securities offered namely, 80,00,000 equity shares.

(o) The Company has not revalued its assets since inception.

(p) Being an Offer for Sale there will not be any shares, which are not fully paid up. Thus the provisions of clause 6.4.2.1 (g) of the Guidelines, regarding securities offered through this offer for sale being made fully paid up or may be forfeited within 12 months from the date of allocation of the securities, are not applicable.

(q) The equity shares of the Company are available in dematerialized mode and the market lot is one equity share. The Selling Shareholder/Company undertakes that at any given time there shall be only one denomination for the shares of the Company and the Company shall comply with such disclosure and accounting norms specified by SEBI from time to time.

(r) The Company has not issued any shares for consideration other than cash (other than by capitalization of reserves) or out of revaluation of reserves except for 43,20,00,250 equity shares of Rs. 10/- each issued by the Company to the shareholders of erstwhile HFCL Infotel Ltd. pursuant to the Scheme of amalgamation approved by the Hon'ble High Court of Punjab & Haryana and Hon'ble High Court of Madras and 8,30,70,088 Equity Shares to its term lenders, 65,00,000 7.5% Cumulative Reddemable Preference Shares of Rs. 100/- each Fully paid to Himachal Futuristic Communications Limited, pursuant to corporate debt restructing package approved by Corporate Debt Restruturing Cell, against conversion of outstanding dues.

(s) Details of shares pledged by the Promoter to various Institutions/Banks

Name of the pledgee	Details	No. of Shares
IDBI	Credit facility sanctioned to the Company	16,30,00,000
Rabo Bank India Ltd.	Credit facility sanctioned to HFCL	3,00,00,000
Sahara India Commercial Pvt. Ltd.	Credit facility sanctioned to HFCL	1,00,00,000
Sojitz India Private Limited	Pledged with Sojitz India (a subsidiary of Sojiz Corporation, Japan) as a security for funds owed by HFCL to Sojiz Corporation for the import of goods	45,00,000
Total		**20,75,00,000**

(t) No shares have been allotted on firm basis or through private placement in the last two years nor has the Company bought back its equity shares in the last six months, save and except (i) 17,30,814 equity shares allotted on excersizing the conversion option by the shareholders, (ii) 8,30,70,088 Equity Shares to its term lenders, pursuant to corporate debt restructing package approved by Corporate Debt Restruturing Cell, against conversion of outstanding dues.

(u) An oversubscription to the extent of 10% of the net offer to the public shall be retained for the purpose of rounding off to the nearest integer of minimum allotment amount.

(v) As per SEBI Guidelines, a minimum of 50% of the net offer to the public is reserved for allotment to individual investors applying for Equity Shares of or for a value of not more than Rs. 1,00,000/-. The remaining 50% of the offer to the public is reserved for individuals applying for Equity Shares of a value more than Rs.1,00,000/- and corporate bodies / institutions etc. Unsubscribed portion in either of these categories shall be added to the other category interchangeably.

(w) The Company will apply for the necessary approval for transferring equity shares to NRIs from RBI. **As per the policy of the RBI, OCBs cannot participate in this Offer.** Allotment to NRIs would be subject to such conditions as stipulated by RBI while granting such permission.

(x) With a view to tie up the additional fund requirements for its proposed expansion plan, the Company may have to come out with Public Offer / Rights Issue / GDR / ADR / Prefrential Issue or raising funds through any other mode, which may result into change in its capital structure during the next six months period. This being an Offer for Sale, the capital structure of the Company will not undergo any change.

4. OBJECTS OF THE OFFER

This Offer for Sale of 80,00,000 equity shares is being made by the Selling Shareholder to further raise the shareholding of the non-promoters in HITL and to make necessary disclosures to the investors / Public with an objective to list the equity shares of the Company allotted pursuant to the Scheme of Amalgamation approved by the Hon'ble High Court of Punjab and Haryana and Hon'ble High Court of Madras, on recognized stock exchanges. The BSE has stipulated making of this Offer a pre-condition for the permission to list the shares issued to the shareholders of the erstwhile HFCL Infotel Limited by the Company pursuant to the amalgamation Scheme.

COST OF PROJECT / MEANS OF FINANCE

This being an Offer for Sale, the data pertaining to cost of project and means of finance is not applicable. The Company will not receive any proceeds from the sale of the equity shares. The Selling Shareholder will receive the Offer proceeds.

BASIC TERMS OF ISSUE

Ranking of Equity Shares

The equity shares now being offered shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall rank pari-passu with the existing equity shares of the Company including rights in respect of dividends.

Face value and offer price

The equity shares with a face value of Rs. 10/- each are being offered in the Offer at a price band of Rs.14/- to Rs.16 /- per share.

Rights of the equity shareholder

Subject to applicable laws, the equity shareholders shall have the following rights:

a) Right to receive dividend, if declared;
b) Right to attend general meetings and exercise voting powers, unless prohibited by law;
c) Right to vote on a poll either in person or by proxy;
d) Right to receive offers for rights shares and be allotted bonus shares, if announced;
e) Right to receive surplus on liquidation;
f) The right of free transferability; and
g) Such other rights, as may be available to a shareholder of a listed public Company under the Companies Act, Listing Agreement with Stock Exchanges and Memorandum and Articles of Association of the Company.

Please see the section "The Articles of Association" on page 154 of this Draft Offer Document for further details on the main provisions of the Company's Articles of Association dealing with voting rights, dividend, forfeiture & lien, transfer & transmission.

TERMS OF PAYMENT

Applications should be for a minimum of 400 equity shares and in multiples of 100 equity shares thereafter. The full offer price is payable on application. Where an applicant is allotted lesser number of equity shares than he / she has applied for, the excess amount shall be refunded to the applicant. No interest would be payable on application money pending allocation up to 30 days from the date of closure of the Offer.

INTEREST ON EXCESS APPLICATION MONEY

Payment of interest @15% per annum on excess application money will be made to the applicants, if refund orders are not dispatched within 30 days from the date of the closure of the Offer as per the guidelines issued by the Government of India, Ministry of Finance vide their letter No.F-8/6/SE/79 dated July 21, 1983 as amended vide their letter No.F/14/SE/85 dated September 27, 1985 addressed to the stock exchanges, and as further modified by SEBI's circular SMD/RCG/33/1819/96 dated May 15, 1996.

Reservation for Retail Individual Investor

The above proportionate allotments of Equity Shares in an Issue that is oversubscribed shall be subject to the reservation for Retail individual investors as described below:

a) A minimum 50% of the net offer of Equity Shares to the public shall initially be made available for allotment to retail individual investors, as the case may be.

b) The balance net offer of Equity Shares to the public shall be made available for allotment to:

i) individual applicants other than retail individual investors, and;

ii) other investors including Corporate bodies/ institutions irrespective of the number of shares, debentures, etc. applied for.

c) The unsubscribed portion of the net offer to any one of the categories specified in (a) or (b) shall / may be made available for allotment to applicants in the other category, if so required. The drawal of lots (where required) to finalize the basis of allotment, shall be done in the presence of a public representative on the Governing Board of BSE (designated stock exchange). The basis of allotment shall be signed as correct by the Executive Director/Managing Director of BSE designated stock exchange) and the public representative in addition to the Lead Manager and the Registrar to the Issue.

Despatch of refund orders

The Company shall ensure despatch of Refund Orders of value up to Rs.1500/- Under Certificate of Posting and refund order over the value of Rs.1500/- by Registered Post only. The Company would also make available adequate funds to the Registrars to the Issue for this purpose.

Basis of Allotment

In the event of offer over-subscribed, the allotment will be on a proportionate basis and the basis of allotment will be finalized in accordance with the SEBI Guidelines and in consultation with BSE (Designated Stock Exchange). The Executive Director/Managing Director of BSE along with the Lead Manager and the Registrar of the Issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner in accordance with the following guidelines:

INTEREST IN CASE OF DELAY IN ALLOCATION & DISPATCH.

a) Allocation of securities offered to the public shall be made within 30 days of the closure of this Offer.
b) The Company shall pay interest @ 15% per annum for the period of delay beyond 30 days if the allocation has not been made and / or refund orders have not been dispatched to the investors within 30 days from the date of closure of the Offer.

BASIS FOR OFFER PRICE

Qualitative factors

(a) The Company is part of the HFCL Group, which is amongst the largest telecommunication equipment-manufacturing group in India.
(b) The share of the Company is being traded in the range of Rs. 21 - 37/- per share and the six monthly average is about Rs.29 per share
(c) The Company operates in the high growth Telecommunication Sector. The Company has already launched Triple Play services (Voice, Video and Data) which are widely considered as future growth drivers for the Company's mainstay fixedline telephony business. The launch of Video Access services has positioned Infotel amongst the first entrants in the Triple Play service operations in the country.
(d) The Company operates in Punjab, which is one of the most attractive telecom circles in India, with high-income levels and attractive demographics.
(e) The Company was the first private fixedline service operator to have commercially launched services in Punjab.
(f) The Company has a very extensive core optic fibre network of over 3000 route km. Other private operators in the circle have established their core network using the optic fibre laid by the Company, on lease.
(g) The Company's telecom operations started generating Operating Profit (EBIDTA) in less than 2 years of operations and cash profit (Profit before Depreciation, Amortization and Taxes) in less than 4 years of operations.
(h) The Company's fixedline telephony business has received very high consumer satisfaction ratings in the last survey conducted by TRAI, the Regulator.
(i) The Company has recorded strong growth in subscribers and financial parameters:
    - Subscriber base grew by 63% from 151,000 at the end of March 2004 to 246,700 at the end of March 2005. As at end November 2005, Infotel reached a subscriber base of 294,900, implying an annalized growth of ~30% over the March 2005 subscriber base.

- Gross Revenue grew by 32 % from Rs 191.67 Crore in FY2003-04 to Rs 253.32 Crore in FY2004-05. For the 3 months ending June 2005, Infotel's registered revenues of Rs. 70.5 Crore, implying an annualized growth of 11%.
- Gross operating revenue (excluding infrastructure services) of Rs 253.32 Crore achieved during FY 2004-05, translates to an overall blended average revenue per user (ARPU) of ~Rs 1062/ month (based on opening and closing subscriber base). This ARPU is amongst the highest in the country.

Quantitative factors

(a) The Company has been making losses for the last three years ended on March 31, 2005 and has accumulated losses to the extent of Rs. 568.22 Crore as on June 30, 2005. In view of this calculation of Earning Per Share ("**EPS**") and weighted average EPS is not relevant.

(b) Price Earnings Ratio (P/E Ratio) in relation to Offer price of Rs. 14 per share (Rs. 16/- per share within the upper limit of the price band of 20%)
Since EPS is negative P/E ratio cannot be computed.

(c) Industry P/E Ratio

Highest	30.5
Lowest	-
Average (Industry Composite)	24.8

Source: Capital Market December 19, 2005 – January 1, 2006

Name of the Company	Share Price as on December 12, 2005 (Source: Capital Market December 19, 2005 – January 1, 2006)	Face Value (Rs.)	P/E*
MTNL	135	Rs. 10/-	9.9
VSNL	410	Rs. 10/-	25.7
Bharti Tele Venture	350	Rs. 10/-	30.5
Tata Tele Services	29	Rs. 10/-	-
HFCL Infotel	23	Rs. 10/-	-

The data on the peer set of companies (i.e. other than MTNL, VSNL and Bhati Tele Venture where scale of operations and data is not comparable) reveal that the EPS of these companies is negative. The EPS of MTNL, VSNL and Bharti Tele Venture as on December 12, 2005 stand 13.6, 16.0 and 11.5, respectively. Being an infrastructure companies, the gestation period is large, which is being reflected in the negative earnings. The market price of the equity shares is a reflection of the status of the project, area of operation, promoters and the market perception.

(d) Return on Networth

The Company has been making losses for the last three years ended on March 31, 2005 and has accumulated losses to the extent of Rs. 568.22 Croreas on June 30, 2005. In view of this calculation of Return on Networth is not relevant.

On account of the above, calculations in respect of minimum return on networth required to maintain pre-issue EPS are not relevant.

(e) Net Asset Value (NAV) per share

As at June 30, 2005	0.87
After the Issue	0.87
Issue Price	Face Value of Rs. 10/- at a Price band Rs 14-16/- (Within the upper limit of price band of 20%)

(f) The face value of the Equity Share is Rs.10/- and the offer price is 1.4 times (at the lower price band) and 1.6 times (at the higher price band).

The Company being an infrastructure company, the gestation period involved is large. The Indian telecom sector offers significant growth potential. The telecom circle i.e. Punjab, in which the Company operates is amongst the most attractive telecom circle and offers significant advantages to the Company, which is well poised to exploit the business potential.

The present Offer is being made by HFCL to further raise the shareholding of non-promoters as advised by BSE. HFCL is proposing to make an Offer at Rs. 14 per share or at a price within a price upper band of 20% from the floor price.

The Selling Shareholder proposes to offer the shares at a discount to the current market price to invite wider participation by the public to ensure better liquidity in the share. Moreover Selling Shareholder is keen to comply with the requirements of further raising the shareholding of non-promoters as advised by BSE.

In view of the above qualitative and quantitative factors the offer price of Rs. 14 per share (within a price band of 20% on the higher side) is justified.

STATEMENT OF TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS

As mentioned in Annexure VIII of the Auditors Report at page no. 91

IV ABOUT THE ISSUER COMPANY

1. Industry Overview (Source: Company Management)

Overview of the Indian Telecommunication Services Industry

Structure of the Telecommunication Services Sector & the Regulatory Environment

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: The principal recommendatory functions include introduction of new service providers, terms and conditions of licences to be awarded, measures to facilitate competition & promote efficiency, efficient management of available spectrum.
- Regulatory Functions: The regulatory & supervisory functions include fixing & regulation of tariffs, fixing the terms & conditions of interconnection arrangements between operators, ensuring technical compatibility between operators for inter-connection, 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. TRAI periodically monitors the performance of Infotel and other operators against Quality of Service parameters and Licence Conditions.

TDSAT has been granted powers to adjudicate any dispute between the licensor (the GOI) and a licensee 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.

Opening of the Sector to Private Sector Participation

Until the mid 1990s, the Telecommunications Industry was a monopoly, managed and controlled by the Government through Governmental Departments, primarily the Department of Telecommunications (DOT) and a few Public Sector Undertakings (PSUs), primarily Mahanagar Telecommunications Nigam Ltd (MTNL) and Videsh Sanchar Nigam Ltd (VSNL). VSNL was incorporated in March 1986 for providing overseas telecom services. MTNL was incorporated in April 1986 for providing telephone services in Mumbai and New Delhi.

In December 1991, the Government, through the DOT, invited bids from Indian companies for providing cellular mobile services in the four metro cities. In May 1994, taking a comprehensive view on the Industry, the Government announced the National Telecom Policy 1994 ("NTP'94"). With the objective of accelerating the penetration of telecommunications services, NTP'94 entailed entry of private sector in the Basic Telecommunication Services (fixedline services through wireline and wireless systems) and introduction of Cellular Mobile Services (mobility services through wireless systems) in the Country through the private sector.

NTP'94 envisaged a duopoly operator scenario, i.e.

- In case of Basic Services, only one private sector operator competing with the services provided by the Government of India/ PSUs - MTNL & DOT (since incorporated as Bharat Sanchar Nigam Ltd (BSNL))
- In case of Cellular Services, two private sector operators

The licenses were issued to cellular operators in New Delhi, Mumbai, Calcutta and Chennai in November 1994. Tenders were floated for basic services and cellular services in non-metropolitan sectors in January 1995. Following the tendering for the licences, GOI issued Basic Services Licences in 1997 and 1998 to six private sector players, including Infotel, one each in six Telecom Circles. Based on the Licence Fee bid, the licensed operators were required to pay fixed annual licence fee over the 15 year term of the licence.

Infotel's licence was issued on November 7, 1997. This licence was valid for 15 years starting with the effective date of September 30, 1997. The licence allowed Infotel to offer Basic Telephony Services in the Telecom Circle consisting of the State of Punjab and Union Territory of Chandigarh.

During 1995, the GOI issued licences for Paging Services as well. The licences for Cellular services in non-metro areas were issued in October 1996. In November 1998, ISP business was opened up to operators other than DoT and VSNL.

Migration to NTP'99 Regime

Most of the licensed Basic Service Operators were unable to start their services even after almost two years of issue of licence. The major reason for this was difficulties in arranging financing for the projects and delays in getting Rights of Way for establishing the underground cables and other network infrastructure. The Cellular Operators were also facing difficulties in arranging financing as well as slower than anticipated growth in demand.

Appreciating the difficulties faced by the operators, concerned about the slow growth in the penetration of telecommunication services, and looking at the emerging trends in convergence, the GOI announced a New Telecom Policy in 1999 ("NTP'99") to provide a growth impetus to the industry.

Key facets of the policy framework of NTP'99 relevant for Basic & Cellular Services were:

- A revenue share licence fee to replace the fixed annual licence fee
- Withdrawal of the right to duopoly; Replaced with a multi-operator scenario. BSNL and MTNL were allowed to offer cellular mobile services as third-operators in the respective circles

- Extension of Licence period from 15 to 20 years, and later extendable by an additional 10 year period;

The NTP'99 General Objective included the subject of "equal opportunities and level playing fields for all players". The Attorney General to the GOI also recommended the need for "Level Playing Field". With an expectation that the promised Level Playing Field would be affected whenever the norms for new licences are announced at a later date. Infotel accepted the Migration Package offered by the GOI to migrate to the NTP'99 Regime.

Norms for new Basic Services licences in 2001 and the Permission to allow Mobility Services limited to a Short Distance Charging Area

Opening up the Basic Services for unlimited competition, in January 2001, the Government announced guidelines and norms for issue of new Basic Services Licences. Among other aspects, these guidelines included the right to offer mobility services limited to a Short Distance Charging Area (SDCA), commonly known as WLL (M) Services. Existing operators, including HFCL Infotel were also allowed to offer such mobility services.

Migration to Unified Access Services Licence

In order to encourage the technology neutrality in the access provision leveraging on the technological developments, to ensure flexibility and efficient utilization 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 October 2003, TRAI recommended a Unified Access License regime to make the access provision technology agnostic, thus blurring the boundary between fixed and mobile access.

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 like HFCL Infotel became entitled to offer fully mobile services. TRAI recommended that the migrating Basic Operators pay an additional entry fee equal to the entry fee paid by the 4th Cellular Licensee 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 Infotel are:

- Infotel can now offer high growth fully mobile services with the existing spectrum entitlement.
- Infotel did not have 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 Licensee.

Regulations in the telecom sector have evolved considerably over the past decade and after several hic-cups have reached a stage where there is a strong regulator (TRAI) in place and there is considerable clarity in terms of the way forward. Key issues are:

- Licensing
  - 74% foreign equity permitted
  - Unified Licensing regime in place for access services (mobile and fixed) through an automatic process involving registration and compliance with published guidelines
  - License available freely; however, spectrum subject to availability
  - It is expected that the unified Licensing regime will be extended to all telecom services including Domestic and International Long Distance.
- Interconnection
  - Compulsory and non-discriminatory interconnection
  - Charges suggested by TRAI- although operators are allowed to negotiate rates lower than the specified
  - Differential rates for off-net and on-net calling allowed.
  - Access deficit charges in place – will be phased out in medium term
- Spectrum
  - Priced on a revenue share basis (similar to license fee)
  - Linked to allocation of spectrum – which is linked to subscriber base
- Roaming and infrastructure sharing

- Not compulsory: based on mutual consent

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

- Increasing Household incomes as the economy grows
- Increased coverage by network operators – reaching out to untapped markets
- Higher affordability through lower tariffs as regulatory and equipment costs decline
- India's booming economy would further drive growth
- Sectors such as IT Services and IT enabled Services are growing sharply
- Services such as banking, insurance, hospitality, etc. are showing growth with increased demand and competitive activity.
- As Multinational Corporations increase their presence in India and Indian Companies expand overseas, India will integrate with the global economy giving further impetus to telecom growth
- As Companies organise their operations using ERPs and expand their networks for SCM, CRM, etc., the need for telecom services expands sharply.

While a number of estimates are provided for the growth in the telecom sector, CRIS INFAC has projected that India's tele-density would reach a level of 24.3% by 2009-10. As such, the total subscriber base is projected to increase from the 98.1 mn in 2004-05 to a level of around 285 mn by 2009-10. While urban tele-density is expected to cross the 50% mark over this period, rural tele-density would be just about reaching double figures by the end of this period.

Overview of the Indian Cable TV Industry

Television has the highest reach across all socio-economic classes in India. More importantly, the time spent watching television is increasing, as it is the cheapest form of entertainment for any household in the country, especially for low-income households.

Key milestones in the development of the Indian Cable TV industry are provided below:

1961: Doordarshan starts TV services
1982: Colour TV services start
1991: CNN coverage of Gulf War creates demand for Cable TV
Start of Star TV, Zee and India specific programming provides impetus for the proliferation of the Indian cable TV (CATV)
Growth initially driven by small "Mom and Pop" Operators
1995: Cable TV Networks (Regulation) Act passed.
Consolidation of the CATV operators into MultiSystem Operators
1998: ISP market opened up for private parties and Internet-on-cable permitted
1998-2002: Channels turn pay to increase revenues through subscription
2001: Government appoints task force for considering introduction of Conditional Access System
2002: VOIP permitted for ISPs
2003Present: CAS Bill yet to be implemented

The following statistics show the relative cost of Cable TV against other modes of entertainment:

User Charges for		(Rs.)
DVD Rental	Per event	125
VCD Rental	Per event	30-80
Movie ticket in a metro area	Per event	25-150
Music Cassette	Per event	25-125
24 hrs Cable TV with 50-100 channels	Per event	150-200

(Source: Morgan Stanley Research)

Prior to introduction of cable TV in 1991, Indian television households received reception from only one state-owned terrestrial broadcaster, Doordarshan. In terms of number of channels, there are an estimated 350 TV channels available today over the Indian skies. An urban cable home in the four metros currently receives approximately 90 TV channels in the analogue mode. 50 of these channels are free-to-air and the balance are Pay, which are bundled together into bouquets.

The TV households have grown at a compounded rate of over 12% per annum, from about 25 mn in FY1992 to about 100 mn currently. Of these, an estimated 50 mn are cable connected, up from 0.4 mn in

1992. Direct-to-Home ("**DTH**") has emerged as the third alternative mode recently. DTH subscriber base is estimated to be about 1 mn currently.

The Cable TV industry has hitherto been an un-regulated one. Starting of cable TV operations requires a simple registration with the district's main post office. There is no limit on the number of operators in an area. Most LCOs have their network in a limited physical area & collect anywhere between Rs 75 to Rs 400 per month depending upon the number of channels offered, social strata of the subscribers and competition level. In most areas, there is a situation of monopoly or oligopolistic duopoly. There are an estimated 50,000 – 60,000 Local Cable Operators (LCOs) in India.

A MSO typically sets up modern infrastructure with one big dish farm & supplies 'feed' to the access network of the existing Local Cable operators, who thus become the MSOs franchisees. The LCO handles the customer interface including installation, maintenance and collection in the territory.

The table below illustrates the typical distribution chain in place in India today.

	Profile	Services
MSO Head-end	Digital and/or Analogue	All technical facilities Contract negotiation for content, marketing
Distributors	Each distributor typically controls between 50 and 200 LCOs	Channel Management Collection from LCOs
Local Cable Operator	Each LCO manages between 400-1000 homes	Manage subscribers and collect revenue

In most cases, the LCOs actually bill the subscribers, collect the cash and then pass it on to the MSOs and distributors. The MSOs have legal contracts binding the LCOs to them. The MSOs provide all technical infrastructures except, in most cases, last mile connectivity. MSOs also forge agreements with channel providers for content.

India's Cable industry witnessed the entry of organized sector MSOs such as SitiCable (a part of the Zee Network), InCable, and Hathway. These organized sector MSOs have established about 200 head-ends in metros and major towns to provide services to cable operators. Independent operators have consolidated their networks and are providing services in mostly semi-urban and rural areas.

Some of the **key Challenges** faced by MSOs in the country are:

- Highly fragmented cable industry
- Large proportion of under-declaration by LCOs resulting in losses
- High turnover rate of LCOs due to loose agreements
- Negative/low return on capital employed
- Large proportion of cash dealing resulting in lower accountability by LCOs
- Lack of professionalism in LCOs
- Cut throat competition amongst MSOs
- Huge premium required for acquiring last-mile subscribers

In the absence of independent audits or 'addressability' systems, there is a massive under-reporting of subscriber base by the LCOs to the MSOs/ broadcasters for the pay channels, as evident from the inverse gap in the collected subscriber charges and the due payouts to broadcasters:

Pricing of main bouquets (2005)	
Bouquet package	Rs per month
Zee	59
Zee 2	25
Star 1	32
Star 2	17
Sony Package	57
Sony 2	17
ESPN Star	31
Total	238

It is estimated that the eventual reporting to the broadcasters is around 20 to 40% of the actual base. Under-declaration continues to be an unresolved issue between the broadcasters and MSOs/ LCOs.

India’s Cable industry witnessed the entry of organized sector MSOs such as SitiCable (a part of the Zee Network), InCable, and Hathway. These organized sector MSOs have established head-ends in metros and major towns to provide services to cable operators. Independent operators have consolidated their networks and are providing services in mostly semi-urban and rural areas.

Some of the smarter and larger cable operators have started modernizing their network infrastructure. Optic fibre have been deployed in some networks, thereby improving the quality of service vastly and serving as high as 80 broadcast channels. With the optic fibre, cable networks are now being used for Internet access and will be able to host other value added services like Pay per view (PPV), Video on Demand (VOD), Distance Learning and Voice Telephony.

Cable Industry Regulatory Environment

The government introduced the Broadcast Bill and an open sky policy in 1997 with the aim of opening up markets to licenses for terrestrial radio, satellite radio, satellite TV broadcasting, Direct-to-home and cable market. However, India’s legislation guiding cable and satellite broadcasting has been confusing and sometimes contradictory. Some of the milestones of the cable industry are as follows:

1995	Cable TV Networks (Regulation) Act passed.
1997	Consolidation of the CATV operators into MSOs is completed with two major operators – IMCL and SitiCable – and the upcoming Hathaway.
1998	Broadcasters initiate pay channels on subscription basis to increase revenues.
2002	By December, the Parliament passes the Cable Television Networks (Amendment) Act, 2002. This mandates that, over time, all homes in India desiring pay channels must have addressable set top boxes.

The Bill has paved the way for introduction of Conditional Access System in India. The bill seeks to regulate the operation of Cable TV networks through the mandatory installation of an addressable system for accessing pay channels. With this move the set-top boxes will enter the customer’s premises. The implementation of CAS was planned in a phased manner but the resistance from all quarters has been so intense that the government has not succeeded in evolving a palatable formula for all the concerned stakeholders. In January 2004, the Government has mandated the Telecom Regulatory Authority of India (TRAI) to act as a regulatory body to define the rules in the new era of CAS.

Highlights of the CAS Bill

- Every cable operator and network has to be registered with an authority specified by the Central Government
- The Central Government reserves the right to notify dates for introduction of the addressable system in various cities after which the pay channels should be made available to the subscribers only through an addressable system
- A basic tier offering of the FTA channels, comprising a minimum number of channels (30) and a mix of genres should be made available to subscribers at a price of Rs 72 per month.
- This basic tier offering should be available to the subscribers without the adoption of an addressable system or Set-Top-Box or specifying a particular type of television receiver.
- Cable operators shall publicize the rates for the various pay channels and the periodic intervals at which these rates are payable
- Cable operators shall submit a report to the Central Government in a prescribed manner giving the number of total subscribers, subscription rates and number of subscribers receiving programmes transmitted in the basic service tier or particular programme or set of programmes transmitted on pay channels. This report shall also specify the amount payable by the cable operator to the broadcaster
- All equipment used by the cable operators should conform to the Bureau of Indian Standards

Future Perspective

- Television is the main source of Entertainment in India and likely to remain in the future. The proportion is expected to increase from the present 50% to more than 70%
- Huge untapped market:
- 100 million Households do not have television
- 50 million television Households do not have cable
- The avenues of Entertainment in the smaller cities and towns are limited.
- Subscription charges as proportion of Personal Disposable Income indicates:
- The pricing points are sustainable
- The target segment can expand as more households cross the critical income barrier
- Proportion of Value added services such as Internet and Pay per view in the total revenues can increase.
- Pay revenues will be the primary growth driver for subscription revenues in the semi-urban & rural area. The rise in pay revenues will come from growth in the number of cable and satellite (C&S) homes in the semi-urban and rural areas. The growth here will be driven by the television households taking up cable and satellite services as well as growth in the households purchasing television sets.
- In the urban areas (current penetration has already touched 67%), the growth will come from increased realization of subscription fees, by offering value added services to subscribers and implementation of digital systems. Better enforcement of subscription collection is also expected to increase the revenue size.
- As per an Interconnect order issued by TRAI, every broadcaster is required to provide on request, signals of its TV channels on non-discriminatory terms, to all distributors of TV channels, which may include, but may not be limited to a cable operator, direct-to-home (DTH) operator, multi-system operator (MSO) and Headend-in-the-sky (HITS) operator.
- TRAI is trying to resolve addressability issues which would usher in a Conditional Access System (CAS) regime. In any form, addressability would require investments by MSOs and LCOs to upgrade the current infrastructure.
- Cable MSOs have been waiting for a CAS environment to provide broadband services using their cable infrastructure.

Overview of the Indian Broadband Sector

While India has a booming Internet market (with around 6 mn subscribers in early 2005, translating to around 30 mn users) broadband uptake has been relatively slower. The reasons include:

- ADSL deployment was not strong on account of regulatory and pricing issues
- Cable Modem technology has been stalled by the poor quality of infrastructure of existing LCO networks
- Wireless broadband is yet to be actively pursued

Broadband has not been a focus area for most access providers as they have focused more on the wireless services with an objective of expanding the market.

In 2004, the Indian government issued a framework policy for broadband development in the country. Broadband is defined as ‘an ‘always-on’ data connection that is able to support interactive services including Internet access and has the capability of the minimum download speed of 256kb/s to an individual subscriber from the point of presence (PoP) of the service provider Intending to provide broadband service where multiple such individual broadband connections are aggregated and the subscriber is able to access these interactive services including the Internet through this PoP. The interactive services will exclude any services for which a separate licence is specifically required, for example, real time voice transmission, except to the extent that it is presently permitted under ISP Licence with Internet Telephony.’

Within the policy framework, the government has set the following targets for broadband and internet roll out:

Access	Internet Subscribers (mn)	Broadband Subscribers (mn)
2005	6	3
2007	18	9
2010	40	20

Some key points noted in the Broadband Policy 2004 document included:

- The spread of the networks of private service providers have to play an important role in bringing optical fibre to homes as well as the rural areas and they are expected to focus on it.
- The owners of copper loop have to be given a high priority because their role is critical as key drivers in the Broadband service market using DSL. BSNL and MTNL, as well as other access providers, are expected to aggressively use their Copper loop infrastructure for providing Broadband services through this technology.
- Access providers shall be free to enter into mutually agreed commercial arrangements for utilisation of available copper loop for expansion of broadband services. The owner of local loop shall be free to decide the areas in which investment is to be made to upgrade the infrastructure for broadband services. The information regarding the areas in which Broadband services are being offered by a service provider shall be available in the public domain.
- It is noted that cable TV connection as last mile infrastructure reaches more people than even the telephone copper infrastructure and can be leveraged in providing cable operators a new business model while giving a stimulus to Broadband penetration. Therefore, Cable TV network can be used as franchisee network of the service provider for provisioning Broadband services. However, all responsibilities for ensuring compliance of terms & conditions of the licence shall vest with the Licensee. The terms of franchise agreement between Licensee and his franchisee shall be settled mutually by negotiation between the two parties involved.
- VSAT and DTH services would be encouraged for penetration of Broadband and Internet services with the added advantage to serve remote and inaccessible areas.
- It is the intention of the Government to make available transponder capacity for VSAT services at competitive rates after taking into consideration the security requirements. Department of Space is already interacting with VSAT service providers. Department of Telecommunications, in consultation with the concerned Ministries, will soon propose measures in the direction of Open Sky Policy for VSAT operators. The role of the Department of Space is critical in such an endeavour.
- Recognising that terrestrial wireless is another upcoming technology platform for Broadband, it has been decided in principle to de-license the 2.40-2.48GHz band for low-power outdoor use on non-protection, non-interference and non-exclusive basis. Necessary notification shall be issued. Further, notification regarding delicensing 2.40-2.48MHz band for low power indoor permitting use of all technologies, which inter-alia include those based on IEEE 802.11b and 802.11g standards, has been issued.
- In the changing technology scenario, there is a possibility of new options being used for provisioning of Broadband services. These technologies can also be utilised for provisioning of such services within the licensing framework of the service provider and the spectrum management policy of DoT.

Future Perspective

- The Broadband Market is India is expected to see significant growth:
- The Broadband Market is projected to reach a level of 18 mn by 2009 (refer table below)
- PC Penetration is increasing rapidly in the country
- Lower cost increasing affordability
- IT / ITeS growth driving home usage
- PC based education spreading across schools – impacting home usage
- Value added Video services – VoD / PPV will drive penetration
- Broadband pricing increasingly affordable

2. Business of the Company

(Source: Company Management)

Licence/ Authorization for the Services

The Company provides telecommunication services in the Punjab Telecom Circle under a Licence Agreement, as amended from time to time, entered into with GOI acting through the DOT in the Ministry of Communications and Information Technology. The Company signed the Licence Agreement on November 7, 1997 with an effective date of September 30, 1997. The licence is valid for 20 years and is further extendable for a period of another 10 years. The Company's Licence was migrated to a Unified Access Services Licence from November 14, 2003 and the amended Licence Agreement was signed on May 30,

2004. The Company also holds another Licence for providing Internet Access services in Punjab Service Area.

The Company is the first private sector fixedline services licensee for the Punjab Telecom Circle. The Company's services were commercially launched in September 2000. Under the licences held, the Company can provide all access telecommunication services – fixedline & mobile voice telephony using any technology, data services, internet access, value-added/ enhanced services – in the Punjab Telecom Circle.

Service Area: Punjab Telecom Circle

Service area of the Company comprises the State of Punjab and Union Territory of Chandigarh. After the recent migration of the Company's licence to a UASL in November 2003, the service area now includes Panchkula (a town in Haryana).

Punjab is a geographically compact state covering an area of 50,362 square kilometers (about 1.6% of India's total geographical area); It has a population of 24 million, spread over 120 urban centres and approximately 13,000 villages.

Punjab is amongst the most attractive area in India for a consumer services in general and telecom services in particular. It boasts of a prosperous agro-based economy. Punjab is a leading State in terms of economic activity and incomes. (see tables below for supporting statistics)

The State of Punjab, though small, stands out as an outstanding State on almost all parameters of economic and human development vis-à-vis other States in India:

- Punjab has amongst the highest per capita income. As shown in the tables below, Punjab's per capital income in 2001-02 was Rs 25,652 against the national average of Rs 17,947.
- Punjab ranks the best state on Infrastructure Development Indices prepared by CMIE and NCAER. As per the CMIE Index of Relative Development of Infrastructure, Punjab ranked the best with an index score of 191. In the NCAER, Punjab scored 210 to be at the top. (Base Value or India Average in each case is 100)
- Punjab has amongst the lowest proportion of population below poverty line. It also has the lowest disparity between the urban and rural areas. (see table below for the supporting statistics)

The table below lists Punjab's position on some of the socio-economic parameters:

Metric	**All-India**	**Punjab**	**Punjab's Rank**
Ratio of Urban population	28%	34.0%	6th
Per capita income (Rs)	16,947	25,652	1st
Per capita bank deposits (Rs)	10,468	20,447	1st
Population below poverty line (%)*	26%	6%	3rd
Rural-urban disparity in per capita consumption expenditure	74%	17%	1st

Source: Statistical Outline of India 2004 – 2005, Tata Services Ltd., Cris-Infac
*Low rank implies low population below Poverty Line

Culturally, the people of Punjab are known to have a high "consuming tendency". Punjab is amongst the leaders on consumption parameters.

Union Territory of Chandigarh, the capital for both Punjab and Haryana and is part of the circle, acts as the affluent residential area for neighboring industrial areas in Himachal Pradesh and Haryana.

Industry-wise, too, Punjab presents an attractive option. It has a large SME / SOHO presence. It has a large number of trading centres (mandis) and a few industrial belts in Ludhiana, Mohali, Jalandhar etc. Ludhiana is one of the largest centre for textile products. Chandigarh & Mohali are poised to become the "IT hub of North India".

The table below lists Punjab's position on some of the consumption and Industrial parameters:

Metric	Year	All-India	Punjab	Punjab's Rank
Motor vehicles population (per lakh population)	Mar-02	5,617	12,527	1st
Per Capita Food-grain production (kg)	2001-02	202.7	1004.7	1st
Per Capita Domestic electricity consumption (kwh)	2001-02	76.8	178.4	1st
Per Capita Bank credit (Rs.)	Mar-03	7,107	9,407	3rd
Per Capita Gross Industrial Output (Rs.)	2001-02	9,218	15,521	4th

(Source: Table 153 of Statistical Outline of India 2003 – 2004, Tata Services Ltd.)

Punjab has the highest telephone penetration in India, after the metro cities of Delhi, Mumbai, Chennai and Kolkata. A large migrant population, particularly in North America and UK implies substantial international communication requirements. As on March 31, 2004, Punjab had a teledensity of 18.2% against the national average of 7%. The market for cable television in Punjab is estimated at 2-2.5 mn households.

Vision & Strategy

Infotel aims to be the preferred provider of convergent services viz. communication-information, electronic commerce and entertainment services and solutions to businesses and consumers across India. Infotel strives to build value by continually developing products & services that meet the specific and entire needs of the customers.

With rapid advances being made in Telecommunication, Internet & Entertainment technologies, differences in the delivery capability of various conduit systems is fast blurring and user expectation from service providers is rapidly changing. Consumers and businesses are increasingly looking at one-shop offerings for their communication-information-entertainment needs.

Given this scenario, Infotel believes that geographically focused service providers having both width and depth of offerings, having control over content and e-commerce and having deep-rooted close relationships with the customers can effectively compete with the operators with a larger footprint but a shallower offering.

With adequate competition in the long distance market, and the strong relationships enjoyed by the HFCL Group with equipment vendors, Infotel is able to expand networks at costs comparable to that of the larger players as well as offer a wider array of services.

Infotel has recently started providing access services for broadcast and intends to start the interactive video content to subscribers in Punjab in due course of time. In addition, the Company is in midst of strengthening its bouquet of services in Punjab. It's CDMA based wireless network has been upgraded to the state-of-the-art 3G1x version.

Infotel has set itself the objective of becoming an integrated service provider for Voice, Video and Data services. It has already commercially launched the service in various parts of Punjab and plans to launch full-scale triple play services across Punjab by the first quarter of 2006. The launch in Khanna has positioned Infotel amongst the first entrants in the **Triple Play service operations in the country**.

While Infotel is keen to expand the business model across India, it believes that North India holds significant growth potential and fairly attractive economics as a result of the rapidly declining equipment costs and propensity of subscribers to pay extra for premium services. In the initial period, Infotel would be well positioned to exploit its strong position in Punjab to leverage a presence across North India in a cost effective manner. Even though the deployment of such services would require a phased up-gradation/ replacement of the existing cable networks, Infotel is positioning itself to take a pioneering role in this market. Although, the company plans to launch the services in the entire country in phased manner.

The triple play services model has proved to be quite a successful model for some of the leading cable Companies across the world e.g., Comcast & Cox Communications in the US. These two operators have over a million Triple Play subscribers each in the fiercely competitive US market.

Infotel is tying up with LCOs to offer triple plays services and name them as Connect Broadband Operators (CBOs). The partnership model would involve investments by both parties and commensurate returns.

Infotel would like to tap the strengths of the LCOs, which includes a strong local presence and knowledge of the markets being serviced by them. These would result in more effective marketing, customer relationship management and maintenance of the last mile infrastructure. However, Infotel will add value by addressing issues relating to availability of additional services including premium and value added services, quality of infrastructure and services, choice of technology, content and customer care. This process is already underway and the Company has beed achieving a very positive response to its approach from the LCOs.

Infotel sees the following advantages of adopting the above strategy

- Large chunk of the market can be captured quickly as local operators would bring their entire subscriber base to Infotel.
- Bundled offering of Voice, Broadband Internet and Video Services at value-pricing will help in increased uptake for each of the individual services, particularly in premium residential segments.
- Bundled offering will also help improve customer stickiness, thus reducing churn
- As cable systems have penetration as deep as fixed-line telephony, cable would assist in extending the reach of internet services also
- Triple Play services would help in acquiring subscribers from the hitherto unaddressed residential segment and also help in increasing the overall ARPU.
- There would also be upsides from leveraging the extensive fibre network and organizational set-up that would result in improved profitability.

The triple play services would be offered through a two-part network:

- Multi-System Operations (MSO) infrastructure consisting of centralized Head-ends, and transport of analogue and digital signals on the optic fibre network up to the Local Cable Operator (LCO) premises. Premium multi-media applications shall be hosted at the head-end sites
- Delivery of services (voice, video and internet) to the subscribers would be through Infotel-owned/franchisee-owned networks consisting of co-axial/copper capable of delivering services to 500-2,000 users in a defined area (usually 1-2 sq.km.)

The MSO network would serve the LCO networks owned by franchisees as well as new networks to be built by HFCL Infotel. LCO networks are largely on 1-way coax. Infotel plans to extend its fibre to the kerb and lay a structured network of 2-way co-axial cable or DSL on Copper pair for the last mile to deliver premium and value added services e.g. video-on-demand and internet access through cable modem on co-axial.

Having established a strong position in Punjab, the Company now intends to expand its operations into other states in Northern India, namely, Haryana, Himachal Pradesh (HP), Jammu & Kashmir (J&K) by applying for a Universal License in these circles.

In the new states of Haryana, J&K, and HP, Infotel intends to offer Triple Play services (fixed voice, internet & video), while in Punjab the Company's service portfolio will include Triple play and Mobility through an upgraded CDMA network.

The proposed expansion would assist Infotel in expanding its range of services over a wider geographic area, and thereby increasing both revenues and profitability. The Triple Play strategy would enable it to develop a competitive advantage which will not only allow it to retain a loyal subscriber base, but would also allow it to improve profitability and returns. Expansion to Northern India with the same array of services will also enable the Company to rapidly establish its reputation as a one-shop provider of all communication and entertainment services.

Besides, there are other operational synergy factors and financial advantages of this planned foray into neighbouring states viz., Lower entry free, Lower capex per unit capacity, Shorter pre-operative period, fibre is available on lease in several areas, focussed coverage, part of the capital equipment may be shared among the multiple circles. Limited Competition – While there is tough competition in the telecom market in some circles, there is no triple-play provider in the country and significant saving on account of operational costs.

Services

The Company provides a bouquet of telecommunication services under the “CONNECT” brand name. The Company offers a wide range of Value-Added Services, Narrowband and Broadband data services, in addition to fixed and mobile Voice Telephony. The range of services currently offered is as follows:

Segment	Services
Voice Telephony	• Fixedline Telephony – through Wireline and Wireless (CorDECT, CDMA) technology platforms • Mobile Telephony - through CDMA technology • Public call Office – through Wireline and Wireless (CDMA) technologies
Enhanced Telephony/ Value Added Services	• Centrex, • Group EPABX Franchised services • Intelligent Network Services (like Pre-paid Phone Cards, Premium Rate Services, Free Phone Services) • Voice Mail, Video Conferencing, Audio Conferencing
Data Networking, Internet Access, Infrastructure Sharing	• Point to Point Leased Line • Always-on broadband Internet Access (xDSL technologies),both narrowband and braodband • Dial-up Internet Access (PSTN and ISDN technologies) • Leasing of optic fibre network
Video Services	• Analog Broadcast Service

Infotel plans to offer packaged bouquet of video (broadcast television and premium multimedia services), voice and data (internet access) services for the retail/ household segment. These services are expected to be available in phases starting from the first quarter of 2006. Over time, the video services offering shall include analogue as well as Digital broadcast TV with interactive program guide, Basic and Premium Pay per View Channels, Video on Demand, Internet Access, Other advanced data network applications besides of course, Voice. These services will create a completely new level of customer experience in the country and will position Infotel as a clear leader of innovative services.

High-speed broadband Internet with features such as free trials, always on internet and sharing a connection with multiple PC’s through wireless access supported by professional installation by the dedicated company staff will create a new level of customer experience.

The clincher is going to be of course, digital phone that will provide the suite of all three services i.e. Fixed voice, Video and Data. Infotel believes that with savings and convenience being key drivers, bundled discounts from one company and on one bill will provide it with a “difficult to beat” competitive advantage.

Different plans will be created for different needs – the possibilities to create differentiation and value for the subscriber are huge.

The tiered service roll-out, along with network requirements is depicted in the table below:

Tier	Services	Infrastructure Requirements
I	Analog Broadcast Cable TV	• Analog Head-end • One-way Transport network on optic fibre up to Local Operator Premises
II	Digital Broadcast Cable TV	• Digital Head-end • Transport network for digital signals up to Analog Head-end • Set-Top Boxes at Customer Premises
III	Internet Access	• CMTS • Two-way transport network • Two-way last mile network
IV	Digital Interactive Video (VOD)	• Video-on-Demand Content server, MQAM Modulators • Contents
V	Voice	• Soft-switch, Media Gateway • CPEs

Service Area Coverage

For the purpose of Fixedline services, Punjab Telecom Circle is divided into 11 Secondary Switching Areas ("**SSAs**") or Long Distance Charging Areas ("**LDCAs**"), which are roughly equivalent to Districts. These SSAs/ LDCAs are further divided into 55 Short Distance Charging Areas ("**SDCAs**"), which are roughly equivalent to Tehsils.

The Company has presence in all the 11 SSAs, which enables it to carry intra-circle traffic on its own network and thereby save on carriage charges that would otherwise have been payable to the terminating operator. The Company is already present in over 130 cities/ towns, across 51 of the 55 SDCAs, including the key cities/ towns given below:

	LDCA	**City / Town**
1	Amritsar	Ajnala, Amritsar, Beas, Bhikiwind, Harike, Jandiala Guru, Khalchian, Naushera Pannua, Patti, Raja Sansi, Rayya, Sairon, Sarhali, Tangra, TaranTaran, Verka
2	Bathinda	Bathinda, Bhucho Mandi, Goniana, Mansa, Maur Mandi, Rampura Phul
3	Chandigarh	Chandigarh, DehKalan, Mani Mazra, Mohali, Negari, Panchkula, Sohana
4	Ferozpur	Abohar, Bajakhanna, Faridkot, Fazilka, Gidderbha, Jaito, Jallalabad, Kotkapura, Malaut, Moga, Mudki, Muktesar, Zira
5	Hoshiarpur	Balachaur, Budu Barkat, Dasuya, Gardhiwal, Gharshanker, Hariana, Hoshiarpur, Mukerian, Tanda, Unchi Bassi
6	Jalandhar	Adampur, Banga, Begowal, Bhadas, Bhogpur, Bolath, Fatehpur, Goraya, Heon, Jalandhar, Kapurthala, Kartarpur, Khatkat Kurd, Lohian, Mahilpur, Malsian, Nakodar, Nawashahar, Phagwara, Phillaur, Saila Khurd, Shah Kot, Sultanpur
7	Ludhiana	Dhindsa, Doraha, Gill, Jagraon, Khamanoo, Khanna, Kotla Samaspur, Ludhiana, Mullanpur, Sahnewal, Samrala
8	Pathankot	Batala, Dhariwal, Gurdaspur, Pathankot
9	Patiala	Amloh, Banur, Bhadurgarh, Derabassi, Fatehgarh Sahib, Lalru, MachiaKalan, MGG (Nabha), Mubarakpur, Nabha, Patiala, Rajpura, Samana, Sirhind, Timberpur, Zirakhpur
10	Ropar	Kharar, Kurali, Morinda, Ropar
11	Sangrur	Barnala, Bhawanigarh, Dhanuala, Dhaula, Dhuri, Handiaya, Longowal, Malerkotla, Sanghera, Sangrur, Sunam, Tapa

The Company's Code Division Multiple Access ("**CDMA**") technology based mobile telephony services are currently available in the five major cities of Chandigarh, Ludhiana, Amritsar, Jalandhar and Patiala. The Company plans to expand the mobile services network to most parts of the service area during the current financial year.

Network Infrastructure of the Company

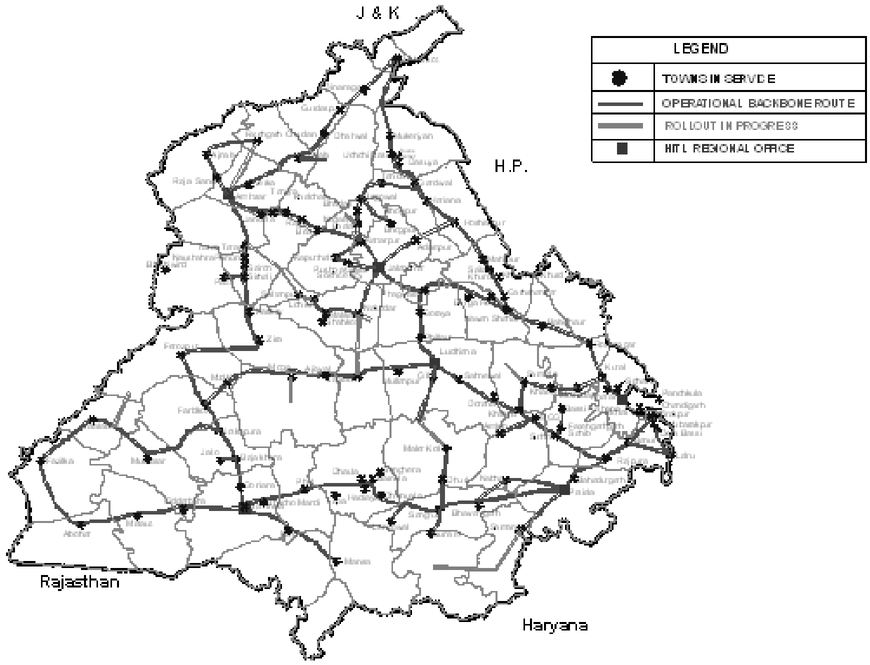
With its mission to be the total communications solution provider in Punjab, the Company has built a state-of-the-art network capable of providing voice, data and multimedia services across Punjab. The Company is equipped to provide optimal solutions through convergence of information, communication and entertainment technologies with the technical support from leading vendors.

The Company has followed the economically more efficient non-hierarchical network architecture. The legacy hierarchical networks typically have several exchanges (switches), mostly more than one per town, and only the inter-exchange traffic is transmitted through the optic fibre network. On the other hand, in non-hierarchical networks such as the one deployed by the Company, a significant part of the traffic carried on the optic fibre transmission network consists of traffic between the end user and the switch.

a) Optic Fibre Network

The Company has over 3100 kms of inter-city and intra-city optic fibre cables already laid. Most of the optic fibre network is in the form of self-healing rings, providing the necessary redundancy (back-up) in case the optic fibre network breaks at a point. In order to be in a position to provide broadband services to the wireline technology customers, the Company has a wide deployment of optic fibre such that nodes (where the last mile wireline connections are aggregated and interfaced with the optic fibre) are available within 1 km of the majority of subscribers.

The layout of the Company's Optic Fibre network is shown in the chart below:



While the Company has planned a extensive roll-out in Haryana, covering all major towns and cities, for other telecom circles - that is Himachal Pradesh and J&K - the Company has planned a very focused roll-out.

Broad network (Backbone) roll-out plan for other states in the first year of operation is as follows:

	Haryana	**Himachal Pradesh**	**Jammu & Kashmir**
Fibre Route Deployment	700 Km	126 Km	275 Km
No. of towns with extensive coverage	20	8	8

To drive and manage the usage traffic on the optic fibre network and the last mile access network, Infotel has established a state-of-art digital communications network to cater to its subscribers. To ensure wide range and high quality of service, Infotel has procured its equipment only from reputed international vendors.

b) Access (Last Mile) Network

Infotel deploys a mix of access technologies:

- Wireline along with deep fibre (copper cable length is kept under 1 km)
- CDMA Wireless Technology - For fixed wireless and mobile services
- CorDECT Wireless Technology - For fixed wireless services.

Infotel's current access capacity is as under:

Access Network	Capacity (Nos.)
Wireline	350,000
Wireless	250,000
- CDMA	200,000
- CorDECT	50,000
Total	600,000

These access systems are described in greater detail as follows:

Wireline Access

Wireline access to the subscribers is provided, in the case of the Company through Digital Loop Carriers ("**DLCs**"). Essentially, DLC is an access network node equipment providing complete solution for wireline voice and data delivery services. A number of DLC nodes are geographically located to serve the customers in the respective node areas. At a node, the last mile wireline connections are aggregated and interfaced with the optic fibre using the DLC equipment. The last mile connectivity is provided to the subscribers from the DLC equipment at the nodes through twisted-pair copper wires.

For the high-end industrial and commercial segment, wireline access is the preferred choice since the usage of these customers is inherently high and such customers also use data and fax extensively and require more reliable service than what is obtained on the wireless access.

As stated earlier, in order to be in a position to provide broadband services to the wireline technology customers, the Company has a wide deployment of optic fibre such that nodes (where the DLCs are installed) are available within 1 km of the majority of subscribers. As a result, each DLC node area serves an area of approximately 1.5 square km. The DLC equipment is connected to the Main Switching Unit ("**MSU**") over fiber optic transmission links carrying digital signals. On the subscriber side, copper cable connectivity is provided to the subscriber.

The DLC equipment has a multiservices platform, which support a variety of services including PSTN (public switched telephone network), Payphone, PABX (private automatic branch exchange), ISDN BRI and PRI, and high-speed digital data circuits. The DLCs are capable of separating narrow band voice and data traffic from the broadband traffic at the node itself. The separated broadband traffic is routed separately to the routers and enters the Internet without clogging the conventional voice switch. In respect of network topology, the DLC supports point to point, start, add/ drop, or self healing ring network architecture. This ensures that the system is designed such that at least single cable disruption cannot cause loss of service to customer.

The future growth of telecommunication is clearly for bringing high bandwidth connectivity to end user, and fiber is the natural choice of transmission medium for the access network. Using the DLC equipment, optic fibre can be deployed upto to a high rise building, an industrial park or a densely populated neighborhood. This ensures superior service quality and also paves the way for future broadband services.

Wireless access – Macro-cellular Technology

The Company employs Code Division Multiple Access ("**CDMA**") technology for providing macro-cellular mobility services. Macro-cellular technologies are capable of allowing mobility of customers beyond the Base Transmission Station (BTS, more commonly known as the Tower). The other commonly used macro-cellular technology in India is the Global Standard for Mobile Communications ("**GSM"**).

CDMA is a spread spectrum technique in which the baseband signal with less bandwidth (say a few kHz) is spread over a band few MHz wide. The spreading is accomplished by means of a spreading signal, also called a code signal. At the receiving side, de-spreading is accomplished by the correlation of the received spread signal with a synchronized replica of the spreading signal used at the transmit end. In case of a voice channel, the voice signal is sampled and encoded to a rate of 9.6kbps. The mixed bit-stream is spread across a 1.25 MHz signal. A number of encoded messages go out simultaneously each with its own identification code. Channels need not be separated because all the signals occupy the same frequency signal. CDMA systems use sectorization to achieve gain, hence is suited to dense applications.

CDMA technology has advantages of efficient spectrum utilization, better frequency re-use and having less complicated frequency planning, larger cell coverage. CDMA is recognized to be more spectrally efficient than the GSM technology versions being used currently in India, i.e. CDMA provides more traffic channels for the same amount of spectrum. This translates into more efficient use of spectrum, which is a scarce resource and less number of BTS (or towers) required to serve the same number of users.

Wireless access – Micro-cellular Technology

The Company employs CorDECT technology for providing micro-cellular services in some areas. In a micro-cellular technology, the communication between the subscriber equipment is restricted to a specific BTS.

CorDect is a variant of European DECT (Digital European cordless telephony) system. CorDECT has been developed indigenously by IIT Madras. Multiple user access is possible by use of TDMA (time division multiple access). CorDECT employs 32 kbps ADPCM (Adaptive digital pulse code modulation) which ensures toll quality speech and also permits various data services. Available radio channels are allocated in a planned manner among neighboring cells, and the radio frequencies can be re-used at appropriate distances based on terrain, transmit power, antenna height etc.

The CorDect architecture comprises of a DECT Interface Unit (DIU) acting as a 1000 line wireless switching unit. The DIU has V5.2 interface to the Main Switching Unit (MSU). The DIU interfaces with the all weather compact base stations (CBS) (max. 20 nos.). The DIU is connected to the CBS on 3 pairs of copper, for carrying signal as well as power. The subscriber terminal is a wall set (WS) with a built in antenna. WS has an interface with standard telephone/ fax/ modem and an additional RS 232 (serial port) interface to connect a computer for Internet access.

c) Switching & Routing Equipment

To drive and manage the usage traffic on the optic fibre network and the last mile access network, the Company has established a state-of-art digital communications network to cater to its subscribers. To ensure wide range and high quality of service, the Company has procured its equipment only from reputed international vendors.

Infotel has installed the following switching equipments for routing/ management of traffic:

- Four Wireline Switches – two each from Lucent Technologies, USA and Huawei Technologies, China
- Two Wireless CDMA Switches – one each from Lucent Technologies and Huawei Technologies
- Intelligent Network platforms from Lucent Technologies and Huawei Technologies for providing Advanced Routing Services (like Premium Rate Services, Pre-paid services)

<u>Information Technology & Operations Support Systems (IT & OSS)</u>

Infotel being a service industry player has strong commitments towards providing state of art network and world class services to its subscribers.

Infotel has and continues to invest in Information Technology (IT) & Operations support system (OSS) in order to provide world class services and to meet the increasing business demands with market complexities like multiple services, multiple & customized tariff plans to meet competition, Inter-connection Usage Charges, Carrier Access Code, etc.

The requirements vary from up-gradation of billing system and enhancing with new capabilities, data warehousing, Software Licences, Fraud Management System, ERP, Customer Relationship Management, Disaster Recovery, etc. Keeping in view the current market and regulatory environment, the investment in IT infrastructure is of utmost importance with respect to business growth, continuity and revenue assurance.

Infotel's OSS is a software system that facilitates systemization of business processes. The OSS package facilitates a smooth customer acquisition process, providing specialized services as per customer needs and post sale efficient support. It captures the customers calls , faults logging, query etc. and through a precisely defined work flow, it provides quick resolution to customers. This OSS interface with Voice and data billing systems, provides quick access to all customer history and information.

Billing application is based on capability to generate single invoice for all services provided, local language support, flexibility in fixing tariff, complaint management capabilities, acceptance of call detail record from switches and other network elements and capability of open architecture system to facilitate interface with various external systems on different platforms. The system has the flexibility to quickly include any modified or enhanced scenario to meet competitive environment. The flexibility helps in responding to business and customer needs. On the technical front, the systems redundancies have been provided to make it a fail safe system and application. A strong backup strategy has been implemented to ensure business continuity and provide historical information to cater to various needs of the business and customers

The OSS strategy & systems has been developed on the following principals:

- Design the entire systems with focus on customer centricity and quickly adapting to dynamic needs of the business.
- Develop operational processes to ensure high efficiency in their execution, to prevent dual data entry, redundancy and avoidable manual functions, while providing for manual overrides at various decision points;

- Maximize value. For this, the systems and technology selection are based on non-proprietary open technologies (e.g., client-server, GUI, etc), proven ness of the system and ease of use;
- Ensure integrity of customer database. For example, database modification are allowed only at the head office, though database access is permitted from anywhere;
- Ensure high reliability by providing equipment, redundancy and on-line re-configurations as well as employing company owned media for data communication;
- Allow phased or selective outsourcing, if need be. For example, routine operations like billing or PC operations are outsourced while still retaining control over its technology; and
- Support the efforts of the marketing function towards image building and establishing a customer base.

The OSS system consists of the following major elements:

- A core customer care and billing database
- Mediation device between the MSUs and OSS
- Inter Operator accounting database
- Directory database
- Fault management database
- Plant record and inventory database

ERP deployment

Infotel has recently gone for SAP R/3 versions, where it has successfully implemented Finance and Accounts, Materials Management, Sales & Distribution applications. This has leveraged for an Integrated approach of all information under one umbrella and has empowered the organization for with state of the art solutions to these functions and on-line status of all such functions is available to the people in the organization.

In the next phase, HR functions and employees training modules are under implementation and will deliver comprehensive information of the organization. This will help in employee retention and other organic benefits of the application.

The entire application has been deployed in redundant mode and all care has been taken for on-site continued operations.

IT Infrastructure

A strong, robust and scalable Data Networks has been put in place with all checks on the access and processes. All major offices are on redundant LAN and WAN set-up, where seamless applications, etc. are functioning as per business needs and policies. Our main Data Centre is of a world class set-up. All major applications servers and networking appliances are on High Availability mode.

Main application data is being kept on SAN set-up and backups are being managed on a centralized tape library.

Information Systems Security

The entire IT set-up has been made secure from all internal and external threats. We have deployed following systems/applications to check an unauthorized access and attacks from external world -

- Appliance based Checkpoint firewall in High Availability mode deployed – a total secure environment achieved
- Intrusion Detection Systems deployed
- Symnatec Ver 10. – a complete Anti-virus Suite to check all virus attacks , spy-ware and spasm from internal and external threats
- WSUS deployed to automated secure patch management across IT networks
- The whole IT set-up under 24x7 surveillance by an efficient NMS
- Wi-Fi enabled access undergoes three tier security authentication
- VLANs for secure and optimised data traffic
- The infrastructure servers have been moved to Windows 2003 environment
- Internet traffic – content filtering for incoming and outgoing being done
- Physical and logical access controlled

- Support vendors and employees connect to IT networks through Secure channel- Checkpoint VPN way
- Moving towards to have certification on BS7799 set-up. Two of Senior members are Certified Lead Auditors on BS7799 by BSI, UK

Disaster Recovery Plans (DRP)

A detailed study has been done by M/s PricewaterhouseCoopers and as per their recommendations, Infotel is on the move to deploy Disaster Recovery plans at a remote place. All business critical applications, systems will be made available at DR site for switch over, in case any disaster strikes. The arrangements are being made as per business RTOs and RPOs guidelines

Infrastructure for Video Access (Cable TV) Services

For the Video component of the triple play strategy, the following network architecture has been planned. Typically, broadcasters broadcast their channels through two routes to reach the households. Broadcasters transmit their channels either directly through independent cable operators (IOCs) or to Multi-System Operators (eg, IMCL, Siticable) who transmit the channels via their franchisees (cable television operators).

In the case of Infotel, the network architecture will include a core consisting of Head-ends and Application Servers, and a multi-level transport on optic fibre up to LCO premises. The Headend system will be capable of providing a wide range of broadcast and interactive services.

There will be two digital headends in the entire network (of 6 states) to provide redundancy and flexibility. This digital signal will be transported to all other cities over IP/SDH network. The signals to the subscriber TV set is going to be analogue RF, hence at least one Analogue Headend is required in every state which will be backed by few regional headends for redundancy.

The Headend system will be capable of providing a wide range of broadcast and interactive services.

A Digital Headend shall be established at Jalandhar and Delhi. The digital signals shall be transported to the other Analogue Head-end sites on a digital backbone. The backbone will have complete redundancy.

Analogue Head-ends shall be established at major cities to serve a radius of approximately 150 km. At each Analogue Headend site, the digital stream received from the Digital Head-end will be combined with local analogue stream by using combiners for onward transportation.

The Head-ends will be capable of supporting 60 Analogue channels upgradable to 140 channels (60 Analogue & 80 Digital) in future. The Head-ends would have the flexibility for the following:

- Provision for adding Off-Air channels (Terrestrial broadcast)
- Provision for adding Video channels for statewide distribution
- Provision for adding Local video channel for each city hub
- Provision for Stereo music channels for future upgrade
- Provision for adding advertisement

The transmission network is divided into two layers:

Layer 1 Transport (Digital Stream Transport)

Layer 1 is back bone layer for carrying digital stream from the Digital Headend to Analogue Head-ends. It would be a ring protected redundant transmission based on Synchronous Digital Hierarchy (SDH ITU standards) or I.P. network. This layer will create virtual Digital Headend at other Analogue Head-end sites.

Layer 2 Transport (Combined Stream Transport)

At each Analogue Headend site, the digital stream received from the Digital Head-end will be combined with local analogue stream by using combiners for onward transportation on Layer 2 transport.

Layer 2 transport would carry the combined stream (digital & local analogue) to city level hub sites on redundant route (two alternative paths) using Erbium Doped Fibre Amplifiers (EDFAs) on optic fibre. The Layer 2 path shall not be more than 150 Kms. In other words, the location of Analogue Head-ends has been so selected to ensure that the towns desired to be served are not more than 150 Kms from the Analogue Head-end site. The signals in Layer 2 would be carried on 1550 nm wavelength.

Within a city, a star topology would be followed to carry the signal from the city hub and terminated on an Optical Node at the LCO premises. This signal could be an onward carriage at 1550 nm signal received at city hub or conversion and transmission of 1310 nm signal.

In case of reverse path for interactive services, the signals from the LCOs would be aggregated onto DWDM equipment at the city level for onward transmission to the Head-end sites. The LCOs are required to upgrade their network for providing internet and interactive services.

Other Equipment

Cable Modem Termination Systems (CMTS) for Internet access and certain interactive services would mostly be placed at Headend/City Hub locations. This will however depend on the Cable Modem penetration in a given geographical location. CMTS work on DOCSIS 2.0/1.1 standard.

The Video on Demand Server would be initially located at the Head-end sites. As the number of subscribers increase, more servers would be added closer to the cities. Similar approach would be followed for other interactive services.

Network Management System (NMS)

NMS shall be established for handling equipment administration, fault and software management. All levels of equipments up to the node level shall be managed through the NMS. NMS will support following aspects:

- Configuration management
- Fault management
- Resource management
- Performance management
- Security management
- Interface towards Telephony NMS
- Accounting management.

Last Mile connectivity

This is the connectivity between the CTOs and the households (outside the NMS). For this, there are three mediums which can be used-copper wire, Ethernet and co-ax. Taking fibre closer to the user seems to be the safest option. Ethernet has some features which may prohibit its deployment:

Extremely short last loop which is not suitable for flat building structures
Video delivery in digital format only may limit the appeal in market which is 100% analogue today
Video in digital format appears to have scalability constraints

A combination of copper and co-ax for the last mile appears to be the best medium-term bet.

Marketing & Sales Strategy

Marketing Strategy

Given Infotel's vision of being an all services provider to consumers and businesses, Infotel's sales and marketing strategies works upon three fronts:

For the business market, Infotel is following the approach of being a Complete Solutions Business Partner, with the right mix of aggregation and technological capabilities to meet the unique requirements of different business segments; and

For the institutional segments, i.e., Local Cable operators, PCOs, local service providers, etc, Infotel's approach revolves around its USP of bringing a business opportunity with a complete menu of products and services, and a partnership approach to these relationships.

For the retail market, a brand led strategy is being used for achieving marketing objectives that includes creating appropriate branding, product plans, pricing and distribution strategy to create a strong awareness and appreciation about the products and services, consumer affinity and widespread distribution capabilities. Within this, different strategies are being developed for sub-segments of the market and aggressively promoted through appropriate medias.

Since the LCO is a key player in the implementation of the above plan, there will be a special focus to develop a partnership with the LCO. He will operate as a franchisee of Infotel and will be known as the "Connect Broadband Operator" (CBO). The Business Model for working with CBO's will attempt to forge a lasting partnership. The benefits to LCOs would be as follows:

- Increase in number of revenue streams from plain video (currently at approximately Rs. 200 to Rs 250 p.m) to bouquet of services including Voice, video, premium services, data and internet (at approximately Rs. 1,000 to 1,200 p.m).
- The LCO would continue to maintain control over his local territory, and would not feel threatened by an MSO's plans to usurp control (However, Infotel would also retain control over subscribers as telephone numbers are allotted by Infotel).
- The LCO is currently feeling threatened with the impending implantation of CAS. This will allow him greater security with regard to the introduction of CAS.
- This will allow the LCO to build a closer association with the subscriber.
- This allows the LCO to build a long term sustainable business model as a part of an organized industry, as against the currently unorganised set-up that they have.
- The organised set up would also provide the LCO with the improved ability to manage bad debts and collect taxes.

Given the distinctive needs of the three segments outlined above, and of the sub-segments within each of the segments, three separate teams, i.e., Retail Business, Corporate Business and Institutional Support have been formed within the Marketing Division. While the Retail Business and Corporate Business teams are looking into areas of product development, pricing strategies and communication plans, the Institutional Support team's brief is to look at forging channel partnerships, and working through a matrix structure with the broader Sales and Distribution team.

The key objectives of the Marketing Division are:

- To create an image of the brand which will force the consumer to reassess his current mode(s) of communication;
- To realize sales in the addressable market in the least possible timeframe;
- To create a one stop shop image for all telecom needs;
- To create customer preference for Infotel and a concept of brand loyalty and affinity for the CONNECT Broadband brand;
- To strengthen the companies credentials on a continuing basis;
- Expedite expansion of the market; and
- Developing products and solutions to cater to the specific needs of the various market segments.
- To create a platform to launch triple-play effectively

Infotel uses a combination of marketing strategies to promote its services:

Advertising and Promotion

Infotel's advertising and promotion strategy is geared at multiple levels to cater to the unique needs of various segments and sub-segments, while at the same time, a unique image is being developed for Infotel through a common branding platform.

The role of advertising is initially to create awareness about Infotel being the complete communication service provider through the effective use of various media options, while at the same time communicating the values of the brand that will be experienced through the services.

Infotel promotes its services through promotion plans such as free and subsidized trials and bundled offerings in order to encourage usage and subsequently enhance usage and foster loyalty. Promotional plans are also designed to increase subscription and usage among targeted segments. These plans also endeavour to protect against churn and enhance usage by giving incentives to existing subscribers.

Direct Marketing

The direct marketing strategy is designed to focus on those select customers and prospects with whom a minimum wastage and spill-over can be found for maximum benefit at greatest cost efficiency.

Infotel targets this audience through a focused and specific communication for both the corporate and residential segments. Besides building loyalty among customers to facilitate retention, direct marketing also creates a medium for two-way communication between Infotel and prospective customers.

CBOs will play a key role in marketing of triple play services as they would be reaching out to a captive subscriber base with enhanced service offerings offering value which would exceed that of single service providers.

Public Relations

A public relations campaign has been developed to build a favourable image amongst decision-makers and influencers in the corporate and residential segments. This campaign not only facilitates in attracting customers within the most developed part of the market within a short time span, but also is helpful in retaining customers through continuous public relations.

SALES AND DISTRIBUTION STRATEGY

The basic objective of the Sales and Distribution is to penetrate deeply and quickly into each market segment in the most appropriate and cost effective manner, through a highly dedicated, committed and motivated channel, whether direct or indirect.

The key requirements considered for each channel are:

- Penetrate deeply and quickly into each market segment;
- Meet the needs and sensitivities of diverse market segments;
- Be cost-effective;
- Uphold product and Company's brand image;
- Be flexible and able to adapt to the changing market conditions;
- Be able to meet customer's expectation levels; and
- For indirect channels, achieve wider reach than would be possible through Company-owned channel.

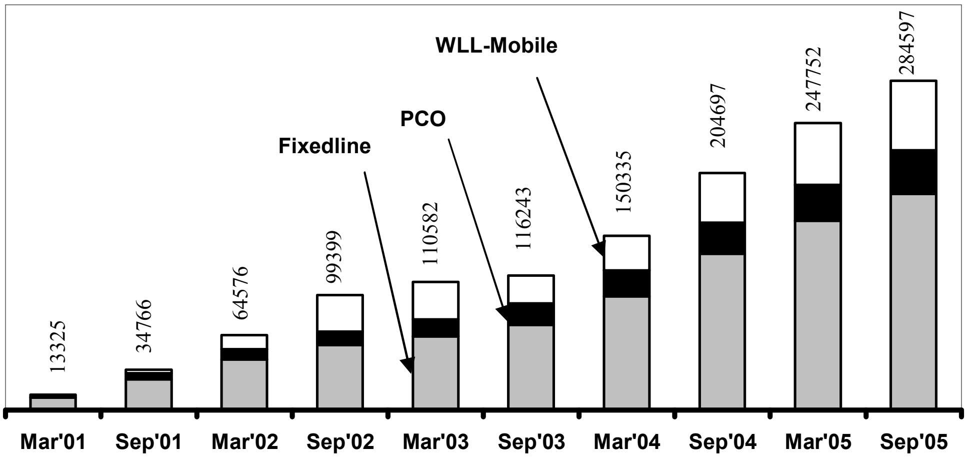
The sales objectives are achieved through the indirect channel comprising of the direct marketing agents, direct field force and cable operators. Specific market segments have been identified for each of these channels to ensure the implementation of the above strategy. This focus on specific segments helps achieve greater market penetration and better customer service.

The indirect channel is responsible for handling subscriber acquisition (other than for large accounts, which are being handled by Infotel's direct marketing sales force). Some basic inherent advantages of the indirect channel are:

- Quicker and deeper penetration;
- Entrepreneurs tend to have a higher motivation level than employees;
- Gives local face to the operations;
- Understands local sensitivities much better;
- More flexibility in operations; and
- Reduces manpower and infrastructure requirements.

Customers

The Company has attained a total subscriber base of 247,752 as of end-September 2005. Subscribers have been growing at a CAGR of 79% (FY 2001-02 to FY 2004-05). The subscriber break-up by category for the past years is shown in the figure below:



At the end of November'05, the Company had approximately 294,900 subscribers. There are around 12,000 broadband access subscribers for its Internet services, of which 10,000 are dial up Internet Access subscriber.

The Company is servicing a number of leading MNCs and domestic corporates in Punjab Viz., HSBC, Citibank, Electrolux, Max New York Life, LG Electronics, Hero Group, Fortis Heart Institute, HDFC Bank, State Bank of India, Mantra, Satyam Infoway, ICICI Bank, Godrej, Punjab National Bank and Bank of Punjab etc.

Key Miltestone in Operating History Of the Company

The key milestones in the operating history of the Company are:

October 2000	Launch of Telephony Services
January 2001	Launch of Internet Services
February 2001	Launch of Limited Mobility Services
QE June 2002	EBIDTA Break-even
October 2002	100,000 subscribers
QE June 2004	Cash Break-even
July 2004	Launch of broadband Internet access service
September 2004	200,000 subscribers
October 2005	Launch of Cable & Triple Play Services

Competitive situation in Service Areas

Infotel was the first private service operator in Punjab to offer fixedline services. While BSNL remains the dominant player in the circle for fixedline services, Infotel has succeeded in capturing significant market-share in the cities in which it operates. Over the last three years, Infotel has entrenched itself deep into the market. Focused on one circle, Infotel has deep understanding of the market and customer requirements along with strong relationships with the high usage customers and franchisees (PCO Booth Operators).

The other active private sector operators in Punjab are Bharti Mobile ("Airtel" tradename), Spice Communications ("Spice" tradename), Reliance Infocomm ("Reliance India Mobile" tradename) and Hutchison Group ("Hutch" tradename). Though all these companies are allowed to offer fixedline services (in case of Airtel, Spice & Hutch pursuant to the Unified Access Services Licence Guidelines released in November 2003), they have focused on providing mobility services till now.

Infotel has a limited presence in the mobile services segment through its Limited mobility services in four cities. Further to the migration of the Licence to Unified Access Services, Infotel is expanding the footprint of its wireless network to most parts of the state.

Infotel faces competition from private operators in its existing and new areas of operations. The current subscriber base (30 September 2005) of various players (besides BSNL – fixed) in Infotel's footprint are as follows:

	Punjab	Haryana	HP	J&K
Fixed*				
BSNL#	2,034,805	1,114,830	483,770	304,492
Bharti	4,940	133,740	NA	NA
HFCL Infotel	223,208	NA	NA	NA
Reliance	119,657	51,184	2,182	NA
Tata Tele	89,496	24,468	4,310	NA

*Fixed includes Fixed lines and FWT
#BSNL subscribers for fixed services as of 31st December 2004: Source DOT Annual Report

Future Prospects and Investment Plans

After several years of slow growth, the penetration of Telecommunication services in India has grown rapidly in the last two years. *The overall teledensity (number of telephone connections as fraction of the population) in India was 9% at end March 2005 and is expected to cross 24% by 2009-10*. These still are low as compared to the levels in other countries and the sector offers tremendous growth potential.

Among the two broad segments, mobile connections have grown at a much faster pace and account for most of the incremental connections. As at March 2005, the total phone connections in India are approximately 95 million consisting of 43 million fixedlines and 52 million mobile phones. However, mobile market is highly competitive with a declining margin trend.

The Company also plans to grow its business in line with this outlook. Continual investment in the network to cater to the expanding customer base is a normal facet in the telecommunications industry. The Company would also continue to expand its network in line with the anticipated demand for its services. Reach of fixedline services is being continually enhanced to more cities/ towns. Penetration in the serviced towns is also being continually increased. As required for the network expansions, the optic fibre network and the switching capacity would be suitably expanded. In addition, further investment in expanding and upgrading the IT systems & OSS to meet billing, regulatory and data warehousing requirements.

In the medium-term, the Company's investments would focused in three key areas:

- Video Access Distribution Services: As detailed earlier, the Company has recently forayed into distribution of broadcast TV and premium & inter-active multi-media content. The Company would make suitable investment to extend the reach of this segment to all the areas served for telecommunication services.
- Expansion to Neighbouring States: As detailed earlier, the Company plans to expand its served areas to the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir. The Company would make investment to offer the same basket of services in these states as provided in Punjab.
- Wireless Network and Mobile Services: Having upgraded the CDMA network to the contemporary 3G1x standards earlier this year, the Company plans to expand the footprint of its CDMA wireless network to most of the towns and major road/ rail routes. Post expansion, circle-wide mobile services would be offered to customers. Further, the networks would be updated to provide the latest value-added and data services in addition to voice services.

PURCHASE OF PROPERTY

Save in respect of the property purchased or acquired or to be purchased or acquired in connection with the business, there is no property which the Company has purchased or acquired or proposes to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present Offer or the purchase or acquisition of which has not been completed on the date of this Draft Offer Document, other than property in respect of which:

– the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Offer nor is the Offer contemplated in consequence of the contracts; or
– the amount of the purchase money is not material.

The Company has not purchased any property in which any of its promoters and/or Directors, have any direct or indirect interest in any payment made thereof

Company Owned Properties

a) **B-71, Phase - VII, Industrial Focal Point, Mohali - 160055**

The Head Office of the Company is located at this address. This property has been taken on a 99 years lease vide lease deed dated October 20, 2000 from Punjab Small Industries & Export Corporation Limited.

b) **Village Paragpur, Hadbast No.225, Teh Jalandhar, Distt. Jalandhar**

The Company has a switch and an office at this property. The land was purchased vide 32 separate sale deeds with various sellers.

3. BRIEF HISTORY OF THE COMPANY

A. History of erstwhile HFCL Infotel Limited

The erstwhile HFCL Infotel Limited was incorporated on March 30, 1995 in Ahmedabad under the name "Essar Commvision Limited". At that time, it was set-up as a joint venture between the Essar Group and Bell Atlantic, USA in 1996 to provide Basic Telephony services in the State of Punjab & Union Territory of Chandigarh.

HFCL acquired management control of this company from the Essar Group in December 1999 and the name of the Company was changed from Essar Commvision Limited to "ECL Telecommunications Limited" on February 22, 2000. The name of the company was later changed to "HFCL Infotel Limited" on June 30, 2000. The registered office was shifted from Ahmedabad to Mohali (Punjab) effective August 22, 2000. HFCL Infotel Limited was merged with effect from September 1, 2002 with the Investment Trust of India Limited, a non-banking financial company.

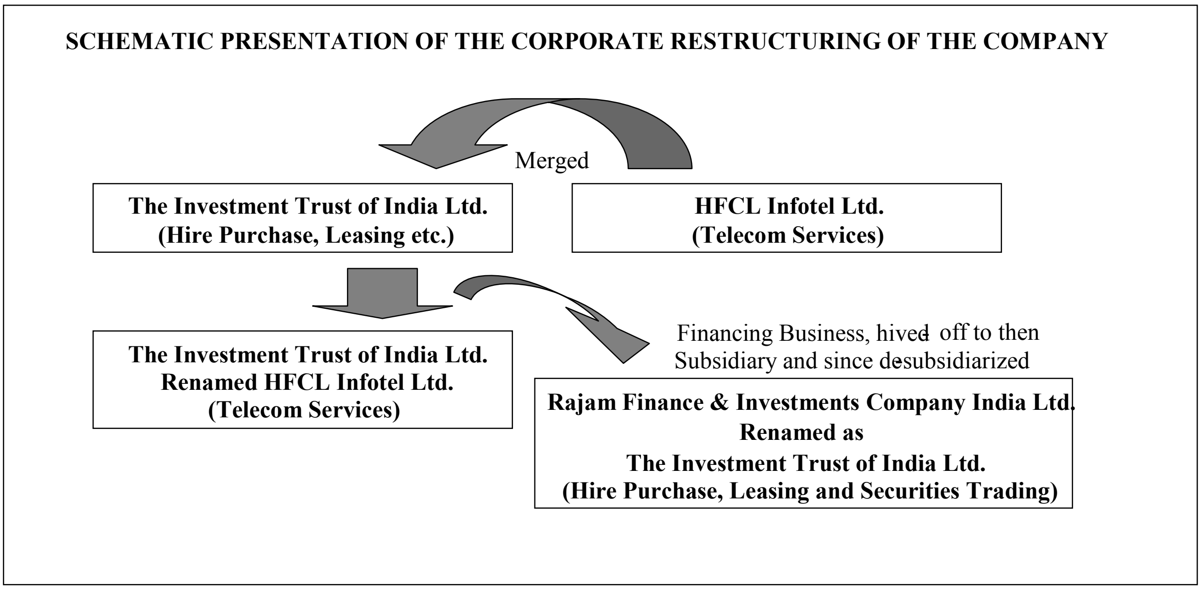
HFCL Infotel Ltd commercially launched its telecommunication services in September 2000.

B. History of the Investment Trust of India Limited

ITI was incorporated on August 02, 1946. The Company was originally promoted by Mr. C M Kothari and his sons. The Company initially started as an investment company and later diversified into hire purchase, leasing, mortgage financing, hypothecation, loans, etc. In the year 2000, TCK Finance & Leasing Private Limited, a finance company promoted by Mr Sanjay Maloo, acquired the stake held by the Kothari family in the Company. In addition, TCK Finance & Leasing Private Limited subscribed to a preferential issue of share and purchased shares from the public through an open offer and increased its stake to 65.58% of the enhanced share capital of Rs. 8,71,60,000/- of the Company.

C. The Company

As part of diversification plans, the erstwhile HFCL Infotel Limited, was merged with the Company with effect from September 1, 2002 pursuant to the Scheme approved by the Hon'ble High Court of Madras and Hon'ble High Court of Punjab & Haryana. The name of the Company was changed from The Investment Trust of India Limited to HFCL Infotel Limited w.e.f. May 12, 2003. The Scheme envisaged hiving off the Company's then existing business of hire purchase, leasing and securities trading to its wholly owned subsidiary, Rajam Finance & Investments Company (India) Ltd. w.e.f. September 1, 2002. Rajam Finance & Investments Company (India) Ltd. was renamed as The Investment Trust of India Limited w.e.f. June 17, 2003 and it ceased to be the subsidiary of the Company w.e.f September 30, 2003, due to allotment of fresh equity by it to other investors. Pursuant to an approval of the Company Law Board, the registered office of the Company has been shifted from the state of Tamil Nadu to the State of Punjab i.e. B-71, Industrial Focal Point, Phase VII, Mohali, Punjab - 160 055 with effect from January 5, 2004. The Company has obtained fresh Commencement of Incorporation no. 16-26718 dated January 5, 2004.



MAIN OBJECTS OF THE COMPANY

The Object Clause of the Memorandum of Association of the Company enables it to undertake its present activities. Furthermore, the activities the Company has been carrying out until now is in accordance with the objects of the Memorandum of Association. The objects that permit the Company's main operations are:

(a) To provide and to operate fixed line, cellular, wireless loop limited mobility and such other telecommunication services, internet, services, broadband services, ISDN services, leased line services, VSAT services, long distance services, international bandwidth access and to provide data transmission and telecom and information-technology enabled and related services, including but not limited to Call Centres, Business Process Outsourcing Services, Customer Care Centres, Customer Relationship Management, Back Office Processing, Data entry Medical Transcription, etc.

(b) To carry on all or any of the business of manufacturers, designers, consultants, exporters, importers, buyers, sellers, designers, consultants, exporters, importers, buyers, sellers hirers, renters, repairers, distributors, agents and dealers in all types of telecommunication instruments including wireless telephone, cellular mobile phones and services, satellite commercial equipment like V-Sat, microwave communication, paging hand held terminals telephone systems, electronic switches and exchanges, antennas, materials and requisites, of every kind whereby sound or vision is recorded, amplified, produced, reproduced, transmitted or received by the use or aid of electricity. To carry on the business of electrical, telecommunications, computer, radio electronics, consulting engineers mechanics, fitters, mill wrights, founders, rodmillers, machinists, tool makers, wire drawers, galvanizers, japanners, electroplaters, enamellers and painters, suppliers of telephone, telegraph, radio, railway, signaling and facsimile equipment and apparatus electric, magnetic, galveric and other apparatus in India or in any part of the world.

(c) To manufacture, buy, sell, exchange, and/or install dry cells, relays, meters, lamps, condensers, valves, rectifiers, air-raid precaution equipment, plastics, plasticines, resins, bitumen Indian-Rubber, or any other water-proofing materials and paper and to manufacturing, install, operate and maintain telegraphs, telephones, phonographs, switching centres, radio transmitting or receiving stations or sets, dynamos, accumulators, and all cables, apparatus in connection with the generation, accumulation, distribution, supply and employment of electricity or any power that can be used as a substitute therefore, including all cables, wires or appliances for connecting apparatus at a distance with other apparatus and including the formation of exchanges or centres".

SUBSIDIARY COMPANIES

Connect Broadband Services Limited (CBSL) was incorporated on July 2, 2004 as a subsidiary Company of HFCL Infotel Limited with the objective of providing/distributing Video and Internet Service through Cable in Punjab. The Company holds 99.88% of the total equity share capital of Connect Broadband

Services Limited. The Board of Director of the subsidiary company consist of Mr.Surendra Lunia (Chairman), Mr. Pradeep Goel and Mr. G. D. Singh. The Registered office of CBSL is situated at B- 71, Phase – VII, Industrial Focal Point, Mohali, Punjab - 160055. For the three month ending June 30, 2005, CBSL has incurred Rs 62,683/- as pre-operative expenses. The Company is yet to commence its operations.

Till September 30, 2003 “The Investment Trust of India Limited” (ITI) (formerly known Rajam Finance & Investments Company (India) Limited) was a subsidiary of the Company afterwhich it ceased to be a subsidiary of the Company due to allotment of fresh equity by ITI to other investors. ITI became a subsidiary of the Company in August’02, when the Company acquired its entire shareholding. The Non-Banking Financing business of the Company, viz., Hire purchase, Financing, Leasing and Securities Trading was transferred to ITI by way of a slump sale in September 2002.

The Company, presently, holds 46.67% of the equity capital of ITI. The Company has also subscribed to 69,96,709 Optionally Fully Convertible Debentures (OFCDs) of Rs. 100/- each aggregating Rs. 69.97 Crore of ITI.

Besides the above, the Company does not have any other subsidiary company/ies.

SHAREHOLDERS AGREEMENT

The Company is solely promoted by HFCL. Therefore, the Shareholders Agreement has not been executed.

OTHER AGREEMENTS

(a) Original License Agreement No. 17-15/1995-BS-II/PUNJAB between DoT and the Company (erstwhile HFCL Infotel Ltd.) for providing telecommunication services, as amended from time to time and New License Agreement No.10-15/2004/BS-II/HITL/PUNJAB w.e.f 14.11.2003.
(b) License Agreement between DoT and the Company (erstwhile HFCL Infotel Limited) for providing Internet Services.
(c) Tripartite Agreement dated July 3, 2000 between the Company, Cameo Corporate Services Limited and NSDL.
(d) Tripartite Agreement dated June 14, 2003 between the Company, Cameo Corporate Services Limited and CDSL

FINANCIAL INDEBTEDNESS
(details of the loan agreement entered with various Banks i.e. name of the bank, amount sanctioned, rate of interest, repayment schedule, security)

(A) Rupee Term Loans: (As on December 19, 2005)

Lender	Principal Outstandings (Rs. in Crore)	Date of Original Financing Documents	Rate of Interest	Repayment Schedule
IDBI	400.00	10/07/2000	Ballooned interest rate giving an yield of 9.3%	Repayable on Ballooning basis in 96 monthly installments commencing from May 1, 2008 till April 1, 2016 so that starting from fist year of repayment 2%, 4%, 5%, 10%, 20%, 20%, 20% and 19% of the outstanding principal amount would be repaid in each year.
LIC	75.00	19/05/2001		
OBC	75.00	28/03/2002		
ING	30.00	28/03/2002		
SBoP	25.00	24/01/2001		

The Company has also entered into a Buyer’s Credit Loan Agreement No. BLA05099 on February 8, 2005 with The Export Import Bank of China for a Buyer’s Credit facility of US$ 1,21,34,961.25 at an interest rate equivalent to Commercial Interest Reference Rate (CIRR) for US$ loan with a period of 5 years i.e. 4.21% p.a. payable on half yearly basis. This facility is repayable in 6 equal half yearly installments immediately after the end of disbursement period (i.e. the period commencing on the date of Notice of Commencement of Disbursement period to be issued by the Borrower and ending on the earlier of (a) the date falling 24 months after the date of Notice of Commencement of Disbursement Period and (b) the date on which the Facility is fully disbursed, cancelled or terminated. The Company has received substantial portion of equipments from Huawei Technologies Company Limited (Chinese Supplier) against the above sanctioned

Buyer's Credit Facility. The Export Import Bank of China is in the process of releasing the payment to the Chinese supplier, for which draw down schedule is being submitted.

(B) Optionally Fully Convertibel Debentures (As on December 19, 2005)

Lender	**0% unsecured OFCDs *** (Amount Rs.)	**0% secured OFCDs #** (Amount Rs.)
IDBI	Nil	49,97,26,000
LIC	14,74,65,700	9,36,98,600
SBoP	1,93,10,400	3,12,39,600
ING	Nil	3,75,04,600
OBC	Nil	9,29,49,000

* Face Value of Rs.100 each. Redeemable on March 31, 2014.However, shall remain convertible only upto April 15, 2006, whereafter these shall automatically become Non-Convertible Debentures. .
# Face Value of Rs. 100 each. Redeemable/Convertible into Equity Shares till March 31, 2006.

(C) Working capital assistance (As on December 19, 2005)

(Rs in Crore)

Lender	**Fund based**	**Non – Fund Based**	**Date of Sanction**
OBC	7.50	6.85	28th December 2001 & August 10, 2005
PNB	5.17	* 15.25	6th April 2005

* Comprising of LG limits of Rs. 7.00 Crore and ILC/FLC limit of Rs. 8.25 Crore. *Interchangeability between LG and LC facilities is permitted to the extent of Rs. 2 Crores, subject to the condition that the aggregate of the exposure under these two facilities shall not go beyond Rs. 15.25 Crore.*

(D) Specific credit assistance (As on December 19, 2005)

(Rs in Crore)

Lender	**Credit Facilities**	**Amount**	**Date of Sanction**
OBC	Performance Guarantee	5.00	4th Sept. 2003
PNB	Letter of Guarantee favouring The Export - Import Bank of China	US$ 2426974 (equivalent to Rs.10.92 Cr)	6th April 2005

In terms of the CDR package and MRA, the secured obligations (Rupee Term Loan, Working Captial Facilities, Secured OFCDs and Specific Credit Assistance) were required to be secured by or continue to be secured in favour of the security trustee and debenture trustee in the form of:

- a pari passu first ranking Security Interest(s) over all the Company's movable and immovable assets, both present and future,
- a pari passu first ranking Security Interest under the tripartite agreement to be executed between the Department of Telecommunications, the Company and the Security Trustee and Agent providing inter-alia the transfer or assignment by way of endorsement or otherwise in favour of the Security Trustee and Agent for the benefit of the Secured Parties;
- assignment in favour of the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties of the right, title and interest of the Company by way of first ranking Security Interest in, to and under all bank accounts, including the Trust and Retention Accounts, in which the Company has an interest.
- assignment in favour of behalf the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties of the right, title and interest of the Company by way of first ranking Security Interest in favour of the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties into and under all the Project Documents as and when executed and other intangible Project assets (including all agreements to which the Company is a party).
- assignment in favour of the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties of the Borrowers all right, title and interest in all the insurance policies and uncalled capital by way of first charge.
- a pari passu first ranking pledge of equity shares of the Company held by the promoters, representing together with the equity shares of the Company held by the Lenders pursuant to exercise of their rights of conversion, a minimum of 51% of the equity share capital of the Borrower.
- assignment in favour of the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties of the right, title and interest of the Borrower, by way of first charge, into and under all Statutory/Governmental/Regulatory approvals, permissions, exemptions and waivers.

- assignment in favour of the Security Trustee and Agent for the benefit of or on behalf of the Secured Parties of the right, title and interest of the Company, by way of fist charge, in, to and under letters of credit, guarantee or performance bond provided by any party to any Project Documents.
- Irrevocable and unconditional Corporate Guarantee of Himachal Futuristic Communications Limited in a form and manner satisfactory to Lenders. However, entire credit facilities availed / being availed by the Company is secured against the Corporate Guarantee of HFCL to the extent of Rs. 522.50 Crore. PNB's specific Letter of Guarantee favouring the Export -Import Bank of China is not secured by way of Corporate Guarantee of HFCL.
- Irrevocable and unconditional Personal Guarantee of Mr. Mahendra Nahata and Mr. Vinay Maloo in a form and manner satisfactory to Lenders.

Based on the documents executed for the CDR approval dated March 10, 2004, Charges have been created in favour of the IDBI Trustee ship Services Limited acting on behalf of the lenders on 11-11-2005. The documents for the reworked CDR approval dated June 24, 2004 have yet to be created, based on which the charge will be modified.

Changes in the Memorandum of Association of the company

Clause	Nature of Change/Alteration/amendment	Remarks
Name Clause	The Name of The Company was changed from Investment Trust Of India Limited to The HFCL Infotel Ltd.	Passed Vide Resolution through postal Ballot Dated 24.03.2003.
Situation Clause	The Registered office of the Company was shifted from the State of Tamil Nadu to the State of Punjab	Vide Resolution through Postal Ballot passed on 6.06.2003.
Capital Clause	The authorized Capital of the Company was increased from Rs. 25 Crores to Rs. 1200 Crores. The changed altered clause is herebelow: The authorized share capital of the company shall be Rs.,12,00,00,00,000 divided into 100,00,00,000 equity shares of Rs.10/- each and 2,00,00,000 preference shares of Rs.100/- each with power to increase and reduce the capital, to divide the shares n the capital for the time being into several classes and to attach thereto respectively such preferential and deferred or special rights, privileges and conditions as may be determined by or in accordance with the articles of association of the company and to vary, modify, abrogate, any such rights, privileges, or conditions in such matter as may, for the time being be provided by the articles of association of the Company"	Passed vide resolution through Postal Ballot on 24.03.2003
Objects Clause	The Company Discountinued its Non Banking Finance Business and deleted the Objects Clause related to NBFC and Objects related to Telecom Business were added. (For this please refer to the latest Memorandum of Association)	Passed vide resolution through Postal Ballot on 10.08.2004
Others	2. Pursuant to the merger the Company entered into telecommunication Business hence, following Objects were inserted: 7 A To provide and to operate fixed line, cellular, wireless loop limited mobility and such other telecommunication services, internet services, broadband services, ISDN Services, leased line services, VSAT services, long distance services, international bandwidth access and to provide data transmission and telecom and information technology	Passed Vide Resolution through postal Ballot Dated 24.03.2003

	enabled and related services, including but not limited to call centers, business process outsourcing services, customer care centers, customer relationship management, back office processing, data entry, medical transcription et. 7 B To carry on all or any of the business of manufacturers, designers, consultancies, exporters, importers, buyers, sellers, hirers, renters, repairers, distributors, agents and dealers in all types of telecommunication instruments including wireless telephones, cellular mobile phones and services, satellite commercial equipment like VSAT microwave communication, paging hand held terminals telephone systems, electronic switches and exchanges, antennas satellite dishes, radios, devices, accessories, appliances, materials and requisites, of every kind whereby sound or vision is recorded, amplified, produced, reproduced, transmitted or received by the use or aid of electricity. To carry on the business of electrical telecommunications, computer radio, electronics, consulting engineers, mechanics, fitters, mill wrights, founders, rod millers, machinists, tool makers, wire drawers, galvanizes, japanners, electroplaters, enamellers and painters, suppliers of telephone, telegraph, radio, railway, signaling and facsimile equipment and apparatus electric, magnetic, galveric and other apparatus in India or in any part of the world. 7CTo manufacturers, buy sell, exchange, and / or install dry cells, relays, meters, lamps, condensers, valves, rectifiers, air-raid precaution equipment, plastics, plasticines, resins, bitumen. Indian-rubber, or any other water-proofing materials and paper and telephones, phonographs, switching centers, radio transmitting or receiving stations or sets, dynamos, accumulators, and all apparatus in connection with the generation, accumulation, distribution, supply and employment of electricity or any power that can be used as a substitute therefore, including all cables, wires or appliances for connecting apparatus at a distance with other apparatus and including the formation of exchanges or centers.	

Board of Directors of the Company

The Board of Directors of the Company comprises:

Name of Director	**Designation**	**Shareholding in the Company on December 13, 2005**	**Details of other Directorships in Public limited Companies**
Mr.Mahendra Nahata	Chairman	Nil	• HFCL • Himachal Exicom Communication Ltd. • Consolidated Futrustic Solutions Ltd. • HFCL Bezeq Telecom Ltd. • HTL Limited
Mr.Vinay Maloo	Director	Nil	• HFCL • AB Corp Ltd. • WPPL Limited

			• HFCL Bezeq Telecom Limited • Consolidated Futuristic Solutions Limited. • Himachal Exicom Communication Ltd.
Mr. M.P.Shukla	Director	Nil	• HFCL • HFCL Satellite Ltd.
Mr. Krishna Behari Lal	Director	Nil	Nil
Mr. T. S. V. Panduranga Sarma	Director	Nil	Nil
Mr. Shyam Sunder Dawra	Director	Nil	• Steel Strips and Wheel Ltd. • Indian Acrylics Ltd. • Shyam Telelink Ltd.
Dr. Ranjeet Mal Kastia	Director	Nil	• HFCL • HTL Limited
Mr. R. K. Bansal	Nominee Director (IDBI)	Nil	• HFCL
Mr. S. Lakshmanan	Nominee Director (LIC)	Nil	Nil

Borrowing Powers of the BoD

Pursuant to a resolution passed by our shareholders in the General meeting held on September 25, 2005 in accordance with the provisions of the Companies act, 1956 our BoD has been authorized to borrow money for the purposes of the Company upon such terms and conditions and with/ without security as the Board of Directors may think fit, provided that the money/monies to be borrowed together with the monies already borrowed by the Company (apart form from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not exceed, at any time a sum of Rs. 1200 Crore.

For borrowing power of the Company, Article 129 is reproduced below:-

Article 129

(1) The BoD may from time to time raise any money or any monies or sums of money for the purpose of the Company provided that the monies to be borrowed together with the monies already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose and in particular, but subject to the provision of Section 292, the BoD may from time to time at their discretion raise or borrow or secure the payment of any such sums of money for the purpose of the Company, by the issue of debentures to members perpetual or otherwise including debentures convertible into shares of this or any other Company or perpetual annuities and in security of any such money so borrowed, raised or received, mortgage, pledge, or charge, the whole or any part of the property, assets, or revenue of the Company, present or future, including its uncalled capital by special assignment or otherwise or transfer or convey the same absolutely, or in trust and give the lenders power of sale and other powers as may be expedient and purchase, redeem or pay off any such securities.

Provided that subject to the provisions of Section 292, the BoD may by a resolution delegate the power to borrow money otherwise than on debentures to a Committee of Director, subject to limits specified in the said resolution of the total amount which may be so borrowed.

(2) Subject to the provisions of the clause next above, the BoD may, from time, at its discretion, raise or borrow or secure the re-payment of any sum or sums or money for the purposes of the Company, at such times and in such manner and upon such terms and conditions in all respects as they think fit, and in particular, by promissory notes, or by opening current accounts, or by receiving deposits and advances, with or without security, or by the issue of bonds, perpetual or redeemable debentures or debenture stock of the Company charged upon all or any part of the property of the Company (both present and future) including its uncalled capital for the time being, or be mortgaging or charging or pledging any lands, goods or other property and securities of the Company, or by such other means as to them may seem expedient.

Compensation of Manager Cum Chief Executive Officer:

The Company has no Managing Director or Whole Time Director. The Board of Directors in their Meeting held on July 26, 2004, have approved the appointment of Mr. Surendra Lunia, then Chief Operating Officer, as the Manager under section 2(24) read with Section 198, 269, 385 and 387 of the Companies Act, 1956 subject to the approval of the Shareholders of the Company in General Meeting, Lenders and subject to the necessary approval of the Central Government and such other approvals as may be necessary. The appointment was approved at the Annual General Meeting held on September 30, 2004. The appointment is effective from July 26, 2004 for a period of three years. The Company has obtained the necessary approval from the Ministry of Company Affairs, Government of India by way of a letter dated May 17, 2005. The terms of the approval are reproduced hereunder:

Notwithstanding the limits of 5% and 10% of the net profits as the case may be as laid down in sub-section (3) of Section 309 of the Companies Act, and the overall limits of 11% of the net profits as laid down in sub-section (1) of section 198 ibid and having regard to the facts and circumstances of the case including working results of the Company, the remuneration drawn earlier, the present policy being followed and the provision of section 637A and section 637AA of the Companies Act, the Central Government in terms of Section 198(4) of the Companies Act hereby approves that the remuneration payable to the aforesaid Managerial personnel from the date of his / her appointment shall not exceed the following :

1. Total Remuneration of Rs.5,51,250/- p.m. (Rs.Five lacs fifty one thousand two hundred and fifty only) plus PF and Gratuity as per company policy subject to a maximum increase of 20% on the Basic salary per annum, subject to maximum of 50% increase in Basic salary over the time phase of 3 (three years).

2. Earned / Privilege leave may be allowed to the managerial personnel as per Rules of the company. Leave accumulated and not availed of during his / her tenure as Manager may be allowed to be encashed at the time of his / her retirement as per Rules of the company.

3. The appointee shall also be entitled to reimbursement of entertainment expenses actually and properly incurred in the course of legitimate business of the Company. A reasonable ceiling such expenses, may however, be fixed in this regard by the company.

4. The remuneration as stated in para 2 above is subject to the approval of the company in General Meeting s required by sub-section (1) of Section 309 of the Act, and subject further to such reduction as the Company in General Meeting ay like to make unless the same has already been approved by the company in General Meeting.

5. The aforesaid managerial Personnel shall not be paid any sitting fee for attending the meeting of Board of Directors of Committee thereof from the date of his/ her appointment.

6. The aforesaid managerial Personnel shall give un undertaking to the company that he shall not so long as he functions as such become interested or otherwise concerned directly or through his wife/husband /or minor children in any selling agency of the company in future without the prior approval of the Central Government. This appointment shall be conditional upon the furnishing of such an undertaking and shall cease in the event of the contravention of the same.

7. If may be noted that the company shall not make payment of the Income Tax of behalf of the managerial personnel as it is not permissible under section 200 of the Companies Act, 1956.

8. The Headquarter of the aforesaid Managerial Personnel shall be fixed at the place where he has to regularly stay for attending to his / her duties.

9. The above approval has been accorded without prejudice to any changes in the Government's policy or any action that may be taken in pursuance of the provisions of the Companies Act, 1956 or of any amendment thereto may be enacted by parliament from time to time.

10. The approval in this letter is under and in respect of the provisions of the Companies Act, 1956 and should not be construed to convey the approval of the Central Government or any other statutory authority under it, under any other law or regulations for the time being inforce in respect whereof the company will no doubt take appropriate action as required by law.

11. The expatriate managerial personnel shall come to India on a proper visa i.e. “employment visa”.

12. In regard to the powers of management or any such other mater, the re-appointment will be governed by the relevant provisions of the Act.

Corporate Governance

The provisions of the listing agreements to be entered into with the Stock Exchanges with respect to corporate governance shall be applicable to us immediately upon listing our shares on the Stock Exchanges. We undertake to comply with such provisions, including with respect to the appointment of independent Directors to our BoD and the constitution of the Investor Grievance Committee prior to obtaining the in-principle approval of the Stock Exchanges.

SEBI, through circular number SEBI/ CFD/ DIL/ CG/ 1/ 2005/ 29 dated March 29, 2005 revised the date for ensuring compliance with Clause 49 of the listing agreement as per circular no. SEBI/ CFD/ DIL/ CG/ 1/ 2004/ 12/ 10 dated October 29, 2004 from April 1, 2005 to December 31, 2005. The Company undertakes to take all steps as may be necessary to comply with the further requirements for corporate governance, within the time frame allowed by SEBI.

The Company has complied with listing agreement requirements in respect of Corporate Governance especially with respect to broad basing its Board of Directors and setting up of necessary committees such as Audit Committee, Share Transfer and Investor Grievance Committee, Remuneration Committee and Project Management Review Committee.

Audit Committee

The Audit committee, constituted on February 25, 2000, comprises of 4 members under the Chairmanship of an independent Director. The Current constitution of the Committee are Mr. T.S.V. Panduranga Sarma (Chairman of the Committee), Mr. Mahendra Nahata, Mr. S Lakshmanan and Mr. R.K. Bansal. The scope of this committee is to review quarterly/half yearly financial statements, review of Company’s financial and risk management policies and Company’s financial reporting policies, review of adequacy of internal control systems and formulation of internal audit plans, periodical discussions with management and internal auditors etc.

Share Transfer and Investors Grievance Committee

This committee, constituted on July 12, 2000, comprises of three members, all being Non-executive Directors. The current constituents of the committee are Dr. Ranjeet Mal Kastia, (Chairman of the Committee), Mr. Krishna Bihari Lal and Mr. T. S. V. Panduranga Sarma. The Committee looks into redressal of shareholders complaints and oversees the performance of the registrar and share transfer agents and recommends measures for overall improvement in quality of investor services.

Remuneration committee

This committee, constituted on August 27, 2002, comprises of three members under the Chairmanship of Independent Director. The current constituents of the Committee are Mr. M P Shukla, Mr. Shyam Sunder Dawra and Mr. S Lakshmanan (Chairman of the Committee). The Committee is responsible for overseeing the terms of agreements entered into with the Managing and other Executive Directors, determination of the remuneration packages payable and determining the amount of bonus and stock option and compensatory payments etc.

Project Management Review Committee

This committee, constituted on June 17, 2003, comprises of Five members under the Chairmanship of Independent Director. The current constituents of the Committee are Mr. M P Shukla (Chairman of the Committee), Mr. Mahendra Nahata, Mr. Krishna Bihari Lal, Mr. S Lakshmanan and Mr. R.K. Bansal. The Committee reviews cost of project, means of financing, progress made in implementation of project, annual budget, all major contracts and orders for supply of plant, machinery and other assets, recommending the process of procurement and tendering to be followed by the Company.

Changes in Directors

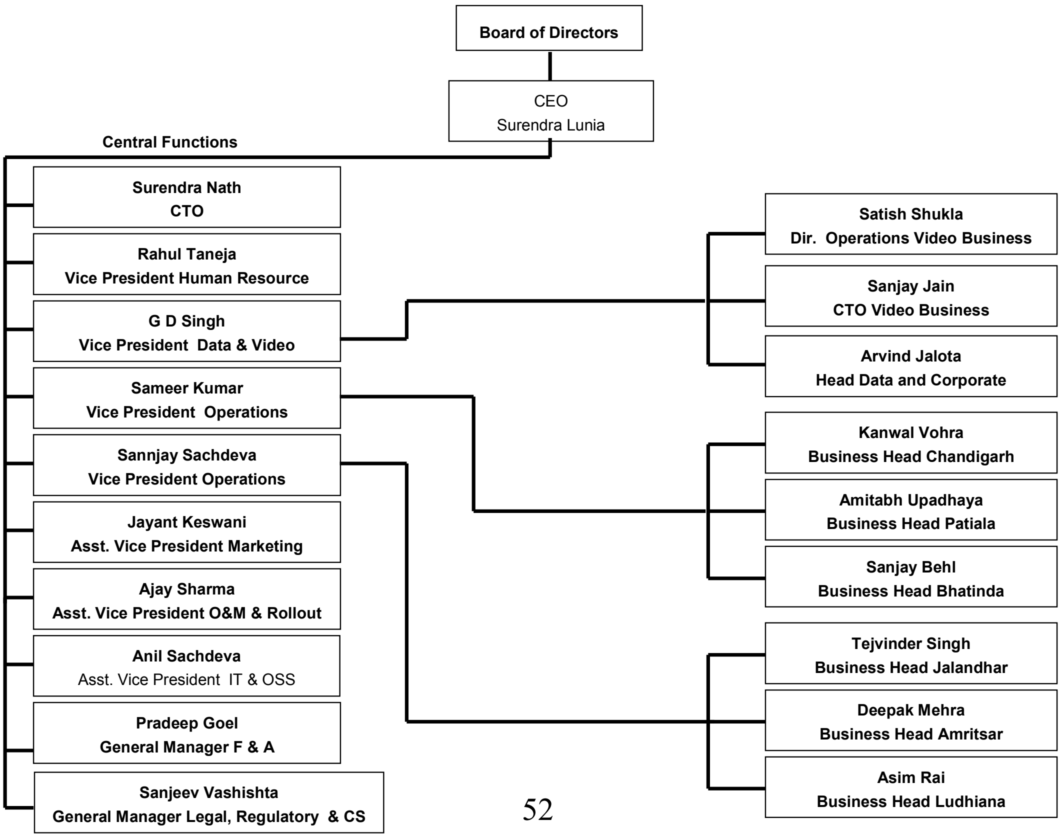
Changes in Board of Directors during the last three years alongwith the date of appointment/ resignation and reason thereof

Name of Directors	Date of Appointment	Date of Resignation	Reason For Change
Mr. Dharmesh Doshi	February 25, 2000	April 22, 2003	Resignation
Mr. G S Ganesh	August 27, 2002	December 12, 2003	Resignation
Mr. Sanjay Maloo	January 12, 2000	October 29, 2003	Resignation
Mr. P L Maloo	January 12, 2000	October 29, 2003	Resignation
Mr. Vinay Maloo	June 17, 2003	N.A	Appointed
Mr. S.Lakshmanan	June 17, 2003	N.A	Appointed
Mr. Mahendra Nahata	April 29, 2003	N.A	Appointed
Mr. Mahendra Pratap Shukla	April 29, 2003	N.A	Appointed
Mr. Surendra Singh Bhandari	April 29, 2003	May 1, 2003	Resignation
Mr. Krishna Behari Lal	October 29, 2003	N.A.	Appointed
Mr. T.S.V. Panduranga Sarma	December 12, 2003	N.A.	Appointed
Mr. T. B. Ananthanarayanan	May 30, 2004	April 29, 2005	Nomination withdrawn by IDBI pursuant to his attaining the superannuation.
Mr. Ranjeet Mal Kastia	June 19, 2004	N. A	Appointed
Mr. Shyam Sunder Dawra	June 19, 2004	N.A	Appointed
Mr. R.K. Bansal	April 29, 2005	N. A	Appointed in place of T.B.I. Anantnarayanan as his nomination is withdrawn by IDBI.

4. Management of the Company

The Company is managed by a highly professional team with immense industry (telecom) and functional experience. While the Promoters have played a key role in establishing the network and putting the team in place, and provides strategic insights based on their knowledge of the sector, the day-to-day operations are managed by the professional team. The management team is led by Mr. Surendra Lunia - Chief Executive Officer. The day to day affairs are supervised by an Executive Committee comprising of Chief Executive Officer and Chief Technical Officer.

The Company follows a Matrix structured organization, with both Functional and Regional heads. The organizational structure is shown below:



A brief profile of the Key Managerial Personnel and other personnel forming part of Senior Management is set out below:

Name	Designation	Age/ Qualification	Date of joining	years of experience	Functional Experience	Prior Organizations
Key Managerial Personnel						
Surendra Lunia	Chief Executive Officer	43 / M.Com. ACA & ACS	April 15, 2000	19	Head of all functional activities	South Asian Petrochemicals Ltd.; Indian Express Group
Surendra Nath	Chief Technical Officer	41 / Bachelor of Engineering	September 27, 2004	20	Telecommunications system planning, dimensioning and design	Fujitsu India Ltd.; Crompton Greaves Ltd.
Other personnel forming part of Senior Management						
G. D. Singh	VP-Corporate, ISP & Broadband	35/ B.E.	December 2, 2002	14	Data and Internet Services	SAB Infotech Ltd.; Punjab Communications Ltd.
Sameer Kumar	VP	38/ M.A.	September 20, 2001	19	Sales & Regional Incharge	Modi Xerox Ltd.
Sanjay Sachdeva	VP	43/ B.Com, P.G.Dip.in Busi. Mangt.	February 7, 2002	20	Regional Head for three zones	HCL Ltd. Modi Telecom Ltd.;
S S Nijjar	Vice President	51/B. Tech, M. Tech.	April 5, 2004	29	Quality & Audit	Department of Telecommunications, Govt. of India, Mahanagar Telephone Nigam Ltd.
Anil Sachdeva	Chief Information Officer	47/B.Sc. (Hons.)	June 16,2005	29	Information Technology	HCL Comnet Ltd., Hutchison Essar, Escotel Mobile, Whirlpool India, Siel Ltd.
Jayant Keswani	AVP - Marketing	41 / B.Com (Hons); P.G. in Busi. Admin.	October 16, 2002	17	Marketing policies and strategies	Telecom Seychelles (AirTel); LG Electronics India Pvt. Ltd.
Ajay Sharma	AVP – O&M / Rollout	44/Diploma in Radio Engineering and AMIE (Electronics and Communication)	May 12, 2000	18	Network Operations & Rollout	Indian Air Force, ITI Ltd.
Pradeep Goel	General Manager - F&A	35/ FCA; ACS & Grad. CWA	November 25, 2002	14	Finance & Accounts	Zee Network Ltd.; Vigenette India Ltd.
Sanjeev Vashishta	General Manager-(Corporate,Legal & Regulatory) & Company Secretary	38/ B. Com (Hons), ACS, MBA (Finance)	July 15, 2004	15	Corporate Finance, Legal, Secretarial	Punjab Communications Ltd.
Atul Handa	General Manager – Revenue Assurance & Collections	35/B.Sc, MBA	November 7, 2002	12	BRAT and Collection Head	Sun and Hills Financial Services Ltd., Escotel Mobile Communication Ltd.,
Harpreet Singh Bhatia	Head- H.R	36/B.E, Masters in Personnel Mgt. & Industrial Relations	September 29, 2003	11	Human Resources	Alstom Ltd., DCM Engineering Products, Punwire Mobile Ltd.

Rajeev Mittal	General Manager-Switch	38/B.Tech, PGDFM	September 15,2005	17	Switch	Renusagar Power Corp.,ITI Ltd.,Shyam Telelink,Reliance , Bharti
Kamal Gulati	Head-Technical Procurement	36/B.E,	December 20,1996	13	Technical Procurement	Trident Group Jamuna Auto India.
Pramod Madan	Head-Service Prov. & Fault Repair	42/B.Tech	September 26, 2003	24	Service & Prov. & Fault Repair	Alstom Ltd., DCM Ects, Punwire Mobile Ltd.
P.D.S. Bajwa	Head-Limited Mobility	46/B.A	May 10,2005	26	Limited Mobility	MRF Tyres, SR Cellophone, HFCL Infotel Ltd., Reliance Infocom.
Asim Rai	Business Head - Ludhiana	41 / MBA	December 24, 2001	15	Sales & Regional Incharge	Modi Xerox. Ltd.
Kanwal Vohra	Business Head - Chandigarh	43/MBA	June 19, 2000	22	Sales & Regional Incharge	Global Telesystems, Networks Ltd., DCM Tata Products, Escorts Ltd., Bloplast
Amitabh Upadhyay	Business Head-Patiala	39/M.Sc.,M.B.A.	November 15,2000	15	Business Head	Modi Korea Telecom., Onida, Sabak Ltd..
Tejvinder Singh	Business Head-Jalandhar	36/B.E.	October 16,1996	11	Business Head	Hutchison Max,
Deepak Mehra	Business Head-Amritsar	45/M.B.A..	May 2,2005	13	Business Head	Hindustan Lever Ltd, ICI India Ltd., Caltex Lubricants, Globacom
Sanjay Kumar Jain	Chief Technical Officer-Vidio Business	38/AMIE.	March 10,2005	18	Technical Operations-Vedio Business	Shyam Antena, MCE PDTS, Shara India TV, Spectranet, Reliance India Ltd.
Satish Shukla	Head-Operations Vidio Business	47/B.Sc..	June 07,2005	27	Operations Vedio Business	Indian Army, Citi Channel, Hathway Cable & Datacomm, Satlink Broad Cast, Amtrinity Platco
Arvind Jalota	Head-Corporate & Data Services	37/PGCSM.	September 27,2004	14	Corprate S& Data Services	Universal Luggage, Steel Strips, Pyrmid Consulting, SAB Infotek

The persons mentioned above are in the employment of the Company as permanent employees.

- None of the key personnel mentioned above are related to the promoters/Directors of the Company.
- No director or member of Senior Management has been selected pursuant to any arrangement/understanding with major shareholders/customers/suppliers

Compensation paid to key managerial personnel for the financial year 2004-05

Sr. No.	Name	Compensation (Rs.)
1	Surendra Lunia	65,51,736/-
2	Surendra Nath	46,80,612/-

Changes in Key Managerial Personnel

Mr. Solomon Simon, was appointed the Manager of the Company, under the provisions of the Companies Act, 1956, on August 27, 2002. He resigned from the Company on July 1, 2003 on his appointment as the whole Time Director of ITI (formerly known as Rajam Finance & Investments Company (India) Limited).

Mr Sunil Batra, Chief Operating Officer, was appointed as the Manager of the Company under the provisions of Companies Act, 1956. He resigned from the post of Manager on 25th March 2004 whereupon the BoD, in their meeting held on July 26, 2004, has approved the appointment of Mr. Surendra Lunia, Chief Executive Officer as the Manager. The appointment of Mr. Surendra Lunia has been approved by the Shareholders of the Company in the General Meeting, lenders and the Central Government.

Changes in the other senior managerial personnel in the last three years have been given below:

Name of the Employee	Designation	Date of appointment/ Resignation	Remarks
Mr. Ashok Franklin	General Manager	January 2, 2003	Joined
Mr. Parampal Singh Bakshi	General Manager	January 14, 2003	Resigned
Mr. Surajit Das	General Manager	February 28, 2003	Joined
Mr. Alok Mathur	General Manager	March 31, 2003	Resigned
Mr. Anupam Goyal	General Manager	March 31, 2003	Resigned
Mr. S. Majumdar	General Manager	March 31, 2003	Resigned
Mr. S. Mogane	General Manager	March 31, 2003	Resigned
Mr. S. S. Nijjar	Vice President	March 31, 2003	Resigned
Mr. Vinoo Goyal	President	April 30, 2003	Resigned
Mr. Vinay Gokhale	General Manager	May 9, 2003	Joined
Mr. Vishwanath Bhatt	General Manager	May 17, 2003	Resigned
Mr. Brij Mathur	Vice President	May 31, 2003	Resigned
Mr. Vijay Kaul	Vice President	June 10, 2003	Resigned
Ms. Manisha Berry	General Manager	July 21, 2003	Resigned
Mr. M.S. Rajan	Associate Vice President	July 31, 2003	Resigned
Mr. S. V. Subrahmanian	General Manager	August 7, 2003	Joined
Mr. Darshan Kumar	General Manager	August 14, 2003	Resigned
Mr. Sanjay Sinha	Vice President	September 30,2003	Resigned
Mr. Surajit Das	General Manager	September 30, 2003	Resigned
Mr. S.S. Nijjar	Vice President	April 1, 2004	Joined
Mrs. Rashme Mehta	Associate Vice President	February 1, 2004	Joined
Mr. Assheesh Verma	Associate Vice President	July 24, 2004	Resigned
Mr. Pankaj Bali	General Manager	August 2, 2004	Joined
Mr. Sanjeev Vashishta	General Manager	July 15, 2004	Joined
Mr. S.V. Subramanian	General Manager	September 30, 2004	Resigned
Mr. Anil Sachdeva	General Manager	July 1, 2004	Joined
Mr. Deepak Bajaj	General Manager	June 1, 2004	Joined
Mr. Ashok Franklin	General Manager	January 9, 2004	Resigned
Mr. Vinay Gokhale	General Manager	February 14, 2004	Resigned
Mr. Rakesh Mehta	General Manager	April 20, 2004	Resigned
Mr. M Ramani	General Manager	June 19, 2004	Resigned
Mr. P.D.S. Bajwa	General Manager	May 10, 2005	Joined
Mr. Anil Sachdeva	General Manager	November 30, 2004	Resigned
Mr. Satish Shukla	General Manager	June 07, 2005	Joined
Mr. Neeraj Sullhan	General Manager	January 25, 2005	Resigned
Ms.Rashme Mehta	Associate Vice President	May 31, 2005	Resigned
Mr. Anil Kumar Sachdeva	Chief Information Officer	June 16, 2005	Rejoined
Mr. Pankaj Bali	General Manager	June 18, 2005	Resigned
Mr. Vinod Sharma	Business Head	June 24, 2005	Resigned
Mr. Kapil Dev Kumar	AVP-Regulatory	August 20, 2005	Resigned
Mr. Rajeev Mittal	General Manager	September 15, 2005	Joined
Mr. Chetan Dixit	Head – Wireless Access	October 21, 2005	Resigned

Shares Held by the Key Managerial Personnel (As on December 13, 2005)

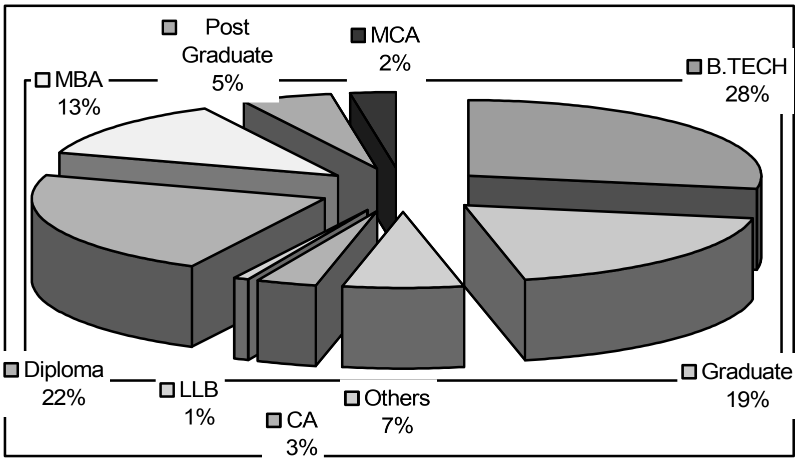
Sr. No.	Name of Key Managerial Personnel	No. Shares
1	Harpreet Singh Bhatia	100

MANPOWER

A large in-house pool of intellectual capital is the driving force behind the Company's growth. The Company puts in effort in creating a workplace where every employee can reach his / her full potential and achieve maximum personal fulfillment. Training and development is an area of prime focus to empower the manpower with greater knowledge, opportunity, responsibility, accountability and reward.

Company has moved to a "Key Result Area" oriented performance appraisal system and a performance linked incentive scheme, which aims at increasing employee involvement in the goals and objectives of the organization. It encourages individuals to go beyond their scope of work and come up with innovative ideas in meeting the targets of the Company.

The Company has total staff strength of about 710, with an average age of 30 years. 71% of the employees are qualified professionals viz. Engineers, MBA, Chartered Accountants, Company Secretaries and Law Graduates etc. The split of employees by functional areas (shown in the diagram) is reflective of the Company's emphasis on both the technological and marketing aspects of business.



Payment of Benefits to Promoters and Officers of the Company

During the year the Company has paid to HFCL only for supplies and services for the Company's capital assets. All these entries/payments are arms length transactions.

5. Promoter of the Company

Himachal Futuristic Communications Limited (HFCL)

HFCL is the flagship Company of HFCL Group, which is amongst the largest domestic private sector telecom focused group in India. HFCL was incorporated on May 11, 1987 and has its registered office at 8, Electronics Complex, Chambaghat –173213, Himachal Pradesh. Since its incorporation in 1987, HFCL quickly emerged as one of the largest private sector telecom equipment manufacturing companies in India. It also provides turnkey solutions for setting up various types of telecom networks. HFCL is the prominent suppliers of telecom equipment to BSNL and MTNL. It provides turnkey services to various private operators and to other customers such as the Indian Railways, the Ministry of Defence and other government departments and consequently has established a diverse customer base. HFCL manufactures a range of telecom products, including a variety of wireless and wireline transmission and access equipment. HFCL has research and development facilities at Gurgaon and Bangalore for the development of telecom equipment, software products and technologies. HFCL also undertakes R&D initiatives under design and development partnerships with the Indian Institute of Technology in Chennai and the Indian Institute of Sciences in Bangalore and has technology alliances with Marconi in Italy, Alcatel in the UK, UT Starcom in the USA, Hyundai in Korea and Huawei in China.

HFCL commenced commercial production in October 1989, manufacturing subscriber line carrier systems and multiplexers. HFCL has over time added new products to its portfolio. HFCL has established ISO 9002 certified equipment manufacturing facilities at Solan (Himachal Pradesh) and Goa. HFCL provides single-window turnkey solutions for the execution of telecom projects from concept to completion. HFCL's services include the planning, surveying and engineering of telecom networks, supplying and laying of optical fibre cables and the supply, installation and commissioning of various types of telecom network.

Other details of HFCL are as under:

PAN No	AAACH 4041 Delhi DCIT Central Circle (1)
Bank Account	Oriental Bank of Commerce, Nehru Place, New Delhi Current Account No. C/A 141

The Board of Directors of HFCL comprises:

Name & Designation	Shareholding in HFCL on November 30, 2005	Details of other Directorships
Mr. Mahendra Pratap Shukla, Chairman	Nil	• HFCL Infotel Ltd. • HFCL Satellite Communications Ltd.
Mr. Mahendra Nahata, Director	73,357	• HFCL Infotel Ltd. • Himachal Exicom Communications Ltd. • HFCL Bezeq Telecom Ltd. • HTL Ltd. • Consolidated Futuristic Solutions Ltd.
Mr. Vinay Maloo Director	224,026	• HFCL Infotel Ltd. • AB Corp Ltd. • HFCL Bezeq Telecom Ltd. • WPPL Ltd. • Consolidated Futuristic Solutions Ltd. • Himachal Exicom Communications Ltd.
Dr. Ranjit Mal Kastia Whole Time Director	Nil	• HTL Ltd. • HFCL Infotel Ltd.
Mr.Yogeshwar Lal Agarwal Non Executive Director	Nil	• HFCL Kongsung Telecom Ltd. • Electronics System Punjab Ltd. • Aksh Broad Band Ltd.
Mr. Arvind Kharabanda Non Executive Director Director (Finance)	Nil	• HFCL Satellite Communications Ltd. • HFCL Dacom Infocheck Ltd. • WPPL Ltd. • Pals India Pvt. Ltd. • India Sign Pvt. Ltd.
Mr. Raj Kumar Bansal Nominee Director (IDBI)	Nil	• HFCL Infotel Limited

Mr. Mahendra Nahata and Mr. Vinay Maloo are the promoters of HFCL.

Mr. Mahendra Nahata, aged 46, is a commerce graduate from Calcutta University. He has more than 21 years' business experience. He provides HFCL with strategic guidance as well as mentoring to the top Management. Mr. Nahata is the visionary behind the HFCL Group's R&D, technology partnership, business development and marketing initiatives. Mr. Nahata has played a pivotal role in the development of a variety of indigenous telecom products and was instrumental in forging alliances in R&D and technology. Mr. Nahata was conferred with Telecom Man of the Millennium Award in year 2001 for his contributions to the telecom sector. Other details of Mr. Nahata are as under:

Driving licence No.	P03102000228024
PAN No	AAOPN 6698M
Bank Account	HDFC Bank Limited, Greater Kailash II, New Delhi-48 S/B Account No. 0271050010739
Passport No.	F 3475551

Mr Nahata does not hold a Voter ID card.

Mr. Vinay Maloo, aged 43, graduated from Calcutta University in 1981 with a degree in commerce. He has over 16 years' business experience. Mr. Maloo has expertise in financial management, strategic alliances, investments and acquisitions in Corporate World. Mr. Maloo has significantly contributed in developing skills, markets and capabilities in convergence through alliances and acquisitions. The acquisition of Punjab Telephony Basic

Services Project, alliances in Australia, tie-ups with Indian and International institutes and companies for R & D etc. are steps in this direction. Other details of Mr. Maloo are as under:

Driving licence No.	WB-01-017766
PAN No	AFHPM5420N
Bank Account	ABN Amro Bank S/B Account No.B453669
Passport No.	2-1590377

Mr Maloo does not hold a Voter ID card.

Permanent Account Numbers, Bank Account Numbers and Passport numbers of the above promoters are being submitted to the Stock Exchanges where the Equity Shares of the Company are proposed to be listed.

INTEREST OF PROMOTERS AND DIRECTORS

Except as otherwise stated elsewhere in this Draft Offer Document, all the Directors may be deemed to be interested to the extent of remuneration and fees payable to them for attending the meeting of the BoD or Committee thereof and reimbursement of traveling and other incidental expenses, if any, for such attendance's as per the Articles.

All the Directors/ Promoters of the Company shall be deemed to be interested to the extent of shares held by them and/or their friends and relatives and which may be allotted to them out of the present issue, and are deemed to be interested to the extent of remuneration and perquisites being drawn by them from the Company.

The Whole-time Director/Manager is interested to the extent of remuneration paid to him for services rendered to the Company. Further, the Whole-time Director is interested to the extent of equity shares that may be subscribed and allotted/ transferred to him out of the present Offer in terms of this Draft Offer Document and also to the extent of any dividend payable to him and other distributions in respect of the said equity shares.

The Directors may also be regarded as interested in the shares, if any, held by or that may be subscribed by and allotted/ transferred to the companies, firms and trust, in which they are interested as Directors, Members, partners and/or trustees. All Directors may be deemed to be interested in the contracts, agreements/ arrangements entered into or to be entered into by the Company with any Company in which they hold Directorships or any partnership firm in which they are partners as declared in their respective declarations.

Except as stated otherwise in this Draft Offer Document, the Company has not entered into any contract, agreements or arrangement during the preceding two years from the date of this Draft Offer Document in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements which are proposed to be made to them.

Capital Issues in last 3 years by HFCL:

<u>During the FY 2002-03</u>:
HFCL has made one offering of Global Depository Receipts and one offering of unsecured Foreign Currency Convertible Bonds as per details given below:

2002 Global Depository Receipts (GDRs)

HFCL offered 6799945 Global Depository Receipts ("2002 GDRs") at an offer price of US$7.353 per GDR, representing 54399560 equity shares of Rs.10/- each at a premium of Rs. 34.60 per share. The issue closed on September 4, 2002. Consequently, the paid up equity capital of HFCL increased from Rs. Rs.78,82,21,550/- to Rs. 1,33,22,17,150/-.

2002 Foreign Currency Convertible Bonds (FCCBs 'A' & 'B')

HFCL offered 660 unsecured Foreign Currency Convertible Bonds ("2002 FCCBs"), having a face value equivalent to US$ 50,000, convertible into ordinary equity shares of Rs.10/- each. The issue closed on

December 5, 2002. Upto March 31, 2003, 14782155 equity shares of Rs.10/- each were issued upon conversion of FCCBs ‘A’. Consequently, the paid up equity capital of HFCL increased from Rs. 1,33,22,17,150/- to 1,48,00,38,700/-.

During the FY 2003-04:
On July 30, 2003, ICICI Bank Ltd. exercised the option to convert a part of its debt into equity and consequently 36000000 equity shares of Rs. 10/- each were issed at par, thereby increasing the paid up share capital of HFCL by Rs. 36,00,00,000/-.

2002 Foreign Currency Convertible Bonds (FCCBs ‘A’ & ‘B’)

100656289 equity shares of Rs.10/- each were further issued upon conversion of FCCBs ‘A’, thereby increasing the paid up share capital by Rs. 1,00,65,62,890/-.

2003 Foreign Currency Convertible Bonds (FCCBs ‘C’ & ‘D’)

HFCL offered 340 unsecured Foreign Currency Convertible Bonds (“2003 FCCBs”), having a face value equivalent to US$ 50000, convertible into ordinary equity shares of Rs. 10/- each. The issue closed on May 30, 2003.

During the FY 2004-05
During the year, the issued capital of the Company increased from 316,811,095 to 329,766,166 shares due to conversion of 66 FCCBs ‘C’ into 12,955,071 equity shares.

Payment of benefits to promoters of the company
Except as stated elsewhere in the Offer Document, no amount or benefit has been paid or given within two years or is intended to be paid or given to any of the promoters or officers except the normal remuneration for services rendered as directors, officers or employees.

Related party transactions as per the financial statements

1) Name of Related parties where control exist:

Relationship	**Related Party**			
	For the year ended			
	2004-05 and for the three months ended June 30, 2005	**2003-04**	**2002-03**	**2001-02**
Holding Company	Himachal Futuristic Communications Limited	Himachal Futuristic Communications Limited	TCK Finance & leasing (P) Ltd.	TCK Finance & leasing (P) Ltd.
Wholly owned Subsidiary	Connect Broadband Services Limited	The Investment Trust of India Limited (wholly owned subsidiary till September 30, 2003)	Rajam Finance and Investment Company (India) Limited	None
Associate Enterprises	The Investment Trust of India Limited	The Investment Trust of India Limited (Associate Enterprise from October 1, 2003)	Pioneer ITI AMC Limited ITI Financial Services Limited	Pioneer ITI AMC Limited
Fellow Subsidiary	HTL Limited	HTL Limited		

Relationship	Related Party			
	For the year ended			
	2004-05 and for the three months ended June 30, 2005	**2003-04**	**2002-03**	**2001-02**
Other companies under common control	Microwave Communications Ltd. Himachal Exicom Communications Limited HFCL Satellite Communications limited HFCL Nine Broadcasting (I) Pvt. Limited Westel Wireless Ltd. Platinum EDU Limited HFCL Kongsung Telecom Limited HFCL Dacom Infocheck Limited WPPL Limited Consolidated Futuristic Solutions Limited Excel Netcommerce Ltd. HFCL Bezeq Telecom Limited ITI Financials Services Ltd. Pagepoint Services India Ltd. India Sign Private Limited Nextra Technologies Private Limited	Microwave Communications Ltd. Himachal Exicom Communications Limited HFCL Satellite Communications limited HFCL Nine Broadcasting (I) Pvt. Limited Westel Wireless Limited. Platinum EDU Limited HFCL Kongsung Telecom Limited HFCL Dacom Infocheck Limited WPPL Limited Consolidated Futuristic Solutions Limited Excel Netcommerce Ltd. HFCL Bezeq Telecom Limited ITI Financials Services Ltd. Pagepoint Services India Ltd. Pioneer ITI AMC Ltd.	Himachal Futuristic Communications Limited (HFCL) (Refer Note Below) HFCL Trade Invest Limited (Merged with HFCL w.e.f March 31, 2003) HTL limited Microwave Communications Limited Himachal Exicom Communications Limited HFCL Satellite Communications (I) Limited HFCL Nine Broadcasting (I) Private Limited Westel Wireless Limited Platinum EDU Limited HFCL Kongsung Telecom Limited HFCL Dacom Infocheck Limited WPPL Limited Consolidated Futuristic Solutions Limited	ITI Financial Services Limited
Note: HFCL was holding company of HIL (the transferor company) prior to amalgamation. Subsequent to amalgamation and pending allotment of shares, HFCL is shown under the heading " Companies under common control"				

	2004-05 and the three months ended June 30, 2005	2003-04	2002-03	2001-02
Key Management Personnel	Mr. M. Nahata – Director	Mr. M. Nahata - Director	Mr. M. Nahata – Director*	Mr. P.S. Balasubramaniam - Managing Director
	Mr. Surendra Lunia (COO upto July 25, 2004 and CEO since July 26, 2004	Mr. Sunil Batra (Manager & COO – Since resigned)	Mr. Ashwani Gupta*, Managing Director (for part of the year, Resigned w.e.f 09.12.2002)	
	-	Mr. Surendra Lunia (CFO upto March 25, 2004 and COO since March 26, 2004)	Mr. P.S.Balasubramaniam Managing Director (Resigned on 27.08.2002)	
	-	Mr. Sarvdeep Garg - VP (Technical)	Mr. Simon Solomon, Manager & Executive Director (appointed on 27.08.2002)	
	-	Mr. Simon Solomon (Manager and Executive Director – Since resigned)	Mr. Sunil Batra* - COO (for part of the year)	
	-	-	Mr. Surendra Lunia* - CFO (for part of the year)	
	-	-	Mr. Sarvdeep Garg* - VP Technical (for part of the year)	
	-	-	* Persons mentioned were Key Management Personnel of erstwhile HIL, and continued in the same position subsequent to the said amalgamation	
Company under Key Management Personnel	HFCL Internet Services Limited		-	-

2) Transactions with related parties:

Rs. in lacs

Nature of Transactions	Financial Year/Period ended	Holding Company	Fellow Subsidiary	Companies under Common control	Wholly owned Subsidiary	Associate Enterprise	Enterprise over which Key Management Personnel exercise significant influence
Purchase of Capital Goods	30-6-2005	233.48	-	-	-	-	-
	2004-05	1,102.76	-	4.10	-	-	-
	2003-04	834.57	-	125.17	-	-	-
	2002-03	-	-	208.65	-	-	-
	2001-02	-	-	-	-	-	-
Services received for capital goods	30-6-2005	10.07	-	-	-	-	-
	2004-05	37.23	-	-	-	-	-
	2003-04	277.21	-	-	-	-	-
	2002-03	-	-	0.82	-	-	-
	2001-02	-	-	-	-	-	-
Short term funds received by the company	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	400.00	0.36	-	1.40	62.77	-
	2002-03	-	-	597.92	-	-	-
	2001-02	-	-	-	-	-	-
Payments made by company for goods and services received	30-6-2005	186.81	-	8.73	-	-	52.60
	2004-05	1,327.39	-	264.71	40.40	6.13	506.49
	2003-04	1,090.09	0.36	40.22	-	65.00	184.18
	2002-03	-	-	42.58	-	-	-
	2001-02	-	-	-	-	-	-
Payments made on our behalf to other parties	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	3.00	-	-
	2003-04	8.42	-	-	33.17	-	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Payment received by us	30-6-2005	-	-	-	-	-	-
	2004-05	-	0.48	30.00	4.37	0.96	65.76
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Payment received on our behalf	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	7.16	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Purchase of Goods	30-6-2005	2.05	-	-	-	-	-
	2004-05	28.57	-	4.25	-	-	-
	2003-04	44.82	-	6.57	-	-	15.18
	2002-03	-	-	6.53	-	-	-
	2001-02	-	-	-	-	-	-

Rs. in lacs

Nature of Transactions	Financial Year/Period ended	Holding Company	Fellow Subsidiary	Companies under Common control	Wholly owned Subsidiary	Associate Enterprise	Enterprise over which Key Management Personnel exercise significant influence
Services received	30-6-2005	-	-	-	-	-	75.18
	2004-05	18.00	-	10.82	-	-	383.36
	2003-04	-	-	-	-	-	184.18
	2002-03	-	-	29.16	-	-	-
	2001-02	-	-	-	-	-	-
Service Provided	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	88.11	0.01	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Sale of goods	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	10.97	-	-	2.19
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Expenses Debited by related parties	30-6-2005	-	-	0.88	-	-	-
	2004-05	0.45	-	-	-	0.17	-
	2003-04	11.79	-	10.88	205.07	2.23	197.20
	2002-03	-	-	57.24	-	-	-
	2001-02	-	-	-	-	-	-
Expenses Debited to related parties	30-6-2005	0.03	-	-	-	-	5.66
	2004-05	6.15	1.38	5.32	0.20	-	4.06
	2003-04	4.74	-	0.02	0.18	-	1.23
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Assets transferred to related parties	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	33.23	-	-	-
	2001-02	-	-	-	-	-	-
Guarantees Given by related parties for funds Borrowed by the company and remaining outstanding at the end of the year	30-6-2005	52,250.00	-	-	-	-	-
	2004-05	52,250.00	-	-	-	-	-
	2003-04	52,250.00	-	-	-	-	-
	2002-03	-	-	52,250.00	-	-	-
	2001-02	-	-	-	-	-	-
Guarantees given by related parties for securing Vendor Finance facilities	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	1,500.20	-	-	-	-	-
	2002-03	-	-	1,500.20	-	-	-
	2001-02	-	-	-	-	-	-

Rs. in lacs

Nature of Transactions	Financial Year/Period ended	Holding Company	Fellow Subsidiary	Companies under Common control	Wholly owned Subsidiary	Associate Enterprise	Enterprise over which Key Management Personnel exercise significant influence
Inter-Corporate deposits given during the year	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	400.00	-	-	-
	2001-02	-	-	-	-	-	-
Interest income	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	1.30	-	-	-
	2001-02	-	-	-	-	-	-
Counter Guarantees given by company to related parties	30-6-2005	52,250.00	-	-	-	-	-
	2004-05	52,250.00	-	-	-	-	-
	2003-04	52,250.00	-	-	-	-	-
	2002-03	-	-	52,250.00	-	-	-
	2001-02	-	-	-	-	-	-
Closing Creditors balances	30-6-2005	591.82	-	28.31	-	-	-
	2004-05	533.06	-	33.31	-	-	-
	2003-04	682.12	-	284.24	-	-	-
	2002-03	-	-	6,892.70	-	-	-
	2001-02	-	-	54.18	-	-	-
Closing Debit balances	30-6-2005	-	1.20	67.62	-	11.50	65.45
	2004-05	-	0.89	64.78	-	11.50	81.21
	2003-04	-	-	10.97	-	6.50	12.27
	2002-03	-	-	-	-	-	-
	2001-02	-	-	17.93	-	-	-
Rent Received	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	-	1.41	-
	2001-02	-	-	2.10	-	0.72	-
Investment in 6 % non cumulative redeemable Preference shares during the year	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	-	120.00	-
	2001-02	-	-	-	-	-	-
Sale of Undertaking - consideration for slump sale	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	2,795.35	-	-
	2001-02	-	-	-	-	-	-

Rs. in lacs

Nature of Transactions	Financial Year/Period ended	Holding Company	Fellow Subsidiary	Companies under Common control	Wholly owned Subsidiary	Associate Enterprise	Enterprise over which Key Management Personnel exercise significant influence
Sale of Investment	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	327.03	24.05	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	-	-	-	-
Investment in Equity Shares	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	5.00	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	180.00	-	-
	2001-02	-	-	6.00	-	658.67	-
Investment in Optionally Fully Convertible Debentures	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	6,996.70	-	-
	2001-02	-	-	-	-	-	-
Due to Subsidiary on account of current account transactions	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	-	-	-	-	-	-
	2002-03	-	-	-	208.29	-	-
	2001-02	-	-	-	-	-	-
Advances - Placed during the year	30-6-2005	-	-	-	-	-	-
	2004-05	-	-	-	-	-	-
	2003-04	6,500.00*	-	-	-	-	-
	2002-03	-	-	-	-	-	-
	2001-02	-	-	74.64	-	-	-

* Given as application for 7.5% cumulative redeemable Preference Shares(as per CDR scheme)

Stock Prices

The shares of HFCL are listed on the Stock Exchanges at Bombay, Calcutta, Delhi, Jaipur, Ludhiana, the National Stock Exchange, The London Stock Exchange and Luxemberg Stock Exchange. Particulars of share prices of HFCL during last six months at the Stock Exchange, Mumbai (BSE) and National Stock Exchange (NSE) are as follows:

Months	BSE		NSE	
	High	Low	High	Low
June 2005	22.40	18.55	22.45	18.55
July 2005	24.85	19.40	24.90	19.35
August 2005	27.90	22.05	27.90	22.15
September 2005	26.65	20.00	26.70	20.05
October 2005	24.10	18.55	24.10	18.60
November 2005	22.30	19.65	22.35	19.60

Source: BSE website: www.bseindia.com & NSE website: www.nseindia.com

Summary of Financial Information is as follows

(Rs. in Crore except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	904.65	819.66	443.78
PAT	27.10	(268.43)	(169.88)
Equity Capital	148.00	316.81	329.76
Reserves (excluding Revaluation Reserves)	1372.85	1132.61	884.80
EPS (Rs.)	1.83	-ve	-ve
NAV (Rs.)	102.76	45.75	36.84
Dividend (%)	Nil	Nil	Nil

Investor Relations

Investor complaints received by HFCL are attended to within a period of one month from the date of receipt of the same and there are no complaints outstanding as on March 31, 2005, except in case which are constrained by disputes and legal impediments. The break-up of the complaints received during the last three years is as under:

Nature of Complaints	2003	2004	2005	September 30, 2005
Transfers & Transmissions	02	13	09	3
Non-Receipt of Dividend Warrants	195	116	Nil	1
Dematerialization	13	2	2	Nil
Non-Receipt of Annual Report	NIL	NIL	10	2
Non-Receipt of Duplicate Shares	NIL	NIL	2	2
Complaints from SEBI / Stock Exchange/ Others	32	51	Nil	Nil
Total	**242**	**182**	**23**	**8**

6. Currency of Presentation

In this Draft Offer Document, all references to “Rupees” and “Rs.” And “Indian Rupees” are the legal currency of the Republic of India.

V FINANCIAL INFORMATION

1. Financial Information of the Company:

AUDITORS REPORT

UNCONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, (INCLUDING SUBSIDIARY) FOR THE YEARS ENDED MARCH 31, 2001, 2002, 2003, 2004 AND 2005 AND THREE MONTHS PERIOD ENDED JUNE 30, 2005

Auditors' report as required by Part II of Schedule II of the Companies Act, 1956

To
The Board of Directors
HFCL Infotel Limited
B 71, Industrial Focal Point
Phase VII, Mohali
Punjab.

Dear Sirs,

We have examined the financial information of HFCL Infotel Limited ('HIL' or 'the Company') annexed to this report which has been prepared in accordance with the requirements of:

a. paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ('the Act');
b. the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 ('the Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on January 19, 2000 in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992; and
c. the terms of reference received from the Company, requesting us to carry out work, proposed to be included in the Offer document of the Company in connection with its proposed Offer for Sale ('OFS').

The OFS will be by promoter of certain equity shares of Rs 10 each, at such premium as may be decided by the Board of Directors (referred to as 'the Offer').

Financial information as per audited financial statements

1. We have examined the attached restated summary statement of assets and liabilities of the Company as at quarter ended June 30, 2005, years ended March 31, 2005, 2004, 2003, 2002 and 2001 and the attached restated summary statement of profit and loss for each of the period/years ended on those dates ('summary statements') (see Annexure I and II) prepared by the Company and approved by the Board of Directors. These losses have been arrived at after making such adjustments and regroupings as in our opinion are appropriate and more fully described in the notes appearing in Annexure III to this report. The financial statements of the Company for the years ended March 31, 2001, 2002 and 2003 have been audited and reported upon by R Ranga Rao & Co, Chartered Accountants and those for the years ended March 31, 2004 have been jointly audited and reported upon by Price Waterhouse & Co, Chartered Accountants and Chaturvedi & Partners, Chartered Accountants. Based on our examination of these summary statements and subject to the effect of matters discussed in Note 8 & 9 in Annexure III, we confirm that:

- the impact of changes in accounting policies adopted by the Company as at and for the three months period ended June 30, 2005 and year ended March 31, 2005 have been adjusted with retrospective effect in the attached summary statements;
- the prior period items have been adjusted in the summary statements in the years to which they relate;
- the extraordinary items, which need to be disclosed separately in the summary statements, are appropriately disclosed; and
- there are no material adjustments relating to the previous periods which needs to be adjusted in the summary statements in the periods to which they relate.

2. The summary of significant accounting policies adopted by the Company together with the notes pertaining to the audited financial statements for the three months period ended June 30, 2005 and year ended March 31, 2005 are enclosed as Annexure IV to this report.

3. The financial statements of the Company's subsidiary, Connect Broadband Services Limited ('CBSL') for the periods ended June 30, 2005 and March 31, 2005 have not been consolidated into the attached summary statements. We have not audited the financial statements of CBSL for the periods ended June 30, 2005 and March 31, 2005. The financial statements of CBSL for the periods ended June 30, 2005 and March 31, 2005 have been audited and reported by Chaturvedi & Co., Chartered Accountants. The restated summary financial statements of CBSL for the periods ended June 30, 2005 and March 31, 2005, examined and reported by Chaturvedi & Co., Chartered Accountants, are enclosed in Annexure V to this report.

4. Attention is drawn to Note 1 (c) on Annexure III to the restated financial statements, the Company has incurred a loss of Rs 2,531.10 lakhs for the three months period ended June 30, 2005 (accumulated loss of Rs 56,822.17 lakhs), resulting into a significant erosion of its networth. As per the revised Corporate Debt Restructuring ('CDR'), the peak fund requirement of the Company is estimated at Rs 154,700 lakhs to be funded by way of equity share capital of Rs 60,200 lakhs, preference share capital of Rs 6,500 lakhs, term loan of Rs 70,000 lakhs, buyer's credit facility of Rs 16,300 lakhs and Unsecured Optionally Fully Convertible Debentures ('OFCD') of Rs 1,700 lakhs. Of the above requirement, the Company has arranged Rs 134,100 lakhs and is in advance stage of discussions for the arrangement of the balance Rs 20,600 lakhs by way of term loan and buyer credit facility and expects to achieve the complete financial closure in the immediate future. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the remaining fund and achieve financial closure to fund its operating and capital fund requirements. The shareholders are confident of generating cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance fund requirements. Accordingly, these statements have been prepared on a going concern basis.

Other financial information

5. We have examined the following unconsolidated financial information of the Company proposed to be included in the Offer Document as approved by you and annexed to this report:
   i. Accounting ratios based on the restated loss relating to earnings per share, net asset value and return on net worth as appearing in Annexure VI;
   ii. Capitalisation statement as at June 30, 2005 as appearing in Annexure VII;
   iii. Statement of possible direct tax benefits available to the Company, its subsidiary and its shareholders as appearing in Annexure VIII;
   iv. Details of loans as appearing in Annexure IX to the report;
   v. Details of other income as appearing in Annexure X to the report.
   vi. Statement of dividend declared as appearing as Annexure XI

6. In respect of the 'financial information as per the audited financial statements' and 'other financial information' contained in this report, we have relied upon the audited financial statements for the years ended March 31, 2001, 2002, 2003 and 2004 which were audited by firms of Chartered Accountants, as referred to in paragraph 1 and 3 above.

7. In our view, subject to the effect of matters discussed in Note 8 & 9 in Annexure III, the financial information as per audited financial statements' and 'other financial information' mentioned above have been prepared in accordance with Part II of Schedule II of the Act and the Guidelines.

8. This report is intended solely for your information and for inclusion in the Offer Document in connection with the specified OFS of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For S.R. BATLIBOI & ASSOCIATES
Chartered Accountants

Per Prashant Singhal
Partner
Membership No: 93283

Place: New Delhi
Date: December 19, 2005

For CHATURVEDI & PARTNERS
Chartered Accountants

per Alok Chaturvedi
Partner
Membership No. 93251

Place: New Delhi
Date: December 19, 2005

ANNEXURE I: STATEMENT OF PROFITS AND LOSSES, AS RESTATED

(in rupees lakhs)

	For the period ended	For the year ended				
	June 30,2005	**March 31,2005**	**March 31,2004**	**March 31,2003**	**March 31,2002**	**March 31,2001**
Income						
Service Revenue	7,050.00	25,331.78	19,167.30	8,941.54	-	-
Revenue from Hire Purchase & Finance Business	-	-	-	233.16	1,117.55	1,680.93
Sale of Goods	-	-	16.11	-	-	-
Income from Investments	-	-	14.87	9,394.67	19.08	285.40
Other Income	8.83	222.45	45.34	1,167.20	114.53	10.28
Total	**7,058.83**	**25,554.23**	**19,243.62**	**19,736.57**	**1,251.16**	**1,976.61**
Expenditure						
Network Operation Expenditure	3,096.53	10,940.15	9,552.71	3,592.08	-	-
Cost of Goods Sold	-	-	13.85	-	-	-
Personnel Expenditure	914.67	2,244.88	1,936.71	1,470.38	177.87	200.86
Sales and Marketing Expenditure	270.98	1,570.89	1,222.72	1,260.55	6.45	15.75
Administrative and Other Expenditure	1,010.18	3,483.66	2,739.33	2,778.02	1,289.12	1,192.87
Total	**5,292.36**	**18,239.58**	**15,465.32**	**9,101.03**	**1,473.44**	**1,409.48**
Operating Profit / (Loss) before Finance Expenses, Amortisation and Depreciation	**1,766.47**	**7,314.65**	**3,778.30**	**10,635.54**	**(222.28)**	**567.13**
Finance Expenses	1,461.04	6,272.31	6,911.18	5,677.84	671.76	953.45
Depreciation	2,409.20	8,663.91	6,333.48	3,545.27	323.21	426.56
Lease Equilisation charge	-	-	-	668.98	200.00	300.00
Amortisation	412.61	1,619.36	1,633.89	1,350.63	-	-
Loss before Prior Period Expenditure	**2,516.38**	**9,240.93**	**11,100.25**	**607.18**	**1,417.25**	**1,112.88**
Prior Period Expenditure	(0.05)	80.86	261.32	-	-	-
Loss before tax & Extraordinary Items	**2,516.33**	**9,321.79**	**11,361.57**	**607.18**	**1,417.25**	**1,112.88**
Taxation						
Current	-	38.47	-	163.54	-	11.57
Fringe Benefit Tax	14.72					
Deferred Tax	-	-	-	480.63	(527.50)	-
Loss after tax but before Investment Allowance reserve written back and extraordinary Items	**2,531.05**	**9,360.26**	**11,361.57**	**1,251.35**	**889.75**	**1,124.45**
Investment allowance reserve written back	-	-	-	-	-	41.60
Extra-ordinary Items: Loss on sale of undertaking	-	-	-	1,605.01	-	-
Loss as per audited statement of account	**2,531.05**	**9,360.26**	**11,361.57**	**2,856.36**	**889.75**	**1,082.85**
Impact of material adjustments and prior						

period items (Refer Note 6 in Annexure III)	0.05	6.73	(403.68)	(1,030.88)	222.93	(359.11)
Adjusted Loss	**2,531.10**	**9,366.99**	**10,957.89**	**1,825.48**	**1,112.68**	**723.74**
Loss on amalgamation	-	-	-	28,473.07	-	-
Loss, brought forward from previous year (Refer Note 10 of Annexure III for March 31,2001)	54,291.07	44,924.08	33,966.19	3,319.00	2,206.32	1,482.58
	56,822.17	**54,291.07**	**44,924.08**	**33,617.55**	**3,319.00**	**2,206.32**
Appropriations						
Interim Dividend	-	-	-	348.64	-	-
Loss carried forward to Balance Sheet	**56,822.17**	**54,291.07**	**44,924.08**	**33,966.19**	**3,319.00**	**2,206.32**

The above statement should be read with notes to Statement of Profits and Losses and Assets and Liabilities, as restated, appearing in Annexure III and Summary of Significant Accounting Policies appearing in Annexure IV.

ANNEXURE II: STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED

(in rupees lakhs)

	For the period ended	As at year ended				
	June 30,2005	March 31,2005	March 31,2004	March 31,2003	March 31,2002	March 31,2001
Fixed Assets						
Gross Block	83,609.85	80,021.28	72,562.04	66,336.45	6,419.02	6,908.95
Less :Depreciation	(27,361.98)	(25,044.72)	(16,786.22)	(10,702.08)	(3,346.81)	(3,305.50)
Net Block	56,247.87	54,976.56	55,775.82	55,634.37	3,072.21	3,603.45
Less:Lease Equalisation Charge	-	-	-	-	(2,173.76)	(2,365.97)
Net Block after adjustment for Lease Equalisation	56,247.87	54,976.56	55,775.82	55,634.37	898.45	1,237.48
Capital Work in Progress	3,995.94	4,409.29	1,446.07	4,473.91	-	-
	60,243.81	**59,385.85**	**57,221.89**	**60,108.28**	**898.45**	**1,237.48**
Intangible Assets, net	**17,169.65**	**17,564.70**	**19,070.35**	**20,396.73**	**-**	-
Investments, net	**7,181.71**	**7,181.71**	**7,176.71**	**7,520.03**	**1,318.47**	**1,643.95**
Current Assets, Loans & Advances						
Stock on hire	-	-	-	-	1,105.71	2,824.01
Stock in trade (in Securities)	-	-	-	-	469.32	35.16
Sundry Debtors	3,349.75	2,959.91	2,380.25	1,328.86	24.03	820.51
Cash & Bank Balances	1,140.45	1,121.52	859.24	346.38	261.89	318.03
Loans & Advances	826.32	1,024.99	1,381.28	2,865.62	663.32	362.75
Other Current Assets	3.49	2.45	2.51	26.33	79.57	64.46
	5,320.01	**5,108.87**	**4,623.28**	**4,567.19**	**2,603.84**	**4,424.92**
Total Assets	**89,915.18**	**89,241.13**	**88,092.23**	**92,592.23**	**4,820.76**	**7,306.35**
Liabilities and Provisions						
Loan Funds						
Secured Loans	69,828.63	69,175.29	61,089.29	64,670.51	1,606.37	1,766.32
Unsecured Loans	1,707.14	1,707.14	3,553.22	1,292.70	2,242.48	3,183.01
	71,535.77	**70,882.43**	**64,642.51**	**65,963.21**	**3,848.85**	**4,949.33**
Current Liabilities and Provisions						
Current Liabiliites	13,749.50	11,048.55	6,408.41	13,723.74	673.25	945.68
Provisions	82.43	56.48	65.35	53.78	-	-
	13,831.93	**11,105.03**	**6,473.76**	**13,777.52**	**673.25**	**945.68**
Total Liabilities & Provisions	**85,367.70**	**81,987.46**	**71,116.27**	**79,740.73**	**4,522.10**	**5,895.01**
Networth, represented by						
Share Capital	59,051.72	59,051.72	44,244.71	44,071.63	871.60	871.60
Advance Against Share Application Money	-	-	14,909.27	-	-	-

Reserve & Surplus	2,317.93	2,493.02	2,746.06	2,746.06	2,746.06	2,746.06
Profit & Loss Account	(56,822.17)	(54,291.07)	(44,924.08)	(33,966.19)	(3,319.00)	(2,206.32)
Total	**4,547.48**	**7,253.67**	**16,975.96**	**12,851.50**	**298.66**	**1,411.34**
The above statement should be read with notes to Statement of Profits and Losses and Assets and Liabilities, as restated, appearing in Annexure III and Summary of Significant Accounting Policies appearing in Annexure IV.						

ANNEXURE III: Notes to the statement of profits and losses, assets and liabilities, as restated

1. Background

(a) Nature of business and ownership

HFCL Infotel Limited ('the Company' or 'HIL'), Unified Access Services licencee for Punjab circle (including Chandigarh and Panchkula) , is providing a full gamut of telecommunication services, which includes voice telephony, both wireline and fixed wireless, CDMA based mobile, internet services, broadband data services and a wide range of value added service viz., centrex, leased lines, VPNs, voice mail, video conferencing etc. The services were commercially launched in October 2000 and as on June 30, 2005, the Company has a subscriber base of over 2.65 lakhs.

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

The Company, during the year ended March 31, 2004, surrendered its licence granted by Reserve Bank of India ('RBI') to carry out Non Banking Financial Companies ('NBFC') business. RBI confirmed the cancellation of the NBFC licence in their letter dated May 24, 2004. The revenues and expenses in the profit and loss account for the year ended March 31, 2004 pertain to the telecommunications business of the Company.

On July 2, 2004, the Company has incorporated a subsidiary company in the name of Connect Broadband Services Limited ('CBSL' or 'subsidiary') with the main object to carry on the business as service provider and operator for distribution of cable television network. CBSL will provide data transmission services, internet services and other related services through cable. CBSL has commenced its cable operations on September 16, 2005.

(b) Licence Fees

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

Fixed licence fees of Rs 17,758.5 lakhs paid under the old licence fee regime from inception till July 31, 1999, were considered as the licence Entry Fees of the Punjab circle as part of the migration package to NTP 1999.

With effect from August 1, 1999, the Company is required to pay revenue share licence fees as a fraction of Adjusted Gross Revenue ('AGR'), which is defined as total income including service revenues, finance income and non-operating income, reduced by interconnection costs, service tax and/or sales tax, if applicable. The revenue share fraction was set at 10 per cent of AGR with effect from August 1, 1999 and was reduced to 8 per cent of AGR with effect from April 1, 2004. In addition, spectrum charges calculated at 2 per cent of the AGR earned through the wireless technology is payable under the licence agreement. The Company has implemented the Separation of Accounts as per TRAI guidelines in the financial year 2004-05 based on which it has excluded ISP revenue from the service revenue for the purpose of the calculation of AGR.

(c) Project Financing

The Company's project was initially appraised by Industrial Development Bank of India ('IDBI') during the year ended March 31, 2000 for an estimated peak fund requirement of Rs 118,000 lakhs. The appraised means of finance for the project was to be funded by way of equity capital of Rs 52,400 lakhs and debt of Rs 65,600 lakhs.

Pursuant to the migration to UASL regime, the consortium of lenders, led by IDBI, through the Corporate Debt Restructuring ('CDR') mechanism approved an overall restructuring of the liabilities of the Company and thereby revised the peak fund requirements from Rs 118,000 lakhs to Rs 134,700 lakhs upto March 31, 2006, with peak fund gap of Rs 16,700 lakhs.

Further, the CDR Empowered Group has approved the proposal of the Company for expansion of services, change in the scope of the project, cost of project and means of finance and restructuring of debt as per the letter dated June 24, 2005. As per the said proposal, the peak fund requirement has been further revised to Rs 154,700 lakhs and the principal repayment of existing term loan would be rescheduled and will be repaid between May 1, 2008 and April 1, 2016. Moreover, the rate of interest on existing term loan, OFCDs and working capital shall be 9.3 per cent per annum monthly compounding. The secured OFCD shall be converted into equity shares at par subject to applicable provisions of SEBI guidelines and other relevant Acts during financial year ending March 31, 2006.

The project cost is to be funded by way of equity share capital of Rs 60,200 lakhs, preference share capital of Rs 6,500 lakhs, term loan of Rs 70,000 lakhs, buyer's credit facility of Rs 16,300 lakhs and unsecured OFCD of Rs 1,700 lakhs.

As at June 30, 2005, the Company has arranged Rs 134,100 lakhs and is in advanced stage of discussions for the arrangement of Rs 20,600 lakhs by way of term loans and buyer's credit facility and expects to achieve the complete financial closure in the immediate future.

For the quarter ended June 30, 2005, the Company has incurred a loss of Rs 2,531.10 lakhs resulting into accumulated loss of Rs 56,822.17 lakhs as at June 30, 2005 which has led to significant erosion of its net worth. The ability of the Company to continue as a going concern is dependent on its ability to successfully arrange the remaining fund and achieve financial closure to fund its operating and capital fund requirements. The shareholders are confident of generating the cash flows to fund the operating and capital requirements of the Company in the event of any delay in the arrangement of the balance fund. Accordingly, these statements have been prepared on a going concern basis.

2. Amalgamation of *erstwhile* HFCL Infotel with the Company

Pursuant to the Scheme (see Note 1, Annexure III), the whole of the business undertaking of the *erstwhile* HFCL Infotel inclusive of all its assets and liabilities stands transferred to and vested in the Company with effect from September 1, 2002. The restated results for the five years March 31, 2005 and quarter ended June 30, 2005 includes results of operation of ITI for the years ended March 31, 2001 and 2002 and five months ended August 31, 2002, which essentially related to the business of Hire purchase, Leasing and Securities trading. The telecom business of *erstwhile* HFCL Infotel was merged into the Company effective September 1, 2002, and the Company decided to discontinue its earlier business effective this date, accordingly, the results for the years ended March 2001, 2002 and 2003 are not comparable with the years ended March 31, 2004 and 2005 and the three months period ended June 30, 2005. The accumulated losses of *erstwhile* HFCL Infotel as on August 31, 2002 as per the audited financial statements was Rs 28,473.07 lakhs.

The Company had taken over the following assets and liabilities of the erstwhile HFCL Infotel, the transferor company at their book values:

(in rupees lakhs)

Particulars		Amount
Fixed Assets:		
Gross Block		64,854.02
Less : Depreciation		7,349.82
Net Block		**57,504.20**
Capital Work-in-Progress ('CWIP') (including Capital Advance Inventory transferred to CWIP)		5,839.83
	(A)	**63,344.03**
Licence Entry Fees (Net)	**(B)**	**21,399.51**
Current Assets, Loans and Advances		
Sundry Debtors		1,280.79
Cash and Bank Balances		558.46
Other Current Assets		12.27
Loans and Advances		2,525.28
	(C)	**4,376.80**
Miscellaneous Expenditure (to the extent not written off or adjusted)	**(D)**	**473.28**
Accumulated Loss as on September 1, 2002 taken over	**(E)**	**28,473.07**
Total Assets and Loss taken over	**(F=A to E)**	**118,066.69**
Current Liabilities and Provisions		
Current Liabilities		12,633.78
Provisions		53.13
	(G)	**12,686.91**
Loan Funds		
Secured Loans		60,450.82
Unsecured Loans		1,728.93
	(H)	**62,179.75**
Total Liabilities taken over	**(I=G+H)**	**74,866.66**
Shareholders equity	**(J=F I)**	**43,200.03**

Prior to the amalgamation with *erstwhile* HFCL Infotel Limited i.e September 1, 2002, the Company was engaged in the business of Hire Purchase, Leasing, Financing and Securities Trading. Effective September 1, 2002, with the amalgamation, the Company has discontinued the aforementioned business by hiving off to its wholly owned subsidiary, Rajam Finance and focused on the business of providing telecommunications services in the State of Punjab (including Chandigarh and Panchkula).

3. Slump Sale (Slump sale of Hire Purchase and Finance Business)

During the year 2002-2003, pursuant to the approval of the shareholders under section 293(1)(a) of the Act, the Company disposed off its Hire Purchase and Finance business on a slump sale basis by way of an outright sale as a going concern to its then wholly owned subsidiary, Rajam Finance on September 1, 2002 for a total consideration of Rs 2,795.35 lakhs. Loss arising on this amounting to Rs 1,605.01 lakhs is disclosed in the Statement of Profits and Losses as an extraordinary item. The consideration for the sale was settled by Rajam Finance by issue of OFCDs of Rs 2,446.70 lakhs after inter account adjustment of Rs 348.64 lakhs. Also refer to Note 12 below.

The impact of discontinuance of the Hire Purchase and Finance business, as determined by the Company and not audited or examined, is given below:

(in rupees lakhs)

Particulars	Three months ended	Years ended				
	June 30, 2005	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2001
Restated Loss of the Company (A)	2,531.10	9,366.99	10,957.89	1,825.48	1,112.68	723.74
Less: Restated Profit/(Loss) on account of Hire Purchase and Finance business **(B)**	-	-	-	7,384.07	(1,112.68)	(723.74)
Loss of the Company excluding Hire Purchase and Finance business (A-B)	**2,531.10**	**9,366.99**	**10,957.89**	**9,209.55**	-	-

4. Suspension of business

The Company had temporarily suspended the Hire Purchase business since July 2001, for a year, on account of general recession in the economy, severe competition for business with the entry of banks into this line of business and steep fall in the lending rates without the corresponding reduction in the borrowing rate.

5. Summary of restated Financial Statements

Accounting Standard 21, Consolidated Financial Statements ('AS 21') issued by the Institute of Chartered Accountants of India ('the ICAI') comes into effect in respect of accounting periods commencing on or after April 1, 2001. The ICAI has also issued Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements ('AS 23') which is effective for accounting periods commencing on or after April 1, 2002. As the Company is listed on the stock exchanges in India, AS 21 and AS 23 are currently applicable to the Company with respect to the preparation of its annual financial statements. The Company has not consolidated the results of the subsidiary and associate company in these summary statements as it believes that there is no requirement under guidelines issued by the Security Exchange Board of India ('SEBI') and other applicable Laws/Acts for a company to prepare consolidated restatement financial statements.

As explained in note 2 and note 3 above, the Company underwent a merger restructuring under a Court approved Scheme of Amalgamation during the financial year 2002-03. Accordingly, the financial information presented under Annexure I and Annexure II reflects the following:

- Financial results for the financial years ended March 31, 2001 and March 31, 2002 for the Hire Purchase, Leasing and Securities Trading business.

- Financial results for the financial year ended March 31, 2003 include results of the Hire Purchase, Leasing and Securities trading business for 5 months upto August 31, 2002 and of the telecom business for 7 months with effect from September 1, 2002 (the Appointed Date for merger).

- Financial results for the financial years ended March 31, 2004 and March 31, 2005 and three months ended June 30, 2005 are for the telecom business.

The Investment Trust of India Limited ('ITI' or 'associate') ceased to be a subsidiary on September 30, 2003, hence, the financial information of ITI is not enclosed.

The financial information of the Company presented, is unconsolidated therefore Investments in an associate and a subsidiary have been accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments, issued by the ICAI, accordingly, the financial information of CBSL, subsidiary of the Company have been shown separately under (Annexure V).

6. Adjustments

The impact of the restatement adjustments as per clause (ii) Para I of Part A.1 of Clarification XIV issued by SEBI:

(In rupees lakhs)

Description	Three months ended	Years ended				
	June 30, 2005	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2001
Net loss as per financial statements	2,531.05	9,360.26	11,361.57	2,856.36	889.75	1,124.45
Amount transferred from investment allowance utilisation reserve	-	-	-	-	-	(41.60)
Net loss before restatement adjustments	**2,531.05**	**9,360.26**	**11,361.57**	**2,856.36**	**889.75**	**1,082.85**
Adjustments						
Increase/(decrease) in net losses						
Impact of changes in accounting policies						
Deferred Tax *(Refer Note (a))*	-	-	-	(480.63)	527.50	-
Lease equalisation reserve *(Refer Note (b))*	-	-	-	(668.98)	(325.88)	(358.70)
Other adjustments						
Prior period expenses *(Refer Note (c))*	-	(96.80)	(164.52)	261.32	-	-
Prior period income *(Refer Note (c))*	0.05	15.89	(15.94)	-	-	-
Excess Provision written back *(Refer Note (d))*	-	189.80	(169.64)	(20.16)	-	-
Interest on licence fee *(Refer Note (e))*	-	(33.18)	1.26	31.92	-	-
Licence Fee *(Refer Note (e))*	-	(36.31)	9.97	26.34	-	-
Amortisation of licence entry fee *(Refer Note (f))*	-	5.79	(51.89)	(30.05)	-	-
Taxation for earlier years *(Refer Note (g))*	-	(38.47)	-	(163.54)	21.31	(0.41)
Fixed Assets written off *((Refer Note (h))*	-	-	(12.91)	12.91	-	-
Total impact of adjustments	**0.05**	**6.73**	**(403.68)**	**(1,030.88)**	**222.93**	**(359.11)**
Tax impact of adjustments *(Refer Note 7)*	-	-	-	-	-	-
Total of adjustments after tax impact	**0.05**	**6.73**	**(403.68)**	**(1,030.88)**	**222.93**	**(359.11)**
Net Loss, as restated	**2,531.10**	**9,366.99**	**10,957.89**	**1,825.48**	**1,112.68**	**723.74**

Notes:

(a) The Company has accounted for deferred tax liability/asset in order to comply with the mandatory provisions of Accounting Standard 22, Taxes on Income ('ÁS 22'), issued by the ICAI, in the year ended March 31, 2002. In the absence of year wise breakup of prior years, it is not considered practicable to carry out this adjustment retrospectively.

(b) During the years ended March 31, 2000, 2001 and 2002, the Company had not provided for lease equalization charge of Rs 1,378.29 lakhs, Rs 1,019.58 lakhs and Rs 693.70 lakhs, respectively. Of the said balance, Rs 24.73 lakhs was written back in the year ended March 31, 2003. These restated financial statements have adjusted the opening profit and loss account by recording Rs 1,353.56 lakhs as lease equalization charge (Refer Note 10 below) and reversed the lease equalization charge accounted during the years ended March 31, 2001, 2002 and 2003.

(c) Prior period expenses / income consist of expenses arising in the current period pertaining to prior years, classified as prior period expenditure / income in the audited financial statements. These expenses / income have been reclassified and reflected in the respective years / periods.

(d) Excess provision written back pertains to the difference between the provisions estimated by the management during the previous year(s) and the actual expenditure incurred towards the same during the current year/ period.

(e) During the year ended March 31, 2005, the Company incurred licence fees and interest thereto, payable for its telecom business, for the years ended March 31, 2004 and 2003 on the basis of demand raised by Department of Telecommunications. Accordingly, licence fee and interest on licence fee have been taken to the year to which it pertains.

(f) During the year ended March 31, 2005, the Company received a refund of interest on licence entry fee of Rs 777.10 lakhs and consequently the same was reversed from the intangible assets. The said interest was paid during the year ended March 31, 2001 and capitalized as licence entry fee under intangible assets. Accordingly, licence entry fee and the corresponding amortization for the same have been restated.

(g) On completion of earlier Assessments Years, the Company had recorded tax expense for earlier years during the years ended March 31, 2005, 2003 and 2001 of Rs 38.47 lakhs, Rs 163.54 lakhs and Rs 11.57 lakhs respectively. Accordingly, tax expense of earlier years ended March 31, 2002 and 2001 of Rs 21.31 lakhs and 11.16 lakhs, respectively has been restated in the respective years. Further, tax expense of Rs 181.11 lakhs pertaining to years prior to March 31, 2000 has been adjusted from the opening profit and loss account (Refer Note 10 below).

(h) During the year ended March 31, 2004, the Company had written off fixed assets arising as result of the physical verification of fixed assets done as of March 31, 2003. Accordingly, the loss on physical verification of fixed assets has been restated.

(i) Effective April 1, 2004, the Company has adopted Accounting Standard 28, Impairment of Assets ('AS 28'), which has not given rise to any impairment loss to be recognized in the financial statements for the year ended March 31, 2005.

7. Tax impact of adjustments

Adjustment made in Restated Profit/Loss as above are tax neutral (as the Company has carry forward losses and is eligible for a tax holiday under section 80(I) of the Indian Income Tax Act, 1961, see Statement of Possible Direct Tax Benefits Available to the Company, its subsidiaries and its shareholders, in Annexure VIII) and, therefore, would not effect the Income Tax of the respective financial years ended March 31, 2005 and quarter ended June 30, 2005.

8. Non adjustment for incorrect accounting practices and/or regulatory non-compliances

(a) The Board of Directors of the Company declared an interim dividend of Rs 4 per equity share amounting to Rs 348.64 lakhs after taking into consideration the ITI's actual profit upto September 30, 2002 and the estimated profits for the six months ended March 31, 2003. On January 17, 2003, the Board of Directors decided to amalgamate with the Company the *erstwhile* HFCL Infotel with effect from September 1, 2002 (see Note 1, Annexure III). As a result of the amalgamation, the profits of the Company were converted into a loss due to the losses of the transferor company. In view of the above the Company did not make the transfer of profits to reserves as per the relevant section of the Act. The Company has been legally advised that the declaration of interim dividend by the Board of Directors is in compliance with the provisions of law.

(b) The Company recognizes revenue from Internet Service provider ('ISP') dial up services based on the number of subscribers registered. The Company is also in the business of selling Dial up ISP packs for which it has a separate licence. Internet revenue against these dial up packs is recognized at the time of initial registration by the subscriber. During the years ended March 31, 2003 and March 31, 2004, the Company had recognised revenue of Rs 13.35 lakhs and Rs 8.74 lakhs respectively, against the sale of dial up packs based on the aforementioned accounting policy. Since March 26, 2003, the Company has discontinued the sale of the aforementioned ISP dialup packs and the new ISP dialup connections are net ready wherein the subscriber is billed based on usage.

As per Accounting Standard 9, Revenue Recognition ('AS 9'), issued by the ICAI and subsequent guidance note on accounting by Internet Companies issued by the ICAI, ISP revenue should be recognized based on the actual usage by the subscriber.

Since the Company does not have the necessary usage reports from its billing system for the ISP subscribers, therefore the impact of non-compliance with the AS 9 is not quantifiable. The management believes that the revenue from ISP dial up services is not material.

(c) The internal control system relating to generation of ageing reports of receivables and subscriber security deposits, need to be further strengthened, as it involves significant level of low value and high volume transactions, and some of these processes are not entirely automated. The Company has initiated the process of automation, which is yet to be completed. During the year ended March 31, 2005, the Company recorded Rs 37 lakhs as the difference of security deposit between the account books and the billing system. The impact of the same cannot be determined for the previous years.

(d) During the quarter ended June 30, 2005, the Company has recorded the revenue on ISP and Enhanced Data ('E&D') services based on the period of the contract. The billing for the same is done at regular intervals. As on June 30, 2005, the amounts billed in advance are adjusted against the respective subscribers having debit balances. Due to non-availability of information, the Company has not adjusted the amount billed in advance against the respective subscribers having debit balances and have disclosed the same as advance revenue under current liabilities for the years ended March 31, 2004 and 2003.

(e) R Ranga Rao & Co, Chartered Accountants, erstwhile auditors of the Company had qualified their opinion on the years ended March 31, 2001 and 2002, with respect to the reclassification of the Company to a loan company by the RBI as a result of which public deposits amounting to Rs 724.52 lakhs at March 31, 2001 and Rs 97.32 lakhs as of March 31, 2002, which was in excess of permissible limits, needed to be regularized. The Company had, subsequently, transferred its business of Hire Purchase, Leasing and Securities Trading Business (see Note 3, Annexure III) to Rajam Finance effective September 1, 2002, accordingly, the above non-compliance does not have any effect on the Company's operations.

(f) R Ranga Rao & Co, Chartered Accountants, erstwhile auditors of the Company had qualified their opinion on the years ended March 31, 2001 and March 31, 2002, with respect to the non-registration of 35,040 equity shares of Kothari Industrial Corporation in the name of the Company. The Company had, subsequently, transferred its business of Hire Purchase, Leasing and Securities Trading business (see Note 3, Annexure III) to Rajam Finance effective September 1, 2002, accordingly, the above non-registration does not have any effect on the Company's operations.

(g) Price Waterhouse & Co., Chartered Accountants and Chaturvedi & Partners, Chartered Accountants, joint auditors of the Company had qualified their opinion related to the year ended March 31, 2004 with delay in deposit of dues of Rs 47,864 of investor education and protection fund and minor delays with respect to the deposit of tax deducted at source by the Company. The above qualification does not have an impact on the restatement of balance sheet and profit and loss account of the Company.

9. Non adjustment for changes in accounting policies

a) As stated in the summary of significant accounting policies, the Company has followed the Internal Rate of Return method ('IRR Method') for recognition of income in respect of hire purchase contracts put through on or after April 1, 2001 as required by the Accounting Standard 19, Accounting for Leases ('AS 19'), issued by the ICAI. Further, during the years ended March 31, 2001 and 2002, the Company has followed the Guidance Note on 'Accounting for Leases' for the purpose of recording transactions related to leasing business. However, the Company has not followed the AS 19 in respect of these transactions. Due to non-availability of information, we are unable to restate the effect of compliance with the aforementioned accounting standard with respect to the hire purchase and leasing transactions.

b) The Company has accounted for deferred tax liability / assets in order to comply with the mandatory provisions of AS 22 in the year ended March 31, 2002. In the absence of year wise break up for prior years, it is not considered practical to carry out this adjustment retrospectively.

c) The Company had a policy of charging off leave encashment on an annual basis, prior to amalgamation. The leave encashment was paid annually along with the salary in January. No provision has been made in the books in respect of unavailed leave as at March 31 every year upto March 31, 2003. In accordance with Accounting Standard 15, Accounting for Retirement Benefits in the Financial Statements of Employers ('AS 15'), the leave encashment has to be provided on actuarial valuation basis, however, in absence of information available it is not practicable to quantify the same.

d) In the absence of interim financial information for the quarter ended June 30, 2005, the Company's investment in the Associate has been valued at cost existing as of March 31, 2005 based on principles as stated in Accounting Standard 13, Accounting for Investments ('AS 13'), issued by the ICAI. The adjustment, if any, arising out of the diminution in the value of the investment in the three months period ended June 30, 2005 has not been done in the absence availability of financial information for the quarter ended June 30, 2005.

10. Reconciliation of Brought Forward Loss:

Restatement of profit and loss account balance of HIL, as at April 1, 2000

	(in rupees lakhs)
Accumulated profit as at April 1, 2000, as per audited financial statements	52.10
Increase/(decrease) as a result of:	
Taxation for earlier years (Refer Note 6(g) above)	(181.12)
Lease equalisation charge (Refer Note 6(b) above)	(1,353.56)
Accumulated Loss as as at April 1, 2000, as restated	**(1,482.58)**

11. Investment in subsidiary

a) During the year ended March 31, 2003, the Company acquired the entire shareholding in Rajam Finance (an unlisted registered NBFC) from the erstwhile promoters. Consequently, Rajam Finance became a wholly owned subsidiary of the Company with effect from August 19, 2002 and the name of this company was changed to The Investment Trust of India Limited ('ITI'). Subsequently on September 30, 2003, ITI ceased to be a subsidiary of the Company due to allotment of fresh equity by ITI to other investors. Hence the financial information of ITI has not been incorporated in the restated summary financial statements of the Company.

b) On July 2, 2004, the Company has incorporated CBSL with the main object to carry on the business as service provider and operator for distribution of cable television network. CBSL will provide data transmission services, internet services and other related services through cable. CBSL has commenced its cable operation from September 16, 2005.

12. Profit on sale of investment

During the year ended March 31, 2003, income from investments includes Rs 9,334.83 lakhs representing profit on the disposal of the Company's holding in Pioneer ITI AMC Limited in July 2002. This profit is net of legal and professional fees of Rs 410.13 lakhs and merchant banker's fees of Rs 253.42 lakhs. The income from investment had increased due to receipt of additional consideration of Rs 1,711.42 lakhs from SPA Escrow Account. Moreover, the Company has revised its Income Tax Return for the Assessment Year 2003-04 to give the impact of the same.

13. Capital commitment

(in rupees lakhs)

	As at three months period/financial years ended					
Particulars	**June 30, 2005**	**March 31, 2005**	**March 31, 2004**	**March 31, 2003**	**March 31, 2002**	**March 31, 2001**
Contracts remaining to be executed on capital account (net of advances)	1,997.58	3,132.59	290.03	183.58	-	2.26
	1,997.58	**3132.59**	**290.03**	**183.58**	**-**	**2.26**

14. Contingent liabilities not provided for in respect of:

(in rupees lakhs)

Particulars	As at three months period/financial years ended					
	June 30, 2005	**March 31, 2005**	**March 31, 2004**	**March 31, 2003**	**March 31, 2002**	**March 31, 2001**
Claims against the company not acknowledged as debts	39.02	11.38	50.20	50.03	12.63	13.88
Income tax matters	720.26	628.08	13.30	51.58	-	-
Access Charges	-	-	230.00	-	-	-
	759.28	**639.46**	**293.50**	**101.61**	**12.63**	**13.88**

Outstanding Financial Bank Guarantees:

(in rupees lakhs)

Particulars	As at three months period/financial years ended					
	June 30, 2005	**March 31, 2005**	**March 31, 2004**	**March 31, 2003**	**March 31, 2002**	**March 31, 2001**
Guarantees given to suppliers and government agencies	1732.90	673.04	686.30	485.00	1.00	1.00
	1732.90	**673.04**	**686.30**	**485.00**	**1.00**	**1.00**

a) Financial Bank Guarantees issued by Punjab National Bank and Oriental Bank of Commerce to the extent of Rs 1,731.59 lakhs and Performance Bank Guarantees of Rs 765.18 Lakhs as at June 30, 2005 are secured against :

i. 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;
ii. First pari passu charge of mortgage of immovable properties of the Company in Mohali, Jalandhar and Mumbai.
iii. Further, secured by corporate guarantee given by the Holding Company.
iv. All rights, titles, interest, claims & benefits of project documents, insurance polices, uncalled capital, bank accounts, monies receivable, all operating cash flows and receivables, agreement b/w DoT , Company and Security trustee & Agent and other assets, present & future.

The Company has furnished Counter Guarantee of Rs 52,250 lakhs to HFCL, the Holding Company against the corporate guarantees given by it to Industrial Development Bank of India, ING Vysya Bank Limited, Punjab National Bank and Oriental Bank of Commerce.

b) The Company has certain income tax related matters pending with the Income Tax Authorities for the Assessment Year from 1993-94 to Assessment Year 2002-03 aggregating to Rs 720.26 lakhs. The said demands pertain mainly to NBFC business of the e*rstwhile* Investment Trust of India Limited (the Company before the merger with the e*rstwhile* HFCL Infotel). Based on an expert opinion obtained by the Company, the management is confident that no additional tax liability needs to be provided.

c) As per the decision of the Supreme Court in the case of State of Uttar Pradesh v Union of India based on the UP Sales Tax Act, charges collected in the nature of charges for use of the various assets that form the network tantramounting to 'transfer of right to use the telephone system', essentially rental charges, would be liable to lease tax. The Company has estimated the maximum liability on this account to be Rs 1,363.60 lakhs as at June 30, 2005 in the event of dismissal of the writ petitions. Further, in another ruling, the Supreme Court has referred the matter to a larger bench and has ordered states that normal sales tax proceedings can continue, however, no coercive action can be taken against the Company except in regard to the completed assessments subject to any statutory remedy.

d) Loans and advances include amounts recoverable from Essar Investments Limited ('EIL') aggregating to Rs 1,340.70 lakhs. The Company had made payments in earlier years to EIL for takeover of certain accounted and unaccounted liabilities for services that were to be settled by EIL as per the agreement between EIL and erstwhile HFCL Infotel. EIL has failed to settle the dues with the respective parties and the Company has filed a winding up petition u/s 434 of the Companies Act, 1956 with Honourable Court of Mumbai. This petition has been dismissed vide Order dated March 24, 2005. The Company has applied on July 1, 2005 to the Honourable Mumbai High Court to appoint an Arbitrator on behalf of EIL. The Honourable High Court vide its Order dated November 21, 2005 referred the case for Arbitration. 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.

e) Out of the total paid up equity share capital comprising of 525,517,152 equity shares of Rs10 each, 515,070,338 equity shares are yet to be listed on any of the recognized stock exchanges in India, since as a pre-condition to the listing of the Company's shares on the Bombay Stock Exchange ('BSE'), the BSE has stipulated that the promoters' shareholding in the Company be reduced to a certain level by way of Public Offer for sale ('IPO') by the promoters.

f) During the year ended March 31, 2004, the Company surrendered the licence granted by RBI to carry out NBFC business. Accordingly, the Company foreclosed all the unpaid / unclaimed deposits as on September 15, 2003 and the interest accruing thereon as on that date was transferred to an Escrow Account in February 2004. On May 24, 2004, the RBI approved the cancellation of the Company's certificate of NBFC registration and provided certain directives to the Company to be complied with pending completion of which the Company would continue to be governed by the relevant provisions of the Reserve Bank of India Act, 1934 and various directions/instructions issued by RBI from time to time. On August 10, 2004, the Company has obtained the approval of the shareholders for the removal of NBFC related Objects from the Memorandum of Association. Further, the Company submitted a letter dated July 7, 2004 for compliance to the RBI and RBI vide its letter dated July 30, 2004 gave some concessions from compliance and has advised to HIL to follow certain instructions till the balance in the escrow account is settled. In addition, the accompanying financial statements include the following account balances relating to the NBFC business:

	(in rupees lakhs)
a. Unclaimed Deposits From Public	14.56
b. Interest accrued and due on public deposits upto September 15, 2003	2.08
c. Interest accrued and due on deposits to be transferred to Investor Protection and Education Fund	2.10
d. Cheques outstanding beyond 6 months	5.24
e. Others (Under reconciliation)	0.21
	24.19
Balances with Scheduled banks in Escrow account	24.19

15. Salient features of CDR as approved on March 10, 2004 as further updated on June 24, 2005.

Post migration to UASL, the Company had approached its lenders (banks and financial institutions) for a financial restructuring package, which has been approved under the CDR mechanism by the CDR Empowerment Group of the consortium of lenders lead by Industrial Development Bank of India ('IDBI') on March 10, 2004. The CDR scheme approves the overall restructuring of the liabilities of the Company, and revised the peak fund requirements from Rs 118,000 lakhs as appraised by IDBI in March 2004 to Rs 134,700 lakhs, with peak fund gap of Rs 16,700 lakhs. Of this, term lenders have agreed to extend bridge fund of Rs 7,600 lakhs till financial year ('FY') 2005-2006 through OFCD redeemable at premium giving a yield of 12 per cent of Rs 1,400 lakhs. Marginal gap in financial closure to be met through new loans of Rs 2,500 lakhs and equity contribution from promoters of Rs 2,700 lakhs.

The salient features of the approved restructuring package are as follows:

- Reduction in the term loan interest rate from a flat rate structure to a ballooning rate structure, i.e. 10 per cent during the financial year 2003-2006 and 14 per cent thereafter, with 12 per cent yield to maturity;
- Deferment of principal repayment by 30 months i.e. from April 1, 2005 to October 1, 2007 and its payment on ballooning basis;
- Conversion of outstanding term loans, interest, compound interest and liquidated damages as on January 1, 2004 into Principal Term Debt ('PTD'). Conversion of part of PTD into equity/ OFCDs at par and the balance PTD to be re-converted into rupee term debt. The equity arising out of the above conversion shall not be off -loaded in the market before the Company raises Rs 9,000 lakhs by way of IPO for redemption of OFCDs till March 31, 2006;
- Conversion of interest accruing for the period from January 1, 2004 to March 31, 2005, into zero per cent OFCDs at par, redeemable at premium with 12 per cent yield to maturity on or before March 31, 2006.
- Conversion of equipment vendor's (i.e. HFCL's) dues to the tune of Rs 6,500 lakhs into 7.5 per cent cumulative redeemable preference shares ('CPRS'), to be redeemed after repayment of entire term loans of the lenders.

Post restructuring, the term lenders have agreed to extend the bridge fund for Rs 7,600 lakhs till March 31, 2006 by way of subscribing zero per cent OFCD redeemable at premium giving yield of 12 per cent. The fund gap of Rs 14,200 lakhs in its means of finance is proposed to be funded by way of fresh subscription towards equity share capital amounting to Rs 2,700 lakhs by December 31, 2004; fresh term loans amounting to Rs 2,500 lakhs during FY 2004-2005; and raising of equity aggregating Rs 9,000 lakhs till March 31, 2006, by way of IPO/Conversion of OFCDs into equity, to redeem zero per cent OFCDs of Rs 7,600 lakhs at a premium of 12 per cent yield till maturity. Pending the IPO, term lenders have agreed to extend bridge fund of Rs 7,600 lakhs till FY 2006 by way of subscribing to zero percent OFCDs. Further on March 16, 2005, the lenders approved the change in the means of finance for meeting the gap of Rs 5,200 lakhs entirely by the buyer’s credit facility from The Export Import Bank of China. On February 8, 2005, the Company has entered into an agreement with The Export Import Bank of China for USD 120 lakhs amounting to 85 per cent of the total contract value of USD 140 lakhs with a vendor for supply of telecommunications equipment.

On June 24, 2005 the CDR Empowered group approved the reworking of the CDR Package. The revised project cost is envisaged to be funded by way of equity share capital of Rs 60,200 lakhs, preference share capital of Rs 6,500 lakhs, term loan of Rs 70,000 lakhs, buyer’s credit facility of Rs 16,300 lakhs and Unsecured OFCD of Rs 1,700 lakhs. Of this, the Company has tied up equity share capital of Rs 52,550 lakhs, preference share capital of Rs 6,500 lakhs, term loans aggregating Rs 60,500 lakhs, secured OFCD of Rs 8,600 lakhs (including Rs 1,050 lakhs as premium) and Unsecured OFCD aggregating Rs 1,660 lakhs for the project.

The salient features of the approved restructuring package are as follows:

- Cut-off date is April 1, 2005.
- Reduction of interest to 9.3 per cent per annum monthly compounding.
- Deferment of principal repayment by 8 months i.e. in 96 monthly installments commencing from May 1, 2008 till April 1, 2016 and its payment on ballooning basis.
- Reduction of existing working capital interest rates to 9.3 per cent per annum payable monthly basis.
- Reduction in the premium on redemption from 12 per cent to 9.3 per cent on OFCDs issued in lieu of conversion of interest accrued from January 1, 2004 to March 31, 2005.
- Deferment of redemption of unsecured 0 per cent OFCDs in Financial Year 2015-16 as against earlier stipulated Financial Year 2013-14.
- Reduction of Coupon rate on CRPS issued to the Promoter (HFCL) to 2 per cent per annum
- The company will escrow all its receivables (including dividend income, non-operational income, extraordinary income, sale proceeds of assets, promoter’s contribution) into a Trust and Retention account (TRA) held with designate bank from which payments would be made as decided later by the Monitoring Committee / Lenders.
- 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 i.e. April 1, 2005.

Post restructuring, the Company has a fund gap of Rs 20,600 lakhs in its means of finance, which is proposed to be funded as under:

The Company has obtained 'in-principal' approval from The Export-Import Bank of China to extend additional Buyer's Credit Facility of Rs 11,100 lakhs. The expansion of services in the State of Haryana is subject to the Company's tying up the gap of Rs 9,500 lakhs by way of Debt / Quasi Equity / Equity till Financial Year 2006-07.

ANNEXURE IV: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation of financial statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards issued by The Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Act. The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting. The significant accounting policies are as follows:

2. Fixed Assets

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

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of fixed assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if not possible, for the cash generating unit. Impairment loss recognised for an asset in earlier accounting periods is reversed, to the extent of its recoverable amount, if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

3. Depreciation

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

Asset	Useful life (in years)
Leasehold Land	Over the primary period of the lease
Buildings	Office Building 30 years Others 58 years
Leasehold Improvements	10 years or over the primary period of the lease, whichever is lower
Network Equipment	9.67 years
Testing Equipments (included in Network Equipments)	5 years
Optical Fibre Cable and Copper Cable	15 years
Telephone Instruments at Customer's Premises	5 years
Computers	6 years
Software	5 years
Office Equipments & Furniture and Fixture	10 years, except in case issued to employees where asset is depreciated in 5 years
Vehicles	4 years
Fixed Assets costing less than Rs 5,000	Fully depreciated when they are ready to use

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

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

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

(v) Effective April 1, 2004, the Company has revised the economic useful life of furniture and fixtures from 16 years to 10 years, office equipment from 21 years to 10 years and vehicles from 5 years to 4 years and has accordingly depreciated the written down value as on March 31, 2004 over the remaining useful life. As a result, the Company has recorded accelerated depreciation of Rs 11.44 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 11.44 million.

(vi) During the year ended March 31, 2005, the Company has revised the economic useful life of the certain network equipment purchased from the original supplier. The Company believes that these network equipment would be utilised upto March 31, 2008. As a result, the Company has recorded accelerated depreciation of Rs 68.64 million for the year ended March 31, 2005 resulting in an increase in the loss for the year by Rs 68.64 million.

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

4. Licence Fees

(i) Licence Entry Fee

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

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

(ii) Revenue Sharing Fee

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

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

5. Investments

Investments that are readily realisable and intended to be held for not more than 12 months are classified as current investments. All other investments are classified as long-term investments. Long term investments are stated at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments. Current investments are carried at lower of cost and fair value and determined on an individual investment basis.

6. Provisions

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

7. Revenue Recognition

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

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

8. Interconnection Usage Revenue and Charges

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

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

9. Foreign Currency Transactions

Initial Recognition

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

Conversion

At the year end, monetary items denominated in foreign currencies, other than those covered by forward contracts, are converted in to rupee equivalents at the year end exchange rates.

Exchange Differences

Exchange differences arising on the settlement or reporting of monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise except those arising from investments in non-integral operations.

All exchange differences arising on settlement/conversion of foreign currency transactions are included in the profit & loss account, except in cases where they relate to the acquisition of Fixed Assets from outside India, in which they are adjusted in the carrying cost of the corresponding assets.

10. Borrowing Costs

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

11. Leave Encashment

Liability for leave encashment is in accordance with the rules of the Company and is provided on the basis of an actuarial valuation performed by an independent actuary at the year end.

12. Other Retirement Benefits

The contributions towards provident fund are made to statutory authorities and are charged to the profit and loss account The gratuity benefits of the Company are administered by a trust formed for this purpose through the group gratuity scheme with Life Insurance Corporation of India ('LIC') to cover the gratuity liability for its employees. Provision is made for the shortfall if any in the contribution made as compared to the actuarial valuation at the close of the year.

13. Income-Tax

Tax Expenses for the year, comprises both current tax and deferred tax, is included in determining the net profit/(loss) for the year. Current tax is measured at the amount expected to be paid to/recovered from the taxation authorities, using the applicable tax rates and laws.

Deferred income taxes reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets, other than on unabsorbed depreciation and tax losses carried forward, are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Deferred tax assets from unabsorbed depreciation and tax losses carried forward are recognized and carried forward only to the extent that there is a virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become virtually certain that future taxable income will be available against which such deferred tax assets can be realised.

14. Operating Leases

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

15. Earning Per Share

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

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

16. Segment Reporting

Identification of segments:

The Company's operating businesses are organized and managed separately according to the nature of products manufactured/traded, with each segment representing a strategic business unit that offers different products to different markets. The analysis of geographical segments is based on the areas in which the Company's products are sold.

Allocation of common costs:

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

Unallocated items:

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

ANNEXURE V: CONNECT BROADBAND SERVICES LIMITED

a) Statement of Assets and Liabilities, as restated:

(in rupees lakhs)

	For the periods ended	
	June 30, 2005	**March 31, 2005**
Current Assets, Loans & Advances		
Cash & Bank Balances	2.83	2.83
Current Liabilities and Provisions		
Current Liabilities	0.20	0.17
	2.63	**2.66**
Networth		
Represented by		
Share Capital	5.01	5.01
Less: Miscellaneous Expenditure	(2.38)	(2.35)
	2.63	**2.66**

b) Significant Accounting Policies

1. **Basis Of Accounting**

Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles, the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

The Company follows the mercantile system of accounting & recognizes the income & expenditure on accrual basis except those with significant uncertainties.

2. **Preoperative Expenditure**

Expenditure incurred before the commencement of commercial operations is considered as pre-operative expenditure and are written off in the year of commencement of commercial operations.

3. **Revenue Recognition**

Revenue from sales is recognised on dispatch of goods from the warehouse/premises. Sales are exclusive of sales tax.

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

4. **Miscellaneous Expenditure**

Preliminary Expenditure is written off in the year of the commencement of commercial operations.

5. **Contingent Liabilities**

Contingent liabilities are determined on the basis of available information and are disclosed by way of a note to the accounts.

ANNEXURE VI: ACCOUNTING RATIOS *(in rupees lakhs)*

Description	**Three months period ended**	**For the year ended**				
	June 30,2005	**March 31,2005**	**March 31,2004**	**March 31,2003**	**March 31,2002**	**March 31,2001**
Net restated Loss (Before Extraordinary items) (Refer Note (f) below for March 31, 2003)	*2,531.10*	*9,366.99*	*10,957.89*	*220.47*	*1,112.68*	*723.74*
Preference Dividend @2.0%	*32.41*	*59.48*	**-**	**-**	**-**	**-**
	2,563.51	***9,426.47***	***10,957.89***	***220.47***	***1,112.68***	***723.74***
Loss Per Share (Rs)	0.49	1.96	2.48	0.08	12.77	8.30
Networth	*4,547.48*	*7,253.67*	*16,975.96*	*12,851.50*	*298.66*	*1,411.34*
Net Asset Value per equity share (Rs)	0.87	1.51	3.84	4.95	3.43	16.19
Negative Return on Net Worth (%)	55.66%	129.13%	64.55%	1.72%	372.56%	51.28%
Weighted average number of equity shares outstanding during the year/period	525,517,152	480,454,474	441,524,909	259,631,214	8,716,000	8,716,000
Total number of equity shares outstanding at the end of the year/period	525,517,152	525,517,152	442,447,064	440,716,250	8,716,000	8,716,000

Notes:

a) *The ratios have been computed as below:*

Loss Per Share (Rs.) = *Net Loss, as restated but before extra-ordinary items attributable to equity shareholders* / *Weighted average number of equity shares outstanding duing the year*

Net Asset Value Per Share (Rs.) = *Net Worth excluding revaluation reserve* / *Weighted average number of equity shares outstanding duing the year*

Return on Net Worth (%)	*Net Loss, as restated but before extra-ordinary items attributable to equity shareholders* / *Net Worth excluding revaluation reserve*

b) As at March 31, 2003, equity shares pending allotment to the erstwhile shareholders of HFCL Infotel Limited have been considered in the number of equity shares as the Share Capital (from the appointed date of amalgamation) of erstwhile HFCL Infotel Limited was already in the telecom business. On June 12, 2003, the Company issued 432,000,250 equity shares to the equity shareholders of the erstwhile HFCL Infotel Limited.

c) Working of Earning per share is done after considering coupon dividend @2.0 per cent on Cumulative Redeemable Preference Shares of Rs 6,500 Lakhs as per revised CDR approved on June 24, 2005.

d) Advance against Share Application Money of Rs 14,909.27 lakhs and advance against application money for OFCDs of Rs 3,176.94 Lakhs as on March 31, 2004 and OFCDs of Rs 9,218.94 Lakhs as on March 31, 2005 have not been considered as potential dilutive equity sharessince on conversion the results are anti-dilutive as per Accounting Standard 20-'Earnings Per Share' issued by the Institute of Chartered Accountants of India.

e) As per revised CDR Scheme approved on June 24, 2005, Conversion of Secured OFCD amounting to Rs 8,077.79 lakhs has not been considered as potential dilutive equity shares since on conversion the results are anti-dilutive as per Accounting Standard 20-'Earnings Per Share' issued by the Institute of Chartered Accountants of India.

f) Net restated Loss (before Extraordinary items) for the financial year 2002-03 is as follows:

	(rupees in lakhs)
Net Restated loss as per Annexure 1	1,825.48
less : loss on sale of undertaking	(1,605.01)
Net restated Loss (Before Extraordinary items)	220.47

g) Earnings per share calculations are done in accordance with Accounting Standard 20 'Earnings Per Share' issued by the Institute of Chartered Accountants of India.

h) Above ratios have been calculated on the basis of restated profit & loss account for respective years/ period.

ANNEXURE VII: CAPITALISATION STATEMENT AS AT JUNE 30, 2005

(in rupees lakhs)

Particulars		Pre-issue	Post-issue
Debt Funds			
Short Term Debt		741.77	741.77
Long Term Debt	**A**	62,716.22	62,716.22
Total Debt		**63,457.99**	**63,457.99**
Shareholders' Funds			
Share Capital (Refer Note b below)		67,129.50	67,129.50
Reserves & Surplus		2,317.93	2,317.93
Profit & Loss Account		(56,822.17)	(56,822.17)
Total Shareholders' funds	**B**	**12,625.26**	**12,625.26**
Long term debt/shareholders' funds	**A/B**	**4.97**	**4.97**

Notes:

a) The Promoters of the Company are selling a part of their stake and accordingly no money is received by the Company from this offer. Therefore there is no change in the capitalisation statement, pre and post issue.

b) On June 24, 2005, the Corporate Debt Restructuring ('CDR') Cell approved the revised CDR Scheme ('the revised scheme'). As per the revised scheme, the premium on OFCDs has been revised to 9.3 per cent from 12 per cent from the date of issuance of OFCDs. In compliance with the revised CDR Scheme approved on June 24 2005, the company has considered conversion / redemption of Principal and premium on redemption of Secured OFCDs amounting to Rs 7,551.18 and Rs 526.61 lakhs (net of Rs 102.06 lacs charged excess in financial year 2004-05) as potential equity as this is proposed to be converted into equity shares before March 31, 2006.

c) Bank overdraft and interest accrued and due on vendor Finance Facility have been considered as short term loans.

ANNEXURE VIII: STATEMENT OF POSSIBLE DIRECT TAX BENEFITS AVAILABLE TO HFCL INFOTEL LIMITED ('THE COMPANY') AND ITS SHAREHOLDERS

Under the Income Tax Act, 1961 (‘the IT Act’)

1. <u>Benefits available to the Company</u>

1.1 <u>Deduction under Section 80-IA of the IT Act</u>

1.1.1 The Company is engaged in providing unified telephony services in the state of Punjab, Chandigarh and Panchkula India since September 1 2002. As per the provisions of Section 80-IA (4) (ii) of the IT Act, any undertaking engaged in the business of providing telecommunication services on or after April 1, 1995, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services, shall be eligible for prescribed deduction of profits derived from such business, subject to the conditions specified therein.

In accordance with and subject to the conditions specified in Section 80-IA of the IT Act, the Company is eligible for tax deduction equivalent to:

- 100 percent of profits and gains for any 5 consecutive financial years out of 15 financial years, beginning with Financial Year 2002-2003 (i.e. the year in which the Company started providing telecommunication services); and

- 30 percent of profits and gains for the next 5 consecutive financial years.

As per the audited financial statements of the Company, the company has not yet claimed deduction under Section 80-IA since there was no profit chargeable to tax.

1.2 <u>Dividends exempt under Section 10(34)</u>

1.2.1 Dividends declared (whether interim or otherwise), distributed or paid by domestic companies are exempt in the hands of the Company as per the provisions of Section 10(34) of the IT Act.

1.3 <u>Dividends exempt under Section 10(35)</u>

1.3.1 The Company will be eligible for exemption of dividend income received from units of specified Mutual Funds/ Undertakings/ Companies in accordance with and subject to the provisions of Section 10(35) of the IT Act.

1.4 <u>Computation of capital gains</u>

1.4.1 Capital assets may be categorized into short-term capital assets and long-term capital assets based on the period of holding. All capital assets (except shares held in a company or any other listed securities or units of UTI or specified Mutual Fund units) are considered to be long-term capital assets if they are held for a period in excess of 36 months. Shares held in a company, any other listed securities, units of UTI and specified Mutual Fund units are considered as long-term capital assets if these are held for a period exceeding 12 months. Consequently, capital gains arising on sale of shares held in a company or other listed securities or units of UTI or specified Mutual Fund units held for more than 12 months are considered as ‘long term capital gains’.

1.4.2 Section 48 of the IT Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition / improvement and expenses incurred wholly and exclusively in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains of transfer of shares / debentures of Indian Company, it permits substitution of cost of acquisition / improvement with the indexed cost of acquisition / improvement, which adjusts the cost of acquisition / improvement by a cost inflation index, as prescribed from time to time.

1.4.3 As per the provisions of Section 112 of the IT Act, long term gains as computed above (which are not exempt under section 10(38) of the IT Act) would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bonds, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

1.4.4 Under Section 111A of the IT Act, short-term capital gains arising from transfer of equity shares or units of an equity oriented fund would be taxable at a concessional rate of 10 percent (plus applicable surcharge and education cess) where such transaction of sale is entered on a recognized stock exchange in India and is liable to securities transaction tax.

1.4.5 Exemption of capital gains from income tax:

- As per the provisions of section 10(38) of the IT Act, long term capital gains arising from transfer of equity shares in a company or a unit of an equity oriented fund would be exempt from tax where the sale transaction has been entered into on a recognized stock exchange of India and is liable to securities transaction tax.

- As per the provisions of Section 54EC of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt under section 10(38) of the IT Act) would not be chargeable to tax to the extent such capital gains are invested in long term specified assets within 6 months from the date of transfer. Investment in such assets would need to be retained for a period of 3 years from the date of acquisition.

- Under section 54ED of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt under section 10(38) of the IT Act) arising from transfer of securities listed in any recognized stock exchange in India or units of a mutual fund would be exempt from capital gains tax if the amount of capital gains is invested in equity shares of an Indian company forming part of an 'eligible issue of capital' within a period of 6 months after the date of such transfer. The investment in such shares would need to be retained for the period of 1 year from the date of acquisition.

- Eligible issue of capital' has been defined as issue of equity shares which satisfies the following conditions:
  - the issue is made by a public company formed and registered in India; and
  - the shares forming part of the issue are offered for subscription to the public.

2. <u>Benefits available to shareholders, being approved infrastructure capital companies, infrastructure capital funds and co-operative banks</u>

2.1 <u>Taxation of dividends, interest and long-terms capital gains</u>

2.1.1 Under Section 10(23G) of the IT Act, dividends (other than dividend referred to in section 115-O), interest or long-term capital gains derived by an infrastructure capital company, infrastructure capital fund or co-operative bank, from investments made in the Company would be exempt from tax.

For the purpose of Section 10(23G) of the IT Act:

- ‘Infrastructure capital company’ means a company (whether resident or non-resident) which has made investments by way of acquiring shares or providing long-term finance to the Company engaged in business referred to in this section;

- ‘Infrastructure capital fund’ means a fund operating under a trust deed registered under the provisions of the Registration Act, 1908 (16 of 1908) and established to raise monies by the trustees for investment by way of acquiring shares or providing long-term finance to the Company engaged in business referred to in this section; and

- Co-operative bank has the same meaning as assigned to it in clause (dd) of section 2 of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 (47 of 1961).

2.1.2 Under Section 10(34) of the IT Act, dividend income (referred to in Section 115-O of the IT Act), would be exempt from tax in the hands of the shareholders of the Company.

2.1.3 As per the provisions of Section 10(38) of the IT Act, long term capital gains arising on transfer of equity shares in the Company would be exempt from tax where the sale transaction has been entered into on a recognized stock exchange of India and is liable to securities transaction tax.

2.1.4 Under Section 111A of the IT Act, short-term capital gains arising from sale an equity share in the Company would be taxable at a concessional rate of 10 percent (plus applicable surcharge and education cess) where such transaction of sale is entered on a recognized stock exchange in India and is liable to securities transaction tax.

2.2 <u>Rebate under Section 88E of the IT Act:</u>

2.2.1 Section 88E provides that where the total income of a person includes income chargeable under the head “Profits and gains of business or profession” arising from purchase or sale of an equity share in a company entered into in a recognised stock exchange, i.e., from taxable securities transactions, he shall get rebate equal to the securities transaction tax paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

3. <u>Benefits available to Mutual Funds</u>

3.1 <u>Taxation on income from investments in the Company</u>

3.1.1 Under Section 10(23D) of the IT Act, all Mutual Funds set up by Public Sector Banks or Public Financial Institutions or Mutual Funds registered under the Securities and Exchange Board of India or authorized by the Reserve Bank of India, subject to the conditions specified therein, would be eligible for exemption from income tax on their income. This would include income from investments in the shares of the Company.

4. <u>Benefits available to Foreign Institutional Investors (‘FIIs’)</u>

4.1 <u>Taxation of dividends</u>

4.1.1 Under Section 10(34) of the IT Act, dividend income (referred to in Section 115-O of the IT Act) would be exempt from tax in the hands of the shareholders of the Company.

4.2 <u>Taxability of capital gains</u>

4.2.1 As per the provisions of Section 115AD of the IT Act, income of FIIs arising from shares of the Company (which are not exempt under Section 10(38) of the IT Act) would be taxed at concessional rates, as follows:

Nature of income	**Rate of tax (%)**
Long term capital gains	10
Short term capital gains	30

The above tax rates would be increased by the applicable surcharge and education cess. The benefits of indexation and foreign currency fluctuation protection as provided under Section 48 of the IT Act are not available to an FII.

4.2.2 Under Section 111A of the IT Act, short-term capital gains arising from transfer of equity share in the Company would be taxable at a concessional rate of 10 percent (plus applicable surcharge and education cess) where such transaction of sale is entered on a recognized stock exchange in India and is liable to securities transaction tax.

4.2.3 As per Section 90(2) of the IT Act, provisions of the Double Taxation Avoidance Agreement between India and the country of residence of the FII would prevail over the provisions of the IT Act to the extent they are more beneficial to the FII.

4.3 Exemption of capital gains from income tax

4.3.1 As per the provisions of Section 10(38) of the IT Act, long term capital gains arising on transfer of equity shares in the Company would be exempt from tax where the sale transaction has been entered into on a recognized stock exchange of India and is liable to securities transaction tax.

4.3.2 Under Section 54EC of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt under Section 10(38) of the IT Act) arising on transfer of shares of the Company will be exempt from tax if the amount of such capital gains is invested within a period of 6 months from the date of transfer of shares in certain specified bonds/assets. The investment in such bonds/assets would need to be retained for the period of 3 years from the date of acquisition.

4.3.3 Under Section 54ED of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt from tax under Section 10(38) of the IT Act) arising from transfer of shares in the Company (being listed securities) will be exempt from tax if the amount of capital gains is invested in shares of an Indian Company forming part of an 'eligible issue of capital' within a period of 6 months after the date of such transfer. The investment in such shares would need to be retained for the period of 1 year from the date of acquisition.
'Eligible issue of capital' has been defined as issue of equity shares which satisfies the following conditions:
- the issue is made by a public company formed and registered in India; and
- the shares forming part of the issue are offered for subscription to the public.

4.4 Rebate under Section 88E of the IT Act:

4.4.1 Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from purchase or sale of an equity share in a company entered into in a recognised stock exchange, i.e., from taxable securities transactions, he shall get rebate equal to the securities transaction tax paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

5. Benefits available to Venture Capital Companies/ Funds

5.1 Taxation on income from investments in the Company

5.1.1 Under the provisions of Section 10(23FB) of the IT Act, any income of Venture Capital companies/ Funds (set up to raise funds for investment in venture capital undertaking registered and notified in this behalf) registered with the Securities and Exchange Board of India would be exempt from income tax, subject to conditions specified therein. However, in light of the provisions of Section 115U of the IT Act, any income derived by a person from his investment in venture capital companies/ funds would be taxable in the hands of the person making an investment in the same manner as if it were the income received by such person had the investments been made directly in the Company.

6. Benefits available to resident shareholders

6.1 Taxation of dividends

6.1.1 Under Section 10(34) of the IT Act, dividend income (referred to in Section 115-O of the IT Act) would be exempt from tax in the hands of the shareholders of the Company.

6.2 Computation of capital gains

6.2.1 Section 48 of the IT Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition / improvement and expenses incurred wholly and exclusively in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains on transfer of shares / debentures of Indian Company, it offers a benefit by permitting substitution of cost of acquisition / improvement with the indexed cost of acquisition / improvement, which adjusts the cost of acquisition / improvement by a cost inflation index as prescribed from year to year.

6.2.2 As per the provisions of Section 112 of the IT Act, long term gains as computed above (which are not exempt under Section 10(38) of the IT Act) would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units or zero coupon bonds, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

6.2.3 Under Section 111A of the IT Act, short-term capital gains arising from sale an equity share in the Company would be taxable at a concessional rate of 10 percent (plus applicable surcharge and education cess) where such transaction of sale is entered on a recognized stock exchange in India and is liable to securities transaction tax.

6.3 Exemption of capital gains from income tax

6.3.1 As per the provisions of Section 10(38) of the IT Act, long term capital gains arising on sale of equity shares in the Company would be exempt from tax where the sale transaction has been entered into on a recognized stock exchange of India and is liable to securities transaction tax.

6.3.2 Under Section 54EC of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt from tax under Section 10(38) of the IT Act) arising on transfer of shares of the Company will be exempt from tax if the amount of such capital gains is invested within a period of 6 months from the date of transfer of shares in certain specified assets/ bonds. The investment in such assets/bonds would need to be retained for the period of 3 years from the date of acquisition.

6.3.3 Under Section 54ED of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt from tax under Section 10(38) of the IT Act) arising from transfer of shares in the Company (being listed securities) will be exempt from tax if the amount of capital gains is invested in shares of an Indian Company forming part of an ‘eligible issue of capital’ within a period of 6 months after the date of such transfer. The investment in such shares would need to be retained for the period of 1 year from the date of acquisition.

Eligible issue of capital’ has been defined as issue of equity shares which satisfies the following conditions:

- the issue is made by a public company formed and registered in India; and
- the shares forming part of the issue are offered for subscription to the public.

6.3.4 Under Section 54F of the IT Act and subject to the conditions specified therein, long-term capital gains (which are not exempt from tax under Section 10(38) of the IT Act) arising to an individual or a Hindu Undivided Family ('HUF') on transfer of shares of the Company will be exempt from capital gains tax if the sale proceeds from such shares are used for purchase of residential house property within a period of 1 year before or 2 years after the date on which the transfer took place or for construction of residential house property within a period of 3 years after the date of such transfer.

6.4 Rebate under Section 88E of the IT Act:

6.4.1 Section 88E provides that where the total income of a person includes income chargeable under the head “Profits and gains of business or profession” arising from purchase or sale of an equity share in a company entered into in a recognised stock exchange, i.e., from taxable securities transactions, he shall get rebate equal to the securities transaction tax paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

7. Benefits available to Non-Residents/ Non-Resident Indian shareholders (other than Mutual Funds, FIIs and Foreign Venture Capital investors)

7.1 Taxability of dividends

7.1.1 Under Section 10(34) of the IT Act, dividend income (referred to in Section 115-O of the IT Act) would be exempt from tax in the hands of the shareholders of the Company.

7.2 Computation of capital gains

7.2.1 Under the first proviso to Section 48 of the IT Act, in case of a non-resident, while computing the capital gains arising from transfer of shares in or debentures of the Company acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case.

7.2.2 As per the provisions of Section 112 of the IT Act, long term gains as computed above (which are not exempt under Section 10(38) of the IT Act) would be subject to tax at a rate of 20 percent (plus applicable surcharge and education cess). However, as per the proviso to Section 112(1), if the tax on long term capital gains resulting on transfer of listed securities or units, calculated at the rate of 20 percent with indexation benefit exceeds the tax on long term gains computed at the rate of 10 percent without indexation benefit, then such gains are chargeable to tax at a concessional rate of 10 percent (plus applicable surcharge and education cess).

7.2.3 Under Section 111A of the IT Act, short-term capital gains arising from sale an equity share in the Company would be taxable at a concessional rate of 10 percent (plus applicable surcharge and education cess) where such transaction of sale is entered on a recognized stock exchange in India and is liable to securities transaction tax.

7.2.4 As per Section 90(2) of the IT Act, provisions of the Double Taxation Avoidance Agreement between India and the country of residence of the Non-Resident/ Non-Resident India would prevail over the provisions of the IT Act to the extent they are more beneficial to the Non-Resident/ Non-Resident India.

7.3 Exemption of capital gains from income tax

7.3.1 Under Section 10(38) of the IT Act long-term capital gains on transfer of shares in the Company, would be exempt from tax provided the transaction of sale has been entered through a recognized stock exchange and such transaction is chargeable to securities transaction tax.

7.3.2 Under Section 54EC of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt under Section 10(38) of the IT Act) arising on transfer of shares of the Company will be exempt from tax if the amount of such capital gains is invested within a period of 6 months from the date of transfer of shares in certain specified bonds. The investment in such bonds would need to be retained for the period of 3 years from the date of acquisition.

7.3.3 Under Section 54ED of the IT Act and subject to the conditions and to the extent specified therein, long-term capital gains (which are not exempt under Section 10(38) of the IT Act) arising from transfer of shares in the Company (being listed securities) will be exempt from tax if the amount of capital gains is invested in shares of an Indian Company forming part of an ‘eligible issue of capital' within a period of 6 months after the date of such transfer. The investment in such shares would need to be retained for the period of 1 year from the date of acquisition.

Eligible issue of capital' has been defined as issue of equity shares which satisfies the following conditions:

- the issue is made by a public company formed and registered in India; and
- the shares forming part of the issue are offered for subscription to the public.

7.3.4 Under Section 54F of the IT Act and subject to the conditions specified therein, long-term capital gains (which are not exempt under Section 10(38) of the IT Act) arising to an individual or a Hindu Undivided Family ('HUF') on transfer of shares of the Company will be exempt from capital gains tax if the sale proceeds from such shares are used for purchase of residential house property within a period of 1 year before or 2 years after the date on which the transfer took place or for construction of residential house property within a period of 3 years after the date of such transfer.

7.4 Options available under the IT Act

Where shares of the Company have been subscribed in convertible foreign exchange, Non-Resident Indians (i.e. an individual being a citizen of India or person of Indian origin who is not a resident) have the option of being governed by the provisions of Chapter XII-A of the IT Act, which inter alia entitles them to the following benefits:

- Under Section 115D read with Section 115E of the IT Act, where shares in the Company are subscribed for in convertible foreign exchange by a Non-Resident India, long term capital gains arising to the non-resident Indian shall be taxed at a concessional rate of 10 percent (plus applicable surcharge and education cess). The benefit of indexation of cost and the protection against risk of foreign exchange fluctuation would not be available.

- Under Section 115F of the IT Act, long-term capital gains arising to a Non-Resident India from transfer of shares of the Company, subscribed in convertible foreign exchange, shall be exempt from income tax, if the entire net consideration is reinvested in specified assets/ saving certificates within 6 months of the date of transfer. Where only a part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets/ saving certificates are transferred or converted within 3 years from the date of their acquisition.

- Under Section 115G of the IT Act, it shall not be necessary for a Non-Resident India to furnish his return of income if his only source of income is investment income or long term capital gains or both, arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the IT Act.

- Under Section 115I of the IT Act, a Non-Resident India may elect not to be governed by the foregoing provisions for any assessment year by furnishing his return of income for that assessment year under Section 139 of the IT Act, declaring therein that the provisions of Chapter XII-A shall not apply to him for that assessment year and accordingly his total income for that assessment year will be computed in accordance with the other provisions of the IT Act.

7.5 Rebate under Section 88E of the IT Act:

7.5.1 Section 88E provides that where the total income of a person includes income chargeable under the head "Profits and gains of business or profession" arising from purchase or sale of an equity share in a company entered into in a recognised stock exchange, i.e., from taxable securities transactions, he shall get rebate equal to the securities transaction tax paid by him in the course of his business. Such rebate is to be allowed from the amount of income tax in respect of such transactions calculated by applying average rate of income tax.

8. Benefits available under the Wealth tax Act, 1957

8.1 Asset as defined under Section 2(ea) of the Wealth tax Act, 1957 does not include shares in companies and hence, shares of the Company held by the shareholders would not be liable to wealth tax.

9. Benefits available under the Gift-tax Act

9.1 Gift tax is not leviable in respect of any gifts made on or after October 1, 1998. Therefore, any gift of shares of the Company will not attract Gift tax.

Notes:

- The above Statement of Possible Direct Tax Benefits sets out the provisions of law in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of equity shares.
- The above Statement of Possible Direct Tax Benefits sets out the possible tax benefits available to the Company and its shareholders under the current tax laws presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws.
- This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences, the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.
- In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreement, if any, between India and the country in which the non-resident has fiscal domicile.

ANNXEURE IX: SECURED & UNSECRUED LOANS

a) SECURED LOANS

(in rupees lakhs)

Description	Three months period ended	For the Year ended				
	June 30, 2005	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2001
Term Loans						
From Financial Institutions	47,500.00	47,500.00	47,500.00	44,860.75	-	-
From Banks	13,000.00	13,000.00	13,000.00	12,855.85	-	-
Demand Loans						
From Financial Institutions	-	-	-	-	56.00	150.00
From Banks	-	-	-	-	1,154.00	1,396.67
7,551,178 Zero per cent OFCD's of Rs 100 each (redeemable at premium)	7,551.18	7,551.18	-	-	-	-
Premium on Redemption of OFCD accrued but not due	526.61	351.53	-	-	-	-
Vehicle Loans	113.57	86.24	56.90	34.06	-	-
Bank Overdraft	702.39	686.35	532.40	810.09	-	-
Cash Credit	-	-	-	-	396.37	219.65
Interest accrued and due on term loans	434.89	-	-	6,109.75	-	-
	69,828.63	**69,175.29**	**61,089.29**	**64,670.51**	**1,606.37**	**1,766.32**

(i) Term Loans of Rs 13,000 lakhs from banks are secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai. Moreover, loans are further secured by assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony licence of Punjab circle (including Chandigarh and Panchkula), all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further, out of aforesaid loan amount, term loan from banks amounting to Rs 10,500 lakhs are secured by corporate guarantee given by HFCL, the Holding Company. As per the CDR Scheme approved on March 10, 2004, the Company has charged interest at 10 per cent per annum from April 1, 2003 to March 31, 2005. Further, as per revised CDR Scheme approved on June 24, 2005, the rate of interest is 9.3 per cent per annum monthly compounding. These long-term loans are repayable in 96 monthly installments commencing from May 1, 2008 to April 1, 2016.

(ii) Vehicle Loans of Rs 113.57 lakhs are secured by way of exclusive hypothecation charge in favour of bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly installments and shall be repaid by 2008. Vehicle loans repayable within one-year amounts to Rs 49.67 lakhs. Interest rates on vehicle loans vary from 4.75 per cent per annum to 12.51 percent per annum. The tenure of loan ranges from 18 months to 36 months.

(iii) Term loan of Rs 47,500 lakhs from a financial institutions is fully secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai and assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony licence of Punjab circle (including Chandigarh and Panchkula), all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. Further, out of aforesaid loan amount, term loans from Financial Institutions amounting to Rs 40,000 lakhs 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. As per the CDR Scheme approved on March 10, 2004, the Company has charged interest at 10 per cent per annum from April 1, 2003 to March 31, 2005. As per revised CDR Scheme approved on June 24, 2005, the rate of interest is 9.3 per cent per annum monthly compounding. These long-term loans are repayable in 96 monthly installments commencing from May 1, 2008 to April 1, 2016.

(iv) On October 16, 2004, the Company issued 7,551,178 Zero percent OFCDs of Rs 100 each in lieu of interest accrued on term loans from financial institutions and banks for the period from January 1, 2004 to March 31, 2005. OFCDs are fully secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai and assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony License of Punjab circle (including Chandigarh and Panchkula), all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. The OFCDs are redeemable at a premium of 12 per cent on March 31, 2006. The OFCDs holders also have the option to convert the OFCDs into equity shares at par subject to the then prevailing guidelines of SEBI and provisions of the Act. Further, as per revised CDR Scheme approved on June 24, 2005, the premium of redemption has reduced from 12 per cent to 9.3 per cent and the principal amount along with premium shall be converted into equity shares at par, subject to the applicable provisions of SEBI Guidelines and applicable acts as at March 31, 2006.

Further, Preminum on Redemption of OFCDs accrued but not due represents premium on Secured OFCDs of Rs 7,551.18 lakhs which is to be converted into equity shares along with the principal amount of the Rs 7,551.18 lakhs.

(v) The Company has a bank overdraft facility of Rs 750 lakhs from the Oriental Bank of Commerce ('OBC'). The facility is fully secured by first pari passu charge on movable properties of the Company including movable plant & machinery, machinery spares, tools & accessories and other movables including book debts by way of hypothecation, both present and future, first pari passu charge of mortgage of immovable properties of the Company situated at Mohali, Jalandhar and Kandivali (East), Mumbai and assignment of all rights, title, benefits, claims and interest in, to and under the project documents, insurance policies and project contracts including Basic Telephony licence of Punjab circle (including Chandigarh and Panchkula), all statutory, government and regulatory approvals, permissions, exemptions and waivers on pari passu basis. As per the CDR Scheme approved on March 10, 2004, the Company is required to charge interest at 13 per cent per annum compounded on a monthly basis. However as per the revised CDR, interest on overdraft is further reduced to 9.3 per cent per annum monthly compounding, with effect from April 1, 2005. The amount against this facility is repayable on demand. The facility is further secured by way of a corporate guarantee given by the Holding Company. The bank overdraft of Rs 702.39 lakhs includes interest amounting to Rs 70.78 lakhs.

(vi) Interest accrued and due to the tune of Rs 6,109.75 lakhs as on March 31, 2003 was converted into loan / Secured & Unsecured OFCDs/ equity in subsequent year as per CDR Scheme dated March 10, 2004. The Interest accrued and due of Rs 434. 89 lakhs as on June 30, 2005 represents interest at 3 per cent per annum on term loans.

(vii) Demand loan and cash credits of Rs 1,766.32 lakhs and Rs 1,606.37 pertaining to the year ended March 31, 2001 and 2002 respectively, were secured by way of assets under Hire Purchase and Lease Agreements, related to the Company's Hire Purchase and Finance business. On September 1, 2002, pursuant to the approval of the shareholders under section 293(1)(a) of the Act, the Company had disposed off its Hire Purchase and Finance business on a slump sale basis by way of an outright sale as a going concern to its then wholly owned subsidiary, Rajam Finance (Refer Note 3, Annexure III).

b) UNSECURED LOANS

(in rupees lakhs)

Description	Three months period ended	For the Year ended				
	June 30, 2005	March 31, 2005	March 31, 2004	March 31, 2003	March 31, 2002	March 31, 2001
Advance against Application Money for Optionally Fully Convertible Debentures	-	-	3,180.72	-	-	-
1,667,761 Zero per cent OFCD's of Rs 100 each (others)	1,667.76	1,667.76	-	-	-	-
Deposit from public	-	-	-	150.58	2,199.54	3,155.51
Term loan from Banks	-	-	-	-	-	27.50
Vendor Finance Facilities	-	-	360.51	1,110.27	-	-
Intercorporate deposits	-	-	-	-	42.94	-
Interest accrued and due on other Vendor Finance Facilities	39.38	39.38	11.99	31.85	-	-
	1,707.14	**1,707.14**	**3,553.22**	**1,292.70**	**2,242.48**	**3,183.01**

(i) On October 16, 2004, the Company issued 1,667,761 Zero percent Optionally Fully Convertible Debentures ('OFCDs') of Rs 100 each in lieu of interest accrued on term loans from a financial institution and a bank for the period from April 1, 2003 to December 31, 2003. As per revised CDR Scheme approved on June 24, 2005, the OFCDs are redeemable at par in Financial Year 2015-16.

(ii) The Company had entered into a payment restructuring agreement (vendor finance facilities) on March 11, 2004 for payment to the original vendor amounting to USD 8.8 lakhs. As per the restructuring agreement, the amount outstanding of USD 8.2 lakhs as on March 31, 2004 has been repaid during the year ended March 31, 2005. Interest payable on vendor finance facilities amounting to Rs 39.38 lakhs as at June 30, 2005 is yet to be remitted.

(iii) Advance against Application Money for Optionally Fully Convertible Debentures to the tune of Rs 3,180.72 lakhs was converted into Secured OFCD amounting to Rs 1,512.96 lakhs and Unsecured OFCD amounting to Rs 1,667.76 lakhs on October 16, 2004 as per terms of CDR dated March 10, 2004.

(iv) Deposits from public of Rs 3,155.51 lakhs, Rs 2,199.54 lakhs and Rs 150.58 lakhs outstanding as at March 31, 2001, 2002 and 2003 respectively, were related to the Company's NBFC business. During the year ended March 31, 2004, the Company had surrendered its licence granted by RBI to carry out NBFC business (Refer Note 1(a), Annexure III) and on RBI instruction dated Feb 5, 2004, the Company had deposited Rs 36.33 lakhs in an escrow account.

(v) Term loan from Banks amounting to Rs 27.50 lakhs taken from HDFC which has been subsequently settled by the Company.

(vi) Inter-corporate deposit of Rs 42.94 lakhs has been repaid during August , 2002

ANNEXURE X: DETAILS OF OTHER INCOME

(in rupees lakhs)

Particulars	Three Months Period ended	Financial Year ended				
	June 30,2005	March 31,2005	March 31,2004	March 31,2003	March 31,2002	March 31,2001
Other income, as restated	8.83	32.70	31.60	1,171.83	114.53	10.28
Net loss, as restated	2,531.10	9,366.99	10,957.89	1,825.48	1,112.68	723.74
Percentage	**0.35%**	**0.35%**	**0.29%**	**64.19%**	**10.29%**	**1.42%**

(in rupees lakhs)

Particulars	Three Months Period ended	Financial Year ended					Nature of Income
	June 30,2005	March 31,2005	March 31,2004	March 31,2003	March 31,2002	March 31,2001	
Interest Income	3.39	23.87	16.04	13.43	4.39	0.87	Recurring
Interest on Tax Refunds	-	-	3.70	28.38	-	-	Non-recurring
Excess Provision written back	-	-	-	1,086.81	100.42	-	Non-recurring
Miscellaneous Income	5.44	8.83	11.86	43.21	9.72	9.41	Recurring
	8.83	**32.70**	**31.60**	**1,171.83**	**114.53**	**10.28**	

ANNEXURE XI: STATEMENT OF DIVIDEND DECLARED

(in rupees lakhs)

Particulars	Three months period ended June 30, 2005	For the Financial year ended March 31,2005	March 31,2004	March 31,2003	March 31,2002	March 31,2001
Dividends						
Number of equity shares	-	-	-	87.16	-	-
Rate of dividend (%)	-	-	-	40.00	-	-
Amount of equity dividend (Rs in Lakhs)	-	-	-	348.64	-	-
Tax on equity dividend (Rs in Lakhs)	-	-	-	-	-	-

The Board of Directors of the Company declared interim dividend of Rs 4 per Equity Share amounting to Rs348.64 lakhs after taking into consideration the ITI's actual profit upto September 30, 2002 and the estimated profits for the six months ended March 31, 2003. On January 17, 2003, the Board of Directors decided to amalgamate with the Company the erstwhile HFCL Infotel Limited (the transferor company) with effect from the appointed date September 1, 2002. As a result of the Amalgamation the profits of the Company were converted into a loss due to losses of the transferor company. In view of the above the Company did not make the transfer of profits to reserves as per the relevant section of the Companies Act, 1956. The Company has been legally advised that the declaration of Interim Dividend by the Board of Directors is in compliance with the provisions of law.

For and on behalf of the Board

Mahendra Nahata	**M P Shukla**	**Sanjeev Vashishta**
Director	Director	Company Secretary

Place : New Delhi

Date :

UNCONSOLIDATED STATEMENTSOF ASSETS AND LIBILITIES AS RESTAED, FOR THE PERIOD ENDED MARCH 31, 2005 AND THREE MONTHS PERIOD ENDED JUNE 30, 2005

To
The Board of Directors,
Connect Brordband Services Limited
B-71, Phase-VII, Industrial Focal Point,
Mohali

Dear Sir,

1. We have examined the attached restated summary statement of assets and liabilities of CONNECT BROADBAND SERIVES LIMITED ("CBSL" or the Company) as at June 30, 2005 and as at March 31, 2005 (See Annexure I) prepared by the Company and approved by the Board of Directors. On July, 2004, the company was incorporated as a subsidiary company of HFCL Infotel Limited with the main object to carry on the business as service provider and operator for distribution of cable television network. These figures have been arrived at after making such adjustment and regroupings as in our opinion are appropriate, Company has not yet commenced its commercial operation and hence no Profit and Loss Account has been drawn. Base on our examination of these summary statements, we can confirm that :
    - There has been no change in accounting policies adopted by the company as at and for three months period ended June 30,2005 and period ended March 31,2005 and hence no adjustment was required with retrospective effect in the attached summary statements;
    - There are no material adjustments relating to the previous periods which needs to be adjusted in the summary statements in the periods to which they relate.
2. The summary of significant accounting policies adopted by the Company together with the notes pertaining to the audited financial statements for the three months period ended June 30, 2005 and period ended March 31, 2005 are enclosed as Annexure-I to this report.
3. Company has not paid any dividend in each of the years under report.
4. This report is intended solely for your information and for inclusion in the Offer document in connection with specified " Offer for Sale" of the Holding Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For CHATURVEDI & CO.
Chartered Accountants

Per D.R. Baid
Partner
Membership No. 10517

Place: New Delhi
Date: December 5, 2005

ANNEXURE I

A) Statement of Assets and Liabilities, as restated:

(in rupees lakhs)

	For the periods ended	
	June 30, 2005	**March 31, 2005**
Current Assets, Loans & Advances		
Cash & Bank Balances	2.83	2.83
Current Liabilities and Provisions		
Current Liabilities	0.20	0.17
	2.63	**2.66**
Networth		
Represented by		
Share Capital	5.01	5.01
Less: Miscellaneous Expenditure	(2.38)	(2.35)
	2.63	**2.66**

B. Significant Accounting Policies

1. Basis of Accounting

Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles, the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

The Company follows the mercantile system of accounting & recognizes the income & expenditure on accrual basis except those with significant uncertainties.

2. Preoperative Expenditure

Expenditure incurred before the commencement of commercial operations is considered as pre-operative expenditure and are written off in the year of commencement of commercial operations.

3. Revenue Recognition

Revenue from sales is recognised on dispatch of goods from the warehouse/premises. Sales are exclusive of sales tax.

Interest income is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

4. Miscellaneous Expenditure

Preliminary Expenditure is written off in the year of the commencement of commercial operations.

5. Contingent Liabilities

Contingent liabilities are determined on the basis of available information and are disclosed by way of a note to the accounts.

For Chaturvedi & Co.
Chartered Accountants

Sd/-
D.R. Baid
Partner
Mem. No. 10517

On Behalf of the Board

Sd/-
Directors

Place: New Delhi
Date: 05.12.2005

2. Financial Information of Group Companies:

Details of group companies (As on December 16, 2005)

Sr. No.	Name of the Companies	HFCL's holding	Subsidiary/ Associate
1	HTL Ltd.	74.00%	Subsidiary
2	Himachal Exicom Communications Ltd.	49.71%	Associate
3	HFCL Satellite Communications Ltd.	30.00%	Associate
4	Microwave Communications Ltd.	32.50%	Associate
5	Page Point Services (India) Pvt. Ltd.	49.00%	Associate
6	Westel Wireless Ltd.	28.94%	Associate
7	Platinum EDU Ltd.	0.80%	Associate
8	HFCL Kongsung Telecom Ltd.	21.13%	Associate
9	HFCL Dacom Infocheck Ltd.	29.99%	Associate
10	Consolidated Futuristic Solutions Ltd.	47.96%	Associate
11	WPPL Ltd.	49.97%	Associate
12	HFCL Bezeq Telecom Ltd.	0.20%	Associate
13	HFCL Internet Services Ltd.	NIL	Associate
14	The Investment Trust of India Limited	NIL	Associate

Further HFCL, the Promoter Company is holding more than 10% investment in the paid up equity capital of the following other companies:

Pioneer.Net Pvt. Ltd. (49.52%)
Etco Telecom Ltd. (19.02%)
A B Corp Ltd. (28.52%)

ICICI Bank Limited holds 27,875,000 (8.45%) shares in the equity capital of HFCL. These shares have been allotted to the bank pursuant to their exercising conversion option of debt into equity.

3. Brief details of group companies promoted by the Promoter are as follows:

(a) HTL Ltd. (HTL)

HTL was incorporated on December 14, 1960. After the divestment of 74% shares held by the Government to HFCL in October 2001, HTL has ceased to be a Government of India enterprise. HTL, currently manufactures various sizes of digital electronic telephone exchanges, equipment for rural and urban networks with features and facilities for ISDN and intelligent network, main distribution frames, transmission systems (DCME, MUXs, SDH), access products (WLL, HDSL, DCL, PMP) and data communication products (cross connects, data modems and internet products). The Board of Directors of HTL comprises of Mr. Mahendra Nahata, Mr. Y S Choudhary, Mr. Ashok Jhunjhunwala, Mr. R M Kastia, Mr. B.B. Singh, Mr. N. Parameshwaran and Mr. Sanjay Maloo

Summary of Financial Information is as follows:

(Rs. lakh except for per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	21878.78	14419.60	25130.77
Expenditure	24414.96	18816.63	27653.56
Profit /(Loss) After Tax	(2566.65)	(4397.03)	(2522.79)
Share Capital (Face value Rs.100 each)	1500.00	1500.00	1500.00
Reserves & Surplus	(9066.53)	(13463.56)	(15986.35)
Net Worth	(7566.53)	(12110.68)	(14584.87)
EPS (Rs.)	-	-	-
NAV (Rs.)	-ve	-ve	-ve

HTL Limited is a sick industrial Company within the meaning of Clause (o) of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 and a reference in this regard has been made to the Board for Industrial & Financial Reconstruction under sub Section (1) of Section 15 of the said Act.

(b) Himachal Exicom Communications Ltd. (HECL)

HECL, incorporated on May 9, 1994, is a joint venture of HFCL and Exicom Limited of Australia. HECL, an ISO 9002 certified company, is engaged in manufacturing telecom power supplies and customer premise equipment. HECL manufactures 12.5A, 25A, 50A, 100A and 200A rectifiers and is able to build power plants up to 7000A. HECL is currently one of the major suppliers in the Indian market of SMPS power plants. In addition to the manufacturing and marketing of products, HECL also undertakes system integration. The Board of Directors of HECL comprises of Mr. Mahendra Nahata, Mr. Vinay Maloo, Mr. Y.S. Choudhary and Mr. Sanjay Maloo.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	**2003**	**2004**	**2005**
Total Income	3460.43	15111.63	4739.64
Expenditure	3273.84	15196.33	4686.81
Profit / (Loss) After Tax	141.54	(109.81)	49.98
Share Capital (Face value Rs.10 each)	428.00	428.00	428.00
Share Application Money	0.00	0.00	0.00
Reserves & Surplus	2624.34	2514.52	2564.50
Net Worth (excluding Share Application Money)	3051.37	2942.04	2992.50
EPS (Rs.)	3.31	(2.56)	1.16
NAV (Rs.) (excluding Share Application Money)	71.29	68.74	69.91

(c) HFCL Satellite Communications Ltd (HSCL)

HSCL was incorporated on September 28, 1994 as a joint venture between HFCL and Wireless Telecom Ltd.

HSCL's core business consists of establishing, maintaining and operating VSAT networks using DAMA technology. HSCL offers shared and captive hub VSAT services throughout India, which includes two-way data, voice and video conferencing services. HSCL has a customer profile in both the public and private sectors in India. The Board of Directors of HSCL comprises of Mr. Deep Lakhtakia, Mr. Sanjay Maloo, Mr. B.B. Chadha, Mr. Arvind Kharabanda and Mr. M.P. Shukla.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	**2003**	**2004**	**2005**
Total Income	2090.11	3842.78	1875.38
Expenditure	2063.76	3858.32	5428.80
Profit / (Loss) After Tax	44.52	(15.54)	(3553.42)
Share Capital (Face value Rs.10 each)	800.05	800.05	800.05
Share Application Money	895.00	895.00	895.00
Reserves & Surplus	(670.38)	(685.93)	(4239.35)
Net Worth (excluding Share Application Money)	(36.41)	3.40	(3440.83)
EPS (Rs.)	0.56	-	-
NAV (Rs.) (excluding Share Application Money)	-ve	0.04	-ve

(d) Microwave Communications Ltd. (MCL)

MCL, incorporated on February 25, 1992, is a joint venture between HFCL and Shinawatra. MCL provides Radio Paging services in six cities in India (Ahmedabad, Kolkata, Mumbai, Rajkot, Surat and Vadodara). The services provided by MCL are known by the brand name "Pagelink." Following the sharp decline in demand for the paging services, MCL has diversified into Customer Support/ Call Centre business. The Board of Directors of MCL comprises of Dr. Deepak Malhotra, Mr. Raj Kumar Bansal (IDBI Nominee Director) and Mr. Navratan Mal Bengani.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	**2003**	**2004**	**2005**
Total Income	1420.27	1235.66	1275.21
Expenditure	3181.67	2566.04	2924.91

Profit / (Loss) After Tax	(1758.80)	(1330.38)	(1649.70)
Share Capital (Face value Rs.10 each)	3749.58	3749.58	3749.58
Share Application Money	1250.42	1250.42	1250.42
Reserves & Surplus	(12867.55)	(14197.94)	(15134.50)
Net Worth (excluding Share Application Money)	(9118.15)	(10448.36)	(11384.92)
EPS (Rs.)	-	-	-
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

(e) Pagepoint Services (India) Pvt. Ltd. (PSIPL)

PSIPL was incorporated on March 13,1992. HFCL acquired 49% shareholding in PSIL from Motorola International Paging Inc. PSIPL provides radio paging services in Mumbai, Bangalore, Pune and Hyderabad under the brand "HOTLINE". The Board of Directors of PSIPL comprises of Dr. Deepak Malhotra Mr. Navratan Mal Bengani and Mr. Jagdish Prasad Lokhotia.

Summary of Financial Information is as follows:

(Rs. In lakhs except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	2487.82	1769.23	1961.02
Expenditure	2840.49	2278.32	2347.11
Profit / (Loss) After Tax	(362.50)	(509.09)	(386.09)
Share Capital (Face value Rs.10 each)	1.01	1.01	1.01
Share Application Money	Nil	Nil	Nil
Reserves & Surplus	3135.11	2626.02	2239.93
Net Worth (excluding Share Application Money)	3136.12	2627.03	2240.94
EPS (Rs.)	-	-	-
NAV (Rs.) (excluding Share Application Money)	31050.69	26270.30	22409.40

(f) Westel Wireless Ltd. (WWL)

WWL was incorporated on April 6, 1995 and is currently engaged in selling and distribution of telecommunication equipments. The Board of Directors of Westel comprises of Mr. Hanuman Mal Tater, Mr. Anil Kumar Nahata and Mr. Vinod Kapur.

Summary of Financial Information is as follows:-

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	7.86	1.99	3.19
Expenditure	5.23	1.00	0.48
Profit / (Loss) After Tax	2.41	0.99	2.71
Share Capital (Face value Rs.10 each)	31.00	31.00	31.00
Share Application Money	* 27.00	0.00	0.00
Reserves & Surplus	(150.77)	(149.53)	(146.75)
Net Worth (excluding Share Application Money)	(119.86)	(118.53)	(115.75)
EPS (Rs.)	0.78	0.32	0.87
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

* Application for Redeemable Preference Shares

(g) Platinum EDU Ltd. (PEL)

PEL was incorporated on April 12, 2000. PEL is engaged in trading in educational materials and services. The Board of Directors of Platinum comprises of Mr. B.B. Chadha, Mr. Anoop Bhatia and Mr. Chetan Chaturvedi.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	80.09	0.37	1.50
Expenditure	89.21	9.28	3.47
Profit / (Loss) After Tax	(9.12)	(8.91)	(1.97)

Share Capital (Face value Rs.10 each)	0.11	5.00	5.00
Share Application Money	550.00	550.00	550.00
Reserves & Surplus	(633.17)	(642.86)	(644.82)
Net Worth (excluding Share Application Money)	(634.87)	(638.38)	(639.82)
EPS (Rs.)	-	-	-
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

(h) HFCL Kongsung Telecom Ltd. (HKTL)

HKTL, incorporated on February 6, 1995, was set up as an Export Oriented Unit for manufacturing and export of Pagers and Satellite Video Receiver in collaboration with Kongsung Communications and Electronics Ltd., Korea. HKTL is engaged in manufacturing, sale and distribution of Pagers, SVRs and encoders. The Board of Directors of HKTL comprises of Mr. B. K. Saxena, Mr. Y. L. Agarwal and Dr. Deepak Malhotra

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	134.45	15.04	1.35
Expenditure	18.33	14.65	15.12
Profit / (Loss) After Tax	116.12	0.39	(13.77)
Share Capital (Face value Rs.10 each)	293.48	293.48	293.48
Share Application Money	110.00	110.00	110.00
Reserves & Surplus	(489.71)	(489.33)	(503.10)
Net Worth (excluding Share Application Money)	(196.79)	(195.95)	(209.62)
EPS (Rs.)	3.96	0.01	-
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

(i) HFCL Dacom Infocheck Ltd. (HDIL)

HDIL, incorporated on January 17, 1995, was established with the objective to provide credit card authorization services, computerized financial services and electronic fund transfer etc. Due to non-issuance of Licence by DoT, the project was delayed. HDIL is yet to commence the commercial production. The Board of Directors of HDIL comprises of Mr. Arvind Kharbanda, Mr. Chetan Chaturvedi and Mr. D.H. Hwang.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	-	-	-
Expenditure	0.12	0.11	0.08
Profit / (Loss) After Tax	(0.12)	(0.11)	(0.08)
Share Capital (Face value Rs.10 each)	470.00	470.00	470.00
Share Application Money	77.02	77.02	77.02
Reserves & Surplus	(523.54)	(523.64)	(523.73)
Net Worth (excluding Share Application Money)	(53.54)	(53.64)	(53.73)
EPS (Rs.)	-	-	-
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

(j) Consolidated Futuristic Solutions Ltd. (CFSL)

CFSL, incorporated on April 10, 2000, was granted approval as 100% Export Oriented Unit ("EOU") under Software Technology Park of India ("STPI") scheme of Government of India. CFSL is engaged in the business of development, exporting, and maintenance of all type of computer software and related applications. The Board of Directors of CFSL comprises of Mr. Mahendra Nahata, Mr. Vinay Maloo and Mr. Ashwani Gupta

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2002	2003	December 16, 2003 *
Total Income	289.73	0.43	1.15
Expenditure	2280.02	121.43	37.31

Profit / (Loss) After Tax	(1936.43)	(121.00)	(36.16)
Share Capital (Face value Rs.10 each)	2000.00	2000.00	2000.00
Share Application Money	925.93	925.93	925.93
Reserves & Surplus	(3632.17)	(3752.44)	(3752.44)
Net Worth (excluding Share Application Money)	(1632.17)	(1752.44)	(1759.93)
EPS (Rs.)	-	-	--
NAV (Rs.) (excluding Share Application Money)	-ve	-ve	-ve

* The Hob'ble High Court of Delhi, has passed the order dated December 16, 2003 for winding up of the Company, against the petition filed by former employees of U.K. Branch and has appointed the official liquidator to take over the assets and the records of the company.

(k) WPPL Ltd. (WPPL)

WPPL was incorporated on March 17, 1992 under the name of Weston Pagers Private Ltd. WPPL acquired the status of a Limited Company on August 12,1996. The name was further changed from Weston Pagers Ltd. to WPPL Ltd. on September 11, 1996. The licence granted to WPPL for providing Radio Paging Services was terminated by the Deptt. of Telecommunications and WPPL has not taken any project so far. The Board of Directors of WPPL comprises of Mr. Vinay Maloo, Mr. Arvind Kharbanda, Dr. Deepak Malhotra, Mr. Hari N. Hanilila, Mr. J.V.Raman and Mr. Paul Man Lok Kan.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	* (4.92)	3.76	1.03
Expenditure	13.72	9.16	4.47
Profit / (Loss) After Tax	(18.64)	(5.40)	(3.44)
Share Capital (Rs.) (Face value Rs.10 each)	5.00	5.00	5.00
Reserves & Surplus	(919.19)	(924.59)	(928.03)
Share Application Money	1200.00	1195.00	1195.00
Net Worth (excluding Share Application Money)	(914.63)	(919.59)	(923.29)
EPS (Rs.)	-	-	-
NAV (Rs.)	-ve	-ve	-ve

* Includes decrease in Stock.

(l) HFCL Bezeq Telecom Ltd. (HBTL)

HBTL was incorporated on March 14, 1995 under the name of Bestel Ltd. The name was changed from Bestel Ltd to HFCL Bezeq Telecom Ltd. on May 24, 1995. HBTL was promoted pursuant to a joint venture agreement between HFCL, Kotak Mahindra Finance Ltd., KJMC Financial Services Ltd., Shinawatra International Public Limited of Thailand & Bezeq and the Israel Telecommunication Ltd. of Israel, for taking up the project of operation of basic telephone services. However, KJMC Financial Services Ltd. opted out of the Joint venture and did not subscribe to any shares at the time of allotment of shares. Hence KJMC Financial Services Ltd. is no more a Joint venture partner of HBTL and none of its Directors holds any shares in his individual capacity. HBTL is yet to commence commercial production. The Board of Directors of HBTL comprises of Mr.Vinay Maloo, Mr. Mahendra Nahata and Dr. Deepak Malhotra.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	NA	NA	NA
Expenditure	NA	NA	NA
Profit / (Loss) After Tax	NA	NA	NA
Share Capital (Face value Rs.10 each)	5.07	5.07	5.07
Share Application Money	0.00	0.00	0.00
Reserves & Surplus	-	-	-
EPS (Rs.)	NA	NA	NA
NAV (Rs.)	8.74	8.74	8.74

(m) HFCL Internet Services Limited (HISL)

HISL, incorporated on July 17, 2000, is engaged in sale and distribution of CDMA handsets and modems and providing the marketing services to the Company. The Board of Directors of HISL comprises of Mr. Surendra Lunia, Mr. Pradeep Goel Mr. Sarvadeep Garg and Mr. Sushil Kumar Wadhwa.
Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	462.51	234.81	549.63
Expenditure	460.70	224.86	545.01
Profit / (Loss) After Tax	1.15	6.25	2.91
Share Capital (Face value Rs.10 each)	10.00	10.00	10.00
Share Application Money		0.00	0.00
Reserves	0.46	6.71	9.62
EPS (Rs.)	1.15	6.25	2.91
NAV (Rs.)	10.19	16.53	19.63

(n) The Investment Trust of India Limited (ITIL)

ITIL (formerly known Rajam Finance & Investments Company (India) Limited) was incorporated on March 11, 1994 under the name Rajam Finance & Investments Company (India) Limited. ITIL is engaged in Non Banking Financing business viz. Financing, Leasing and Securities Trading. The Board of Directors of the Company comprises of Mr N Kannan, Mr. P. L. Maloo and Mr Simon Solomon.

Summary of Financial Information is as follows:

(Rs. lakh except per share data)

Particulars for the year ended March 31	2003	2004	2005
Total Income	442.54	881.12	728.82
Expenditure	749.63	664.09	384.80
Profit /(Loss) After Tax	(307.09)	217.03	344.02
Share Capital (Face value Rs.100 each)	175.00	375.00	375.00
Reserves & Surplus	0.27	0.27	1782.16
Net Worth	(130.43)	286.59	2342.03
EPS (Rs.)	(70.19)	5.79	9.17
NAV (Rs.)	-ve	7.64	62.45

4. Disassociations in Past

By Company

Pioneer ITI AMC Ltd. (Pioneer ITI)

Prior to merger with erstwhile HFCL Infotel Ltd., the Company viz. "The Investment Trust of India Ltd." now known as "HFCL Infotel Ltd.", was holding 47.70%of the share capital of Pioneer ITI. The Company entered into an agreement on July 24, 2002 with Templeton Asset Management (India) Pvt. Ltd. for the sale of its entire shareholding in Pioneer ITI Consequent to the sale, Pioneer ITI is no longer associated with the Company.

ITI Financial Services Limited. (ITFSL)

In 2001, the Company had disposed off its holding in ITFSL to Mr. Sanjay Maloo and consequently ITFSL ceased to be subsidiary of the Company. Thereafter, in FY 2002-03 i.e. in course of amalgamation of HFCL Infotel with ITI, the remaining shares were transferred to Rajam Finance & Investments Company (India) Limited (now renamed as ITI) by way of slump sale.

By Promoter

Following companies, in which HFCL held controlling interest, have been dissolved/ are in the process of being dissolved pursuant to section 560(5) of the Companies Act, 1956:

HFCL Credit & Portfolio Ltd.
HFCL Nine Entertainment Ltd.
HFCL Corp Ltd.
HFCL Informatics Ltd.
Exel Netcommerce Ltd.

The aforesaid companies were not carrying on any activity at the time of dissolution and had significant losses. Fresh infusion of funds was not considered viable, therefore, it was decided to dissolve the companies under the provisions of Section 560(5) of the Companies Act, 1956.

HFCL had promoted Fascel Limited as a joint venture with Shinawatra International Public Company Limited, Bezeq, the Israel Telecommunication Corporation Limited and Kotak Mahindra Finance Limited for providing Cellular Mobile Telephone Services in Gujarat Telecom Circle. During FY 00-01, HFCL sold off its entire holding (except for 100 Equity Shares) to Kotak Mahindra Finance Limited.

HFCL has further disassociated itself from one Company namely HFCL Nine Broadcasting India Ltd. (HNBIL) in 2001. HNBIL was a joint venture between HFCL and PBL Mauritius Ltd. (PBL) (a Kerry Packer Group Company). Due to huge carry forward losses, erosion in networth, HFCL and PBL decided to exit the venture. HNBIL has been taken over by a Company namely SSKI Corporate Finance Private Ltd. The name of HNBIL has since been changed to Lahiri Productions Pvt. Ltd.

5. Issues made by the Companies under the same management under Section 370(1B) of the Companies Act, 1956.

There are no listed Companies under the same management with the meaning of Section 370(1B) of the Companies Act, 1956, which made any capital issue during the last three years.

Other than the capital issues made by HFCL, details of which were provided as below, no other company under the same management have made any capital issues during the last three years.

6. Capital issues in the last three years by HFCL

<u>During the FY 2001-02:</u>
<u>Nil</u>

<u>During the FY 2002-03</u>:
HFCL has made one offering of Global Depository Receipts and one offering of unsecured Foreign Currency Convertible Bonds as per details given below:

2002 Global Depository Receipts (GDRs)

HFCL offered 6799945 Global Depository Receipts ("2002 GDRs") at an offer price of US$7.353 per GDR, representing 54399560 equity shares of Rs.10/- each at a premium of Rs. 34.60 per share. The issue closed on September 4, 2002. Consequently, the paid up equity capital of HFCL increased from Rs. Rs.78,82,21,550/- to Rs. 1,33,22,17,150/-.

2002 Foreign Currency Convertible Bonds (FCCBs 'A' & 'B')

HFCL offered 660 unsecured Foreign Currency Convertible Bonds ("2002 FCCBs"), having a face value equivalent to US$ 50,000, convertible into ordinary equity shares of Rs.10/- each. The issue closed on December 5, 2002. Upto March 31, 2003, 14782155 equity shares of Rs.10/- each were issued upon conversion of FCCBs 'A'. Consequently, the paid up equity capital of HFCL increased from Rs. 1,33,22,17,150/- to 1,48,00,38,700/-.

<u>During the FY 2003-04:</u>
On July 30, 2003, ICICI Bank Ltd. exercised the option to convert a part of its debt into equity and consequently 36000000 equity shares of Rs. 10/- each were issed at par, thereby increasing the paid up share capital of HFCL by Rs. 36,00,00,000/-.

2002 Foreign Currency Convertible Bonds (FCCBs 'A' & 'B')

100656289 equity shares of Rs.10/- each were further issued upon conversion of FCCBs ‘A’, thereby increasing the paid up share capital by Rs. 1,00,65,62,890/-.

2003 Foreign Currency Convertible Bonds (FCCBs ‘C’ & ‘D’)

HFCL offered 340 unsecured Foreign Currency Convertible Bonds (“2003 FCCBs”), having a face value equivalent to US$ 50000, convertible into ordinary equity shares of Rs. 10/- each. The issue closed on May 30, 2003. Upto July 31, 2004, 45106007 equity shares of Rs. 10/- each were issued upon conversion of FCCBs ‘C’, thereby increasing the paid up share capital by Rs. 45,10,60,070/-.

Consequent to the above, the paid up capital of HFCL has increased from Rs. 1,48,00,38,700/- to Rs. 3,29,76,30,610/- during the period April 1, 2003 to July 31, 2004.

7. Changes in the Significant Accounting Policies:

Please refer page no.84 of this Draft Offer for Sale Document for the details under this section.

8. Servicing behaviour of term loan and fixed deposits for the last one year

As per the terms of debts sanctioned by the lenders of the Company, the repayment would commence from May 1, 2008.

As on 31st March 2003, the deposits from the public stood at Rs.15,058,085/-. As per the Directors Report dated 31st July 2003, as on 31st March 2003, there were 431 deposits amounting to Rs.45,15,286/- which had matured but had not been claimed. As on 31st July 2003, 357 deposits amounting to Rs.35,83,609 remained unclaimed. In terms with the requirements of Section 205C of the Act, the Company has transferred the amount of deposits unclaimed for a period of 7 years, to the account of the Investor Education and Protection Fund. There is no case of failure to repay any matured deposits upon demand.

9. Management Discussion and Analysis

Investors should read the following discussion of the Company’s financial condition and results of operations together with the detailed consolidated financial statements and the notes to those statements included in this Draft Offer Document. The following discussion is based on the Company’s audited financial statements and on information available from other sources. The Company’s fiscal year ends on March 31 of each year, so all references to a particular fiscal year are to the twelve month period ended March 31 of that year.

Comparative Profit And Loss Account for past three years

As the Company under-went merger restructuring under a Court approved Scheme of Amalgamation during the financial year 2002-03, the financial information reflects the following:

- Financial Results for the financial year ended March 2003 include results of the Hire Purchase, Leasing and Securities Trading business for 5 months upto August 31, 2002 (pre-merger period) and of the Telecommunication business for 7 months w.e.f. September 1, 2002 (appointed date for merger). The Hire Purchase, Leasing and Securities Trading business was hived-off to a subsidiary company w.e.f. September 1, 2002.
- Financial Results for the financial year ended March 2004, March 2005 and quarter ended June 30, 2005 are for the telecommunication business.

Hence, the figures are not strictly comparable. For a comparative discussion and analysis, the financial results of the telecommunication business of erstwhile HFCL Infotel Limited prior to the merger is also shown separately.

The financial details for the last three full financial years (Based on the restated Financial Statements as appearing in Part II of the draft Offer Document and regrouped wherever necessary) are as follows:

(Rs in Lakh)

Particulars for period ended	March 2003	March 2004	March 2005	June 2005
Duration (months)	**12**	**12**	**12**	**3**
Income				
Revenue from Telecommunications Business	8941.54	19167.30	25331.78	7050.00
Revenue from Hire purchase and Finance Business	233.16	-	-	-
Sale of Goods	-	16.11	-	-
Income from Investments	9394.67	14.87	-	-
Other Income	1167.20	45.34	222.45	8.83
Total	**19736.57**	**19243.62**	**25554.23**	**7058.83**
Expenditure				
Network Operation expenditure	3592.08	9552.71	10940.15	3096.53
Cost of Goods sold	-	13.85	-	-
Personnel Expenditure	1470.38	1936.71	2244.88	914.67
Sales & Marketing Expenditure	1260.55	1222.72	1570.89	270.98
Administrative & Other Expenditure	2778.02	2739.33	3483.66	1010.18
Total	**9101.03**	**15465.33**	**18239.58**	**5292.36**
Operating Profit/ (Loss) before Finance Expenses, Amortization and Depreciation	**10635.54**	**3778.30**	**7314.65**	**1766.47**
Finance Expenses	5677.84	6911.18	6272.31	1461.04
Depreciation, & Amortization	4895.90	7967.37	10283.27	2821.81
Lease Equalization charge & Loss on repossessed assets	669.88	-	-	-
Prior period expenditure	-	261.32	80.86	(0.05)
Profit/ (Loss) before Tax and Extra-ordinary items	**(607.18)**	**(11361.57)**	**9321.79**	**2516.33**
Taxation – Current and Deferred Tax	(644.17)	-	38.47	14.72
Extra-ordinary items - Loss on sale of undertaking	1605.01	-	-	-
Investment Allowance Reserve w/b	-	-	-	-
Net Profit / (Loss) as reported	**(2856.36**	**(11361.57)**	**(9360.26)**	**2531.05**

The financial details for the last three financial years (upto the appointed date of merger) of the merging Company, the erstwhile HFCL Infotel Limited, which was in the telecommunication business, is as follows:

(Rs in Lakh)

Particulars for the year / period ended	March 2001	March 2002	August 2002
Duration (months)	**12**	**12**	**5**
Income			
Revenue from Telecommunication Services	905.25	7229.56	5006.39
Revenue from Internet Services	88.32	47.63	48.05
Other Income	210.02	57.92	44.71
Total	**1203.59**	**7335.11**	**5099.16**
Expenditure			
Network Operation expenditure	514.34	3343.32	2119.39
Cost of Goods sold	76.27	50.75	1.76
Personnel Expenditure	802.53	2170.23	952.13
Sales & Marketing Expenditure	170.05	1564.68	1078.18
Administrative & Other Expenditure	1020.82	2975.12	1161.77
Total	**2584.01**	**10104.10**	**5313.23**
Operating Profit/ (Loss) before Finance Expenses, Amortization and Depreciation	**(1380.42)**	**(2768.99)**	**(214.07)**
Finance Expenses	1288.56	7063.38	3819.35
Depreciation, & Amortization	1680.97	6463.80	3793.54
Profit/ (Loss) before Tax as reported	**(4349.94)**	**(16296.16)**	**(7826.96)**
Adjustments – Prior Period Expenses, Misc. Expenses	(1503.85)	728.77	366.52
Adjusted Profit/ (Loss)	**(5853.79)**	**(15567.39)**	**(7460.44)**

Discussion on the results for Financial Years ended March 2003 and March 2004

During the financial year ended March 2003, the Company was primarily engaged in hire purchase, leasing and securities trading business.

In view of the persistent problem of acute competition and non-availability of a reasonable rate of return on its investment, during FY2001-02, the Company had to reduce focus on new business disbursements and instead focus on recoveries. With improved recoveries out of impaired assets, the Company could repay substantial part of its borrowings and reduce interest cost. With shrinking business activity, and in line with the general trend for Non-Banking Finance Companies (NBFCs), the Company suffered Net Loss in FY2001-02.

The Hire-Purchase and Finance business continued to dwindle in FY2002-03. Hence, with an objective to arrest the declining trend, the Company decided to restructure the business portfolio during FY2002-03 and took a strategic decision to reduce focus on the finance industry and explore new business opportunities.

Accordingly, the Company decided to enter into the fast growing telecommunication business through the inorganic route of amalgamation with the erstwhile HFCL Infotel Limited, which had been providing telecommunication services in the telecom circle consisting of the State of Punjab and the Union Territory of Chandigarh since September 2000. The Hire-Purchase and Finance business was transferred to a then subsidiary company as a going concern after the amalgamation. The Company also exited from a strategic investment in the mutual fund business. The merger and hiving-off of the Hire-Purchase business effected with September 01, 2002 as the Appointed Date.

In order to reflect the change in the business portfolio in the corporate entity, the name of the Company was changed from The Investment Trust of India Ltd to HFCL Infotel Ltd, which was the name of the merging Company. For the same reason, the subsidiary Company's name was changed to The Investment Trust of India Ltd.

Therefore, as stated earlier in this section, the financial results for the financial year ended March 2003 include results of the Hire Purchase & Finance business for 5 months upto August 31, 2002 (pre-merger period) and of the telecommunication business for 7 months w.e.f. September 01, 2002 (appointed date for merger).

The Company's revenues includes revenue from telecom business (including call usage, rentals, activation charges, installation charges, revenue from value added services, income from sale of products and other fees and charges.) The revenues also include leased line revenue, data revenue, revenue from dial-up services and revenues from other broadband related activities. In addition revenues consist of interconnect and access revenue part of which is a passed on to other operators with whom interconnect has been established.

In the Telecommunication services business, the major expenditure heads are:

- Network expenses – This includes expenses on account of point of interconnect charges, access charges, licence fee and WPC charges on revenue share basis, node site rentals, repair and maintenance of machinery, electricity and water charges, security and internet bandwidth.
- Sales and marketing expenses – This includes advertisement and marketing expenses, sales commission and incentives, business promotion expenses and other selling and distribution expenses.
- Personnel expenses – This includes salaries, wages and bonus paid to employees during the year. This also includes contribution made to the provident and other funds, staff welfare expenses and recruitment and training costs.
- Administration and other expenses – This include legal and professional expenses, traveling, office rent, repairs and other administrative costs, billing and collection expenses, software expenses, bad debts written off, provision for doubtful debts and advances and loss on sale of assets.

During FY 2002-03, the Company reported an operating profit of Rs. 10636 lakh including the profit from sale of strategic investment in Pioneer ITI AMC Ltd. of Rs. 9334 lakh. In telecom business, the company reported operating profits of Rs. 1339 lakh during the seven months period w.e.f September 01, 2002 to March 31, 2003 as compared to the operating loss of Rs. 214 lakh during the five months period upto August 31, 2002 and operating loss of Rs. 2769 lakh in FY 2001-02 (the pre-merger period).

During FY 2003-04. revenues from telecommunication business were Rs.19167 lakh as compared to Rs.14004 lakh in the previous FY2002-03 (revenue from telecommunications services includes Rs. 5054 lakh for the 5 months pre-merger and Rs. 8950 lakh for the seven months post merger) reflecting a growth of 37%.

Operating Expenditure in FY 2003-04 was Rs. 15465 lakh as compared to combined Rs. 13327 lakh in the previous FY2002-03 (telecommunication business and 5 months of Hire-Purchase/ Finance business), implying an increase of 16%.

Resultantly, the operating profit of telecommunication business at Rs. 3778 lakh during FY 2003-04 represents growth of 3.36 times over the FY 2002-03 imputed Operating Profit of Rs. 1125 lakh from the telecommunication business.

With an aim to reduce the high interest burden, the Company had undergone restructuring of its liabilities through CDR mechanism. Consequent to the ballooning and reduced interest rate structure, the financing cost reduced to Rs. 6911 lakh during FY 2003-04 as compared to combined Rs. 9497 lakh (telecommunication business and 5 months of Hire-Purchase/ Finance business) i.e. a saving of 13% on total revenue of FY 2003-04.

This kind of sharp improvement in performance is a characteristic of the telecommunication services business. The business being capital intensive in nature, investments in networks have long gestation periods and low initial paybacks. Losses are incurred during the initial years, when the network is being rolled out and new subscribers are being acquired. Once the break even is achieved, return on capital becomes attractive as the same infrastructure is used for generating additional revenues.

Discussion on the results for Financial Years ended March 2004, March 2005 and June 2005

The momentum of improvement in the Company's financial performance continued during FY2004-05 and June 30, 2005. Revenues from telecommunication business were Rs.25332 lakh during FY 2004-05 as compared to Rs. 19167 lakh in the previous FY2003-04, reflecting a growth of 32%. During the quarter ended June 30, 2005, the Company has achieved revenues of Rs. 7050 lakh showing an annualized growth of 8%.

Operating Expenditure in FY 2004-05 was Rs. 18240 lakh as compared to combined Rs. 15465 lakh in the previous FY2003-04, reflecting an increase of 18%. During the quarter ended June 30, 2005, the Company' operating expenditure was Rs. 5292 lakh, reflecting an annualized increment of 16%.

Resultantly, the operating profit at Rs. 7315 lakh during FY 2004-05 represents a 93% growth over the FY 2003-04 Operating Profit of Rs. 3778 lakh. However, the operating profit of Rs. 1766 lakh during quarter ended June 30, 2005 reflects a negative annualized growth of 3%.

Significant Licence and Service related Regulatory Changes in these periods
(For a detailed discussion on this subject, kindly read the section – "Industry Overview" starting from page 20 of this Offer Document)

In November 2003, the Government announced guidelines for migration to Unified Access Services Licence. Consequently, the Company migrated to the Unified Access Services Licence 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 have been:

- The Company got the right to 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 was more than the entry fee paid by the 4th Cellular Licencee.
- The Unified Access Services Licence also settled the disputes the Company had with the GOI over Roll-Out Obligations, the need to provide performance bank guarantees and the broader issue of Level Playing Field.

Significant Inter-connection and Tariff related Regulatory Changes in these periods
The entry of private sector players in the NLD and ILD segments of the Telecommunication sector from FY2000-01 enabled the Company to reduce its dependence on BSNL for delivery of inter-circle calls. Consequently, the Company has many choices for ensuring satisfactory delivery of inter-circle calls and it

needs to pay/ receive inter-connection usage charges almost at par with that paid/ received by large multi-circle operators.

Due to severe competition in the mobile telephony segment as well as the changes in the inter-connection regime introduced by TRAI, the tariffs for mobile telephony services have declined so sharply that it has now become an attractive substitute for fixedline telephony. Consequently, the growth in demand for fixedline services has slowed down considerably in recent years. This development has adverse consequences for the Company as almost 80% of its customers are for fixedline telephony services.

Severe competition also led to sharp decline in the NLD & ILD tariffs as well as the retained revenue of the service providers. These sharp declined forced TRAI to strengthen and streamline the inter-connection norms, & charges. 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 into two parts 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.
- 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.

These regulations were reviewed and further modified regulations were implemented from 01st February 2005. Salient changes from the previous regulations were:

- ADC receipts for fixedline service providers, other than BSNL, was restricted to outgoing calls only. ADC on incoming calls to non-BSNL fixedline service providers was now to be passed onto BSNL by the originating mobile services provider in case of intra-circle calls, by the concerned NLD Operator for inter-circle calls and by the concerned ILD Operator for inter-national calls.
- The ADC values were revised downwards further, based on the increased traffic since the last review.

Outlook for the Future

The Company foresees high degree of competition in the years to come, especially in the mobile telephony segment. The Company currently has a limited presence in the mobile telephony segment through its limited mobility services in five cities, but plans to expand the wireless network footprint to most parts of the service area in the current financial year.

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

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

- With equipment becoming cheaper in recent times, the Company has started offering very affordabale tariff packages for broadband internet access services. Increasing demand for high speed internet access would be a key driver for the Company's copper based wireline service.
- With the the right to offer full mobile services under the Unified Access Services Licence, the Company expects its subscriber base to grow faster as the mobile telephony segment is growing significantly faster than the fixedline segment.
- The Company foray into video access services over Hybid Fibre Co-axial (HFC) cable network will enable it to offer bundled service offering of voice, data and video services under one roof. This 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.
- The planned expansion into the neighbouring states of Haryana, Himachal Pradesh and Jammu & Kashmir, at low incremental capital cost and low incremental operating cost will help improve the overall asset utilization and profitability ratios.

VI. Legal and other Information

1. LITIGATIONS/ DISPUTES/ DEFAULTS/ CONTINGENT LIABILITIES

There are no other contingent liabilities not provided for, outstanding litigation, disputes, non payment of statutory dues, overdue to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares issued by the Company, defaults in creation of full security as per terms of issue/other liabilities, proceedings initiated for economic/ civil/ any other offences (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act, 1956) against the Company except the following:

Contingent Liabilities as on June 30, 2005:

- Counter Guarantees to HFCL against the HFCL's Corporate Guarantees to the Company's Lenders – Rs. 522.50 Crore.
- Income Tax matters under appeal - Rs. 7.20 Crore,
- Claims against the Company not acknowledged as debt - Rs. 0.39 Crore,
- Guarantees given to suppliers and government agencies - Rs.17.33 Crore.
- Contract remaining to be executed on Capital Account - Rs.19.98 Crore.
- Lease tax matter under appeal – Rs.13.64 Crore.

AGAINST THE COMPANY

Outstanding Litigation as on November 30, 2005

<u>Consumer Disputes</u>

There are 23 Cases pending against the Company in State Consumer Disputes Redressal Forum and District Consumer Disputes Redressal Forum for an aggregate claimed amount of about Rs. 13,35,910/- and most of the cases are for deficiency in services provided by the Company related to incorrect or inflated bills, wrongful disconnection, connection not installed in time and non refund of security deposit etc.

<u>Civil Suits</u>

There are 5 civil suits filed and the liability in 2 of these cases is not quantifiable. The total amount claimed in the rest of the three cases where the liability of the company is quantifiable is Rs.27,18,165/-.

1. One M/s Top Gear Marketeer (P) Ltd. has filed a suit for recovery of Rs.16,68,165/- on account of six month salary of its personnel employed by the company without obtaining its prior approval despite the termination of the contract between it and the company. The company has filed an application under Section 89 read with Section 151 of CPC for invoking the Arbitration Clause in the agreement relied upon by the plaintiff. The case is adjourned for January 16, 2006.

2. One suit for permanent injunction and one for temporary injunction was filed before the Civil Judge Sunam, Distt Sangrur by Mr. Radhey Sham and others restraining the company to install or further increase the height of the CDMA tower near their houses. The temporary injunction suit became

infructuous and hence dismissed on December 23, 2004. In the suit for permanent injunction the same has been adjourned for January 24, 2006.

3. A claim has been filed by Ms. Jaswinder Kaur, wife of one Mr. Ravinder Singh who died after falling into a pit that had been dug by the Company for laying the cables before the District Court Ropar. The case has been filed against the Chairman of TRAI, Incharge Telecommunication Authority, Mohali, Collector Ropar and the Company, jointly and severally for an amount of Rs. 10,00,000/-. On November 17, 2005, HFCL filed its reply. The matter is subjudice before the Court.

4. M/s K. S. Industries, a partnership firm, has filed a suit before the Civil Court, Ludhiana, seeking rectification of lease deed and seeking mandatory injunction directing the Company to remove the encroachment made in the leased premises and to restore the position as agreed in accordance with terms of lease deed executed between the Company and M/s. K.S. Industries. No pecuniary relief has been claimed against the Company. The next date of hearing is fixed for February 14, 2006.

5. Mr. Sham Sunder applied for telephone connection and the company failed to provide it. The company failed to refund the security amount as well. The complainant claims of installation of telephone connection, and Rs.50,000 as damages. The next date fixed for this case is January 10, 2006.

REGULATORY MATTERS

The Company is also a party to the following regulatory matters all pending before the Telecom Dispute Settlement Appellate Tribunal (“TDSAT”):

The AUSPI has challenged the definition of ‘adjusted gross revenue’ in terms of which a telecom service operator is required to share the revenue on the adjusted gross income of the company and not just that of its telecom business. Presently, the Company is paying the license fees under protest, stating that the only income generated from the License should be considered for the impact of License Fees. The Company may be entitled to a refund if the case goes in its favor. The matter is being adjudicated by the TDSAT.

The AUSPI has filed an Appeal against the discriminatory treatment between BSNL and other operators in respect of mechanism for ADC distribution under the revised IUC regulations implemented from February 1, 2005. No additional financial liability would result from this, in case the case is lost.

BSNL has levied a unilateral charge of Rs. 15000 per annual for interconnection facility. There will be an additional outflow for the Company of around Rs. 20 lacs per annum on account of this.

BSNL reduced the customer tariff for intra-circle 50-200 km calls, but did not extend the benefit to calls made to customers of other operators. AUSPI has sought refund of access charges paid following non-extension by BSNL of the benefit of reduced customer tariff. TDSAT appointed a Commissioner to assess/ review/ decide the claims. The Company filed claims of Rs 1.27 crore on BSNL. BSNL objected to claim calculation basis in TDSAT and also filed a appeal in Supreme Court. Meanwhile, the TDSAT appointed Commissioner resigned. TDSAT has decided to wait for Supreme Court case before deciding on the claims.

The AUSPI has brought the action for Refund of Port Charges paid by them under protest as per TDSAT’s order. The various petitions filed by AUSPI & BSNL regarding the Access Charges and Port Charges regime during the period May 01, 1999 to mid Dec 2001, have been settled favorably by the TDSAT. All demands based on these letters have since been set aside by TDSAT.

LITIGATION INSTITUTED BY THE COMPANY

1. The Company has filed 38 recovery suits involving an amount of Rs. 17,62,425/-.

2. A system of Arbitration Proceedings for recovery of outstanding dues has been initiated by the Company, whereby the dispute in various agreements is referred to a single arbitrator appointed by the Company. The total amount claimed by the Company is Rs. 1,14,22,034.

3. The Company has filed certain matters before the Lok Adalat at Chandigarh and Patiala for recovery of dues outstanding from subscribers. The total amount claimed by the Company is Rs. 7,87,416/- in 123 cases at Chandigarh and Rs 3,46,606/- in 33 cases at Patiala.

4. The Company has filed 762 cases under section 138 of the Negotiable Instruments Act, 1881 against its subscribers, in various courts in State of Punjab and Union Territory of Chandigarh, claiming a total amount of Rs. 41,25,662/-, all relating to non-payment of dues.

5. The company has filed a Winding up petition against M/s Punjab Wools Combers Ltd. for non payments of the dues to the amount of Rs. 1,49,149/-. Since the respondent is under BIFR proceedings, the High Court has put the matter in abeyance till the outcome of the proceeding in BIFR.

6. The Company has also filed a winding up petition against Arihant Cotsyn Ltd. in order to recover the dues to the extent of Rs.95,536/-. Respondent company has gone into liquidation. The matter is before the official Liquidator.

7. The Company has also filed a winding up petition before the Hon'ble High Court of Punjab & Haryana against M/s Ojas Customers Services (P) Ltd. for the recovery of Rs. 6,27,863/- alongwith interest @ 18% p.a., till the realization of the amount. The matter has been listed for admission.

8. The Company had filed a petition No. 372 of 2004 titled "HFCL Infotel Ltd. Vs M/s Essar Investments Limited" before the Hon'ble High Court at Mumbai, under Section 434 of the Companies Act 1956 for recovery of Rs.13.14 crores from M/s Essar Investments Limited as the it had failed to pay certain liabilities agreed in a Principal Agreement signed between the parties. The aforesaid petition came up for hearing and the Hon'ble High Court vide its order dated 24.03.2005 dismissed the said petition on the grounds that the primary issue arising out of the petition was the interpretation of the terms and conditions of the Principal Agreement and as such there is no acknowledged debt/liability by the respondent Company. The Company there after initiated two-fold strategy in this case:-

    a. Firstly it has invoked the Arbitration clause as envisaged under Cl.20 of the Principal Agreement and
    b. Secondly, it has also filed an appeal before the Division bench of the Hon'ble Mumbai High Court.

   The Company has been informed that Honb'le High Court vide its Order dated 21st November 2005 disposed off the appeal with remarks that no case is made for interference in the impugned order. However the High Court agreed to the contention of both the parties to refer the dispute regarding the claim of the Appellant (HITL) to the Sole Arbitration of Justice D.R.Dhanuka.It also took on record and accepted the statement made by counsel for Respondent Company (EIL) acknowledging that the sum of Rs.14.10 crores is an 'assigned liability'. The Company is initiating the Arbitration proceedings as directed by the Honb'le Mumbai High Court.

9. The Company has also filed an injunction suit against the Municipal Corporation, Sunam and others before the Civil Judge Jr. Div. Sunam, restraining the defendants to de-install the already installed towers of the company on the roof tops of the residents in Sunam, Company has already obtained the stay against the respondents. The suit challenges the levy of Rs 15000/- for the towers by the Municipal Council.

10. The Company has brought a criminal action for an accident involving one of its employees (State V/s Harpreet Kaur). Challan was presented on May 26, 2005 before the Court of Ms. Poonam Ratti JMIC. The vehicle has been released by the court on superdari.

Overdue Interest/Principal as on December 15, 2005

The overdue interest as on December 15, 2005, stands at Rs. 1.96 Crore towards the term lenders of the Company. None of the lenders have issued any recall notice.

AGAINST THE PROMOTER AND GROUP COMPANIES

HIMACHAL FUTURISTIC COMMUNICATIONS LIMITED (HFCL)

Outstanding Litigation as on November 30, 2005

By HFCL

Regulatory Matter

Case Title	Subject matter of Litigation	Amount (In Rs. approx.)	Present Status
HFCL Vs. Union of India OMP No. 60/99 & OMP No. 278 in Delhi High Court	Court restrained DoT from encashing of Bank Guarantee furnished by HFCL	Rs. 22,01,000/-	Case is pending before the Arbitrator. Next date is yet to be fixed.
HFCL Vs. Union of India Case No. OMP 50/99, AA 591/99, IA 44/99 & IA 8926/00 in Delhi High Court	Court restrained DoT from encashing the Bank Guarantee and adjusting Rs.43,22,549/-	Rs. 10,22,157/-	Last hearing was held on 4th February 2005 and we have submitted our claim and requested refund of Rs. 6.12 crores. Award is expected any day.
HFCL Vs. Union of India Case No. 1286/98, IA – 5324/98, IA – 5325/98 & IA – 5326/98 in Delhi High Court.	Court restrained DoT from releasing bank guarantee for Rs 70,00,000/- Lacs and encashing of bank Guarantee for Rs 36,00,000/- Lacs.	Rs. 70,00,000/- and Rs. 36,00,000/-	As per the policy of High Court our case has been transferred to Tees Hazari court and the next date of hearing is on 16-12-2005. HFCL needs to file reply.
HFCL Vs. Union of India Case No. OMP 64/99 in Delhi High court	Court restrained DoT from encashing of Bank Guarantee	Rs. 21,00,000/-	Arbitrator appointed. Next date yet to be fixed.
HFCL Vs. Union of India Suit No 1704 / 01 IA No 7647/2001 in Delhi High Court	Court restrained BSNL from releasing and encashing of Bank Guarantee	Rs. 28,21,000/-	As per the policy of High Court our case has been transferred to Tees Hazari court, which is again returned back to High Court Registrar. The hearing before Registrar of High Court will be held on 02.01.2006.
HFCL Vs UOI & Others Case No AA – 68/2002 in Delhi High Court	Bank Guarantee of 100 W SSPA	Rs. 4,40,600/- and Rs. 42,00,000/-	Argument held before the Arbitrator after submission of our claim. Next date is yet to be fixed.
HFCL Vs Railtel Corporation in Delhi High Court.	Railtel encashed the Bank Guarantee of Rs. 3,70,00,000/- furnished by HFCL	Rs. 3,70,00,000/-	Notice has been served by the High Court on 28th July, 2004 to the Arbitrator to dispose of the case. Interim order for deposit continue till final disposal of case. Arguments completed and ward expected any time.
HFCL Vs. GAIL With Hon'ble Mr. Justice Rajendar Sachar (Sole Arbitrator)	Termination of contract for laying of OFC cable due to alleged delay. Performance Bank Guarantee encashed for Rs. 40.77 Lacs.	HFCL filed claim on GAIL before Sole Arbitrator for Rs. 4.90crores, whereas GAIL has filed counter claim of Rs.6.20 crores.	Award announced on 16.11.2005 granting relief of approximately Rs. 1.70 crores to HFCL, to be paid within 45 days of award.

HFCL Vs. Union of India With Hon'ble Arbitral Tribunal of Mr. Justice R.S. Pathak Mr. Justice A. H. Ahmadi Mr. Justice B.N. Kirpal	HFCL has filed claim on DoT for Rs. 56.49 crores plus interest for non payment of claim on account of post closing adjustments on account of acquisition of 74% stake of HTL Limited, which DoT has disputed.	HFCL has filed its claim before the Arbitral Tribunal on 30.01.2005 for Rs. 56.49 crores along with interest @ 18% p.a. from 09.09.2002.	Pleadings yet to be held and next date of hearing is yet to be fixed.

Civil Matters

Case Title	Subject matter of Litigation	Amount (In Rs. approx.)	Present Status
Suit no. 4418 of 2001 HFCL Trade Invest Ltd. Vs. Classic Credit & Burlington Finance	Recovery of Amount of Rs. 225,52,26,263/-alongwith interest on principal of Rs. 198,99,00,000/- at the rate of 18% p.a. till payment and or realization.	Rs. 225.52 crores	As reported by M/s Amarchand Mangal Das & Suresh A. Shroff and co. on February 25, 2005, the suit is likely to come up for direction after a further period of 1½ years.
Suit no. 4291 of 2001 HFCL Trade Invest Ltd. Vs. Classic Credit.	Recovery of Amount of Rs. 96,52,22,307/-alongwith interest on principal of Rs. 84,29,99,000/- at the rate of 18% p.a. till payment and or realization.	Rs. 96.52 crores	As reported by M/s Amarchand Mangal Das & Suresh A. Shroff and co. on February 25, 2005 the suit is likely to come up for direction after a further period of 1½ years.

Excise, Taxation and Sales Tax Matters

Case Title	Subject matter of Litigation	Amount (In Rs. approx.)	Present Status
HFCL Vs. Joint Commissioner (Appeal) 2nd Trade Tax, Ghaziabad	Wrong assessment of Sales Tax	Rs. 16,50,393/-	Under Appeal
HFCL Vs. Joint Commissioner (Appeal) 2nd Trade Tax, Ghaziabad	Wrongly imposed tax on Capital Goods	Rs. 24,000/-	Under Appeal
HFCL Vs. CIT (A.Y. 1992-93 & 1993-94)	Company has treated interest on margin money of Rs. 3,74,479/- for A.Y. 1992-93 and Rs. 6,48,918/- for A.Y. 1993-94 as derived from industrial undertaking and deduction under section 80HH & 80I of the Income Tax, 1961. But on Department's appeal ITAT had decided it against the Company.	The Company has already paid the tax as per demand and if the case is decided in favour of the Company there will be refund only.	Company filed an appeal before the Hon'ble Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. Appeal is admitted. The case is not listed after 15.10.2003.

HFCL Vs. CIT (A.Y. 1996-97 & 1997-98)	Company has treated interest on margin money of Rs. 51,13,177/- for A.Y. 1996-97 and Rs. 47,09,109/- for A.Y. 1997-98 as derived from industrial undertaking and deduction under section 80HH & 80I of the Income Tax, 1961. But on Department's appeal ITAT had decided it against the Company.	The Company has already paid the tax as per demand and if the case is decided in favour of the Company there will be refund only.	Company filed an appeal before the Hon'ble Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. Appeal is admitted and notice issued for hearing as per Court procedure. The case is not listed after 15.10.2003.

Agaisnt HFCL

Civil Cases

Case Title	Subject matter of Litigation	Amount (approx.)	Present Status
UOI Vs HFCL Bezeq Limited & Others Case No 1481/96 and RFA (OS) 108/97 in Delhi High Court.	Bank Guarantee of Rs. 56.70 crores furnished for Basic services. DOT invoked the Bank Guarantee. Delhi High Court gave decision in favour of HBTL that B.G. cannot be encashed. The appeal filed by Dept. was dismissed. The application for restoration of appeal by UOI is pending before High Court.	Rs. 56.70 crores	Matter is pending in Delhi High Court before Divisional Bench for restoration of appeal by UOI. If decided against the company.HFCL shall be liable for a sum of Rs. 56.70 crores. The next date of hearing is on 21-03-2006.
M.S. Construction Vs. ETCO Telecom Ltd. & Others	Recovery Suit	Rs. 26,154/-	Counter recovery suit is filed for Rs. 26,154/-. HFCL has been made party.
Caylon Bank vs. Microwave Communications Ltd. & Others OA No. 63/2004	Recovery of debt from Microware Communications Ltd.	Rs. 3,30,55,750/- if the case is decided against Microwave Communications Ltd. and it fails to make payment.	HFCL being one of the defendants (being guarantor to the bank) has filed reply disputing any liability. The original Application is yet to be heard on merit. The next date of hearing is on 21-12-2005.
ING Vysya Bank Ltd.	Recovery of amount paid by bank to DoT due to invocation of B.G. issued on behalf of MCL for Radio Paging Services.	Rs. 72,42,000/-, if MCL fails to make payment	HFCL being Guarantor to the bank has given reply to the bank's legal notice disputing its liability.

Labor Matters

Case Title	Subject matter of Litigation	Amount (approx.)	Present Status
Harveer Singh Vs. HFCL	Claiming lien on employment and reinstatement with back wages.	If the case is decided against us, then the liabilities will be worked out by the Court	The case is at Karkardooma Court and next date is on 05.01.2006 for cross-examining the management evidence.
Anil G. & Others Vs. HFCL	Claiming reinstatement with back wages	If the case is decided against us, then the liabilities will be worked out by the Court	The case is at Karkardooma Court and next date for hearing is on 21.12.2005 for cross-examining the plaintiff's statements.
Rajinder Singh Bohra Vs. HFCL	Claiming reinstatement with back wages	If the case is decided against us, then the liabilities will be worked out by the Court	The case is at Karkardooma Court and next date of hearing is on 21.02.2006 for cross-examining management representative's statement.
Atul Bhatia Vs. CFSL & HFCL	Case is filed against CFSL and HFCL has been made party as Promoter of CFSL.	An Ex-employee of CFSL has filed the case due to the non-payment of full and final dues from CFSL	The case dismissed ex-party by the Tees-Hazari Court. Mr. Atul Bhatia has filed application for recall of dismissal order dated 06.01.2005. Next date of hearing is on 23-01-2006.

Excise, Taxation, Sales Tax Matters

Case Title	Subject matter of Litigation	Amount (approx.)	Present Status
CIT Vs. HFCL (A.Y. 1994-95)	The Dapartment has disputed the allowance given by CIT (A) in respect of purchase of Software as revenue expenditure and also for allowance u/s 80 HHE regarding export sale	If the case goes against the Company, the tax liability Rs. 1,49,87,451/-, plus interest	Department has gone into appeal before Hon'ble ITAT, Delhi against the order of CIT(A). Appeals proceedings are going on before ITAT. The next date of hearing is yet to be fixed.
CIT Vs. HFCL (A.Y. 1996-97 & 1997-98)	Income Tax Department disputed the allowance given by ITAT in respect of interest and upfront fee on capital borrowed; A.Y. 1996-97 Rs. 4,09,23,695/-and 1,13,88,596/- and A.Y. 1997-98 Rs. 15,23,11,501/- and Rs. 52,50,000/- respectively.	In the light of various judgments given by Supreme Court in this regard, there is unlikely to be any liability. If case goes against the Company, the tax liability will be Rs. 4,38,42,048/-plus interest.	Department has gone into appeal before Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. Appeal is admitted. The case is not listed after 16.10.2003.

CIT Vs. HFCL (A.Y.1999-2000)	The Department has disputed the decision of CIT (A) not to charge interest u/s 234B and 234 C in respect of income under MAT beyond the tax liability calculated as per normal provisions.	Income Tax Liability may arise for Rs. 24,10,722/- plus interest, in case the decision goes against the Company.	Department has gone into appeal before Himachal Pradesh High Court at Shimla against impugned order of ITAT, Chandigarh. The case is not listed after 15.10.2003.
Assessing Authority (Sales Tax) Faridabad Vs.HFCL (A.Y.1997-98 & 1998-99)	Demand of Rs. 2,37,43,000/-raised by the department against the exempted sales treating the same as first point taxable items. Stay was granted by the Hon'ble High Court against deposit of Rs. 50 Lacs.	Rs. 2,37,43,000/-	Matter pending before High Court of Punjab, Haryana and Chandigarh

Overdue Interest/Principal as on March 31, 2005

As on March 31, 2005, there is no overdue interest/principal, as HFCL's debts were restructured under the CDR mechanism vide their letter dated April 6, 2004 with a cut off date of the scheme being October 1, 2003.

HFCL SATELLITE COMMUNICATIONS LIMITED (HSCL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HSCL (margin money kept by way of fixed deposits Rs. 2.19 Crore) - Rs.2,21,00,000/-
- Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) - Rs.36,81,00,000/-
- Claims against the company towards excise duty and sales tax in dispute Rs.51,71,900/-

Outstanding Litigation as on September 30, 2005

By the HSCL

2 cases have been filed by the HSCL for dishonour of cheque issued by 2 Corporate clients amounting to Rs. 17.00 Lakhs

Against HSCL

- Income Tax: 1 appeal is pending before the Income Tax Appellant Tribunal, involving an amount of Rs. 11.10 lakh in the matter of Disallowance of expenses. 1 more appeal is pending before the Commissioner of Income Tax (Appeals), involving an amount of Rs. 4.44 lakhs in the matter of Disallowance of expenses.
- Sales Tax: 4 appeals have been filed by HSCL, out of which 3 are pending before the Sales Tax Dy. Commissioner, and one before Asst. Commissioner in relation to different matters involving an amount of Rs. 92.73 Lakhs.
- Other Cases: 2 cases are pending for dishonour of cheque amounting to Rs. 123.25 Lakhs

<u>Statutory dues as on March 31, 2005</u>

An amount of Rs.83 lakhs, Rs.109 lakhs and Rs. 49 are payable towards Provident Fund, Sales Tax and Tax Deducted at Source, respectively.

Overdue interest / principal as on March 31, 2005

Bank/Financial Institute	Amount in Lacs
Global Trust Bank Ltd.	
Principal	230
Interest	73
IFCI Limited	
Principal	288
Interest	122
Funded Interest	51

Overdue Interest/Principal as on March 31, 2005

As on March 31, 2005, HSCL's total ovedue stands Rs. 11.05 Crore towards Financial Institution / Bank. The details are as under:

Rs. in Crore

FIs/ Banks	Details	Amount
IFCI	Principal	2.88
	Interest	1.22
	Funded Interest repayment	0.37
	Interest on funded interest	0.14
OBC	Short term loan	2.20
	Interest on short term loan	0.47
ING Vysya Bank	Interest on Cash Credit overdraft	1.42
	Cash Credit overdraft	2.35
	Total	11.05

MICROWAVE COMMUNICATIONS LIMITED (MCL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HFCL (margin money kept by way of fixed deposits Rs. 0.85 Crores) - Rs.10.98 Crores.
- License fee and penalty in respect of Uttar Pradesh Rs. 4,32,28,000/-
- Suit against MCL but not acknowledge as debt – Rs.52,84,000/-

Outstanding Litigation as on September 30, 2005

Civil Matters

5 cases pending before the High Court of Delhi and before ADJ, Delhi, wherein 1 cases, DOT has objected against the order passed by Sh. O. P. Nahar, wherein DOT is claiming Rs. 1.25 Crores by invoking the Bank Guarantee. The case is fixed of September 6, 2005 for argument for condonation of delay. In 1 other case MCL have obtained an injunction order restraining the DoT from invoking the bank guarantees till the final disposal of the dispute amounting to Rs. 50 Lakhs, the next date of hearing fixed for November 5, 2005. In 1 other suit for recovery has been filed against MCL by M/s. Network Limited in the High Court at New Delhi for recovery of about Rs. 5,00,000/-. There are 3 other civil recovery cases against MCL the monetary value in totality amount to Rs. 36.71 is not yet quantified.

Details of Statutory Dues Payable as on September 30, 2005

Particulars	**Amount (Rs. in Lakh)**
Tax Deducted at Source	2.34
Provident Fund	0.92

Apart from above, as on March 31, 2005, a sum of Rs. 18.99 Crores is payable towards institutional dues.

Overdue Interest/Principal as on March 31, 2005

The overdue (Principal & Interest) towards IDBI, as on March 31, 2005, stands at Rs. 15.89 Crore.

PAGEPOINT SERVICE (INDIA) PRIVATE LIMITED (PSPL)

Contingent Liabilities not provided for as on March 31, 2005

- Guarantees given by banks on behalf of the HFCL (margin money kept by way of fixed deposits Rs. 0.13 Crore;) - Rs.,50,00,000/-;

Outstanding Litigation as on September 30, 2005

There is one suit filed against the company for recovery of rent outstanding amounting to Rs. 7.12 Lacs.

Details of Statutory Dues Payable as on September, 2005

Particulars	Amount (Rs. in Lakh)
Provident Fund	0.00
Tax Deducted at Source	4.89
Service Tax	57.89
Others	7.58

Overdue Interest/Principal as on March 31, 2005

The overdue (Principal & Interest) towards ICICI, as on March 31, 2005, stands at Rs. 0.06 Crore.

HTL LIMITED (HTL)

Contingent Liabilities not provided for as on March 31, 2005

- Bank Guarantees Rs. 26.50 Lakh

Outstanding Litigation as on September 30, 2005

By the Company

Sales Tax: In aggregate 9 appeals are pending before the Appellate Tribunal & Madras High Court, aggregating to Rs.41.15 Crores, 1 appeals are pending before the Appellate Tribunal (aggregating to Rs. 0.76 Crores and 1 appeals are pending before Dy. Commissioner Appeal and Appellate Tribunal totaling to Rs. 0.77 Crores.

Civil Cases: 2 cases have been filed by the HTL claiming refund of advance payment made to the defendant Company under liquidation, Proof of debt filed Rs. 0.03 Crores.

Excise and Customs: In aggregate 2 appeals have been filed by the Commissioner of Central Excise (Rs.1.30 Crore) and the Commissioner of Customs (Rs.1 Crore).

Labor Related: 2 cases are pending out of which one is pending in the Supreme Court and other in High Court relating to employee related issues aggregating to Rs. 20 lakhs.

Against the Company

Excise and Customs: In 2 cases pending, where the department has gone in appeal to CEGAT against the order of Commissioner, the aggregate amount in of Rs. 1.46 Crores

Labor Related Matters: 13 cases have been filed against HTL which are pending before the High Court of Madras amounting to – Rs.2.5 Crores), and 12 other cases are pending with the Labor Court, in employee related issues amounting to Rs. 9.68 Lacs approximately.

Civil Cases: 11 case have been filed against the Company in civil Courts, aggregating to claim of Rs. 4.90 Crores plus interest in some cases. Out of the 11 cases 2 cases are for winding up of the Company filled by supplier for realization of outstanding amount.

Income Tax: 1 appeal is pending adjudication before the Income Tax Appellate Tribunal filed by HTL on account of wrongful provisioning for non-moving inventories involving an amount of Rs. 1.27 Crore.

Statutory Payment not made as on March 31, 2005

Sales Tax: Rs. 3266.37 Lacs
Income Tax: Rs. 5.35 Lacs
PF & ESI: Rs. 59.08 Lacs & Rs. 0.40 Lacs respectively
Central Excise: Rs. 4.2 Lacs
Overdue Interest/Principal as on March 31, 2005

The principal overdue to Govt. of India, as on March 31, 2005, stands at Rs. 4.84 Crore. Further, as on March 31, 2005, the total amount overdrawn from working capital banks is Rs. 86.68 Crore.

HIMACHAL EXICOM COMMUNICATIONS LIMITED (HECL)

Contingent Liabilities not provided for as on March 31, 2005

- Fixed deposit given against Letter of Credit and Bank Guarantees Rs. 4367.76 Lakh

Outstanding Litigation as on September 30, 2005

Excise and Customs

Excise and Customs: 2 cases of undervaluation of MRP pending with Excise wherein in one case Department has gone into appeal in Supreme Court against the stay order, involving an total amount of Rs. 81.16 lakh. 5 other case are pending with Excise Department under various authorities, involving an amount aggregating to Rs. 47.30 lakh and 1 appeal pending before the Commissioner of Customs (Appeal), involving an amount of Rs. 6.98 lakh.

Income Tax: 1 appeal is pending before the Commissioner of Income Tax (appeal) Delhi, involving an amount of Rs. 16.96 lakh.

Civil Case: A recovery suit is pending – Rs.1.76 lakhs plus interest. An employee of the Company has filed a suit against the company against his termination before Local Civil Court, Solan. The case is yet to be decided.

HFCL KONGSUNG TELECOM LTD. (HKTL)

No provision is made for liabilities, which are contingent in nature, as on March 31, 2005

Outstanding Litigation as on September 30, 2005

There are no outstanding litigations against HKTL.

HFCL DACOM INFOCHECK LIMITED (HDIL)

No provision is made for liabilities, which are contingent in nature, as on March 31, 2005

Outstanding Litigation as on September 30, 2005

There are no outstanding litigations against HDIL

PLATINUM EDU LIMITED (PEL)

Contingent Liabilities not provided for as on March 31, 2005
Nil

Outstanding Litigation as on September 30, 2005

1 appeal related to income tax pending before Appellate Tribunal against the demand of Rs.4,14,000/- made by Income Tax Authorities.

HFCL BEZEQ TELECOM LIMITED (HBTL)

Contingent Liabilities not provided for as on March 31, 2005

Bank Guarantee Rs.10,500 Lacs.

Outstanding Litigation as on September 30, 2005

There are no outstanding litigations against HBTL.

CONSOLIDATED FUTURISTIC SOLUTIONS LIMITED (CFSL)

There is no contingent liabilities not provided for as on March 31, 2005

Outstanding Litigation as on September 30, 2005

The Hon'ble High Court of Delhi, has passed the order dated December 16, 2003 for winding up of the Company, against the petition filed by former employees of U.K. Branch and has appointed the official liquidator to take over the assets and the records of the company. The Hon'ble High Court of Delhi invited the bids for selling of the assets of the Company, which were sold out at a price of Rs. 2,83,000/- by the official liquidator appointed by the Court.

WPPL LTD. (WPPL)

There is no contingent liabilities not provided for as on March 31, 2005

Outstanding Litigation as on September 30, 2005

There are no outstanding litigations against WPPL.

WESTEL WIRELESS LIMITED (WWL)

Contingent Liabilities not provided for as on March 31, 2005

There is no contingent liabilities not provided for.

Outstanding Litigation as on September 30, 2005

There are no outstanding litigations against WWL.

HFCL INTERNET SERVICES LIMITED (HISL)

Contingent Liabilities not provided for as on March 31, 2005

Guarantee Outstanding: Rs. 1,30,000/-

Outstanding Litigation as on September 30, 2005

1 case has been filed by Mr. Karminder Singh against the Company before the Consumer Disputes Redressal Commission at Chandigarh, wherein the complainant has paid for obtaining a telephone connection but the same was not installed and the amount that he had paid was also not refunded. The company has appeared and has pleaded that HFCL Infotel Ltd should be made necessary party and not the Company. The case is pending for the consideration on whether to implead HITL as necessary party in it. The next date of this case is 04.01.2006 and the likely liabilities of Rs. 0.50 Lacs may arise.

CONNECT BROADBAND SERVICES LIMITED (CBSL)

There are no contingent liabilities not provided for as on March 31, 2005

Outstanding Litigation as on September 30, 2005
Nil

Contingent Liabilities not provided for as on March 31, 2005

- Sales tax on lease contracts in certain states writ Rs.13.00 lacs previous year.

Outstanding Litigation as on November 30, 2005

Cases Against ITI

Civil Cases

Name of case	Court	Dispute matter	Amount of claim / present status
Roy T. Tharian (IA 1333/96)	Sub-Court, Kottayam	OS 71/95	Filed by a third party against Hirer. Vehicle attached and sold and sale proceeds deposited in court. While suit was pending, ITI filed an application to lift the attachment. As the case was decreed on 30/7/98, ITI have filed affidavit for disbursement of the amount to ITI. No monetary claim against ITI.
Thankachan	Sub-Court, Mavelikara	OS 153/01	Party has filed the case. Vehicle met with an accident. ITI got the claim amt. Party given the complaint that ITI has forged his signature and taken the money filed the counter, Court has taken sworn statement from ITI. Insurance Company is the main accused. No monetary claim against ITI. Posted to 08.02.2006
Prakasan	Munsiff Court, Kottarakara	OS 546/00	Liquidated Damages due from party. No monetary claim against ITI. Posted to 10.02.2006
T.M. Philip	Munsiff Court, Pathanamthitta	OS 43/01	Party has filed the case for issue of HP termination. ITI has filed a counter. Claim of Rs 76,331/- towards Liquidated Damages due from party. No Monetary claim against ITI. Posted to 16.02.2006
K.V.S. Narimani	Civil Court, Vizag	OS 607/00	Party filed suit for restraining ITI from repossessing the vehicle. Suit dismissed for default. Party filed restoration petition. ITI has filed a petition to dismiss the restoration petition. Posted to 21.02.2006 No monetary claim against ITI.
Ashraf (Wilson)	Sub-Court Cochin	AS 352/04	Appeal filed against the Order of the Munsiff-Court.
P.M.Najeeb	Munsiff Court, Ernakulam	OS 1568/00	Suit filed by Najeeb against ITI not to repossess the vehicle. No monetary claim against ITI.
Sunny Mathew	Munsiff Court, Ernakulam	OS 1212/01	Suit for injuntion not to repossess the vehicle. Injunction made absolute. ITI filed an appeal before th District Court against that order. Appeal allowed and recommended the matter for fresh trial. Posted to 30.01.2006. No monetary claim against us.
Vijayalakshmi	City Civil Court, Bangalore	OS 15983/00	Mr Anand Kumar, purchaser filed a suit for injunction not to repossess the vehicle. ITI has filed a counter claim for the amount due to ITI. Posted to 9.10.03. No monetary claim against ITI.

Criminal cases:

Accused	Amount	CC No.	Status	Next Hrg. Date
Mahaveer Jain	10000.00	4355-02	Trail	18-01-2006

Cases filed by ITI

Civil Cases:

Name of case	Court	Dispute matter	Amount of claim	Present status of the case
P Bhogalingam	Civil court, Vizag	Mortgage suit	2291314	Preliminary decree passed
Theatre Sri Sankar	Civil court, Vizag	Money suit	1074833	Decreed. Set-aside filed by party
Theatre Sri Sankar	Civil court, Vizag	Money suit	634225	-do-
Theatre Sri Sankar	Civil court, Vizag	Money suit	154129	-do-
H K Datarex P Ltd	City civil court, Bangalore	Money suit	4368000	Posted to 23.01.2006
S N Somasundara Mudaliar	High court, Chennai	Mortgage suit	446249	Suit abated - petition filed for impleading the purchaser
Integrated Engg.	High court, Chennai	Money suit	2000000	List case
Gopal Rao	High court, Chennai	Money suit	1044544	List case
Raj-Ram Apparels	High court, Chennai	Money suit	1013747	List case
Tan India Ltd.	High court, Chennai	Moneysuit	21121349	List case
Ravi Shankar Film	High court, Chennai	Money suit	13603542	List case
A Remadevi	City civil court, Chennai	Money suit	365378	Posted to 25.01.2006
S M Jayaram Naidu	City civil court, Chennai	Money suit	231704	Posted to 13.01.2006
A Najimuddin	High court, Chennai	Moneysuit	1198068	List case
P Varahalamma & Others	Civil court, Vizag	Money suit	2757690	Decreed - appeal filed by ITI in high court, a.p. For better relief
The Annamalaiar Textiles	High court, Chennai	Winding-up		Company wound up. OL taken charge
Sri Seetha Venkatesh Mills	High court, Chennai	Winding up		Company referred to BIFR. Filed claim petition
Mother Care India Ltd.	High court Bangalore	Winding up		Company wound up. Claim filed with OL
Trident Steel	High court, Mumbai	Winding up		Company referred to BIFR. Filed claim petition.
Vikram Projects	High court, Mumbai	Winding up		Company referred to BIFR. Filed claim petition.
Patheja Forgings	High court, Mumbai	Winding up		Company referred to BIFR. Filed claim petition.
Patheja Bros.	High court, Mumbai	Winding up		Company referred to BIFR. Filed claim petition.
Mayfair Nursing Home	High court, Calcutta	Winding up		Company wound up. Claim filed with OL, Calcutta

Criminal Cases:

No.	Accused	Amount	CC No.	Status	Next Hrg. Date
1	Campion	146000.00	4302-96	NBW	15-03-2006
2	Fidelity	183120.00	0184-99	NBW	14-06-2006
3	Campion	36500.00	9717-98	NBW	15-03-2006
4	Pan	68780.00	0107-99	NBW	22-03-2006
5	Pan	82220.00	0108-99	NBW	22-03-2006
6	Pan	50000.00	0106-99	NBW	22-03-2006
7	Campion	36500.00	0111-99	NBW	15-03-2006
8	Fidelity	183120.00	230-2k	NBW	14-06-2006
9	Fidelity	193000.00	231-2k	NBW	14-06-2006
10	Fidelity	193000.00	232-2k	NBW	14-06-2006
11	Fidelity	549360.00	6739-99	NBW	14-06-2006
12	Fidelity	579000.00	6740-99	NBW	14-06-2006
13	Fidelity	193000.00	6741-99	NBW	14-06-2006
14	Fidelity	366240.00	10589-99	NBW	14-06-2006
15	Fidelity	200000.00	10590-99	NBW	14-06-2006
16	Fidelity	569120.00	10792-99	NBW	14-06-2006
17	Fidelity	193000.00	10794-99	NBW	14-06-2006
18	Fidelity	193000.00	525-2k	NBW	14-06-2006
19	Fidelity	193000.00	3202-2k	NBW	14-06-2006
20	Fidelity	193000.00	2717-2k	NBW	14-06-2006
21	Fidelity	193000.00	3201-2k	NBW	14-06-2006
22	Fidelity	193000.00	5112-2k	NBW	14-06-2006
23	Fidelity	193000.00	5217-2k	NBW	14-06-2006
24	Aiswarya	20000.00	3622-00	TRIAL	09-01-2006
25	Aiswarya	20000.00	0114-99	NBW	09-01-2006
26	Aiswarya	10000.00	5216-2k	TRIAL	09-01-2006
27	Aiswarya	142000.00	3194-02	TRIAL	09-01-2006
28	Aiswarya	13200.00	6030-98	TRIAL	09-01-2006
29	S.Bose	25000.00	1752-02	NBW	16-03-2006
30	Rajaselvam	121830.00	1751-02	NBW	06-01-2006
31	S.Bose	125000.00	1740-02	NBW	16-03-2006
32	Arvind	179500.00	5113-2k	NBW	31-01-2006
33	Geetha	107306.00	3624-2k	NBW	09-06-2006
34	Dr.Nandakumar	250000.00	5115-2k	NBW	09-05-2006
35	Venkateswara Paper	171912.00	6886-2k	FS	17-03-2006
36	SIFCO	3092911.00	6536-97	NBW	05-04-2006
37	Nandakumar	545518.00	6312-02	NBW	27-02-2006
38	Campion	73000.00	8911-98	NBW	15-03-2006
39	Fidelity	386000.00	0183-99	NBW	14-06-2006
40	Fidelity	183120.00	0181-99	NBW	14-06-2006
41	Fidelity	193000.00	0182-99	NBW	14-06-2006
42	Shah Dairy	62340.00	6029-98	NBW	10-03-2006
43	Shah	62340.00	8912-98	NBW	10-02-2006
44	Shah	62340.00	8659-98	NBW	10-02-2006
45	Shah	62340.00	0113-99	NBW	10-02-2006
46	Shah	62340.00	3620-2k	NBW	10-02-2006
47	Shah	62340.00	7091-99	NBW	10-02-2006
48	Shah	62340.00	6137-98	NBW	10-02-2006
49	Integrated	921140.00	8660-98	FS 2, 5	18-05-2006
50	Campion	1000000.00	3632-2k	NBW	15-03-2006
51	Nageswara Rao	76348.00	9522-01	NBW	08-02-2006

52	Najimuddin	444871.00	3625-2k	NBW	15-03-2006
53	Gandhi	225000.00	3621-2k	NBW	20-06-2006
54	Veeraraghavulu	250000.00	6888-2k	FS	17-03-2006
55	Babu	200000.00	6885-2k	FS	11-04-2006
56	Arvind	164500.00	6882-2k	NBW	31-01-2006
57	Pan	118780.00	4780-98	NBW	22-03-2006
58	Ashok Kumar Bhurabhai Dodiya	200000.00	12395-02	FS	31-01-2006
59	K.N. Settu	16000.00	12394-02	NBW	23-06-2006
60	M. Rami Reddy	81140.00	12396-02	NBW	13-02-2006
61	Pan	150000.00	3738-2k1	NBW	22-03-2006
62	Pan	50000.00	0189-99	NBW	22-03-2006
63	Arvind	204500.00	7090-99	NBW	31-01-2006
64	Pan	50000.00	3736-2k1	NBW	22-03-2006
65	Campion	100000.00	7680-97	NBW	15-03-2006
66	Nageswara Rao	100000.00	6562-91	NBW	08-02-2006
67	Nageswara Rao	59000.00	8802-97	NBW	08-02-2006
68	Geetha	63172.00	10603-99	NBW	09-06-2006
69	Deivanai	392705.00	3737-2k1	NBW	24-05-2006
70	Campion- Orchid	50000.00	3195-02	NBW	15-03-2006
71	Thevar Transport	277904.00	10291-01	NBW	28-03-2006
72	Campion- Orchid	400000.00	6316-02	NBW	15-03-2006
73	Jayapradha	54680.00	3633-2k	NBW	06-06-2006
74	Venkateswara Paper	250000.00	10054-2k	FS	17-03-2006
75	Campion	100000.00	5410-97	NBW	15-03-2006
76	Pan	100000.00	0188-99	NBW	22-03-2006
77	Campion	100000.00	5202-97	NBW	15-03-2006
78	Pan	220250.00	3601-98	NBW	22-03-2006
79	Veerakannan	51480.00	4357-98	FS	17-03-2006
80	Pan	234590.00	4358-98	NBW	22-03-2006
81	Pan	220250.00	5500-98	NBW	22-03-2006
82	Pan	82220.00	5725-98	NBW	22-03-2006
83	Pan	50000.00	5615-98	NBW	22-03-2006
84	Pan	118780.00	6529-98	NBW	22-03-2006
85	Pan	151470.00	7245-98	NBW	22-03-2006
86	Pan	50000.00	8612-98	NBW	22-03-2006
87	Pan	50000.00	8845-98	NBW	22-03-2006
88	Pan	68780.00	8846-98	NBW	22-03-2006
89	Campion	100000.00	8611-98	NBW	15-03-2006
90	Mrs.Geetha	33510.00	9363-98	NBW	22-02-2006
91	Pan	68780.00	0362-99	NBW	22-03-2006
92	Campion	36500.00	2322-99	NBW	15-03-2006
93	Pan	50000.00	0360-99	NBW	22-03-2006
94	Pan	82220.00	0363-99	NBW	22-03-2006
95	Pan	82220.00	0361-99	NBW	22-03-2006
96	Pan	50000.00	0364-99	NBW	22-03-2006
97	Campion	10000.00	5985-99	NBW	15-03-2006
98	Pan	10000.00	6800-99	NBW	22-03-2006
99	Campion	50000.00	2719-2k	NBW	15-03-2006
100	Mudukrishniah	179579.00	2718-2k	NBW	13-02-2006
101	Pan	246660.00	10793-99	NBW	22-03-2006
102	Jalaludin	10000.00	10817-2k	NBW	19-01-2006
		19582666.00			

2. Government / Statutory Approvals

The Company has received the following authorizations/ permissions/ approvals from the Government and various Government Agencies.

1. Original Licence Agreement dated November 7, 1997 with DoT to establish, maintain and operate telephone service upto the subscriber's terminal connection in "Punjab Circle" and amendments thereto; Letter no. 10-10-2003-BS-II/Vol-II dated November 14, 2003 from DoT, Licensing Cell (Basic Service Group) accepting the Company's request for migration to Unified Access (Basic & Cellular) Services License; and the amended Licence Agreement for Unified Access Services signed on May 31, 2004 with DoT.

2. License Agreement No. 820-380/2000/LR dated June 28, 2000 between DoT and the Company for providing Internet Services.

3. Registration certificate bearing no. 29/2001 dated February 5, 2001 issued by Government of India, Ministry of Communications, Department of Telecommunications (Basic Services Group) for Infrastructure Provider Category – I (IP-I) to establish and maintain the assets such as dark fibre, right of way, duct space and tower for the purpose to grant on lease / rent / sale basis to the licensees of the telecom service license u/s 4 of the Indian Telegraph Act, 1885.

4. Approval u/s 10(23G) of the IT Act from the Government of India, Ministry of Finance, Department of Revenue, and Central Board of Direct Taxes vide their notification no. 282/2003 [F.No.205/42/1996/ITAII-Vol (II)] dated November 11, 2003.

No further approvals from any Government Authority are required by the Company to undertake the activities save and except those approvals, which may be required to be taken in the normal course of business from time to time. The Company undertakes to take any further approval as may be required

VII. OTHER REGULATORY AND STATUTORY DISCLOSURES

AUTHORITY FOR THE OFFER

The Board of directors of HFCL i.e. the Selling Shareholder, at their meeting held on August 25, 2003 have approved the disinvestment of upto 10,00,00,000 equity shares of Rs.10/- each held by HFCL in the Company subject to the approval of term lenders of the Company, led by IDBI. IDBI, vide letter dated December 19, 2005 has granted the necessary approval for the aforesaid disinvestment and thereby release of the equity shares covered under non-disposal undertaking, given by HFCL, to the term lenders of the Company led by IDBI.

The BoD, at a meeting held on August 30, 2003, has taken on record the resolution of HFCL's BoD of directors and consented to the "Offer for Sale" subject to obtaining requisite approvals.

HFCL, vide a Power of Attorney dated November 25, 2003, has appointed / authorized the Company to do and execute all or any of such acts and things in relation to the Offer.

The BoD, at its meeting held on October 16, 2005, has approved the proposed Offer for Sale by HFCL through this Draft Offer Document to the extent of 80,00,000 equity shares of Rs.10/- each.

The Company will apply for the necessary approval for transferring equity shares to NRIs from RBI. **As per the policy of the RBI, OCBs cannot participate in this Offer.** Allotment to NRIs would be subject to such conditions as stipulated by RBI while granting such permission.

PROHIBITION BY SEBI

The Company, its Selling Shareholder, its directors/ Promoters and persons in control, its subsidiaries, its associates, its directors, its promoters, other companies/ entities promoted by HFCL and companies/ entities with which the Company's directors are associated as directors have not been prohibited from accessing/ operating in the capital markets.

ELIGIBILITY OF THE COMPANY TO UNDERTAKE THE "OFFER FOR SALE"

The erstwhile HFCL Infotel Limited, an unlisted company, was merged with The Investment Trust of India Limited, a listed company, under the Scheme, which was approved by the Hon'ble High Court of Punjab and Haryana and Hon'ble High Court of Madras, respectively. Pursuant to the said merger, 43,20,00,250 equity shares of Rs. 10/- each of the merged entity were issued to the shareholders of erstwhile HFCL Infotel Limited. After the effectiveness of the merger, the name of the merged entity was changed to HFCL Infotel Limited.

On allotment of shares pursuant to the Scheme, the Company approached all the stock exchanges, where equity shares of the transferee company were listed i.e. BSE, CSE and MSE, to list these shares.

BSE, vide its letter no. List/smg/km/2003 dated August 11, 2003, advised the Company that it should undertake an "Offer for Sale" to raise the shareholding of non-promoters to the minimum level required as per the Guidelines.

The Company also allotted 17,30,814 equity shares of Rs.10/- each on October 13, 2003, pursuant to conversion of warrants issued to the shareholders of ITI (transferee Company) as per the Scheme.

On allotment of 17,30,814 equity shares pursuant to the Scheme, the Company once again approached all the stock exchanges where equity shares of the transferee company were listed i.e. BSE, CSE and MSE, for the listing of 43,20,00,250 shares and 17,30,814 shares. Although, BSE has granted the permission for listing of 17,30,814 equity shares, however regarding listing of 43,20,00,250 equity shares, BSE, vide its letter no. List/smg/km/2003 dated November 10, 2003 further advised the Company that the listing of the equity shares issued under the Scheme would be considered only after the Company files relevant documents relating to the "Offer for Sale".

On October 16, 2004, the Company further issued 8,30,70,088 equity shares to its term lenders against conversion of outstanding dues, in terms of the approved CDR package and re-approached BSE for listing of 43,20,00,250 shares and 8,30,70,088 equity shares. However, BSE, vide its letter no. DCS/SMG/RCG/2004/511116 dated November 11, 2004 advised the Company that the listing of 43,20,00,250 equity shares issued pursuant to the merger would be considered after the Company undertakes an "Offer for Sale" to raise the shareholding of non-promoters to the minimum level required as per SEBI (Disclosure and Investor Protection) Guidelines, 2000

To mitigate the concerns of BSE on the minimum requirement of non-promoter holding in the Company, the Company filed the Draft Offer for Sale Document with SEBI on December 29, 2003 for divestment of 5,13,00,000 equity shares of the Company held by the promoter. Subsequently, the Company's proposal under CDR mechanism was approved and consequently on October 16, 2004, the Company allotted 8,30,70,088 equity shares to its lenders (IDBI, OBC and ING Vysya Bank Ltd.) on conversion of their interest dues. Further, Bank of Punjab excercised its option to transfer 3,00,00,000 equity shares of the Company in its name, which were pledged by the promoter in favor of Bank of Punjab. Consequent to the aforesaid transfer of shares and allotment of shares to FIs/Banks etc. post CDR approval, the non promoter holding of the Company had gone up. Accordingly, the Company approached BSE for listing of above shares without an Offer for Sale being made. However, BSE vide its letter no. DCS\SMG\RCG\2004\511116 dated November 11, 2004 reiterated its earlier direction. The Company, thereafter, through its Lead Manager, vide their letter no. KISL/MBD/HFCL/04-05 dated November 25, 2004, withdrew the Draft Offer document owing to the change in the capital structure of the Compay and filed an Appeal against the decision of the BSE in Hon'ble SAT. However, in order to resolve the issue amicably the Company has at the behest of BSE decided to undertake Offer for Sale by divesting at least 1.33% of the total paid up capital of the Company. This decision would help the Company to further increase the Non Promoter holding in the Company and also make available to the Public/Investors all the information about the Company by making complete disclosures through the Offer Document. In view of the above the Offeror/Company is making this "Offer for Sale".

The Company is an infrastructure company wholly engaged in the business of developing, maintaining and operating infrastructure facilities within the meaning of section 10(23G) of Income Tax Act, 1961 (the "**IT Act**"). The Company has been awarded the status of an infrastructure Company by Government of India, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes vide their notification no. 282/2003 [F.No.205/42/1996/ITAII-Vol (II)] dated November 11, 2003. The project is appraised by IDBI, who has also funded the project to the extent of 29% and 4% of the total cost by way of debt and equity, respectively. As such the Company is exempt from eligibility norms in terms of Clause 2.4.1(iii) as mentioned in Chapter II of the Guidelines.

In terms of Clause 2.3 of the Guidelines, the Company is eligible to make a public issue of equity shares. The aggregate of the proposed issue by the Company and all previous issues made in the same financial year, in terms of size (i.e. offer through Offer Document + Firm Allotment + Promoters contribution through this Draft Offer Document) does not exceed 5 times the pre-issue networth as per the Audited Balance Sheets of HFCL Infotel Limited for the last financial year (2004-05). There are no previous issues made in the financial year 2004-05, and the aggregate issue amount of Rs 10.40 Crore – Rs. 12.00 Crore does not exceed 5 times the pre-issue networth of Rs. 72.54 Crore (as on March 31, 2005) and Rs. 45.47 Crore (as on June 30, 2005) (Share Capital less Misc. Expenditure and Profit and Loss Account Debit Balance)

Therefore, the Company is also in compliance with Clause 2.3.1 of the Guidelines applicable to public issues by listed companies and is eligible to make this Offer for Sale.

DISCLAIMER CLAUSE:

A. SEBI DISCLAIMER CLAUSE

AS REQUIRED A COPY OF THIS OFFER FOR SALE DOCUMENT HAS BEEN SUBMITTED TO THE SEBI, MUMBAI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THIS DRAFT OFFER DOCUMENT TO SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE OFFER IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS DRAFT OFFER DOCUMENT. LEAD MANAGER, M/S KARVY INVESTOR SERVICES LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THIS DRAFT OFFER DOCUMENT ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURE AND INVESTOR PROTECTION) GUIDELINES IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED OFFER. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THIS DRAFT OFFER DOCUMENT, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE ISSUER DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, M/S KJMC GLOBAL MARKET (INDIA) LIMITED & GLOBAL TRUSTCAPITAL FINANCE PVT. LTD. HAVE FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED DECEMBER 20, 2005 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATIONS, 1992 WHICH READS AS FOLLOWS:

1. **WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THIS DRAFT OFFER DOCUMENT PERTAINING TO THE SAID OFFER;**
2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE OFFER, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.**

WE CONFIRM THAT:

A. THIS DRAFT OFFER DOCUMENT FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPER RELEVANT TO THE OFFER;

B. ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID OFFER AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH; AND

C. THE DISCLOSURES MADE IN THIS DRAFT OFFER DOCUMENT ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED OFFER.

D. WE CONFIRM THAT BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THIS DRAFT OFFER DOCUMENT ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH

REGISTRATION IS VALID.

THE FILING OF THIS DRAFT OFFER DOCUMENT DOES NOT, HOWEVER ABSOLVE THE COMPANY/SELLING SHAREHOLDER FROM ANY LIABILITIES UNDER SECTION 63 OR 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENTS OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED OFFER. SEBI, FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MANAGER(S) ANY IRREGULARITIES OR LAPSES IN THIS DRAFT OFFER DOCUMENT.

B GENERAL DISCLAIMER

Investors may note that the Company accepts no responsibility for statements made otherwise than in this Offer Document or in the advertisements or any other material issued by or at the instance of the Company or the Lead Manager and that anyone placing reliance on any other source of information would be doing so at his/her own risk.

C DISCLAIMER IN RESPECT OF JURISDICTION

This Offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, Hindu Undivided Families, companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, or any other trust law and who are authorized under their constitution to hold and invest in shares) and to NRIs, and FIIs as defined under the applicable Indian laws. This Draft Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to shares issued hereby in any other jurisdiction to any person to whom it is unlawful to make an Offer or invitation in such jurisdiction. Any person into whose possession this Draft Offer Document comes is required to inform himself about and to observe any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in Punjab only. No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Offer Document has been submitted to the SEBI. Accordingly, the equity shares, represented thereby may not be offered or sold, directly or indirectly, and this Draft Offer Document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Offer Document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

D. DISCLAIMER CLAUSE OF STOCK EXCHANGES

The Stock Exchange, Mumbai (BSE/ Designated Stock Exchange)

The Company is in the process applying for necessary approval of BSE. The details mentioned hereunder would be updated upon the receipt of letter from BSE.

As required, a copy of this Draft Offer Document is being submitted to BSE. The BSE has vide their letter dated ________________ given permission to the Company to use the BSE's name in this Draft Offer Document as one of the stock exchanges on which the Company's securities are proposed to be listed. The BSE has scrutinized this Draft Offer Document for its limited internal purpose of deciding the matter of granting the aforesaid permission to the Company.

The BSE does not in any manner:

i) Warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Offer Document; or
ii) Warrant that this Company's securities will be listed or will continue to be listed on the exchange;
iii) Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company.

And it should not for any reason be deemed or construed that this Draft Offer Document has been cleared or approved by the BSE. Every person who desires to apply for or otherwise acquires any securities of this

Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the BSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

The Madras Stock Exchange Ltd (MSE)

The Company is in the process applying for necessary approval of MSE. The details mentioned hereunder would be updated upon the receipt of letter from MSE.

As required, a copy of this Draft Offer Document has been submitted to MSE. The MSE has given vide their letter dated _______________ permission to the Company to use the MSE's name in this Draft Offer Document as one of the stock exchanges on which the Company's securities are proposed to be listed. The MSE has scrutinized this Draft Offer Document for its limited internal purpose of deciding the matter of granting the aforesaid permission to the Company.

The MSE does not in any manner:

i) Warrant, certify or endorse the correctness or completeness of any of the contents of this Draft Offer Document; or
ii) Warrant that this Company' securities will be listed or will continue to be listed on the exchange;
iii) Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company.

And it should not for any reason be deemed or construed that this Draft Offer Document has been cleared or approved by the MSE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

The Calcutta Stock Exchange (CSE)

The Board of Directors of the Company have, in their meeting held on July 26, 2004, recommended delisting of shares from the CSE, to the shareholders. All the formalities with regard to delisting the shares from CSE have been completed, though the CSE has not formally delisted the shares as yet.

FILING

A copy of this Draft Offer Document, has been filed with Securities and Exchange Board of India, 32, Rajendra Bhawan, Rajendra Place, New Delhi 110 008. A copy of this Draft Offer Document, along with documents required to be filed under Section 60 of the Act would be delivered for registration to the Registrar of Companies, Punjab, Himachal Pradesh and Chandigarh at Jalandhar.

LISTING

1. The post-merger paid up, subscribed and issued equity share capital of the Company consists of 52,55,17,152 equity shares of Rs. 10/- each. Out of this, 1,04,46,814 equity shares i.e., pre-merger 87,16,000 equity shares and 17,30,814 equity shares allotted pursuant to conversion of warrants issued to the shareholders of ITI as per the Scheme of Amalgamation, are listed on the BSE and the MSE. The Board of Directors of the Company has, in their meeting held on July 26, 2004, recommended delisting of shares from the CSE, to the shareholders. All the formalities with regard to delisting the shares from CSE have been completed, though the CSE has not formally delisted the shares as yet.
2. 43,20,00,250 equity shares allotted to the shareholders of erstwhile HFCL Infotel Limited pursuant to the Scheme and 8,30,70,088 equity shares allotted to the Lenders (IDBI, OBC, ING Vysya) on October 16, 2004, pursuant to the restructuring package approved under Corporate Debt Restructuring mechanism, are yet to be listed on BSE and MSE.
3. BSE has vide its letter no. List/smg/km/2003 dated August 11, 2003 advised the Company that the listing of 43,20,00,250 equity shares issued pursuant to the merger would be considered after the Company undertakes an "Offer for Sale" to raise the shareholding of non-promoters to the minimum

level required as per the SEBI (DIP) Guidelines, which would also ensure complete disclosure of information after the merger of the Company. Accordingly, the Company filed the Draft Offer for Sale Document with SEBI in December 2003 for divestment of 5,13,00,000 equity shares of the Company held by the promoter. However pursuant to the fresh allotment of 8,30,70,088 equity shares to the Company's lenders and exercise of transfer option by Bank of Punjab for 3,00,00,000 shares pledged with BoP, the non promoter holding of the Company had gone up. Accordingly, the Company approached BSE for listing of above shares without an Offer for Sale being made. However, BSE vide its letter no. DCS\SMG\RCG\2004\511116 dated November 11, 2004 reiterated its earlier direction. The Company, thereafter, through its Lead Manager, vide their letter no. KISL/MBD/HFCL/04-05 dated November 25, 2004, withdrew the Draft Offer document owing to the change in the capital structure of the Compay and filed an Appeal against the decision of the BSE in Hon'ble SAT. The appeal was finally disposed off with the mutual consent of BSE and HFCL Infotel, wherein the Hon'ble SAT advised the BSE to take up the matter in their Listing Committee. Based on the directions of the Listing Committee, BSE, vide its letter Ref No. DCS/SMG/RCG/2005/511116 dated November 2, 2005 agreed for listing of HFCL Infotel's shares subject to certain conditions, which includes promoter to divest atleast 1.33% of the paid up share capital to the Indian public by April 5, 2006 by way of an offer for sale or the Company to undertake public offer in the domestic market to raise the non promoter holding to 25%. Therefore, this offer for sale is being made as per the direction of Hon'ble SAT / BSE.

4 All the equity shares mentioned at (2) above will be listed on BSE and MSE on completion of the Offer.

CONSENTS

Consents in writing of the Directors of the Company, Auditors of the Company, Lead Managers to the Offer, Bankers to the Company, Registrars to the Offer, Legal Advisors to the Offer, Company Secretary, Compliance Officer, Bankers to the Offer to include their name in this Draft Offer Document and to act in their respective capacities have been obtained and filed/ would be filed with the ROC as required under Section 60 of the Act, and none of them have withdrawn the said consents upto the time of delivery of a copy of this Draft Offer Document for Registration with the said ROC.

M/s S. R. Batliboi & Associates, Chartered Accountants and M/s. Chaturvedi & Partners, Chartered Accountants, Joint Auditors of the Company have also given their consent for the inclusion of their report as appearing hereinafter in the form and context in which it appears in this Draft Offer Document and also of the tax-benefits accruing to the Company and to the members of the Company and such consent and report have not been withdrawn upto the time of delivery of this Draft Offer Document for Registration with the ROC.

EXPERT OPINION

Except for the due diligence certificate obtained from the Legal Advisor to this Offer for Sale and various tax benefits available to the Company & its members expressed by the Auditors for the Company given elsewhere in this Draft Offer Document, the Company has not obtained any other expert opinion.

EXPENSES OF THE PRESENT OFFER

The expenses of the present Offer to be borne by the Company are estimated to be 5% of the total issue size and include brokerage, fees and reimbursement to the Issue Management Team, fees and payments to Registrars, SEBI filing fees, printing and distribution, publicity and advertising, listing fees, stamp duty and others.

FEES PAYABLE TO LEAD MANAGERS TO THE OFFER

The fees payable to the Lead Managers to the Offer, for issue management as set out in their offer letter and MoU, copies of which are kept open for inspection at the Registered Office of the Company.

FEES PAYABLE TO REGISTRARS TO THE OFFER

The fees of Registrars to the Offer will depend on number of applications in the offer for sale, the detailed terms and conditions of the contract with the Registrar will be as set out in the offer letter duly accepted by the Company. Adequate funds will be provided to the Registrar's to the Offer by the Company for dispatch of refund Orders/allocation Letters/ Certificates by Registered post.

UNDERWRITING COMMISSION

The offer for sale of Equity share is not underwritten.

BROKERAGE

Brokerage will be paid upto @ 1.5% on the Offer price of equity shares offered to the Public on the basis of allocation made against applications bearing the stamp of the members of any Recognized Stock Exchanges in India in the brokers column. Brokerage at the same rate will also be payable to the Bankers to the Offer in respect of allocations made against applications procured by them provided the relevant forms of applications bear their respective stamps in the Broker's column.

DETAILS OF THE PREVIOUS ISSUES MADE BY THE COMPANY:

The Company has not made any public issue of equity / debentures during the past five years.

ISSUE OF SHARES FOR CASH

The Company has not made any public issue of equity / debentures for cash during the past five years.

COMMISSION AND BROKERAGE ON PREVIOUS ISSUE

No sum is payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the equity shares of the Company since its inception.

ISSUE OF SHARES OTHERWISE THAN FOR CASH

No shares or debentures have been issued or agreed to be issued as fully or partly paid otherwise than for cash other than by way of capitalization of reserves.

REDEEMABLE PREFERENCE SHARES, DEBENTURES AND OTHER INSTRUMENTS OUTSTANDING

No preference shares or debentures and other instruments are outstanding other than the OFCDs and the Preference Shares issued to the Lenders/Promoters pursuant to the CDR package approved by the CDR Cell set up under the aegis of the RBI. The details are given herebelow:

A. OFCDs Maturing in March, 2014

Sl. No.	Name of Term Lenders	No. of OFCDs	Issue Price per OFCD (Rs.)	Amount (In Rs.)	Remarks
1.	State Bank of Patiala	193104	100	19310400	These OFCDs shall be convertible only upto April 15, 2006 whereafter these shall become Non Convertible Debentures.
2.	Life Insurance Corporation of India	1474657	100	147465700	
	Total	**1667761**		**166776100**	

B. OFCDs Maturing in March, 2006

Sl. No.	Name of Term Lenders	No. of OFCD	Issue Price per OFCD (Rs.)	Total Amount	Remarks
1.	Industrial Development Bank of India	4997260	100	499726000	Lenders have the right to select the date of conversion. However, upto March 31, 2006, these OFCDs have to be necessarily converted.
2.	Life Insurance Corporation of India	936986	100	93698600	
3.	Oriental Bank of Commerce	929490	100	92949000	
4.	ING Vysya Bank	375046	100	37504600	
5.	State Bank of Patiala	312396	100	31239600	
	Total	**7551178**		**755117800**	

C. Preference shares issued by the Company

Pursuant to the restructuring packaged approved under CDR, the Company had issued 7.5 % Cumulative Redeemable Preference Shares (CRPS) of Rs. 100/- each to HFCL (Promoter) amounting to Rs. 65 Crores on conversion of dues to HFCL. However, pursuant the reworked package approved under CDR, the coupon rate has been reduced to 2% w.e.f. the date of issue of CRPS and shall be repaid after the full settlement of dues to term lenders i.e. in FY 2016-17 as against earlier stipulated repayment in FY 2013-14. Other terms and conditions of such CRPS would remain status quo. The voting rights under these CRPS would be assigned in favour of existing term lenders of the Company by way of pledge subject to applicable statutory provisions.

STOCK MARKET DATA OF THE COMPANY

Year ending 31st March	High			Low			Average Price
	High (Rs)	Date	Volume on date of high (no. of shares)	Low (Rs)	Date	Volume on date of Low (no. of shares)	
2003	48.00	May 9, 2002	48349	10.50	March 31, 2003	525	29.25
2004	24.15	May 27, 2003	33225	9.88	March 16, 2004	45917	17.02
2005	53.80	February 4, 2005	391086	8.60	November 8, 2004	9635	31.20

High and low prices and volume of shares traded on the respective dates during the last six months:

Month	High (Rs)	Date	Volume on date of high (no. of shares)	Low (Rs)	Date	Volume on date of Low (no. of shares)
June 2005	36.90	June 13, 2005	25590	31.05	June 30, 2005	13471
July 2005	34.90	July 11, 2005	31845	30.60	July 29, 2005	6780
August 2005	36.60	August 9, 2005	160165	29.90	August 5, 2005	14837
September 2005	33.75	September 1, 2005	25242	26.10	September 30, 2005	18475
October 2005	27.65	October 4, 2005	17958	19.95	October 31, 2005	7286
November 2005	24.70	November 16, 2005	6994	20.40	November 1, 2005	4659

The closing market price of the Company immediately after the duly authorized committee approved disinvestments i.e. on August 25, 2003 (BSE) was Rs. 18.15 each share.

Volume of securities traded in each month during the six months preceeding the date on which this Draft Offer Document is filed with SEBI.

Month	No. of shares traded
June 2005	481583
July 2005	453791
August 2005	2506029
September 2005	495048
October 2005	183969
November 2005	130079

Source: BSE website: www.bseindia.com

Investors' grievances redressal mechanism

The Registrar to the Offer, Karvy Computershare Private Limited will handle investors' grievances pertaining to this Offer. A fortnightly status report of the complaints received and redressed by them would be forwarded to the Company. The Company would also be co-coordinating with the Registrars to the Offer in attending to the grievances of the investors.

The Company undertakes that the following schedules shall be adhered to by the Board of Directors in respect of the complaints, if any, to be received.

Sl. No	Nature of the Complaint	Time Taken
1	Non-receipt of the refund warrants or share certificates	Within 7 days of receipt of complaint, subject to production of satisfactory evidence.
2.	Change of Address notification	Within 7 days of receipt of information
3	Any other complaint in relation to Offer for Sale	Within 7 days of receipt of complaint with all relevant details.

The Company has appointed Mr. Sanjeev Vashishta, General Manager (Corporate & Legal) & Company Secretary, as the Compliance Officer who would directly deal with SEBI office with respect to implementation of various laws, rules, regulations and other directives issued by SEBI and matters related to investor complaints. The investors may contact the compliance officer in case of any pre issue/post issue related problems. The Compliance Officer will be available at the following address:

Mr. Sanjeev Vashishta
General Manager (Corproate & Legal)
& Company Secretary
HFCL Infotel Ltd
B-71, Industrial Focal Point,
Mohali, Punjab – 160 055 (India)
Tel.: +91 172 509 2163
Fax.: +91 172 509 1275
Email: sanjeev.vashishta @hfclconnect .com

The Company has adequate arrangements for redressal of investor complaints:

(a) M/s. Cameo Corporate Services Ltd. has been appointed as the Company's Registrars & Share Transfer Agents for the shares in both physical and dematerialized form. However for the limited purpose of this Offer for Sale Karvy Computershare Private limited is acting as the Registrar to this Offer.

(b) Automated correspondence system for letters of routine nature.

(c) The investor's complaints / grievances / correspondence are meticulously attended to and are duly maintained in the filing system.

(d) Proper MIS of correspondence / complaints received by the Company is maintained and duly reported to the Management at regular intervals.

The BoD has constituted a Share Transfer Investor's Grievance Committee to approve share transfers / transmissions and to redress investor grievances for individual cases involving more than 5000 shares. The Committee consists of all Independent Directors, Dr. Ranjeet Mal Kastia, Chairman, Mr. Krishna Bihari Lal and Mr T S V Panduranga Sarma. The BoD has further constituted a Share Transfer In-house Committee consisting of Mr. Surendra Lunia, CEO, Mr. Sanjeev Vashishta, GM-Corporate & Legal & Company Secretary and Mr. Pradeep Goel, G.M- Accounts & Finance. The role of the Committee includes redressal of investor complaints.

Changes in Auditors during the last three years and reasons there for

M/s S R Batliboi & Associates, Chartered Accountants and M/s Chaturvedi & Patners. Chartered Accountants were appointed as joint statutory auditors under for auditing books of accounts for the period from April 1, 2004 to March 31, 2005.

M/s Price Waterhouse and Co., Chartered Accountants, who were appointed as the Statutory Auditors for the year 2003-04, intimated their regret to continue as the joint auditors of the Company along with M/s. Chaturvedi & Partners, Chartered Accountants.

M/s R Ranga Rao & Co, Chartered Accountants, retired at the Annual General Meeting held on September 25, 2003, as they had not offered themselves for re-appointment as Auditors of the Company. The shareholders have at the aforementioned Annual General Meeting appointed M/s. Price Waterhouse & Co, Chartered Accountants and M/s. Chaturvedi & Partners, Chartered Accountants to be the Joint Statutory Auditors till the conclusion of the next Annual General Meeting.

M/s S R Batliboi & Co., Chartered Accountants and M/s Chaturvedi & Partners, Chartered Accountants were appointed as branch auditors under section 228(3) of the Companies Act, 1956 for auditing books of accounts of Punjab Telecom Circle for the period from September 1, 2002 to March 31, 2003.

Other than the above there has been no change during the last three years in the Statutory Auditors/ Branch Auditors of the Company.

Capitalisation of reserves or profits

The company has allotted 4,90,750 equity shares of Rs. 10 each by of Fully Paid Bonus shares on December 26,1989.

Revaluation of Assets

There has been no revaluation of the assets since incorporation of the Company.

VIII. OFFERING INFORMATION

1. Terms of the Issue

The Equity shares being offered are subject to the provisions of the Companies Act, our Memorandum and Articles of Association, the terms of this Offer for sale. The Equity shares shall also be subject to laws as applicable, guidelines, notifications and regulations relatingh to the issue of capital and listing and trading of securitites as in force from time to time bby SEBI, the Government of India, the Stock Exchanges, the RBI, Roc and/ or other authorities as in force on the date of the Issue and to the extent applicable.

AUTHORITY OF THE ISSUE

The Board of directors of HFCL i.e. the Selling Shareholder, at their meeting held on August 25, 2003 have approved the disinvestment of upto 10,00,00,000 equity shares of Rs.10/- each held by HFCL in the Company subject to the approval of term lenders of the Company, led by IDBI. IDBI, vide letter dated December 19, 2005 has granted the necessary approval for the aforesaid disinvestment and thereby release of the equity shares covered under non-disposal undertaking, given by HFCL, to the term lenders of the Company led by IDBI.

The BoD, at a meeting held on August 30, 2003, has taken on record the resolution of HFCL's BoD of directors and consented to the "Offer for Sale" subject to obtaining requisite approvals.

HFCL, vide a Power of Attorney dated November 25, 2003, has appointed / authorized the Company to do and execute all or any of such acts and things in relation to the Offer.

The BoD, at its meeting held on October 16, 2005, has approved the proposed Offer for Sale by HFCL through this Draft Offer Document to the extent of 80,00,000 equity shares of Rs.10/- each.

DENOMINATION OF SHARES

At any given point of time, there shall be only one denomination for the equity shares of the Company. The present denomination of equity shares is Rs.10/- each.

RANKING OF EQUITY SHARES

The equity shares now being offered shall be subject to the provisions of the Memorandum and Articles of Association of the Company and shall rank pari-passu with the existing equity shares of the Company including rights in respect of dividends.

Mode of payment of dividend

The declaration of payment of dividends will be recommended by the Board of Directors and Shareholders of the Company, in their discretion, and will depend on a number of factors, including but not limited to Company's earnings, capital requirements and overall financial condition.

FACE VALUE AND OFFER PRICE

The equity shares with a face value of Rs. 10/- each are being offered in the Offer at a price band of Rs.14/- – Rs. 16/- per share.

Compliance with SEBI Guidelines

The Company shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

RIGHTS OF THE EQUITY SHAREHOLDER

Subject to applicable laws, the equity shareholders shall have the following rights:

a) Right to receive dividend, if declared;
b) Right to attend general meetings and exercise voting powers, unless prohibited by law;
c) Right to vote on a poll either in person or by proxy;
d) Right to receive offers for rights shares and be allotted bonus shares, if announced;
e) Right to receive surplus on liquidation;
f) The right of free transferability; and
g) Such other rights, as may be available to a shareholder of a listed public Company under the Act, the terms of the Listing Agreement and Memorandum and Articles of Association of the Company.

Please see the section "The Articles of Association" on page 154 of Part II of this Draft Offer Document for further details on the main provisions of the Company's Articles of Association dealing with voting rights, dividend, forfeiture & lien, transfer & transmission.

Market Lot

In terms of existing SEBI Guidelines, the trading in the Equity Shares of the Company shall only be in dematerialized form for all investors.

Since trading of Company's shares will be in dematerialized mode, the tradeable lot is one equity share. Allotment of Equity Shares through this offer will be done only in electronic form in multiple of one equity share subject to a minimum allotment of 100 Equity Shares to the successful applicants.

JURISDICTION

Exclusive jurisdiction for the purpose of this issue is with competent courts/authorities in Mumbai, India.

NOMINATION FACILITY TO INVESTOR

In accordance with Section 109A of the Act, the applicant/(s), may nominate any one person in whom, in the event of the death of the applicant/(s), as the case may be, the equity shares allotted, if any, shall vest. A person, being a nominee, entitled to the equity shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Act be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the registered office of the Company or to the Registrar and Transfer Agents of the Company. In accordance with Section 109B of the Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Act shall upon the production of such evidence as may be required by the BoD, elect either:

a) To register himself or herself as holder of the equity shares; or
b) To make such transfer of the equity shares, as the deceased holder could have made.

Further, the BoD may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the equity shares, and if the notice is not complied with within a period of ninety days, the BoD may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the equity shares, until the requirements of the notice have been complied with.

For transfer of equity shares in the Offer made in dematerialized form, there is no need to make a separate nomination with us. Nominations registered with respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Impersonation

Attention of applicants is specifically drawn to sub-section (1) of Section 68-A of the Act, which is reproduced below:

"Any person who-

1. Makes in a fictitious name, an application to a Company for acquiring, or subscribing for, any shares therein, or

2. Otherwise induces a Company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years" as applicable under the provisions of law.

Minimum subscription

The requirement of minimum subscription shall not be applicable for Offer for Sale.

Arrangement for disposal of odd lots
The Company's shares will be traded in dematerialized form only and therefore the marketable lot is one share. Therefore, there is no possibility of odd lots.

Allotment/Refund Orders

Allotment Letter(s) and/or Letter of Regret as the case may be together with refund cheques / pay order shall be dispatched by registered post (refund cheques / pay order of value upto Rs. 1500/- by ordinary post under postal certificate) at the sole/first named applicant address within 10 weeks from the date of closing of the subscription list. If such money is not repaid within 8th day from the day the company becomes liable to pay. The Company and every Director of the Company who is an officer in default shall on and from the expiry of the 8th day be jointly and severally liable to repay that money with interest @ 15% per annum. In case of joint applications, Refund Orders, if any, will be made out in the First applicant's name and all communication will be addressed to the person whose name appears on the Application form.

The Company, undertakes to allot the equity shares within 30 days from closure of the subscription list and pay interest at the rate of 15% p.a., if the allotment is not made and the refund orders are not dispatched to the investors within 30 days from closure of the issue period for delay beyond 30 days.

The Company will also make available adequate funds to the Registrars to the Issue for the purpose of dispatch of Allotment letters/Share Certificates/Refund Orders as stated above.

Where the permission have been sought for dealing and listing of equity shares in the stock exchange(s) referred to above, if such permission has not been granted by the stock exchange(s) within 70 days from the date of closure of the subscription list or where such permission is refused before the expiry of 78 days from the date of subscription list, then the Company shall forthwith repay without interest all money received from applicants in pursuance of the Offer Document, and if any such money is not repaid within eight days after the company becomes liable to repay it (i.e. from the date of refusal or within 70 days from the date of closure of subscription list, whichever is earlier), the company and every director of the company who is an officer in default shall, on and from the expiry of eight days, be jointly and severally liable to repay that money with interest for the delayed period @ 15% per annum, if however, an appeal against the decision of any recognized stock exchange(s) refusing permission for the equity shares to be dealt on that stock exchange has been preferred under section 22 of the Securities Contract (Regulation) act, any allotment made under this Offer Document shall not be void until the appeal is dismissed.

Refunds will be made by cheques or pay orders drawn on the bank(s) appointed by the company as refund banker. Such instruments will be payable at par at the places where applications are accepted. Bank charges, if any, for encashing such cheques or pay orders will be payable by the applicant

RESTRICTION ON TRANSFER AND TRANSMISSION OF SHARES

Nothing contained in the Articles of Association of the Company shall prejudice any power of the Company to refuse to register the transfer of any share.

No fee shall be charged for sub-division and consolidation of share certificate (physical form), debenture certificates and detachable warrants and for sub-division of Letters of Allotment and split, consideration, renewal and pucca transfer receipts into denomination corresponding to the market units of trading.

2. ISSUE PROCEDURE

Availability of Application Forms & Offer Document
The Memorandum, Form 2A containing the salient features of the Offer Document together with Application Forms and copies of the Offer Document may be obtained from the Registered Office and Corporate Office of the Company, Lead Managers to the Issue, Registrar to the Issue and at the collection centres of the Bankers to the Issue, as mentioned on the Application Form.

Application may be made by

a. Indian nationals resident of India who are adult individuals in single name or joint names (not more than three)
b. Hindu Undivided Families through the Karta of the Hindu Undivided Family
c. Companies, Bodies Corporate and Societies registered under the applicable laws in India and authorized to invest in the Shares.
d. Indian Mutual Funds registered with SEBI.
e. Indian Financial Institutions and Banks.
f. Venture Capital Funds / Foreign Venture Capital investors registered with SEBI.
g. State Industrial Development Corporation.
h. Insurance Companies registered with Insurance Regulatory and Development Authority;
i. Provident Funds with minimum corpus of Rs.25 Crore;
j. Pension Funds with minimum corpus of Rs.25 Crore;
k. Trusts that are registered under the Societies Registration Act, 1860 or any other trust law and are authorized under its constitution to hold and invest in shares.
l. Commercial Banks and Regional Rural Banks. Co-operative Banks may also apply subject to permission from the Reserve Bank of India.
m. Non-Resident Indians (NRIs) on repatriable/ non-repatriable basis.
n. Foreign Institutional Investors (FIIs) on repatriation / non-repatriation basis.

Applications cannot be made by

a) Minors
b) Partnership firms or their nominees

c) Overseas Corporate Bodies

Applications by Hindu Undivided Families (HUF)

Applications may be made by Hindu Undivided Families (HUF) through the Karta of the (HUF) and will be treated at par with individual applications.

Subscription by NRIs/ FIIs

There is no reservation and separate application form for NRIs and FIIs and all NRI and FII applicants will be treated on the same basis with other categories for the purpose of allotment.

As per the policy of the RBI, Overseas Corporate Bodies cannot participate in this Issue.

The Equity Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account of benefit of, "U.S. Persons" (as defined in the Regulation S of the Securities Act), except pursuant to any exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Applicants are advised to ensure that any single Application from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under the relevant regulations or statutory guidelines.

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

- No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds

- No mutual fund under its scheme should own more than 10% of any company's paid-up capital carrying voting rights

As per current regulations, the following restrictions are applicable for investment by FIIs:

No single FII can hold more than 10% of the post-issue paid-up capital of the Company (i.e. 10% of 52,55,17,152 Equity Shares of Rs. 10 each). In respect of an FII investing in the Equity Shares of the Company on behalf of its sub- accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital or 5% of the total issued capital of the Company in case such sub-account is a foreign corporate or an individual.

As of now, the aggregate FII holding in our Company cannot exceed 74% of the total issued capital of the Company. With the approval of the Board of Directors and the shareholders by way of a special resolution, the aggregate FII holding can go up to 100%.

As per the current regulations, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The SEBI (Venture Capital Funds) Regulations, 1996 and the SEBI (Foreign Venture Capital Investors) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 25% of our Company's paid-up capital. The aggregate holdings of venture capital funds and foreign venture capital investors registered with SEBI could, however, go up to 100 % of our Company's paid-up equity capital.

The above information is given for the benefit of the applicants. The Issuer Company and the Lead Manager are not liable for any amendments or modification or changes in applicable laws or regulations, which may happen after the date of this Draft Offer Document. Applicants are advised to make their independent investigations and ensure that the number of Equity Shares applied for do not exceed the applicable limits under laws or regulations.

A. General instructions

1. Application must be made in the prescribed Application Form and completed in Full in BLOCK LETTERS in English as per the instructions contained herein and in the Application Form and are liable to be rejected if not so made.

2. The application for Equity Shares should be for a minimum of 400 Equity Shares and in multiples of 100 shares thereafter. An applicant in the public category can make an application only for a maximum of Equity Shares that are offered to the public.

3. Thumb impressions and signatures other than in English/ Hindi or any other language specified in the 8th Schedule to the Constitution of India, must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under his/ her official seal.

4. **Bank Account Details of Applicant:**

The name of the Applicant, Depository Participant's name, Depository Participant's Identification (DPID) number and the Beneficiary number provided by the Depository participant must be correctly mentioned in the Application Form at the appropriate place. The Registrars will obtain the Demographic details such as Address, Bank account details and occupation from the depository participants. The refunds, if any, will be printed with the Bank details as given by the Depository participant.

5. **Applications under Power of Attorney:**

In case of applications under Power of Attorney or by Companies, Bodies Corporate, Societies registered under the applicable laws, trustees of Trusts, Provident Funds, Superannuation Funds, Gratuity Funds, a certified copy of the Power of Attorney or the relevant authority, as the Case may be, must be lodged separately at the office of the Registrars to the Issue simultaneously with the submission of the Application Form, indicating the serial number of the Application Form and the name of the Bank and the branch office where the application is submitted.

The Company in its absolute discretion reserves the right to relax the above condition of simultaneous lodging of the Power of Attorney along with the Application Form subject to such terms and conditions as it may deem fit.

6. **PAN/ GIR Number**

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Where application(s) is/are for Rs.50,000 or more, the applicant or in the case of a application in joint names, each of the applicanat, should mention his/her Permanent Account Number (PAN) allotted under the I.T.Act. The copy of the PAN card or PAN allotment letter is required to be submitted with the application form. Applications without this information and documents will be considered incomplete and are liable to be rejected. It is to be specifically noted that Applicant should not submit the GIR number instead of the PAN as the application is liable to be rejected on this ground. In case the Sole/First Applicant and Joint Applicant(s) is/are not required to obtain PAN, each of the Applicant(s) shall mention "Not Applicable" and in the event that the sole Applicant and/or the joint Applicant(s) have applied for PAN which has not yet been allotted each of the Applicant(s) should mention "Applied for" in the Application Form. Further, where the Applicant(s) has mentioned "Applied for" or "Not Applicable", the Sole/First Applicant and each of the Joint Applicant(s), as the case may be, would be required to submit Form 60(Form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in rule 114B), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income tax in respect of transactions specified in rule 114B), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a)Ration Card (b) Passport (c) Driving License (d) Identity Card issued by any institution (e) Copy of the electricity bill or telephone bill showing residential address (f) Any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g)Any other documentary evidence in support of address given in the declaration. It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes. All Bidders are requested to furnish, where applicable, the revised Form 60 or 61 as the case may be.

7. **Unique Identification Number ('UIN")**

With effect from July 1, 2005, SEBI has decided to suspend all fresh registrations for obtaining Unique identification Number (UIN) and the requirement to contain/quote UIN under the SEBI (Central Database of Market Participants) Regulations, 2003 and circular issued in connection thereto by its circular bearing number MAPIN/Cir-13/2005.

8**. Joint Applications in the case of individuals**

Applications can be in single or joint names (not more than three). In the case of joint applications, all payments will be made out in favour of the first applicant. All communications will be addressed to the first named Applicant whose name appears in the Application Form at the address mentioned therein.

9. Applications may be made by Hindu Undivided Families (HUF) through the Karta of the HUF and will be treated at par with individual applications.

10. **Multiple Applications**

An Applicant should submit only one Application Form (and not more than one) for the total number of Equity Shares applied for. Two or more applications in single or joint names will be deemed to be multiple applications if the sole and/ or first Applicant is one and the same.

In case of application by Mutual Funds, a separate application can be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications provided that the application made by the Asset Management Company/ Trustees/ Custodian clearly indicate their intention as to the scheme for which the application has been made.

The Company reserves the right to accept or reject, in its absolute discretion, any or all multiple applications. A separate single Cheque/draft must accompany each Application Form.

11. **Stock invest**

Investors will not have the facility of applying through Stockinvest instrument, as RBI has withdrawn the Stockinvest scheme vide notification No.DBOD.NO.FSC.BC.42/ 24.47.001/2003-04 dated 5.11.2003.

Note:

- Applicants are requested to write their names and the serial number of the Application Form, on the reverse of the instruments, by which the payments are being made to avoid misuse of instruments submitted along with the applications for Equity Shares.

- Applications by NRIs on non-repatriation basis can be made using the Form meant for Public out of the funds held in Non Resident (Ordinary) Account (NRO). The relevant Bank Certificate must accompany such forms. Such Applications will be treated on par with the applications made by the public.

B. Payment Instructions (For Resident investors)

1. Payment shall be made only by way of cash or Cheque/ demand draft (money/ postal orders will not be accepted) drawn on any Bank, including a Co-operative Bank, which is situated at and is a member or submember of the Banker's clearing-house located at the place where the Application Form is submitted, i.e. at designated collection centers.

2. Outstation cheques/demand drafts drawn on Banks not participating in the clearing process will not be accepted.

3. All cheques/ demand drafts accompanying the Application Form should be payable in the name of **"HITL- Offer for Sale"** in case of resident Indians and **"HFCL – offer for sale - NR"** in case of NRI investors and crossed "A/C payee only".

4. If the amount payable on application is Rs. 20,000 or more, such payment must be effected only by way of an account payee Cheque/ or Bank Draft in terms of section 269SS of the Income-Tax Act, 1961. Otherwise the applications may be rejected and application money refunded without any interest.

Payment Instructions for Applications by NRIs/FIIs (on Repatriable Basis)

1. The Company will apply for the necessary approval for transferring equity shares to NRIs from RBI. **As per the policy of the RBI, OCBs cannot participate in this Offer.** Allotment to NRIs would be subject to such conditions as stipulated by RBI while granting such permission.

2 However, the allotment / transfer of the Equity Shares to NRIs/FIIs shall be subject to prevailing RBI Guidelines. Sale proceeds of such investments in Equity Shares will be allowed to be repatriated along with the income thereon subject to the permission of the RBI and subject to the Indian tax laws and regulations and any other applicable laws.

3. In case of application by NRIs on repatriation basis, the payments must be made through Indian rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non-Resident Ordinary (NRO) Account of Non-Resident Subscribers applying on a repatriation basis. Payment by bank drafts should be accompanied by bank certificate confirming that the bank draft has been issued by debiting to NRE or FCNR account.

4. In case of application by FIIs on repatriation basis, the payment should be made out of funds held in Special Non-Resident Rupee Account along with documentary evidence in support of the remittance like certificates such as FIRC, bank certificate etc. from the authorised dealer. Payment by bank drafts should be accompanied by bank certificate confirming that the bank draft has been issued by debiting to Special Non-Resident Rupee Account.

5. Duly filled Application Forms by NRIs / FIIs will be accepted at designated branches of the Bankers to the Issue at Mumbai and New Delhi only.

6. Refunds/dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges / commission. In case of applicants who remit their application money from funds held in NRE / FCNR accounts, such payments shall be credited to their respective NRE / FCNR accounts (details of which shall be furnished in the space provided for this purpose in the Application Form), under intimation to them. In case of applicants who remit their money through Indian Rupee Drafts from abroad, such payments in Indian Rupees will be converted into U.S. Dollars or any other freely convertible currency as maybe permitted by RBI at the exchange rate prevailing at the time of remittance and will be dispatched by registered post, or if the applicants so desire, will be credited to their NRE / FCNR accounts, details of which are to be furnished in the space provided for this purpose in the Application Form. The Company will not be responsible for loss, if any, incurred by the applicant on account of conversion of Foreign Currency into Indian Rupees and vice versa.

7. Applications in this category may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment under the reserved category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians and shall not use the forms meant for reserved category.

Applications by Indian Mutual Funds & Indian and Multilateral Development Financial Institutions

1. A separate application must be made in respect of each scheme of an Indian Mutual Fund registered with SEBI and such applications will not be treated as multiple applications. The applications made by the asset Management Company or Trustees / Custodians of a Mutual Fund shall clearly indicate the name of the concerned scheme for which application is being made.

2. Indian Mutual Funds & Indian and Multilateral Development Financial Institutions should apply in this Public Issue based upon their own investment limits and approvals.

3. Application forms together with cheques or bank drafts drawn in Indian Rupees for the full amount payable must be delivered before the close of subscription list to such branches of the Bankers to the Issue at places mentioned in the application form.

4. A separate cheque / bank draft must accompany each application form.

For further instructions regarding applications for the equity shares, investors are requested to read the application form carefully.

Submission of completed Application Forms

All applications duly completed and accompanied by cash/ cheques/ demand drafts shall be submitted at any of the branches of the Bankers to the Issue (listed in the Application Form) before the closure of the Issue. Applications should not be sent to the Company or the Lead Managers to the Issue.

Application Forms along with Bank drafts payable at New Delhi can also be sent by registered post with acknowledgement due to the Registrars to the Issue, Karvy Computershare Private Limited so that the same can be received before the closure of the subscription list. **The envelopes should be superscribed with the words "HFCL – Offer for Sale".**

No separate receipts will be issued for the application money. However, the Bankers to the Issue or their approved collecting branches receiving the duly completed Application Form will acknowledge receipt of the application by stamping and returning to the applicant the acknowledgement slip at the bottom of each Application Form.

Applications shall be deemed to have been received by the Company only when submitted to the Bankers to the Issue at their designated branches or on receipt by the Registrars as detailed above and not otherwise.

For further instructions, please read the Application Form carefully.

Disposal of Application and Application Money

No receipt will be issued for application money. However, the Bankers to the issue receiving the application will acknowledge the receipt of the application by stamping and returning the detachable acknowledgment slip appended to each application.

The sum received in respect of the issue will be kept in separate bank accounts and the Company will not have any access to the funds unless approval of the Stock Exchange, Mumbai is obtained for the basis of allotment and listing approval from the Stock Exchanges where listing is proposed.

The Company reserves the full unqualified and absolute right to accept or reject any application in whole or part and in either case without assigning any reason thereof.

Acceptance of Applications

The Company reserves the right to accept or reject, any application, in whole or in part, without assigning any reason thereof. If the application is rejected in full, the whole of the application money received will be refunded by Registered Post to the applicant. If the Application Form is accepted in part, the excess application money will be refunded to the Applicant. Such refund, if any, will carry interest @ 15% p.a. after 30 days from the closure of the Issue for the period of delay beyond 30 days.

Basis of Allotment

For Net offer to the Public portion

In the event of public Issue of Equity Shares being over-subscribed, the allotment will be on a proportionate basis subject to minimum allotment being equal to the minimum application size, i.e. 400 shares as explained below:

1. A minimum 50% of the net Issue to the Indian public will be made available for allotment in favour of those individual applicants who have applied for Equity Shares of or for a value of not more than

Rs.50,000/-. This percentage may be increased in consultation with the Designated Stock Exchange depending on the extent of response to the Issue from investors in this category. In case allotments are made to a lesser extent than 50% because of lower subscription in the above category, the balance Equity Shares would be added to the higher category and allotment made on a proportionate basis as per relevant SEBI Guidelines. The Executive Director/ Managing Director of the Designated Stock Exchange along with the Lead Manager and the Registrars to the Issue shall be responsible to ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the SEBI Guidelines.

2. The balance of the net Issue to Indian public shall be made available to investors including Corporate Bodies/ Institutions and individual Applicants who have applied for allotment of Equity Shares for a value of more than Rs.100,000/-.

3. The Unsubscribed portion of the net Issue to any of the categories specified in (1) or (2) shall be made available for allotment to Applicants in the other category, if so required.

4. Applicants will be categorized according to the number of Equity Shares applied for.

5. The total number of shares to be allotted to each category as a whole shall be arrived at on a proportionate basis i.e. the total number of shares applied for in that category (number of applicants in the category multiplied by the number of shares applied for) multiplied by the inverse of the over subscription ratio.

6. Number of the shares to be allotted to the successful allottees shall be arrived at on a proportionate basis i.e. total number of shares applied for by each Applicant in that category multiplied by the inverse of the over subscription ratio.

7. All the Application Forms where the proportionate allotment works out to less than 400 shares per Applicant, the allotment shall be made as follows :

a. Each successful Applicant shall be allotted a minimum of 400 shares; and
b. The successful Applicants out of the total Applicants for that category shall be determined by draw of lots in such a manner that the total number of shares allotted in that category is equal to the number of shares worked out as per (6) above.

8. If the proportionate allotment to an Applicant works out to a number that is more than 400 but is a fraction, then the fraction equal to or higher than 0.50 shall be rounded off to the next integer and if that fraction is lower than 0.50, the fraction shall be ignored.

9. All Applicants in such categories shall be allotted shares arrived at after such rounding off.

10. If the shares allocated on a proportionate basis to any category is more than the shares allotted to the Applicants in that category, the balance available shares for allotment shall be first adjusted against any other category, where the allocated shares are not sufficient for proportionate allotment to the successful Applicants in that category.

11. The balance shares, if any, remaining after such adjustment shall be added to the category comprising applicants applying for minimum number of shares.

12. The process of rounding off to the nearest integer subject to a minimum allotment being equal to 400, which is the minimum application size in this Issue, may result in the actual allotment being higher than the shares offered.

However, it shall not exceed 10 % of the net offer to public.

Despatch of Refund Orders

The Company shall ensure despatch of Refund Orders of value up to Rs.1500/- Under Certificate of Posting and refund order over the value of Rs.1500/- by Registered Post only. The Company would also make available adequate funds to the Registrars to the Issue for this purpose.

Option to subscribe

Except as otherwise stated in this Prospectus, the Company has not entered into, nor does it at present propose to enter into any contract or arrangements whereby any option or preferential right of any kind has been, or is proposed to be, given to any person to subscribe for any shares of the Company.

INTEREST IN CASE OF DELAY IN ALLOCATION & DISPATCH.

a) As far as possible, allocation of securities offered to the public shall be made within 30 days of the closure of this Offer.
b) The Company shall pay interest @ 15% per annum for the period of delay beyond 30 days if the allocation has not been made and / or refund orders have not been dispatched to the investors within 30 days from the date of closure of the Offer.

Equity Shares in Dematerialised Form with NSDL OR CDSL

In terms of Section 68B of the Companies Act, the equity shares in this Issue shall be allotted only in dematerialized form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode).

The ISIN No allotted to the Company is: INE 527B01012. Upon merger of erstwhile HFCL Infotel Limited with the Company, the Company requested NSDL for taking corporate action thereby allotting fresh ISIN (earlier ISIN no. was INE 306F01012) to the securities of the erstwhile HFCL Infotel Limited that got merged with the Company. However, NSDL, vide its letter no. JS/AG/MISC/1968/03 dated June 26, 2003 advised the Company to obtain inprinciple approval from BSE and for submitting the undertaking stating that the shares issued are pari passu in all respects with the existing shares of the Company.

The Company has now filed with NSDL, the BSE's inprincipal approval letter no. DSC/SMG/RCG/2005/511116 dated December 8, 2005 along with the corporate action form, certified copies of the resolutions, undertaking and draft of Rs. 551/- in favor of NSDL and has re-applied for corporate action.

The Company has entered into Tri-partitie agreement with NSDL & CDSL the dretails whereof are as follows:

1. Tripartite Agreement dated July 3, 2000 between the Company, Cameo Corporate Services Limited and NSDL.

2. Tripartite Agreement dated June 14, 2003 between the Company, Cameo Corporate Services Limited and CDSL

Applications from any investor without the following details of his or her depository account are liable to be rejected:

- An applicant applying for equity shares must have at least one beneficiary account either of the depository participants of NSDL or CDSL prior to making the Application.

- The applicant must necessarily fill in the details (including the beneficiary account number and depository participants identification number) appearing in the application form.

- Equity shares allotted to applicant will be credited in electronic form directly to the beneficiary account (with the depository participant) of the applicant.

- Names in the application form should be identical to those appearing in the account details in the depository.

- In case of joint holders, the names should necessarily be in the same sequence as they appear in the depository account of the applicants(s).

- If incomplete or incorrect details are given under the heading 'Applicant Depository Account Details' in the Application Form it is liable to be rejected.

- The applicant is responsible for the correctness of his or her demographic details given in the application form vis-à-vis those with his or her depository participant.

- It may be noted that equity shares in electronic form can be traded only on stock exchanges having electronic connectivity with NSDL or CDSL. All the stock exchanges where the equity shares are proposed to be listed are connected to NSDL and CDSL.

- The trading of equity shares would be in dematerialised form only for all investors.

Note:

(a) Applicants are requested to write their names and the serial number of the Application Form on the reverse of the instruments, by which the payments are being made to avoid misuse of instruments submitted along with the applications for Equity Shares.
(b) Investors may contact the compliance officer in case of any pre-issue/post issue related problems such as non-receipt of letters of allotment/share certificates/refund orders, etc.,

APPLICATION WILL NOT BE ACCEPTED BY THE LEAD MANAGER(S) OR REGISTRAR TO THE ISSUE.

GROUNDS FOR TECHNICAL REJECTIONS

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:-

a) Bank Account details are not provided.
b) Age is not mentioned.
c) Application by minors.
d) PAN or GIR numbers is not given if the value of the application is for Rs.50,000/- or more.
e) Multiple applications.
f) Incase of under power of attorney or by limited companies, corporate, truste, etc. relevant documents are not submitted.
g) Applications accompanied by stock invests.
h) Applications by OCBs.
i) Applications not duly signed by the sole/joint applicants.
j) Application forms do not have the applicant depository account details.
k) Application not in multiples of 100 shares.

The Investor shall have an option either to receive the security certificate or to hold the securities in dematerialized form with the depository.

Application u/s 269 SS of the Income Tax Act, 1961

In respect of the provisions of section 269SS of the Income Tax act, 1961,the subscription against the equity shares should be effected only by an account payee cheques or an account payee draft, if the amount payable is Rs. 20000/- or more. In case the payment is made in contravention of this provision, the application money will be refunded and no interest will be paid.

INTEREST ON EXCESS APPLICATION MONEY

Payment of interest @15% per annum on excess application money will be made to the applicants, if refund orders are not dispatched within 30 days from the date of the closure of the Offer as per the guidelines issued by the Government of India, Ministry of Finance vide their letter No.F-8/6/SE/79 dated July 21, 1983 as amended vide their letter No.F/14/SE/85 dated September 27, 1985 addressed to the stock exchanges, and as further modified by SEBI's circular SMD/RCG/33/1819/96 dated May 15, 1996.

LETTERS OF ALLOCATION & SHARE CERTIFICATES & REFUND ORDERS

Letters of Allocation/ Share Certificates as the case may be will be dispatched by registered post to the sole / first applicant within ten weeks from the date of closure of the Offer. The Company shall ensure dispatch of refund orders of value upto Rs.1,500/-under certificate of posting and Share Certificate / Allocation advice and/or regret letters together with refund orders over Rs.1,500/- by Registered Post only.

The Company and the Selling Shareholder have undertaken to make available necessary funds to the Registrar for the purpose of dispatch of Allocation Letters / Share Certificates / Refund Orders as stated above.

Dispatch of share certificates/refund orders and demat credit would be completed and allocated and listing documents would be submitted to the Stock Exchanges within two working days of the finalization of the basis of allocation. All steps for comletion of necessary formalities for listing and commencement of trading of the securities offered through this Offer Document shall commence at the stock exchanges where they are proposed to be listed will be taken within 7 working days of the date of finalization of the basis of allocation.

All enquiries in connection with the Offer Document or the application form should be addressed to the Registrars to the Offer: Karvy Computershare Private Limited (Unit: HFCL Infotel Limited) quoting the name of the first/sole applicant and Application Serial Number as mentioned in the application form.

UNDERTAKING BY THE COMPANY AND THE SELLING SHAREHOLDER

The Selling Shareholder and the Company hereby undertake:

a) That the complaints received in respect of the Offer shall be attended to, by the Company, expeditiously and satisfactorily;
b) That the Company shall take necessary steps for the purpose of getting the securities listed in the concerned stock exchanges within the specified time;
c) That all steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within 7 working days of finalization of basis of allocation
d) That the funds required for dispatch of refund orders/allocation letters/certificates by registered post shall be made available to the Registrar to the Offer by the Company;
e) That the certificates of the securities/refund orders to the non-resident Indians shall be dispatched within specified time;
f) That no further issue of securities shall be made till the securities offered through this Draft Offer Document are listed or till the application moneys are refunded on account of non-listing, etc.
g) The Company, its promoters, any of the companies / associates or group companies, and other companies with which directors of the Company are associated as directors or promoters have neither been suspended by SEBI or been prohibited from accessing the capital market or any disciplinary action taken by any order or direction passed by SEBI.

IX MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

COMPANY'S LIEN ON SHARES

Article 25: The Company shall have first and paramount lien upon all shares than fully paid up shares registered in the name of any member, either alone or jointly with any other person and upon the proceeds of sale thereof for all moneys called or payable at a fixed time in respect of such shares and such lien shall extend to all dividends from time to time declared in respect of such shares. But the BoD at any time may declare any shares to be exempt, wholly or partially from the provisions of this Article.

TRANSFER AND TRANSMISSION OF SHARES

Article 36a. The instrument of transfer of any share in the Company shall be executed both by the transferor and the transferee and the transferor shall be deemed to remain holder of the shares until the name of the transferee is entered in the register in respect thereof.
b. The BoD shall not register any transfer of shares unless a proper instrument of transfer duly stamped and executed by the transferor and the transferee has been delivered to the Company alongwith the certificate and such other evidence as the Company may require to provide the title of the transferor or his right to transfer the shares.
Provided that where it is proved to the satisfaction of the BoD that an instrument of transfer signed by the transferor and transferee has been lost, the Company may, if the BoD thinks fit, on an application in writing made by the transferee and bearing the stamp required by an instrument of transfer, register the transfer on such terms as to indemnify as the BoD may think fit.
c. An application for the registration of the transfer of any share or shares may be made either by the transferor or the transferee, provided that where such application is made by the transferor, no registration shall in the case of partly paid shares be effected unless the Company gives notice of the application to the transferee. The Company shall, unless objection is made by the transferee within two weeks from the date of receipt of the notice, enter in the register the name of the transferee in the same manner and subject to the same conditions as if the application for registration was made by the transferee.
d. For the purpose of sub-clause (c) notice to the transferee shall be deemed to have been duly given if dispatched by prepaid registered post to the transferee at the address given in the instrument of transfer and shall be deemed to have been delivered at the time at which it would have been delivered in the ordinary course of post.
e) Noting in sub-clause (d) shall prejudice any power of the BoD to register as a Shareholder any person to whom the right to any share has been transmitted by operation of law.
f) Nothing in this Article shall prejudice the power of BoD to refuse to register the transfer of any shares to a transferee whether a member or not.
g) Notwithstanding anything to the contrary contained in the Act or these Articles a Depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner, except that a depository shall not have any voting rights in respect of the securities held by it.
h) Every person holding securities of the Company and whose name is entered as the beneficial owner in the records of the depository shall be deemed to be a member of the Company. The beneficial owner of the securities shall be entitled to all rights and be subject to all liabilities in respect of his securities which are held by a depository.

FORFEITURE OF SHARES

If call or installment not paid, notice may be given.

Article 49: If a member fails to pay any call or installment of a call on the day appointed for the payment thereof, the BoD may at anytime thereafter during such time as any part of such a call or installment remains unpaid, serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest, which may have accrued. The BoD may accept in the name and for the benefit of the Company and upon such terms and conditions as may be agreed upon, the surrender of any share liable to forfeiture and so far as the law permits of any other shares.

Form of Notice

Article 50: The notice shall name a further day (not earlier than the expiration of fourteen days from the date of service of the notice), on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment on or before the day appointed, the shares in respect of which the calls was made will be liable to be forfeited.

If notice not complied with, shares may be forfeited.

Article 51: If the requirement of any such notice as aforementioned is not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made be forfeited by a resolution of the BoD to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.

BoD's right to disposal of forfeited shares or cancellation of forfeiture.

Article 52: A forfeited or surrendered share may be sold or otherwise disposed of on such terms and in such a manner as the BoD may think fit, and at any time before such a sale or disposal, the forfeiture may be cancelled on such terms as the BoD may think fit.

Liability after forfeiture.

Article 53: A person whose shares have been forfeited shall cease to be member in respect of the forfeited shares but shall notwithstanding remain liable to pay and shall forthwith pay the Company all moneys, which at the date of forfeiture were payable by him to the Company in respect of the share, whether such claim be barred by limitation on the date of the forfeiture or but his liability shall cease if and when the Company received payment in full of the nominal amount of shares whether legal proceedings for the recovery of the same had been barred by limitation or not.

Declaration of forfeiture.

Article 54: A duly verified declaration in writing that the declarant is a Director of Company and that a share in the Company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and that declaration and the receipt of the Company for the consideration, if any given for the shares on the sale or disposal thereof, shall constitute a good title to the share and the person to whom the share is sold or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

Non-payment of sums payable at fixed times.
Article 55: The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of a share, becomes payable at a fixed time, whether, on account of the amount of the share or by way of premium or otherwise as if the same had been payable by virtue of a call duly made and notified.

Alteration and consolidation of capital.

Article 65:

(1) The Company may from time to time alter the conditions of its Memorandum of Association as follows:

a) Increase its share capital by such amount as it thinks expedient by issuing new shares;
b) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
c) Convert all or any of its fully paid-up shares into stock, and re-convert that stock into fully paid - up shares of any denomination.
d) Sub- divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so however, than in the sub-division, the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;
e) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to the taken by any person, and diminish the amount of its share capital by the amount of the share cancelled.

(2) The resolution whereby any share is sub-division may determine that, as between the holders, of the share resulting from such sub-division one or more of such shares shall have some preference or special advantage as regards dividend, capital or otherwise over or as compared with the others.

Reduction of Capital, etc., by Company.

Article 66: The Company may, by special Resolution, reduce in any manner and with and subject to any incident authorized and consent required by law:

a) Its share capital;
b) Any capital redemption reserve fund; or
c) Any share premium account.

Proceedings at General Meetings

Article 74: Quorum: Five members personally present shall be a quorum for a General Meeting and no business shall be transacted at any general meeting unless the requisite quorum is present at the commencement of the business.

Article 75: If quorum not present, when meeting to be dissolved and when to be adjourned. If within half an hour from the time appointed for the meeting, a quorum is not present, the meeting, if called upon the requisition of members, shall be dissolved, in any other case, it shall stand adjourned to the day in the next week at the same time and place and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members, present shall be a quorum.

Article 76: Chairman of General Meeting: The Chairman, if any, of the Board of Directors, shall preside as Chairman at every General Meeting of the Company.

Article 77: When Chairman absent, choice of another chairman: If there is no such Chairman, or if at any meeting he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as Chairman, the members present shall choose another Director, as Chairman and if no Directors be present or if all the Directors decline to take the Chair, then the members present shall choose someone of their number to be Chairman.

Article 78: Adjournment of meeting: The Chairman may, with the consent of any meeting at which a quorum is present and shall, if so directed by the meeting, adjourn that meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meting shall be given as in the case of an original meeting. Save as aforesaid, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

Article 79: Questions at General Meeting how decided: At any General Meeting, a resolution put to the vote of the meeting shall be decided on a show of hands, unless a poll is, before or on the declaration of the result of the show of hands, demanded, in accordance with provisions of section 179. Unless a poll is so demanded, a declaration by the Chairman that a resolution has, on a show of hands, been carried unanimously or by a particular majority or lost and entry to that effect in the book of the proceedings of the Company shall be conclusive evidence for the fact without proof of the number of proportion of the votes recorded in favor of or against that resolution.

Article 79A: Passing of Resolutions by Postal Ballot: Notwithstanding anything contained in the Articles of Association of the company, the company do adopt the mode of passing a resolution by members of the company by means of postal ballot and/or other ways as may be prescribed by the Central Government in this behalf in respect of the following matters instead transacting such business in a general meeting of the company:

- Any business that can be transacted by the company in general meeting; and
- Particularly, resolutions relating to such business as the Central Government, may by notification, declare to be conducted only by postal ballot.

The company shall comply with the procedure for such postal ballot and/or others ways prescribed by the Central Government in this regard.

Article 80: Casting Vote: In the case of an equality of votes, the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes to which he may be entitled as a member.

Article 81: Taking of poll: If a poll is duly demanded in accordance with the provisions of Section 179, it shall be taken in such manner as the Chairman directs, and the results of the poll shall be deemed to be the decision of the meeting on the resolutions on which the poll was taken.

Article 82: In what cases poll taken without adjournment: A poll demanded on the election of Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time not being later than 48 hours from the time when demand was made as the Chairman may direct.

Article 83: Votes

a) Every member holding any equity share capital, shall have a right to vote in respect of such capital on every resolution placed before the Company. On a show of hands, every such member present in person shall have one vote and shall be entitled to vote in person or by proxy and his voting right on a poll shall be in proportion to his share of the paid-up Equity Capital.

b) Every member holding any preference shares shall in respect of such shares have a right to vote only on resolutions which directly affect the right attached to his preference shares and subject as aforesaid, every such member shall in respect of such capital be entitled to vote in person or by proxy, if the dividend due on such preference shares or any part of such dividend has remained unpaid in respect of an aggregate period of not less than 2 years preceding the date of the meeting. Such dividend shall be deemed to be due on preference shares in respect of any period, whether a dividend has been declared by the Company for such period or not, on the day immediately following such a period.

c) Whenever the holder of a preference share has a right to vote on any resolution in accordance with the provisions of this Article, his voting right on a poll shall be in the same proportion as the capital paid up in respect of such preference shares bears to the total equity paid up capital of the Company.

Article 84: Business may proceed not withstanding demand for poll: A demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than that on which a poll has been demanded. The demand for a poll may be withdrawn at any time by the person or persons who made the demand .

Article 85: Joint Holder: In the case of joint holders, the vote of the first named of such joint holders who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the others joint holders.

Article 86: Member of unsound mind: A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by this Committee or other legal guardian, and any such Committee or guardian may, on a poll, vote by proxy.

Article 87: No member entitled to vote while call due to Company: No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

Article 88: Proxies permitted on polls: On a poll, votes may be given either personally or by proxy provided that no Company shall vote by proxy, as long as a resolution of its Directors in accordance with the provisions of Section 187 is in force.

Article 89: Instruments of proxy: The instrument appointing a proxy shall be in writing under the hand o f appointer or of his attorney duly authorized in writing, or if appointer is a Corporation either under the Common Seal or under the hand of an officer or attorney so authorized. Any person shall act as proxy whether he is a member or not.

Article 90: Instrument of proxy to be deposited at the office: The instrument appointing a proxy and the power of attorney or other authority, if any under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

Article 91: Validity of vote by proxy: A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the appointer, or revocation of the proxy, of transfer of the share in respect of which the vote is given, provided no intimation in writing of the death, revocation or transfer shall have been received at the Registered Office of the Company before the Commencement of the meeting at which the proxy is used.

Borrowing powers
Article 129

(1) The BoD may from time to time raise any money or any monies or sums of money for the purpose of the Company provided that the monies to be borrowed together with the monies already borrowed by the Company (apart from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose and in particular, but subject to the provision of Section 292, the BoD may from time to time at their discretion raise or borrow or secure the payment of any such sums of money for the purpose of the Company, by the issue of debentures to members perpetual or otherwise including debentures convertible into shares of this or any other Company or perpetual annuities and in security of any such money so borrowed, raised or received, mortgage, pledge, or charge, the whole or any part of the property, assets, or revenue of the Company, present or future, including its uncalled capital by special assignment or otherwise or transfer or convey the same absolutely, or in trust and give the lenders power of sale and other powers as may be expedient and purchase, redeem or pay off any such securities.

Provided that subject to the provisions of Section 292, the BoD may by a resolution delegate the power to borrow money otherwise than on debentures to a Committee of Director, subject to limits specified in the said resolution of the total amount which may be so borrowed.

(2) Subject to the provisions of the clause next above, the BoD may, from time, at its discretion, raise or borrow or secure the re-payment of any sum or sums or money for the purposes of the Company, at such times and in such manner and upon such terms and conditions in all respects as they think fit, and in particular, by promissory notes, or by opening current accounts, or by receiving deposits and advances, with or without security, or by the issue of bonds, perpetual or redeemable debentures or debenture stock of the Company charged upon all or any part of the property of the Company (both present and future) including its uncalled capital for the time being, or be mortgaging or charging or pledging any lands, goods or other property and securities of the Company, or by such other means as to them may seem expedient.

Dividends and reserves

Article 144: Right to dividend: The profits of the Company subject to any special rights relating thereto created or authorized to be created by these presents, and subject to the provisions of these presents as to the Reserve Funds, shall be divisible among the equity shareholders.

Article 145: Declaration of dividends: The Company in General Meeting may declare dividends but no dividend shall exceed the amount recommended by the BoD.

Article 146: Interim dividend: The BoD may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the Company.

Article 147: Dividends to be paid out of profits only: No dividend shall be payable except out of the profits of the year or any other undistributed profits except as provided by Sections 205 and 208.

Article 148: Reserve Funds:
(1) The BoD may shall may before recommending any dividends set aside out of the profit of the Company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the BoD, be applicable for any purpose to which the profits of the Company may be properly applied, including provisions for meeting contingencies or for equalizing dividends, and pending such application may, at the like discretion either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the BoD may from time to time think fit.

(2) The BoD may also carry forward any profits which it may think prudent not to divide without setting them asides as reserve.

Article 149: Method of payment of dividend

(1) Subject to the rights of persons, if any, entitled to shares with special rights as to dividends all dividends shall be declared and paid according to the amounts paid on the shares in respect whereof the dividend is paid.All dividends shall be paid within three months from the date of declaration.

(2) No amount paid or credited as paid on a share in advanced of calls shall be treated for the purposes of these regulations as paid on the share.

(3) All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividends as from a particular date, such shares shall rank for dividend accordingly.

Article 150: Deduction of arrears: The BoD may deduct from any dividend payable to any member all sums of money, if any, presently payable by him to the Company on account of calls in relation to the shares for the Company.

Article 151: Adjustment of dividends against calls: Any General Meeting declaring a dividend or bonus may make a call on the members of such amounts as the meeting fixes, but so that the call on each member shall not exceed the dividend payable to him and so that the call be made payable at the same time as the dividend and the dividend may if so arranged between the Company and themselves be set off against the call.

Article 152: Bonus or Dividend in Specific:
(1) Any General Meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets, and the BoD shall give effect to the resolution of the meeting.

(2) Where any difficulty arises in regard to such distribution, the BoD may settle the same as in thinks fit, and expedient, and in particular may issue fractional certificates and fix the value of distribution so that cash payment shall be made to any member upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the BoD.

Article 153: Payment by Cheque or warrant:

(1) Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through post directed to the registered address of the holders or in the case of joint holders to the registered address of that one of the joint holders who is first named in the Register of Member or to such person and to such address of the holder as the joint holders may in writing direct

(2) Every such cheque or warrant shall be made payable to the order of the person to whom it is sent.

(3) Every dividend or warrant or cheque shall be posted within forty two days from the date of declaration of the dividends.

Article 154: Receipt of joint holders: Any one of two or more joint holders of a share may give effectual receipt for any dividend bonuses or other moneys payable in respect such share.

Article 155: Notice of dividends: Notice of any dividend that may have been declared shall be given to person entitled to share therein in the manner mentioned in the Act.

Article 156: Dividend not to bear interest: No dividend shall bear interest against the Company.

Article 157: Unclaimed dividends: No unclaimed dividend shall be forfeited by the BoD unless the claim thereto become barred by law and the Company shall comply with all the provisions of Section 205 A of the Companies Act, in respect of unclaimed or unpaid dividend.

Article 158: Transfer of share not to pass prior dividends: Any transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer.

X Other Information

1. MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts and agreements referred to in Para "A" below (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or contracts entered into more than two years before the date of this Draft Offer Document) which are / or may be deemed to be material have been entered into by or on behalf of the Company. Copies of these contracts together with copies of documents referred to in Para "B" below all of which have been attached to the copy of this Draft Offer Document and which have been delivered to the ROC for registration and may be inspected at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day from the date of this Draft Offer Document until the date of closing of subscription list.

A) MATERIAL CONTRACTS

1. Memorandum of Understanding (MOU) dated December 15, 2005 between the Company, HFCL and KJMC Global Market (India) Ltd. for this Offer for Sale.
2. Memorandum of Understanding (MOU) dated December 15, 2005 between the Company, HFCL and Global Trust Capital Finance Private Limited for this Offer for Sale.
3. Memorandum of Understanding (MoU) between the Company and the Registrar to the Offer, Karvy Computershare Private Limited (formerly known as Karvy Consultants Limited) dated November 25, 2003.
4. Tripartite Agreement dated July 3, 2000 between the Company, Cameo Corporate Services Limited and NSDL.
5. Tripartite Agreement dated June 14, 2003 between the Company, Cameo Corporate Services Limited and CDSL.
6. Copy of the Power of Attorney dated August 20, 2004 executed by Mr. Mahendra Nahata who is in turn authorized by way of a Board resolution dated August 25, 2003 by HFCL, the Selling Shareholder in favor of Mr. Sanjeev Vashishta.

B) DOCUMENTS FOR INSPECTION

1. Memorandum and Articles of Association of the Company as amended from time to time.

2. Original Certificate of Incorporation dated August 2, 1946, Certificate of commencement of business dated September 9, 1946, fresh Certificate of Incorporation consequent to change of name dated May 12, 2003 and Certificate of Transfer of the Registered Office from one State to another dated January 15, 2004.

3. Copy of the Securities and Appellate Tribunal order dated October 17, 2005.

4. Due Diligence Certificate dated December 20, 2005 to SEBI from KJMC Global Market (India) Ltd.

5. Due Diligence Certificate dtd December 20, 2005 to SEBI from Global Trustcapital Finance Pvt Ltd.

6. Interse allocation of responsibilities between the Lead Managers

7. Court orders dated March 6, 2003 and March 21, 2003, passed by the Hon'ble High Court of Punjab & Haryana and Hon'ble High Court of Madras, approving the scheme of amalgamation between the erstwhile HFCL Infotel Ltd. with the Investment Trust of India Ltd.

8. License Agreement No. 17-15/1995 BS-II/PUNJAB between DoT and the Company (erstwhile HFCL Infotel Ltd.) for providing telecommunication services, as amended from time to time and New License Agreement No.10-15/2004/BS-II/HITL/PUNJAB w.e.f 14.11.2003.

9. License Agreement No. 820-380/2000/LR dated June 28, 2000 between DoT and the Company for providing Internet Services.
10. Registration certificate bearing no. 29/2001 dated February 5, 2001 issued by Government of India, Ministry of Communications, Department of Telecommunications (Basic Services Group) for Infrastructure Provider Category – I (IP-I) to establish and maintain the assets such as dark fibre, right of way, duct space and tower for the purpose to grant on lease / rent / sale basis to the licensees of the telecom service license u/s 4 of the Indian Telegraph Act, 1885.

11. Consent letters from Lead Managers to the Offer, Registrar to the Offer, Bankers to the Offer, Bankers to the Company, Directors, Auditors, Legal Advisor, Compliance Officer, Company Secretary as referred to in this Draft Offer Document to act in their respective capacities.

12. Board resolution dated Augsut 25, 2003 of HFCL approving the divestment through Offer for Sale of upto 10,00,00,000 equity shares of the Company.

13. Resolutions of the Board of Directors of the Company, passed at its Meeting held on October 16, 2005 for this Offer for Sale

14. Extracts of the Minutes of the Committee Meeting held on December 19, 2005 approving this draft Offer Document.

15. Certificate from the Auditors vide their report dated December 19, 2005 advising the Company about the tax benefits available to the Company and its members.

16. Restated Account from the Auditors vide their report dated December 19, 2005 for a period of 5 years and for the quarter ended June 30, 2005

17. Certified copies of the Balance Sheet for last 5 years referred in the aforesaid report.

18. Letter from Industrial Development Bank of India, Life Insurance Corporation of India, Global Trust Bank Limited, Vysya Bank Limited and State Bank of Patiala sanctioning the term loan to the Company. Also a Letter from Punjab National Bank and Global Trust Bank Limited sanctioning Fund / Non-fund based Working Capital Facilities including Performance Bank Guarantees.

19. Letter from CDR Cell, Industrial Development Bank of India, Life Insurance Corporation of India, Global Trust Bank Limited, ING Vysya Bank Limited, State Bank of Patiala and Punjab National Bank approving the Restructuring Package to the Company.

20. Letter from CDR Cell, Industrial Development Bank of India, Life Insurance Corporation of India, Global Trust Bank Limited, ING Vysya Bank Limited, State Bank of Patiala and Punjab National Bank approving the Re-Worked Restructuring Package to the Company.

21. Certificate under section 10(23G) of the Income Tax Act, 1961 issued by Government of India, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes vide their notification no. 282/2003 [F.No.205/42/1996/ITAII-Vol (II)] dated November 11, 2003

22. Copies of Power of Attorneys executed by Mr. Vinay Maloo, Mr. M. P. Shukla, Mr. S. Lakshmanan, Mr. Krishna Bihari Lal, Mr. T.S.V. Panduranga Sarma, Mr. Shyam Sunder Dawra, Dr. Ranjeet Mal Kastia, and Mr. R K Bansal, in favor of Mr.Sanjeev Vashishta.

23. IDBI's letter reference HO/CFD-II/HIL/269 dated December 19, 2005 granting approval for the disinvestment and thereby release of the equity shares covered under non-disposal undertaking, given by HFCL, to the term lenders of the Company led by IDBI.

24. Security Trustee & Agency agreement between HFCL Infotel Ltd. & lenders & working capital Banks & ITSL as Security Trustee & ITSL as Security agent for the Debenture Trustee.

25. Agreement between HFCL Infotel Ltd. & ITSL as indenture of Mortgage.

26. Debenture Trust deed between HFCL Infotel Ltd. & ITSL as debenture trustee.

27. Debenture Trustee agreement between HFCL Infotel Ltd. & ITSL as debenture trustee.

28. Memorandum of hypothecation between HFCL Infotel Ltd. & ITSL as security trustee.

29. Deposit of Title deeds by constructive delivery by HFCL Infotel Ltd. with IDBI & ITSL.

2. DECLARATION

This is to confirm that all the relevant provisions of the Companies Act, 1956 and the guidelines issued by the Government have been complied with and no statements made in this Offer for Sale Document shall contravene any of the provisions of the Companies Act. 1956 and the Rules made there-under. All the legal requirements connected with the said offer as also the guidelines, instruction etc issued by SEBI, Government and any other competent authority in this behalf have been duly complied with.

UNDERTAKING

The Selling Shareholders confirm that no information/material likely to have a bearing on the decision of the investors in respect of the equity shares offered in terms of this Draft Offer Document has been suppressed./ withheld and/or incorporated in a manner that would amount to mis-statement/ mis-representation and in the event of it transpiring at any point of time till allotment/refund, as the case may be, that any information/material has been suppressed/withheld and/or amounts to mis-statement / mis-representation, we undertake to refund the entire application monies to all the subscribers within seven days thereafter, without prejudice to the provisions of Section 63 of the Act.

Since the date of last financial statement disclosed in this Offer for Sale Document, there have been no circumstances that materially and adversely affects or is likely to affect the profitability of the Company or the value of its assets or its ability to pay off its liabilities within a period of next 12 months.

The Selling Shareholder accept no responsibility for the statements made otherwise than in this Offer for Sale Document or in the advertisement or any other materials issued by or at the instance of the Selling Shareholder and that any one placing reliance on any other source of information would be doing so at his / her own risk.

The Directors and Chief Operating Officer of the Company certify that all the disclosures made in this Draft Offer Document are true and correct.

SIGNED BY

Mahendra Nahata, Director (Chairman)

Vinay Maloo, Director

S. Lakshmanan, Director

M.P.Shukla, Director

Krishna Behari Lal, Director

T. S. V. Panduranga Sarma, Director

Shyam Sunder Dawra, Director

Dr. Ranjeet Mal Kastia, Director

R. K. Bansal, Director

Surendra Lunia, CEO

For, Himachal Futuristic Communications Limited

Mahendra Nahata, Director

Place: New Delhi.