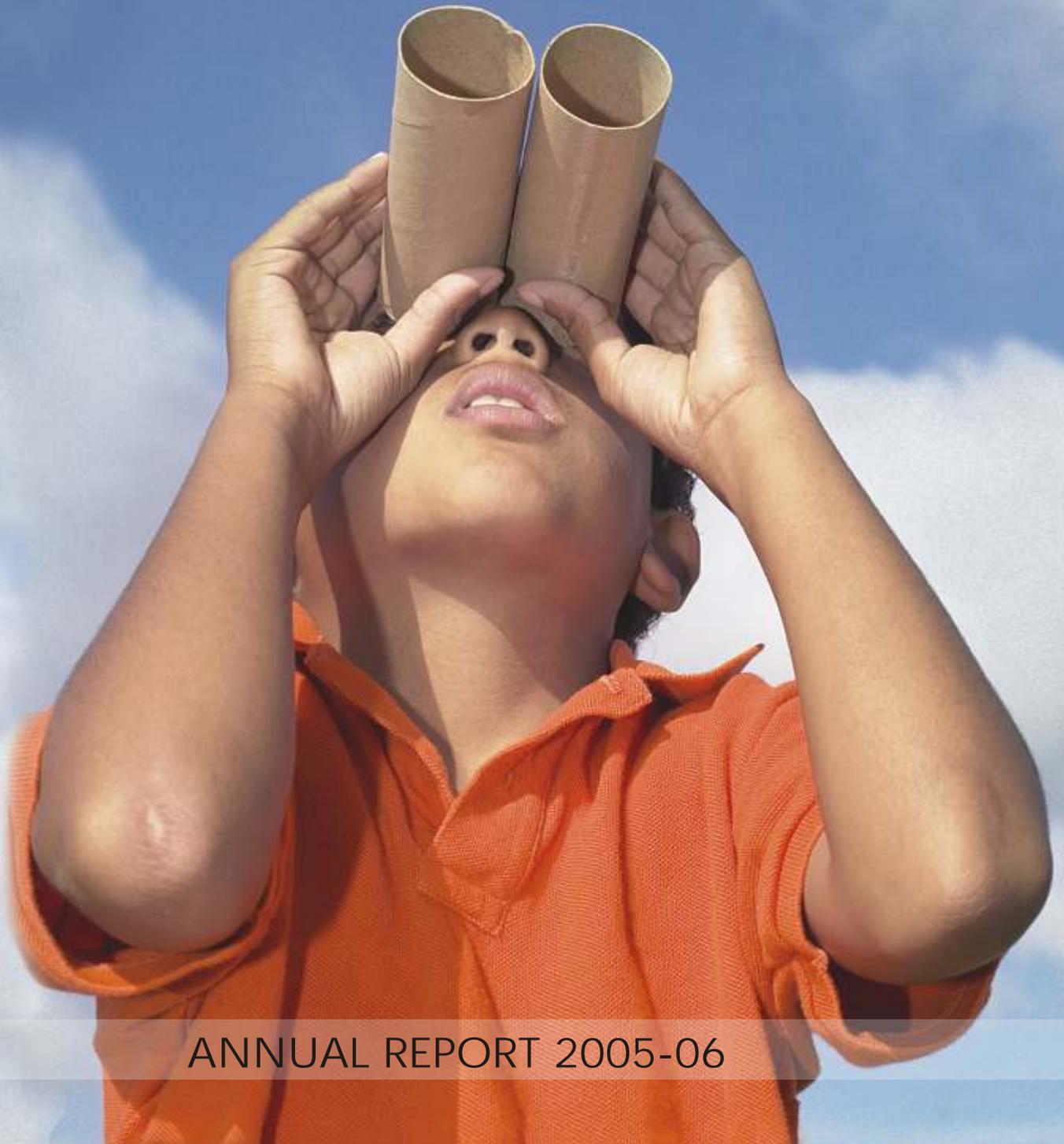


**net** 4  
reach beyond



ANNUAL REPORT 2005-06

## OUR SPIRIT

*We at Net4 commit to our quest of empowering our customer's business and be their preferred business partner. We shall take pride in team work and value performance achieved with integrity. We will tirelessly strive to attain success as a global knowledge leader, powered by innovation and passion. Our spirit will guide us, keep us focused and enable us to reach beyond.*



## MESSAGE FROM THE CEO & MD'S DESK

Dear Shareholders,

This year your company has continued to maintain its record of good growth in its revenue and profits. This year also saw a significant investments in infrastructure and technology, both to support a fast growing customer base and add new services.

I am pleased to report that in spite of market pressures your company has grown from Rs. 418.35 million in total revenues and Rs. 24.61 million in net profit to Rs. 546.77 million in revenues and Rs. 33.06 million in net profit. This represents an increase of 30.70% in revenue and 34.33% in net profit. The strategic changes that were put in place last year, by removing the product categorization and having two broad categories of "Enterprise Sales" and "Channel Sales" has borne fruit this year. This change has got the desired effect of cross selling and up selling a variety of services to our existing and new customers, which in turn also better insulates us from the possibility of customer churn in a competitive market place.

On the technology front there have been a number of initiatives taken up this year. We are now using a completely integrated ERP system which brings together all facets of the company internally and externally. Your company has set up its own SIP infrastructure which we procured from Cisco Systems, with an initial installed capacity to handle 30 million minutes/month. Although a competitive space globally, we are confident that this will be one of the key services driving our global revenues. Your company has also obtained an ICANN accreditation for domain registration, giving us with the status of a "Registrar" that links directly into the global registry for various domain extensions. On the web hosting and hosted email front, we became the first company to install a Storage Area network, with a capacity of more than 3 Terabytes of storage. Our network and systems infrastructure has been significantly bolstered this year

with Rs. 110 million of investment, to ensure a continued high quality of service and enough headroom for scalability.

Constantly streamlining our processes, procedures and policies to ensure they do not become a hindrance to our growth at any stage, we have obtained the ISO 9001 certification. Your company also became the first internet services company in the world to be accorded the ISO 27001 certification for Information security.

The government policy in this space has not been as congenial as it has been in the past. A 6% revenue share was introduced for internet telephony services within India. Hence, further price reduction and thus greater volumes, becomes that much more difficult. However, we finally found joy with the incumbent's stand on delaying/blocking last mile leased line access to customers of private service providers, easing off.

We have, in the pipeline, a large number of initiatives for the future on all fronts: technology, additional services/licenses, new geographies and fine tuning our way to market. These have been elaborately explained in the Management Discussion and Analysis.

With India Inc growing unabatedly at a fast speed, the deeper adoption of IT and outsourced services, the ever growing need for bandwidth, our young and hungry team across all departments, a customer focused strategy and established brand names synonymous with quality, innovation and value for money, Team Net4 is confident that this will be an even more successful year than the last.

**Jasjit S. Sawhney**  
CEO & MD



## NET4 SERVICES

Net4 is amongst the leaders in the entire spectrum of IP communication Solutions & services. Its operations and services include Leased Line and Fixed Wireless Access, IP - based voice telephony solutions, call shops, data centre services, website hosting, corporate email solutions and domain name registration. Briefly, the business of Net4 can be divided in three categories Internet Telephony Services (ITS), Enterprise Internet Access Services (EIAS) and Web Presence Services (WPS).

### Net4 Core Elements

- ♦ Net4 is headquartered in Noida and has business offices in Ahmedabad, Bangalore, Chandigarh, Chennai, Cochin, Coimbatore, Delhi, Hyderabad, Kolkata, Mumbai and Pune.
- ♦ Net4 operates its Internet Data Centre facilities in 7 cities. These data centers are built using the world's best technologies and are equipped with state-of-the-art security, monitoring and management systems.
- ♦ Net4 is amongst the largest provider of web hosting services, corporate e-mail solutions and domain name registration in Asia Pacific.
- ♦ It has over 1,50,000 satisfied clients which include companies like Hutch, L & T Procter and Gamble, Reliance, Sahara, Tata, TCS, Times of India and many more.
- ♦ Net4 is the First IP communication Solution Company in the world to get ISO27001:2005 certification for 7 Internet Data centers certified by BSI (British Standard Institution).
- ♦ Net4 is ISO 9001:2000 certified, the world's most successful International standard, addressing best practice in the application of Quality Management Systems.

# Web Presence Services

## Data Centre Services

Working with leading technology and integration partners, Net4 can deliver a full suite of collocation and data centre solutions for the continually increasing demands of your business

### Key Benefits

- Neutral point of interconnect and major hub for companies operating in India and abroad
- A resilient operational environment, providing the ideal place to house business critical data
- Backup, monitoring and preventative maintenance
- Secure site access and site control
- Operational 24/7/365
- Skilled engineers providing 24 hours technical support
- ISO 27001: 2005 Certification for Information Security
- 30,000 sq. feet of data centre space in Bangalore, Delhi, Chennai, Hyderabad, Kolkata, Mumbai and Pune.

### Web Hosting

Net4 offers web hosting services for small businesses as well as quality dedicated hosting in India. A variety of web hosting platforms and operating systems options including Windows, Linux and Java platforms are available.

Net4 offers web hosting companies in India as well as resellers a host of reseller packages for web hosting. Reseller packages include: Small business web hosting, E-commerce website hosting, Enterprise hosting and Dedicated hosting.

### Why Net4 Web Hosting?

Number 1 Web Hosting Company in India  
75,000 + Web Sites hosted  
Powerful Dell Xeon servers  
Unlimited data transfer  
Unlimited mail forwarding  
Fully loaded, user friendly control panel  
Competitive pricing



# Corporate E-mail Solutions

Net4's BizMail+ is a state-of-the-art corporate mailing solution. Its comprehensive set of features and controls helps to reinforce the online brand of the organization. Additionally it also offers an attractive proposition of zero investment on hardware. BizMail+ service runs on dedicated servers where all administration, security, backups and upgrades, of hardware, software and data are managed by us, saving you the high costs of having technical staff to manage your organization's mailing architecture. There are three flavours to the corporate e-mail service:

Bizmail, Bizmail+ and Bizmail Elite; all engineered to suite varying requirements ranging from SOHO/ SMEs to large Corporate Houses.

## Key features of BizMail+ include

Mailing at the lightning speed | Unlimited e-mail ids. Customizable space allocation to individual users | Customizable mail box size for each user | Option to put filters and monitor all mails on the basis of pre-defined criterions | Provides both web as well as POP access | Latest anti virus and anti spam facility with automatic upgrades | Multiple attachments | Customizable Private label branding | E-mail Groups I Catch all account.

## Domain Name Registration

Net4Domains ([www.net4domains.com](http://www.net4domains.com)) is one of the largest registrars of domain names in India and offers cost effective domain name registration all GTLDS & CCTLD, .com, .net, .org, .in, and .mobi. etc. Some Indian companies whose domain names are registered with Net 4 India are Airtel, Apollo Hospitals, Bajaj Auto, HFCL, Lufthansa, TATA Group, Times of India, Ranbaxy, Reliance Infocomm, Sifycorp.

## Why Net-4 domain registration over any other company?

ICANN accredited registrar | .IN accredited registrar | Leading domain name registration company in India | 150,000 domain name registered | We provide online identity at cost effective rates | Over 36 different extensions including .com, .net, .org, .info, .biz, .in, .co.in, .mobi, etc. | Free features offered with each domain, like URL Forwarding, domain parking, name server changes, mail server pointing, etc. | 24x7x365 support.



# Enterprise Internet Access Services

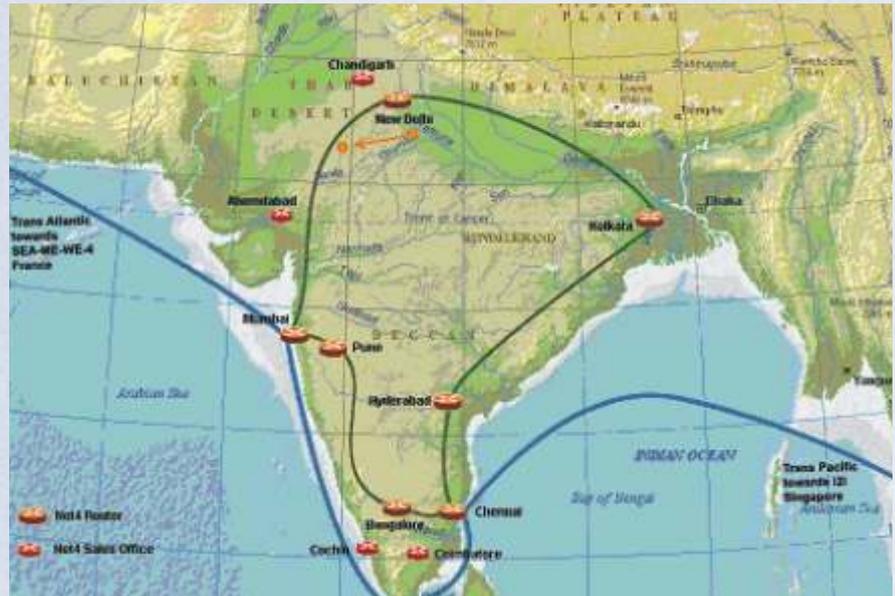
## Leased Line Services

A leased line is basically a dedicated pair (s) of copper wire connecting two end users which is leased from a service provider.

It can be of great use for businesses that require high quality 24×7 dedicated access to the internet. Net4 provides internet access over leased lines and fixed wireless at different speeds that one may choose depending on the requirement.

Why leased lines?

- Flexible and scalable bandwidth options from 64Kbps to 2 Mbps X n
- Your own dedicated connection.
- 24 X 7×365 onsite support.
- Pro-active maintenance and technical support.
- Generation of the periodic performance reports for self-analysis.
- 99% uptime guaranteed





## VoIP Solutions

### Voice over Internet Protocol (VoIP)

VoIP (Voice over Internet Protocol) involves transmission of voice in the form of data packets over a data network through the internet. VoIP enables sending voice communication through internet instead of PSTN (Public Switched Transmission Network) or other telephone networks.

### Corporate VoIP Solutions

Corporate VoIP solutions can reduce communication (inter-branch and international) costs dramatically for business relying mostly on the Public Switched Telephone Network for making voice calls. Implementation of a VoIP solution allows compressed voice calls to be routed over the internet cloud. Net4 offers solutions to SMEs, Large Corporates and Call Centres

### Benefits of Corporate VoIP

Ideal for companies that want to save money on long distance, inter-office voice communication

- Huge reduction in ISD bills
- Rapid Return On Investment (ROI)
- Provide excellent voice quality
- Optimum utilization of your IP connectivity/ bandwidth.

### Retail VoIP Services

- Phonewala PCO Phone Booths
- Phonewala Calling Cards

### Phonewala Booths

Phonewala is Net4's retail brand in Internet Telephony whose popularity is immensely growing in India. It was launched with the mission of enabling our customers to "talk global, pay local". The enormous popularity of "Phonewala" is reflected from the fact that, over 2000 PCOs nationally are operating under the Phonewala brand.

Phonewala at present is catering to an estimated 200, 000 individuals and SMEs across India and the MEA region.

### Phonewala PC-Phone Calling Cards

Yet another innovative offer from Phonewala is connecting PC to any fixed line phone or mobile around the world.

This has various advantages-

- Highly economical rate User friendly
- Simple, on-line account administration
- 100% talk time on each card



## BOARD OF DIRECTORS

**SANDIP K. GHOSH**  
CHAIRMAN

**AMARJIT SINGH SAWHNEY**  
WHOLE TIME DIRECTOR

**JASJIT SINGH SAWHNEY**  
CEO & MANAGING DIRECTOR

**DESI S. VALLI**  
EXECUTIVE DIRECTOR & COO

**BHARAT CHAWLA**  
NON-EXECUTIVE DIRECTOR

**MANISH WADHAVAN**  
NON-EXECUTIVE DIRECTOR

**BIBA SAWHNEY**  
NON-EXECUTIVE DIRECTOR

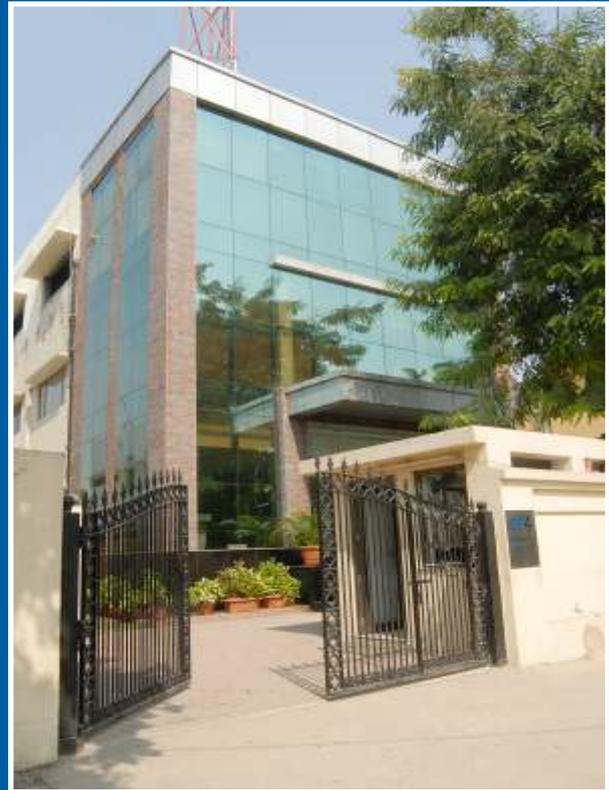
**AUDITORS**  
M/S SANDY ASSOCIATES,  
CHARTERED ACCOUNTANTS

**COMPANY SECRETARY**  
KRISHAN KUMAR

**BANKERS**  
STATE BANK OF INDIA,  
SOUTH EXTN. PART-I,  
NEW DELHI-110049

**REGISTERED OFFICE**  
AB-11, COMMUNITY CENTRE,  
1ST & IIND FLOOR,  
SAFDARJUNG ENCLAVE,  
NEW DELHI-110029

**REGISTRARS AND TRANSFER AGENTS**  
MCS LIMITED  
SRI VENKATESH BHAVAN,  
W-40, OKHLA INDUSTRIAL AREA,  
PHASE-II, NEW DELHI-110020  
TELEPHONE: 26384909  
FAX: 011-26384907  
EMAIL : mcsdel@vsnl.com  
URL : www.mcsind.com



Our Corporate Office

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## DIRECTOR'S REPORT TO THE MEMBERS

Your Directors are pleased to present the 20<sup>th</sup> Annual Report and Audited Accounts for the year ended March 31, 2006.

### Financial Results

(in Rs. Lacs)

Year Ended March 31	2006	2005
Total Income	5467.67	4183.53
Expenditure	4222.91	3172.21
Depreciation & Amortization	545.26	510.89
Interest & Finance Charges	135.02	113.10
Net Profit before Tax	564.48	387.33
Provision for Taxation (including Deferred Tax)	233.91	141.25
Net Profit after Tax	330.57	246.08

### Results of Operations

Total Income for the year increased by 30.70% from Rs. 4183.53 lacs to Rs. 5467.67 lacs. Net4 is one of the fastest growing company in its sector. Net4's net profit for the year under review was Rs. 330.57 lacs against Rs. 246.08 lacs in the year 2004-2005 thereby registered Growth Rate of 34.33%.

Your Company outperformed the industry in a challenging year and continues to maintain its leadership position. It has also been surpassing all quality and cost benchmarks and continues to build shareholder value. Your Directors look to the future with confidence. During the year, your company was accredited by ICANN and accorded registrar status for top level domains - .com, .net, .org, .biz, .mobi, .info. Your company maintains its position as the no.1 registrar for .IN domains. Your company has grown in its position as one of the largest provider of web hosting services and domain name registration in Asia Pacific.

Your Company is amongst the leaders in the entire spectrum of internet and allied services. Its operations and services include Enterprise Internet Access, Web Presence Services, VoIP Solutions and Corporate Email Solutions.

Your Company has developed and implemented VoIP Solutions which allows compressed voice calls to be routed over the internet cloud. It offers solutions to SMEs, large corporate houses and call centers. Having implemented our own SIP infrastructure, your company is now technologically at par with its erstwhile suppliers. This opens up opportunities in the massive international wholesale VoIP market.

During the year, the Company with its associate company namely Trak Online Net India Pvt. Ltd. has also developed the Phonewala brand in Internet Telephony. It was relaunched with a new logo and with the concept "talk global, pay local".

Your Company is also delivering a full suite of collocation and data centre solutions and is witnessing a continually increasing demand in this area. Your company has also started with its foray on application hosting solutions, having begun with one of the widest range of Corporate/Hosted E-mail solutions.

The company is taking various measures to increase the export of hardware and services. Our own SIP infrastructure will add significantly to VoIP exports, as we will now enjoy significantly lower costs, which makes us competitive in international markets.

### Subsidiary Company

During the year under review, the Company has promoted a 100% wholly owned subsidiary. Your Company has established a wholly owned subsidiary viz. Net 4 Communications Ltd. having its head office at Kolkata with the objective of addressing high-end niche markets. This subsidiary will establish

manufacturing facilities that will create research and development, marketing, distribution and logistics capabilities to service the requirements of our retail and enterprise customers.

The annexed accounts pertain for the financial year 2005-06. As required under Section 212 of the Companies Act, 1956, the Balance Sheet, P&L Account and Directors' Report on the affairs of Net 4 Communications Ltd. are annexed herewith, together with the statement of the said subsidiary Company.

### **Consolidated Financial Statements**

In accordance with the Accounting Standard AS-21 on Consolidated Financial Statements, your Directors have pleasure in attaching the consolidated financial statements, which form part of the Annual report and accounts.

### **Dividend**

In view of the Company's profitable performance, the Directors are pleased to recommend for approval of the shareholders a Dividend of Re. 1.00 per share on equity shares of the Company in respect of the financial year 2005-06. The Dividend, if declared as above, would involve an outflow of Rs. 1.62 crores towards dividend and Rs. 22.79 lacs towards dividend tax, resulting in a total outflow of Rs. 1.95 crores.

### **Corporate Governance**

Your Company is committed to maintain the highest standards of Corporate Governance to take the business forward in such a way that it maximizes long term values. Your Directors adhere to the requirements set out by the Securities and Exchange Board of India's Corporate Governance practices and have implemented all the stipulations prescribed. A report on Corporate Governance as stipulated under Clause 49 of the Listing Agreements with the Stock Exchanges forms part of the Annual Report. Certificate from the Auditors of the Company, M/s Sandy Associates, confirming compliance of conditions of Corporate Governance as stipulated under the aforesaid Clause 49, is annexed to this Report.

### **Code of Conduct for Directors and Senior Managerial Persons**

The Company in its Board of Directors meeting held on 30<sup>th</sup> January, 2006 has approved code of conduct applicable for all board members and senior managerial persons. As per requirement of Listing Agreement, provisions of code of conducts are available on Company's website [www.net4.in](http://www.net4.in).

### **Auditors and Auditors' Report**

M/s Sandy Associates, Chartered Accountants, hold office until the conclusion of forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment. The Company has received intimation to the effect that their reappointment, if done, would be within the limits laid down under Section 224(1B) of the Companies Act, 1956.

The notes to the accounts referred to in the Auditors' report are self-explanatory and therefore do not call for any further comments.

### **Directors**

Mr. Bharat Chawla and Mr. Manish Wadhavan, Directors will retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

### **Directors Responsibility Statement**

Pursuant to the provisions of the Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

- (i) That in the preparation of the Annual Accounts, the applicable accounting standards had been followed and wherever required, proper explanations relating to material departures.
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.

- (iii) That Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) That the Accounts have been prepared on a going concern basis.

#### **Fixed Deposit**

Your Company has not accepted any deposits within the meaning of Section 58 A of the Companies Act, 1956. As such, no amount of principal or interest was outstanding as of the Balance Sheet date.

#### **Listing**

The shares of your Company are listed at Delhi Stock Exchange. The listing fees for the year 2006-2007 have been paid.

#### **Technology Absorption and Foreign Exchange Earnings & Outgo**

Information as required under the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 in respect of energy conservation, Technology absorption and Foreign Exchange earnings and outgo is given in Annexure-I to this report.

#### **Particulars of the employees**

None of employees other than Mr. Jasjit Singh Sawhney and Mr. Desi S. Valli, Directors of the Company fall within the preview of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, detail thereof is given in Annexure-II to the Directors' Report to the Members. Mr. Jasjit Singh Sawhney, Chief Executive Officer & Managing Director, Mr. Amarjit Singh Sawhney, Whole time Director and Ms. Biba Sawhney, Director are relatives, particulars thereof are given in Corporate Governance Report. None of other employee is relative of any Directors.

#### **Acknowledgements**

Your Directors would like to express their grateful appreciation for assistance and co-operation received from the Banks, Government Authorities, Customers, Vendors and Members during the year under review. Your Directors also wish to place on record their deep sense of appreciation for the committed services of the Executives, Staff and Workers of the Company.

for and on behalf of Board of Directors

Sd/-

Sandip K. Ghosh  
Chairman

Place: Delhi

Dated: 29<sup>th</sup> June, 2006

### ANNEXURE-I

#### **A. Particulars With Respect To Conservation Of Energy:**

The operations of your company are not energy conservative. Adequate measures have been taken to conserve energy by using energy efficient computers and equipment with latest technologies. Your company is on the constant look out for newer and efficient energy conservation technologies and introduces them appropriately.

#### **B. Research and Development (R & D)**

Your Company continued its R & D efforts to build competence in Internet & related services thereby ensuring continuous movement up the value chain. Since business and technologies are changing constantly, continuous research and development needs to be undertaken. Your Company has been able to develop processes and methodologies that have resulted in constant improvement in quality and productivity. However, there is no separate allocation of funds for R & D, therefore, exact amount spent on research and development is not ascertainable.

#### **C. Technology Absorption, Adaptation and Innovation**

Your Company's core businesses demand absorption of emerging technologies to stay at the cutting edge of technology. New methods for absorbing, adapting and effectively deploying new technologies have been developed.

#### **D. Foreign Exchange Earnings and Outgoings**

The foreign exchange earned and used by the Company during the year under review is as follows:

Particulars	(Rs. in lacs)	
	2005-06	2004-05
Foreign exchange earnings	132.46	169.58
Foreign exchange expense (including capital goods)	257.89	267.97

### ANNEXURE-II

#### **Statement pursuant to Section 217(2A) of the Companies Act, 1956 and the Companies (Particulars of Employees) Rules, 1975**

Sr. No.	Name	Age (Years)	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Total Experience (years)	Date of Commencement of Employment	Last employment held Designation- Period for which post held
1.	Mr. Jasjit Singh Sawhney	33	CEO & Managing Director / Industrialist	40,00,200	37,05,000	B.A. Hons (Law & Economics)	9	1 <sup>st</sup> March, 2001	O-Net Ltd. (U.K.) - Director (Operations)
2.	Mr. Desi Subri Valli	34	Executive Director & COO / Service	25,49,050	23,64,550	B.Tech (Electronics & Communication)	10	10 <sup>th</sup> August, 1999	Samtech Engineering - Manager Systems Integration

- Notes :**
- (1) Gross remuneration comprises salary, performance pay, perquisites and other benefits include allowances and the Company's contribution to Provident and Superannuation Funds but excludes company's contribution to Gratuity Fund.
  - (2) Net remuneration is after tax and is exclusive of Company's contribution to Provident and Superannuation Funds and monetary value of non-cash perquisites.
  - (3) The nature of employment is contractual.

for and on behalf of Board of Directors

Sd/-

Sandip K. Ghosh  
Chairman

Place: Delhi  
Dated: 29<sup>th</sup> June, 2006

## REPORT ON CORPORATE GOVERNANCE

### 1. Company's Philosophy on Code of Governance

The Company endeavors to comply corporate governance by adherence with utmost transparency, disclosures and fairness in the business operations. Good corporate governance is ongoing process. Corporate governance entails and ensures accountability of the persons in charge of the company on the one hand and develops benefits to investors, customers, vendors and the society at large on the other hand. The Company believes that good corporate governance practice is an excellent tool to secure the corporate excellence and it. The Company has and will continue to focus its resources, strengths and strategies, in order to achieve this Vision, while upholding the core values of transparency, integrity, honesty and accountability.

### 2. Composition of Board

The total strength of the Board at present is 7 Directors, consisting of 4 non- executive and 3 whole time directors. The Company has 4 independent directors. The composition of the Board of Directors is as follow:

Director	Category of Director	No. of other Directorships (*)	No. of Memberships/ Chairmanships of Other Board/ Committees (**)
<b>Executive Director</b>			
Amarjit Singh Sawhney	Promoter Director/ Whole Time Director	1	1
Jasjit Singh Sawhney	Promoter Director/ Chief Executive Officer & Managing Director	1	1
Desi S. Valli	Whole Time Director or Executive Director & COO	1	1
<b>Non Executive Directors</b>			
Biba Sawhney	Promoter Director	-	-
Sandip K. Ghosh	Independent Director	1	3
Bharat Chawla	Independent Director	-	3
Manish Wadhavan	Independent Director	-	3

\* Excludes Directorships in Indian Private Limited Companies, Foreign Companies, Companies of Section 25 of the Companies Act, 1956, memberships of Managing Committees of various Chambers/Bodies and Alternate Directorships.

\*\* Represents Memberships / Chairmanships of Audit Committee, Shareholders & Investors Grievance Committee, Remuneration Committee of all Public Limited Indian Companies.

### Attendance of the Directors at Board Meeting, Last Annual General Meeting

In the year 2005-2006, 13 meetings of the Board were held on 8.4.2005, 9.5.2005, 20.5.2005, 24.6.2005, 29.7.2005, 24.9.2005, 20.10.2005, 28.10.2005, 9. 11.2005, 23. 11.2005, 30.1.2006, 7.2.2006 and 28.2.2006. Mr. Amarjit Singh Sawhney, Mr. Jasjit Singh Sawhney, Mr. Desi S. Valli and Mr. Sandip K. Ghosh have attended all the meetings. Mr. Bharat Chawla and Mr. Manish Wadhavan have attended only eight meetings and Ms. Biba Sawhney has attended only four meetings. The last Annual General Meeting held on 30.9.2005 was attended by Mr. Amarjit Singh Sawhney, Mr. Jasjit Singh Sawhney, Mr. Desi S. Valli and Mr. Sandip K. Ghosh and Mr. Bharat Chawla.

Mr. Bharat Chawla and Mr. Manish Wadhavan, directors, liable to retire by rotation and being eligible offer themselves for reappointment.

Mr. Jasjit Singh Sawhney, Chief Executive Officer & Managing Director is the son of Mr. Amarjit Singh Sawhney and Ms. Biba Sawhney, Non Executive Director, is the daughter of Mr. Amarjit Singh Sawhney. Apart from the above relation, none of the other directors have any of their relatives in employment of the Company or on the Board.

No loans have been given to/or outstanding from any of the Directors of the Company.

### 3. Board Committees

#### A. Audit Committee

The Committee during the year 2005-2006 met 5 times and all the members of the Committee attended the Audit Committee Meetings. Representative of the Statutory Auditors, Sr. Manager (Account & Finance), Internal Auditor were invited to be present at the Audit Committee Meetings. The members of the Audit Committee are independent directors.

The Committee's terms are as per the provision of Section 292A of the Companies Act, 1956 and Clause 49 (II) (D) of the listing agreement. The broad terms of reference of the Audit Committee were to establish transparent and effective system of internal monitoring and control, to review annual plan and any special examination by Internal Audit and implementation of internal audit recommendations and technical audit reports etc. Mr. Sandip K. Ghosh has been appointed as chairman of the Audit Committee.

The members of the Audit Committee are:

Name of Director	Category	Designation
Sandip K. Ghosh	Non Executive Director	Chairman
Bharat Chawla	Non Executive Director	Member
Manish Wadhavan	Non Executive Director	Member

#### B. Shareholders & Investors' Grievance Committee

The Company has "Shareholders' & Investors' Grievance Committee, comprising of Mr. Sandip K. Ghosh, Mr. Manish Wadhavan and Mr. Bharat Chawla. Mr. Sandip K. Ghosh has been appointed as chairman of the Committee. The committee looks into the redressing of Shareholder and investors complaint/s like transfer of shares, non-receipt of the balance sheet, non-receipt of the dividend, etc. The Committee during the year 2005-2006 met 4 times and all the members of the Committee attended the Meetings. In order to expedite the process of share transfers, the Committee has delegated the power of share transfer to Company Secretary who shall attend to share transfer formalities at least once in a fortnight. Outstanding complaints as on 31.3.2006 were nil and no complaint was received during the year.

#### C. Remuneration Committee

Remuneration Committee looks into the remuneration of Executive Directors and senior management. The Committee during the year 2005-2006 met 2 times and all the members of the Committee attended the Committee Meetings. The members of the Remuneration Committee are following independent directors:

Name of Director	Category	Designation
Sandip K. Ghosh	Non Executive Director	Chairman
Bharat Chawla	Non Executive Director	Member
Manish Wadhavan	Non Executive Director	Member

The Non-Executive Directors have no pecuniary relationship or transactions with the Company in their personal capacity except sitting fees (as mentioned below). The company has not granted any stock option to its directors.

## Remuneration of Directors :

### Details of remuneration of the Directors for the financial year ended 31<sup>st</sup> March, 2006:

In Rupees

Director	Relationship with other Director	Salary#	Perquisites and Other benefits##	Sitting Fees	Total
Amarjit Singh Sawhney	Father of Mr. Jasjit Singh Sawhney & Ms. Biba Sawhney	15,00,000	1,00,800	-	16,00,800
Jasjit Singh Sawhney	Son of Mr. Amarjit Singh Sawhney and Brother of Ms. Biba Sawhney	37,05,000	2,95,200	-	40,00,200
Desi S Valli	-	23,64,550	1,84,500	-	25,49,050
Biba Sawhney	Daughter of Mr. Amarjit Singh Sawhney and sister of Mr. Jasjit Singh Sawhney	-	-	1,000	1,000
Sandip K. Ghosh	-	-	-	3,250	3,250
Manish Wadhavan	-	-	-	2,000	2,000
Bharat Chawla	-	-	-	2,000	2,000
				<b>Total</b>	<b>81,58,300</b>

# Salary also includes Performance Pay.

## Perquisites and other benefits include allowances, contribution to Provident and other funds but exclude company's contribution to Gratuity Fund.

The appointment is subject to termination by three months notice in writing by either side. The Appointment is guided by the standard terms and conditions of the appointment as applicable to employees.

### Subsidiary Company

During the year under review, the Company has promoted 100% wholly owned subsidiary viz. Net 4 Communications Ltd. having its head office at Kolkata.

### Management

“Management Discussion and Analysis report” is appended with this report.

### Brief Profile of the Directors proposed to be re-appointed

As a matter of good corporate practice your Board has decided that at the time of introduction of the Directors to the Shareholders, a brief profile of the Director shall be given:

#### Mr. Bharat Chawla

Mr. Bharat Chawla, Graduate by qualification is a successful businessman. He joined the Board of Net 4 India Ltd. w.e.f. 28<sup>th</sup> September, 2001 as Non Executive Director. He is the member of Audit Committee, Remuneration Committee and Shareholders & Investor's Grievance Committee of the company. He does not have the directorship and the membership of committee of Board in any other company. Also he does not hold any share of Net 4 India Ltd.

Your company has benefited a lot by the knowledge and experience of Mr. Bharat Chawla. Mr. Bharat Chawla being eligible offer himself for re-appointment. Your approval is being sought for the above, the Board of Directors has already recommended his appointment.

### Mr. Manish Wadhavan

Mr. Manish Wadhavan, Graduate by qualification, is a successful entrepreneur. He joined the Board of Net 4 India Ltd. w.e.f. 23<sup>rd</sup> October, 1999 as Non Executive Director. He is the member of Audit Committee, Remuneration Committee and Shareholders & Investor's Grievance Committee of the company. He does not have the directorship and the membership of committee of Board in any other company. Also he does not hold any share of Net 4 India Ltd.

Your company has benefited a lot by the knowledge and experience of Mr. Manish Wadhavan. Mr. Manish Wadhavan being eligible offer himself for re-appointment. Your approval is being sought for the above. The Board of Directors has already recommended his appointment.

### Chairman

Mr. Sandip K. Ghosh has been acting as Chairman and all the meetings of Board of Directors held during the year 2005-2006 were presided by him. Chairman of the company is a non- executive director and in order to effectively discharge his duty, the Company has allotted him area in its office and also reimburses expenses incurred in performance of his duties.

### Related party transaction:

There have been no significant material related party transactions. Disclosure in relation to all material, financial and commercial transactions, where directors have personal interest have been reported and those transactions are disclosed in Note No. S(xviii) to the Accounts in Annual Report.

### Code of Conduct

Pursuant to the requirement of clause 49, the Company has formulated code of conduct for Board members and senior managerial person's w.e.f. January 2006. The code lays down guidelines and advises the senior managerial persons on procedures to be followed, disclosures to be made and to follow ethics as per rules of the Company. All the Board members and senior managerial persons have given their consent to adhere to the code of conduct to the Compliance Officer. The Chief Executive Officer & Managing Director has confirmed compliance of provisions of the Code. The code of Conduct is also available on Company's website [www.net4.in](http://www.net4.in).

### Insider Trading Rules

In terms of the provisions of SEBI (Prevention of Insider Trading Regulations) 2000, as amended, the Company has formulated a "Code of internal procedure and conduct for prevention of insider trading in shares of the Company. The code lays down guidelines and advises the designated employees on procedures to be followed and disclosures to be made, while dealing in the shares of the Company.

### Publication of Unaudited/Audited Financial Results

The Unaudited/ Audited Financial Results have been published in a Hindi national newspaper and an English national newspaper. The results were sent to Stock Exchange on quarterly basis. Detail of publication of Financial Results are given below:

Period	Name of Newspaper
Unaudited Financial Results for the Qtr. Ended 30.6.2005	Jansatta (Hindi), The Financial Express (English)
Unaudited Financial Results for the Qtr. Ended 30.9.2005	Jansatta (Hindi), The Financial Express (English)
Unaudited Financial Results for the Qtr. Ended 31.12.2005	Jansatta (Hindi), The Financial Express (English)
Audited Financial Results for the Year Ended 31.3.2006	Vir Arjun (Hindi), The Pioneer (English)

## General Body Meetings

Location and time where last three Annual General Meetings were held:

Year	Date	Time	Venue
2003	30.9.2003	10.00 A.M	B- 4/ 47, Safdarjung Enclave, New Delhi-110 029
2004	02.9.2004	10.00 A.M	B- 4/ 47, Safdarjung Enclave, New Delhi-110 029
2005	30.9.2005	2.30 P.M.	AB-11, Community Centre, Safdarjung Enclave, New Delhi-110 029

During the year ended 31<sup>st</sup> March, 2006, there have been no resolution passed by the company's shareholders through postal ballot. At the ensuing Annual General Meeting, there is no resolution proposed to be passed by postal ballot.

**4a. Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the Company at large.**

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

**b. Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchanges or SEBI, or any statutory authority, on any matter related to capital markets, during the last three years.**

Nil

**c. Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.**

No personnel had approached the audit committee during the year under reporting.

**d. Compliance with code of corporate governance**

The Company is regularly complying with the mandatory requirements of code of Corporate governance.

**e. Accounting Standards**

The Company has been following accounting standards laid down by the Institute of Chartered Accountants of India.

**f. Subsidiary Company**

During the year under review, the Company has promoted M/s Net 4 Communications Ltd as wholly owned subsidiary having registered office in Kolkata. The Company has taken this step towards establishment of its business activities in eastern region through subsidiary company.

**g. Risk Management**

The audit committee and the management regularly reviews the risk management strategy of the company to ensure the effectiveness of risk management policies and procedures.

**h. Code of conduct**

The Company has adopted code of conduct applicable for all board members and senior managerial persons with effect from January 2006. As per requirement of Listing Agreement, provisions of code of conducts are available on Company's website [www.net4.in](http://www.net4.in)

#### **i. CEO/CFO Certification**

Chief Executive Officer & Managing Director and Sr. Manager (Finance & Accounts) have furnished the requisite certificate to the Board of Directors under clause 49V of the Listing Agreement with the stock exchanges certifying that:

- a. They have reviewed the financial statements and the cash flow statement for the year ended 31.3.2006 and the same does not contain any materially untrue statement or omit any material fact or contain any misleading statement.
- b. The financial statements present a true and fair view of the company's affairs and are in compliances with the existing accounting standards, applicable laws and regulations and no transactions entered into by the company during the year were fraudulent, illegal or violative of company's code of conduct.
- c. They accepted the responsibility for establishing and maintaining internal controls and their effectiveness, and they have disclosed the deficiencies, if any in the design and operation of internal controls, significant changes in the accounting policies or in the internal control or the instances of significant fraud, if any of which they have aware to the auditors and the audit committee and the steps they have taken to rectify those deficiencies.



## GENERAL INFORMATION

### Annual General Meeting

**Day, Date & Time :** Saturday the 30th day of September, 2006 at 2:30 p.m.

**Venue :** AB-11, Community Centre, Safdarjung Enclave, New Delhi- 110 029

**Book Closure:** 26<sup>th</sup> September, 2006 to 28<sup>th</sup> September, 2006 (both days inclusive)

### Registrar & Transfer Agent:

As per the provisions of Listing Agreements entered with the Stock Exchanges, the Company has appointed M/s MCS Limited, as the Common Registrar and Share Transfer Agents for the shares of the Company held in both physical and electronic modes. All correspondence with regard to share transfers and matters related therewith may directly be addressed to the Share Registrar and Transfer Agents at the address given below:

### MCS Ltd.

Sri Venkatesh Bhavan, W-40, OKHLA Industrial Area, Phase-II, New Delhi-110020,

Tel: (011) 26384909, Fax: (011) 26384907, Email: [mcsdel@vsnl.com](mailto:mcsdel@vsnl.com)

### Share Transfer System

The application for transfer of shares held in physical form are received at registered office of the company/ office of R & T Agents and all valid transfers are processed and effected within 15 days from the date of receipt. Shares held in the Dematerialised form are electronically traded in the Depository and R & T Agent periodically receive from the depository the beneficiary holdings so as to enable them to update their records.

### Outstanding GDRs/ADRs/Warrants or any convertible instruments

There is no outstanding GDRs/ADRs/Warrants or any convertible instruments as at end of March, 2006

### Financial Calendar: 1<sup>st</sup> April to 31<sup>st</sup> March

Financial reporting for the quarter ending

- June, 2006 : July, 2006
- September, 2006 : October, 2006
- December, 2006 : January, 2007
- March, 2007 : Latest by June, 2007

**Listing : The Delhi Stock Exchange Association Ltd. (DSE)  
3/1, Asaf Ali Road, New Delhi-110 002**

### Demat ISIN Number in NSDL & CDSL for Equity Shares : INE553E01012

Capital structure as on 31.3.2006	No. of shares	Percentage
Issued capital	16250000	100.00
Listed capital with DSE	7750000	47.70
Pending for listing with DSE	8500000	52.30
Held in demat form in NSDL	5600700	34.47
Held in physical form	10649300	65.53

### **Distribution of Shareholding as on 31.3.2006**

No. of Shares	Shareholders		Nominal Value of Shares	
	Number	% to total	Nominal Value	% to total
Upto-5000	3089	99.65	36,43,000	2.24
5001-10000	0	0.00	0.00	0.00
10001-25000	3	0.09	7,50,000	0.46
25001-50000	0	0.00	0.00	0.00
50001- 100000	1	0.03	5,10,000	0.32
100001-1000000	5	0.14	2,65,90,000	16.36
1000001 and above	3	0.09	13,10,07,000	80.62
<b>Total</b>	<b>3101</b>	<b>100.00</b>	<b>16,25,00,000</b>	<b>100.00</b>

### **Market Price data**

The shares of the Company are listed with Delhi Stock Exchange. Since the DSE is not active in trading activities, as such, no data is available.

### **Address for Correspondence**

The shareholders may address their communication/ suggestions/ grievances/ queries to the Registrar and Share Transfer Agents at their address mentioned above or to:

The Company Secretary,  
Net 4 India Ltd.

**Registered Office:** AB-11, Community Centre, 1<sup>st</sup> & 2<sup>nd</sup> Floor, Safdarjung Enclave, New Delhi- 110 029

**Corporate Office:** D-25, Sector 3, NOIDA-201301, (U.P.), E-Mail: [secretarial@net4.in](mailto:secretarial@net4.in)

for and on behalf of Board of Directors

Sd/-

Sandip K. Ghosh  
Chairman

Place: Delhi

Dated: 29<sup>th</sup> June, 2006

## AUDITORS CERTIFICATE

### CERTIFICATE

To the Members of  
M/s Net 4 India Limited

We have examined the compliance of conditions of corporate governance by Net 4 India Limited (“the Company”), for the year ended on March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with the Delhi Stock Exchange.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the abovementioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders/ Investors Grievance Committee.

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

PLACE: NEW DELHI  
DATE : JUNE 29, 2006

For Sandy Associates  
Chartered Accountants

Sd/-  
SANDEEP GUPTA  
PARTNER  
(Membership No. 86069)

## MANAGEMENT DISCUSSION AND ANALYSIS

### YEAR IN VIEW 2005-2006

As mentioned earlier, the channel and enterprise sales segmentation has taken place and already started showing results with a growing number of high value enterprise customers across most service areas and a significant increase in call shops. We shall be taking this strategy a step further in order to cater to a larger base of customers, especially in the SME space. Details of the same, per service, are discussed below.

#### Enterprise Access Services

The number of corporate customers availing leased connectivity from your company rose significantly in quantity and quality last year, crossing 500 in number and the strategy of targeting only higher bandwidth customers paying off.

Our ISP partner Trak Online, has significantly increased its bandwidth infrastructure, moving up from and STM1(155 mbps) to and STM4(620 mbps). This significant increase in scale will surely bring in tremendous cost advantages and also enable us to effectively compete in high bandwidth case of 8mbps and above.

Some of our esteemed leased line customers are: **Alcatel, Frost & Sullivan, GE, L&T, Lintas, Syngy, TCS, The Times of India, TVS Group and Zensar.**

#### Web Presence Services

##### Data Centre Services

Whilst collocation has seen only modest growth this year, the future growth scenario seems to be far more lucrative. With bandwidth prices consistently falling and the introduction of managed services, we shall be exposed to the high value opportunities in India and disaster recovery potential from the world markets. Introduction of various applications to be hosted and managed by us, especially Hosted email services will add to the collocation business. Some of our esteemed collocation clients are **DTDC, Geogit Securities, Kotak Mahindra Asset Management, Omam Consultants, Osians, Pentamedia Graphics and The Great Eastern Shipping Co.**

##### Web Hosting Services

We became the first hosting company in India to deploy a Storage Area Network (SAN). For a fast growing company such as Net4, scalability stands to be the biggest concern. With the ever-expanding services and customer base, the company's infrastructure and network were beginning to show signs of storage limitations.

In order to continually provide world class services to our customers we commissioned the solution offered by DELL and EMC - the CX300 RAID storage system with 2-Gbps Fibre Channel host interfaces and Fibre Channel Disk Drives. The system, placed at the heart of a storage area network (SAN), now serves the storage needs of the company's entire network thus resolving all the previously faced infrastructure challenges and offering numerous features. Scalability can easily be achieved with the CX300's enormous storage capacity of more than 3 Terabytes (4 times our current capacity), data-in-place system upgrade option and proprietary software focusing on storage operations. The CX300 also has in-built hardware redundancy that ensures no loss of data. Full data replication and mirroring ensure business continuity and 99.99% uptime.

Implementation of the solution provided by DELL and EMC has provided Net4 with the tools required to manage current operations efficiently and effectively, while lowering maintenance and expansion costs. Scalability has become a welcome phrase because the process is now prompt and effortless. All

operations inclusive of management and monitoring have been simplified, allowing the technical team to concentrate efforts on further development and research apart from overlooking the network infrastructure.

Alongside putting in place the state of the art infrastructure as described above we embarked upon building a brand new application for customer and partner management, service provisioning, helpdesk and multi layer partner management. This application took into account all the features and services currently being offered by top international companies in the field of hosting, domain registration and SME email services. Looking at the large existing customer base, the future growth that we anticipate and in line with customer and partner expectations, this application has been developed to ensure easy use, flexibility, security and scalability for our partners and customers.

We are glad to say this application is now ready and will be beta tested for about 90-120 days before it goes live for all existing and new customers. Along with the upgrade in all the web presence services infrastructure, features and services, this application will be final peace in the jigsaw to pit us up against the best in the world in this area. It would especially enable us to penetrate deep into the hosting/domain reseller market across the world. With the inherent advantages of running your back end operations from India we shall definitely have an edge over competition worldwide.

### **Domain Registration Services**

Your company has also obtained an ICANN accreditation for domain registration. This has accorded us with the status of a registrar that links directly into the global registry for various domain extensions. Earlier we had been registering domain names via MelbourneIT, Bulkregister and Network Solutions. Here also, we are now at the same level as our erstwhile suppliers in terms of registrar status.

We continue to be the leaders amongst all .IN registrars as per the number of domain names and domain years registered.

Complete partner solutions is the direction we are moving in now. All a partner need do is selling. We shall manage everything from service provisioning, billing and invoicing automated mailers for renewals etc, contact changes, helpdesk and email support and all this in a seamless fashion as if the partner had their own back end infrastructure for all this. Such value adds to our partners shall be unparalleled in the industry worldwide and will surely lead to significant business wins.

### **Corporate Email Solutions**

With the growing demand for various different types of managed and unmanaged corporate/hosted email solutions, your company this year split this service area into a separate business segment, thus bringing greater focus to these high value services and solutions commoditized any time soon. Whilst 'Bizmail' is targeted at SMEs and SOHO customers and 'Bizmail Plus' for corporate customers, we have now developed 'Bizmail Elite'.

The Bizmail Elite Appliance is a complete turn-key Web mail and Mail-server solution, a high-performance system that provides rapid deployment, and unprecedented ease-of-administration. Bizmail Elite provides a complete solution of outsourced email management allowing organizations to stream line their mailing services.

The Bizmail Elite appliance delivers a complete hardware and software solution, and allows every organization to streamline Web-mail and email-server deployments. Using the inbuilt Web-admin panel administrators can simplify system maintenance. Users can access the comprehensive Web-mail interface of Bizmail Elite via any standard browser, and use existing POP3/IMAP clients to communicate with the server. Spam and Virus messages are filtered through the system, and offer users a comprehensive defence against unwanted messages. With our robust co-location infrastructure (data center) availability across major cities in India backed with our expertise in email management makes Bizmail Elite the perfect mailing solution for any corporate.

Some of our esteemed hosted email clients are: **Air India Express, Jindal Iron & Steel, Mukta Arts, Pantaloon Group, Shriram Finance, Suzuki Motor Cycle and Torrent Pharma.**

## VoIP Solutions

Your company has set up its own SIP infrastructure which we procured from Cisco Systems. The company has its infrastructure hosted in its Data Centres in India and shall shortly be collocating the same in Europe and South East Asia also. Although a competitive space globally, we are confident that this will be one of the key services driving our global revenues. We continue to work with our international VoIP partners for certain specific international markets and are in the process of migrating our customers to our own platform. Our SIP infrastructure can currently handle 30 million minutes a month of VoIP traffic and has been built to ensure high quality calls and easily scalable infrastructure as our volumes grow.

### Phonewala

We crossed the mark of 2000 **Phonewala** call shops, spreading our wings further from the metro centric operation into B & C category cities and towns ; both by partnering with new distributors and also giving a larger geographical area to our existing performing distributors. We are now in the process of handing over our earlier franchisees to our distributors in order to provide them higher volumes and avoid any possible channel conflict. It will be important to note that in some cases, our distributors are people who started off with just one call shop four years ago and have grown with the company. Our channel strategy goes a step further this year, with our distributors taking care of all sales and support functions for call shops, VoIP minutes and hardware (for HOME and SOHO segments), thus leading to reduction in overheads in a business that is growing exponentially in volume albeit with pressures on margins. Large corporate accounts and BPO/ITES companies will continue to be handled by our enterprise sales teams.

### Corporate VoIP Solutions

The service has been a considerable attraction for the Indian business houses as they get more confident about the quality and realize the tremendous cost advantages. Some of the bigger business houses have started moving towards a converged communication infrastructure which will yield many benefits including capacity utilization. As mentioned above the potential volume of business from SMEs and SOHO's is so large that we would not be doing it justice if we try and sell and service them directly. Hence we are in the midst of appointing regional distributors/partners to spread our reach.

Some of our esteemed corporate VoIP clients are: **Cipla, Cybermedia Group, Fabmall, HTC Global Services, Igate Mastech, Indian School of Business, L&T and Tata Consultancy Services.**

## Operations & Human Resources

We are now using a completely integrated ERP system which brings together all facets of the company internally and externally. This will result in significant benefits across a number of areas including: Sales force Automation, Billing, timely Accounting MIS, Human resources, inventory management, procurement and the time saved on account of manual approvals for all business functions etc. The management's ability to obtain data with ease at any time and generate customized reports to suit the need of the hour, will surely lead more accurate and swift decision making. This also is in line with our objective to make the organization system driven as opposed to person dependent.

Your company decided to honour the long standing commitments from our team members over the years and hence we introduced the Meritorious Service Awards this year. These would be given for 3, 5 and 7 years of service with the company. The award, a glorious trophy would be accompanied by generous cash rewards.

In order to keep all our team members informed on the happenings within the company and the industry at large we started our internal monthly newsletter – "E-vine". Contents include information about major

achievements and future endeavour's of various different departments; personal information on marriages, birthdays, new joinees etc. and quiz sections with exciting prizes.

### **Future Endeavors - 2006-2007**

Whilst ongoing developmental is a constant for our existing products and services in order to enhance them or do add a different flavor to it, we shall additionally be doing the following this year:

With our ISP partner having been allotted the 3.3 ghz frequency we shall launch our Wimax services this year. Even though we were to debut this service last year, various delays on the front of equipment manufacturers to deliver this equipment in the said band has caused to take on implantation within this financial year. We shall be the first service provider to start these services in the major metros. This would significantly improve our ability to win business in the Enterprise Internet Access space. We would start with the seven major business cities and subsequently grow to the other 4 cities.

With the successful deployment of our SIP infrastructure and associated telecom billing application, Net4 will be venturing into the wholesale VoIP market in the international markets. Although a tough low margin space internationally, we would be concentrating on trading in certain niche routes until the time we obtain an ILD license in India. Subsequent to that there would significant bilateral trading opportunities also.

We intend to further explore obtaining ILD and NLD licenses. The government has recently relaxed the entry fee in the ILD space from Rs. 25 crore to Rs. 2.5 crore and in the NLD space from Rs. 50 crore to Rs. 2.5 crore. These licenses also permit providing international and domestic VPN services. Till date we have not been offering VPN services, however, with our scale of operation and infrastructure increasing and the massive demand for VPN services, which are commonly sold alongside our other services, we strongly feel that entering this area will give us a quantum leap in top line, bottom line and market positioning. On the ILD side of course we would leverage our existing VoIP infrastructure (increase capacity) and provide voice termination services for international carriers.

Primarily in order to propel our co-location business and also to address a market need, we shall be introducing a range of hosted and managed applications. These would start off in the areas of Sales Force Automation, Human Resources, Mini ERP and hosted email services for platforms we don't currently have in our portfolio.

## AUDITORS' REPORT

The Members

M/s. NET 4 INDIA LTD.

1. We have audited the attached Balance Sheet of M/s. NET 4 INDIA LTD. as at March 31, 2006, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;
  - (iii) The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (iv) In our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (v) On the basis of written representations received from the directors, as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2006; and
    - (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date.
    - (c) In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Sandy Associates  
Chartered Accountants  
Sd/-

Sandeep Gupta  
Partner  
(Membership No. 86069)

Place: New Delhi  
Date : June 29, 2006

**ANNEXURE REFERRED TO IN PARAGRAPH 3 OF THE AUDITORS' REPORT TO THE MEMBERS OF M/S NET 4 INDIA LTD. ON THEIR ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006.**

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification. Nett Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.

2. As explained to us, inventory at all locations have been physically verified by the management at regular intervals during the year and at the year-end. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and the nature of its business.

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

The company is maintaining proper records of inventory. No material discrepancies have been noticed by the management on verification between the physical stocks and the book records.

In our opinion, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.

3. The Company has taken interest free unsecured loan from one director listed in the register maintained under section 301 of the Companies Act, 1956, (maximum amount Rs.220 lakhs) the terms and conditions of which are prima facie not prejudicial to the interests of the Company.

The Company has given an interest free unsecured loan to a party listed in the register maintained under Section 301 of the Companies Act, 1956, (maximum amount Rs.2000 lakhs) the terms and conditions of which are prima facie not prejudicial to the interests of the Company. In our opinion and according to the information and explanations given to us, there is no overdue amount of loans granted by the Company to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

The company has given interest free advances in the nature of loans to the employees of the company, the repayment in respect of which is regular and as stipulated, where such stipulations exist.

4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of finished goods, fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls system in respect of these areas.
5. In our opinion, and according to the information and explanations given to us, the transactions that need to be entered in the register in pursuance of section 301 of the Act have been entered, and the transactions have been made at prices which are reasonable with regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public and consequently, the directives issued by the Reserve Bank of India, the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable.
7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
8. According to the information and explanations given to us, the Central Government has not prescribed maintenance of Cost records under section 209(1) (d) of the Companies Act, 1956 in respect to the company.

9. According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has generally been regular in depositing with appropriate authorities undisputed statutory dues including provident fund, income tax, wealth tax, sales-tax, customs duty, investor education and protection fund and any other material statutory dues applicable to it. Interest has been deposited wherever applicable.

According to the information and explanations given to us, no undisputed dues payable in respect of income tax, wealth tax, sales tax, customs duty and cess were outstanding at March 31, 2006 for a period of more than six months from the date they become payable.

According to the information and explanations given to us, there are no dues in respect of sales tax, income tax, wealth tax, customs duty, and cess that have not been deposited with the appropriate authorities on account of any dispute.

10. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the financial year immediately preceding such financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any bank or financial institution. The Company has not issued any debentures.
12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the order is not applicable.
13. The Company is not a chit fund, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order is not applicable.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the order is not applicable.
15. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantee for loans taken by others from banks or financial institutions are not prima-facie prejudicial to the interests of the Company.
16. In our opinion, the term loans have been applied for the purpose for which they were raised.
17. According to the Cash Flow Statement and records examined by us and according to the information and explanations given to us, on overall basis, funds raised on short term basis have not been used during the year for long term investment and vice versa.
18. The Company has not made any preferential allotment to parties and companies covered in the register maintained under section 301 of the Act. Accordingly, clause 4(xviii) of the order is not applicable.
19. The Company has not issued any debentures. Accordingly, clause 4(xix) of the order is not applicable.
20. The Company has not raised any money by public issues during the year. Accordingly, clause 4(xx) of the order is not applicable.
21. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Sandy Associates  
Chartered Accountants  
Sd/-  
Sandeep Gupta  
Partner  
(Membership No. 86069)

Place: New Delhi  
Date : June 29, 2006

**NET 4 INDIA LIMITED**  
**BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2006**

(In Rs.'000 )

<b>Sources of Funds :</b>	<b>Schedule</b>	<b>March 31, 2006</b>	<b>March 31, 2005</b>
<b>Shareholders' Fund</b>			
Share Capital	A	162,500	162,500
Reserves & Surplus	B	150,418	135,890
<b>Loan Funds</b>			
Secured Loans	C	164,744	114,746
Unsecured Loans	D	6,387	22,150
		<b><u>484,049</u></b>	<b><u>435,286</u></b>
<b>Application of Funds :</b>			
<b>Fixed Assets</b>			
Gross Block	E	401,590	364,136
Less: Depreciation And Amortization		152,480	147,346
Net Block		<u>249,110</u>	<u>216,790</u>
Add: Capital Work-in-progress		-	32,701
		249,110	249,491
<b>Investments</b>			
Current Assets, Loans & Advances	F	7,550	7,050
Inventories		70,214	67,296
Sundry Debtors	G	185,640	144,815
Cash And Bank Balances	H	12,108	7,472
Other Current Assets	I	19,614	10,557
Loans And Advances	J	223,399	60,120
		<u>510,975</u>	<u>290,260</u>
Less: Current Liabilities & Provisions	K		
Current Liabilities		184,227	36,184
Provisions		99,359	75,475
		<u>283,586</u>	<u>111,659</u>
<b>Net Current Assets</b>		227,389	178,601
<b>Miscellaneous Expenditure</b>	L	-	144
(to the extent not written off or adjusted)			
		<b><u>484,049</u></b>	<b><u>435,286</u></b>
<b>Significant Accounting Policies</b>			
<b>Notes to Accounts</b>			
As per our report of even date attached,			

For Sandy Associates  
Chartered Accountants,  
Sd/-  
Sandeep Gupta  
Partner  
Membership No : 86069

Place : New Delhi  
Date : June 29, 2006

For and on behalf of the Board of Directors

Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

**NET 4 INDIA LIMITED**  
**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2006**

	Schedule	2005-06	2004-05
(in Rs.'000)			
<b>Income</b>			
Sales and Services			
Domestic		518,071	389,543
Overseas		<u>13,246</u>	<u>23,052</u>
		<b>531,317</b>	<b>412,595</b>
Cost of Sales and Services	M	216,577	152,063
Connectivity Charges		<u>43,668</u>	<u>23,935</u>
		<u>260,245</u>	<u>175,998</u>
<b>Gross Profit</b>		<b>271,072</b>	<b>236,597</b>
Personnel Cost	N	75,164	65,129
General and Administrative Expenses	O	69,512	62,624
Selling and Marketing Expenses	P	<u>17,370</u>	<u>13,286</u>
		<u>162,046</u>	<u>141,039</u>
<b>Operating Profit before interest, depreciation and amortization</b>		<b>109,026</b>	<b>95,558</b>
Interest and Finance Charges		13,502	11,310
Depreciation	E	46,290	42,853
Amortization on intangible assets	E	<u>8,236</u>	<u>8,236</u>
		<u>68,028</u>	<u>62,399</u>
<b>Operating Profit after interest, depreciation and amortization</b>		<b>40,998</b>	<b>33,159</b>
Other Income	Q	15,450	5,758
Prior Period Adjustments		<u>-</u>	<u>184</u>
		<u>15,450</u>	<u>5,574</u>
<b>Net Profit before tax</b>		<b>56,448</b>	<b>38,733</b>
Provision for Taxation			
Income Tax		22,500	7,200
Wealth Tax		95	-
Fringe Benefit Tax		1,273	-
Deferred Tax		<u>(477)</u>	<u>6,925</u>
<b>Net Profit after tax</b>		<b>33,057</b>	<b>24,608</b>
<b>Amount available for appropriation</b>		33,057	24,608
Proposed Dividend		16,250	16,250
Tax on Dividend		2,279	2,279
Amount transferred to General Reserve		825	615
Balance retained in Profit & Loss Account		13,703	5,464

**Significant Accounting Policies**

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**Notes to Accounts**

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As per our report of even date attached,

For Sandy Associates  
Chartered Accountants,  
Sd/-

Sandeep Gupta  
Partner

Membership No : 86069

For and on behalf of the Board of Directors

Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

Place : New Delhi  
Date : June 29, 2006

**NET 4 INDIA LIMITED**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2006**

	2005-06	2004-05
(in Rs. '000)		
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit Before Tax And Extraordinary Items	<b>56,448</b>	<b>38,733</b>
Adjustments For :		
Depreciation	46,290	42,853
Amortisation Of Intangible Assets	8,236	8,236
(Profit) / Loss On Sale Of Fixed Assets	(22)	97
Preliminary Expenses Written Off	144	196
Bad Debts	2,003	13,563
Interest On Borrowings	16,832	11,878
Interest Income	(216)	(128)
Provision For Doubtful Debts	-	(9,860)
Exchange Differences On Translation Of Foreign Currency Cash And Cash Equivalents	0	-
<b>Operating Profit Before Working Capital Changes</b>	<b>129,715</b>	<b>105,568</b>
Adjustments For :		
Sundry Debtors	(42,828)	(21,868)
Inventories	(2,920)	(21,213)
Loans And Advances	(160,815)	8,508
Provision For Retirement Benefits	1,353	179
Current Liabilities	148,043	9,127
<b>Cash Generated From Operations</b>	<b>72,548</b>	<b>80,301</b>
Direct Tax Paid	(12,381)	(7,919)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>60,167</b>	<b>72,382</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase Of Fixed Assets And Change In Capital Work In Progress	(161,521)	(68,702)
Proceeds On Disposal Of Fixed Assets	107,399	778
Investment In Subsidiaries	(500)	-
Interest Received	216	128
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(54,406)</b>	<b>(67,796)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds From Secured Loans	49,999	21,411
Repayment Of Unsecured Loans	(15,763)	(8,277)
Dividends Paid	(16,250)	-
Dividend Tax Paid	(2,279)	-
Interest Paid	(16,832)	(11,878)
<b>NET CASH USED FROM FINANCING ACTIVITIES</b>	<b>(1,125)</b>	<b>1,256</b>
<b>D. NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A) + (B)+ (C)</b>	<b>4,636</b>	<b>5,842</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b> (Refer Note)	<b>7,472</b>	<b>1,630</b>
<b>CASH AND CASH EQUIVALENTS, end of the year</b> (Refer Note)	<b>12,108</b>	<b>7,472</b>

- Notes :** (1) The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statement issued by The Institute of Chartered Accountants of India  
(2) Previous year's figures have been regrouped wherever necessary.

For and on behalf of the Board of Directors  
Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

Place : New Delhi  
Date : June 29, 2006

**AUDITORS' CERTIFICATE**

We have verified the above Cash Flow Statement of Net 4 India Ltd derived from the audited financial statements for the year ended March 31, 2006, and found the same to be drawn in accordance therewith and also with the requirements of Clause 32 of the listing agreement with stock exchange.

For Sandy Associates  
Chartered Accountants,  
Sd/-  
Sandeep Gupta  
Partner  
Membership No : 86069

Place : New Delhi  
Date : June 29, 2006

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

(in Rs.'000)

	<u>Mar 31, 2006</u>	<u>Mar 31, 2005</u>
<b>SCHEDULE 'A'</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
20,000,000 (P.Y.20,000,000) Equity Shares of Rs.10 each	<u>200,000</u>	<u>200,000</u>
<b>Issued, Subscribed and Paid - up</b>		
16,250,000 (P.Y.16,250,000) Equity Shares of Rs.10 each fully paid up	162,500	162,500
(Of the above, 7,500,000 shares were allotted as fully paid-up pursuant to Slump Sale Agreement for consideration other than cash)	<u>162,500</u>	<u>162,500</u>

	<u>April 1, 2005</u>	<u>Additions</u>	<u>March 31, 2006</u>
<b>SCHEDULE 'B'</b>			
<b>RESERVES &amp; SURPLUS</b>			
Share Premium	85,000		85,000
General Reserve	38,615	825	39,440
Profit & Loss Account	12,275	13,703	25,978
	<u>135,890</u>	<u>14,528</u>	<u>150,418</u>

	<u>Mar 31, 2006</u>	<u>Mar 31, 2005</u>
<b>SCHEDULE 'C'</b>		
<b>SECURED LOANS</b>		
Loans and advances from Banks		
- As Working Capital Loan	125,693	86,881
(Secured against hypothecation of stock and debtors and all movable assets and personal guarantee of director)		
- As Term Loan	33,606	25,854
(Secured against charge on fixed assets of the company)		
- As Other Loans	5,445	2,011
(Secured against hypothecation of vehicles)		
	<u>164,744</u>	<u>114,746</u>

<b>SCHEDULE 'D'</b>		
<b>UNSECURED LOANS</b>		
Loans and advances		
- From Directors	5,500	22,000
- From Others	887	150
	<u>6,387</u>	<u>22,150</u>

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

**SCHEDULE 'E'**  
**FIXED ASSETS**

(in Rs.'000)

Name	Original Cost			Depreciation and amortization			Net Block Value	
	As at 01.04.05	Additions during the year	As at 31.03.06 / Sale/ Adjust-ments	As at 01.04.05	For the year	Sale/ Adjust-ments	As at 31.03.06	As at 31.03.05
<b>TANGIBLE</b>								
Land	6,023	-	-	-	-	-	6,023	6,023
Building	-	54,200	54,200	-	2,094	-	52,106	-
Computers	191,365	110,201	129,974	104,397	36,429	43,428	74,194	86,968
Office Equipment	37,648	12,833	25,405	8,210	4,106	5,438	18,198	29,438
Furniture & Fixtures	13,839	12,425	1,018	6,177	2,775	266	16,560	7,662
Vehicles	3,462	4,564	372	1,108	886	260	5,920	2,354
<b>Total</b>	<b>252,337</b>	<b>194,223</b>	<b>156,769</b>	<b>119,892</b>	<b>46,290</b>	<b>49,392</b>	<b>173,001</b>	<b>132,445</b>
<b>INTANGIBLE</b>								
Goodwill	4,549	-	4,549	1,517	454	-	2,578	3,032
Trademarks	75,000	-	75,000	12,500	3,750	-	58,750	62,500
Hosting Platform	6,500	-	6,500	2,708	813	-	2,979	3,792
Technology	25,750	-	25,750	10,729	3,219	-	11,802	15,021
<b>Sub total (B)</b>	<b>111,799</b>	<b>-</b>	<b>-</b>	<b>27,454</b>	<b>8,236</b>	<b>-</b>	<b>76,109</b>	<b>84,345</b>
<b>TOTAL (A+B)</b>	<b>364,136</b>	<b>194,223</b>	<b>156,769</b>	<b>147,346</b>	<b>54,526</b>	<b>49,392</b>	<b>249,110</b>	<b>216,790</b>
<b>Previous Year</b>	<b>311,222</b>	<b>55,092</b>	<b>2,178</b>	<b>97,560</b>	<b>51,089</b>	<b>1,303</b>	<b>216,790</b>	<b>-</b>

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

(in Rs.'000)

	<b>Mar 31, 2006</b>	<b>Mar 31, 2005</b>
<b>SCHEDULE 'F'</b>		
<b>INVESTMENTS</b>		
<b>LONG TERM, UNQUOTED, AT COST</b>		
<b>INVESTMENT IN SHARES</b>		
Non Trade		
50,000 shares of Rs.10 each fully paid up of Net 4 Communications Ltd*	500	-
70,500 shares of Rs.100 each fully paid up of Net 4 Barter Pvt Ltd	7,050	7,050
	<b>7,550</b>	<b>7,050</b>

**SCHEDULE 'G'**

<b>SUNDRY DEBTORS</b>			
<b>(Unsecured)</b>			
Debts Exceeding 6 months:			
- Considered Good*	1,737	18,590	
- Considered Doubtful	11	11	
	1,748	18,601	
Less : Provisions for Doubtful Debts	11	11	18,590
Other debts	183,903	126,225	
	<b>185,640</b>	<b>144,815</b>	

\* Debtors include Rs.1,478/- (P.Y. Rs.1,450/-) due from Net 4 Internet.Com Ltd, a company under the same management. Maximum amount outstanding during the year Rs. 1,478/- (P.Y. 1,450)

**SCHEDULE 'H'**

<b>CASH AND BANK BALANCES</b>			
Cash in Hand	115	157	
Balances with Scheduled Banks	8,900	6,530	
Cheques in hand and Remittances in transit	3,093	785	
	<b>12,108</b>	<b>7,472</b>	

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

	<u>Mar 31, 2006</u>	<u>Mar 31, 2005</u>
		(in Rs.'000)
<b>SCHEDULE 'I'</b>		
<b>OTHER CURRENT ASSETS</b>		
Deposits	13,915	9,054
Prepaid expenses	1,086	790
Other assets	4,613	713
	<u>19,614</u>	<u>10,557</u>
<b>SCHEDULE 'J'</b>		
<b>LOANS AND ADVANCES</b> <b>(Unsecured, considered good)</b>		
Advance income tax	21,398	9,876
Advances recoverable in cash or in kind or for value to be received *	202,001	50,244
	<u>223,399</u>	<u>60,120</u>
* Includes Rs. 2,000 to Net 4 Communications Ltd, a wholly owned subsidiary		
<b>SCHEDULE 'K'</b>		
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>A) Current Liabilities</b>		
Sundry creditors		
for goods and services	73,976	21,827
others	41,090	310
Advances from customers	9,051	1,349
Accrued salaries and benefits	6,001	5,339
Provision for expenses	5,599	2,521
Withholding and other taxes payable	7,089	2,636
Unearned revenue	2,879	1,919
Other liabilities*	38,542	283
	<u>184,227</u>	<u>36,184</u>
* Includes dues to directors as sitting fees payable	8	2
* Includes unpaid dividend	13	-
<b>B) Provisions</b>		
Proposed dividend	16,250	16,250
Provision for gratuity and leave encashment	3,884	2,531
Provision for		
Income tax	37,720	16,080
Tax on dividend	2,279	2,279
Wealth tax	95	-
Fringe benefit tax	1,273	-
Deferred tax	37,858	38,335
	<u>99,359</u>	<u>75,475</u>
Total (A + B)	<u>283,586</u>	<u>111,659</u>
<b>SCHEDULE 'L'</b>		
<b>MISCELLANEOUS EXPENDITURE</b> (To the extent not written off or adjusted)		
Balance brought forward	144	340
Less: Written off during the period	144	196
	<u>-</u>	<u>144</u>

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED**

(in Rs.'000)

	<u>2005-06</u>	<u>2004-05</u>
<b>SCHEDULE 'M'</b>		
<b>COST OF SALES AND SERVICES</b>		
Purchase of finished goods and services	219,497	173,276
(Increase)/decrease in stock in trade	(2,920)	(21,213)
	<u>216,577</u>	<u>152,063</u>
<b>SCHEDULE 'N'</b>		
<b>PERSONNEL COST</b>		
Salaries, wages and bonus	66,789	58,170
Contribution to provident and other funds	5,550	3,821
Staff welfare, staff training and recruitment	2,825	3,138
	<u>75,164</u>	<u>65,129</u>
<b>SCHEDULE 'O'</b>		
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Rent	10,934	9,080
Communication	6,315	5,466
Travelling and conveyance	11,207	13,536
Repair and maintenance	8,053	7,942
Electricity and water charges	8,998	5,855
Legal and professional	4,826	5,368
Security charges	3,599	3,577
Bad Debts Written off	2,003	13,563
Increase /(Decrease) in Provision for doubtful debts	-	(9,860)
Bank Charges	4,302	1,962
Printing and stationery	1,417	1,334
Administrative and other expenses	846	932
Exchange rate fluctuation	-	247
Insurance	527	900
Membership and subscription	623	634
Books and periodicals	305	224
Preliminary expenses written off	144	196
Auditors remuneration	160	146
Loss on sale of Fixed Assets	-	97
Directors' sitting fees	8	5
Other miscellaneous expenses	5,245	1,420
	<u>69,512</u>	<u>62,624</u>

## SCHEDULE 'P'

### SELLING AND MARKETING EXPENSES

Advertising and marketing	7,044	4,495
Business promotion	1,951	2,196
Commission and brokerage	3,952	654
Entertainment	1,322	735
Exhibition expenses	601	916
Incentives	1,477	1,898
Retainership	1,023	2,392
	<b><u>17,370</u></b>	<b><u>13,286</u></b>

## SCHEDULE 'Q'

### OTHER INCOME

Sale of shared services including facilities and personnel	10,096	-
Profit on sale of Kolkata division	4,360	-
Credit balances / excess provision written back	251	5,237
Interest received	216	128
Exchange differences	173	-
Profit on sale of fixed assets	22	-
Miscellaneous income	332	393
	<b><u>15,450</u></b>	<b><u>5,758</u></b>

## SCHEDULE ' R ' - SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of Accounting

The financial statements are prepared in accordance with Indian Generally Accepted Accounting principles ("GAAP") under the historical cost convention on an accrual basis. GAAP comprises mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956, and guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

The Management evaluates all recently issued or revised accounting standards on an ongoing basis.

### (ii) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes and the useful lives of fixed assets and intangible assets.

The management periodically assesses using, external and internal sources, whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Where no reliable estimate can be made; a disclosure is made as contingent liability. Actual results could differ from those estimates.

### (iii) Fixed Assets and Depreciation

#### a) Tangible Assets:

Fixed assets are stated at cost, less accumulated depreciation. Costs directly attributable to the purchase of fixed assets are capitalized until fixed assets are ready for use. Capital work-in-progress comprises of advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use before the balance sheet date.

#### b) Depreciation:

Depreciation of Fixed Assets is provided on a pro-rata basis on the written down value method at the rates prescribed under Schedule XIV to the Companies Act, 1956.

Individual low cost assets (acquired for less than Rs.5,000/-) are depreciated in full.

#### c) Intangible Assets and amortization:

The management has assessed the future economic benefits using reasonable and supportable assumptions. As per the management's estimate

- (1) Cost of hosting platform and cost of technology are amortized over a period of 8 years and
- (2) Cost of Trademarks is amortized over a period of 20 years.
- (3) Goodwill is being amortized over a period of 10 years .

Trademarks represent the brand image of the company and constitute an asset with no limited useful life. Based on advice received by the management and as per the provisions of the Trade Marks and Merchandise Act of 1999, the company can retain the ownership and registration of the trademarks perpetually by renewing the registration at the end of every ten years, leading to the view that the useful life of its trademarks are unlimited.

However, as a matter of abandon precaution, the cost of the Trademarks is being amortized over a period of 20 years.

**(iv) Investments**

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Long Term Investments are stated at cost. Provision for diminution in their value is made only if such a decline is other than temporary in the opinion of the management.

**(v) Revenue Recognition**

The Company recognizes revenue on accrual basis.

- a) Revenue from the sale of hardware/software products is recognised when the sale is completed with the passing of title.
- b) Revenue from services is recognized in the ratio of period expired over the total agreement period.
- c) Revenue from Fixed Price Contracts is recognized as per the terms of the respective agreements.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. Lease rentals are recognized using the time-proportion method, based on rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established.

**(vi) Foreign Currency Transactions**

Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred, is converted into Indian Rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

Monetary current assets and monetary current liabilities that are denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting gain or loss is also recorded in the profit and loss account.

**(vii) Inventories**

Inventory is valued at lower of cost (determined on First In First Out basis) and estimated net realisable value.

Cost is inclusive of all purchase costs and other costs incurred in bringing the inventories to their present location and conditions.

**(viii) Retirement Benefits**

The company's contributions towards recognized Provident Fund is charged periodically to revenue on an accrual basis.

Gratuity has been provided in the Profit and Loss Account as per the provisions of the Payment of Gratuity Act, 1972. A lump sum payment is made to employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Provision for Leave encashment is made on the basis of unutilized leave due to employees at the end of the year.

**(ix) Research and development**

Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets, where management ascertains that costs incurred will be more than covered by

resultant gains over a specific period of time.

**(x) Borrowing Cost**

Interest and other costs in connection with the borrowing of funds to the extent related/attributed to the acquisition/construction of qualifying fixed assets are capitalized upto the date when such assets are ready for its intended use and other borrowing costs are charged to Profit & Loss Account.

**(xi) Earning Per Share**

Basic earning per share (EPS) is calculated by dividing the net profit after tax for the year (including the post-tax effect of extraordinary items, if any) attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

**(xii) Taxation**

Tax expense for the year comprises of current tax and deferred tax.

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered for income taxes and the profit as per the financial statements are identified, and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of the respective carrying values at each balance sheet date. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective April 1, 2005, the Company has made provision for FBT in accordance with applicable Income-tax laws.

**(xiii) Miscellaneous Expenditure**

Expenses incurred on increase in authorized capital have been capitalized and written off over a period of five years commencing from the year of increase.

**(xiv) Cash Flow Statement**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing, and investing activities of the company are segregated.

**(xv) Contingent Liabilities**

Depending on the facts of each case, and after evaluation of relevant legal aspects, the Company makes a provision when there is a present obligation as a result of a past event where the outflow of economic resources is probable and a relevant estimate of the amount of obligation can be made. The disclosure is made for all possible or present obligations that may but probably will not require outflow of resources as contingent liability in the financial statement.

## SCHEDULE ' S ' – NOTES TO ACCOUNTS

- (i) All amounts in the financial statements are presented in Rupees thousands, except for share data and as otherwise stated.
- (ii) Previous year's figures have been regrouped, rearranged and reclassified, wherever necessary to conform to current year's classification.
- (iii) Miscellaneous Expenditure (to the extent not written off / or adjusted) of Rs. Nil/- (Previous Year Rs. 144/-) represents expenses incurred on increase in authorised capital and has been written off over a period of five years.

**(iv) Deferred Tax**

Provision for deferred tax for the year ended March 31, 2006 has been made in accordance with the provisions of Accounting Standard 22 on Accounting for Taxes on Income, issued by The Institute of Chartered Accountants of India. The deferred tax income of Rs. 477/- (Previous year charge - Rs. 6,925/-), for the current year has been recognized in the Profit & Loss Account and comprises of the following:

Fixed Assets	351
Sundry Debtors	-
Retirement Benefits	828

**(v) Value of Imports on CIF Basis**

	<b>2005-06</b>	2004-05
	<b>(Rs.)</b>	(Rs.)
Finished Goods	4,101	2,836
Capital Goods	191	2,564
	<b>4,292</b>	<b>5,400</b>

**(vi) Earnings in Foreign Exchange (on receipt basis)**

Income from sales and services	<b>13,246</b>	16,958
--------------------------------	---------------	--------

**(vii) Expenditure in Foreign Currency (on payment basis)**

Domains	24,739	25,339
Legal & Professional Charges	-	67
Travelling Expenses	509	745
Exhibition Expenses	138	325
Membership and Subscription Charges	403	321
	<b>25,789</b>	<b>26,797</b>

**(viii) Remuneration to Auditors**

Statutory Audit Fees	132	110
Tax Audit Fees	28	22
For certification and consultation in other matters	58	50
Expenses reimbursed	1	14
	<b>219</b>	<b>196</b>

**(ix) Managerial Remuneration**

Salary	7,570	4,081
Perquisites and incentives	-	83
Contributions to Provident and other funds	580	369
Sitting Fees	8	5
Total Remuneration	<b>8,158</b>	<b>4,538</b>

The computation of net profits in accordance with Section 309(5) read with section 349 of the Companies Act, 1956, has not been given as the company does not envisage any payment of commission to directors.

**(x) Provision for Doubtful Debts**

Periodically the company evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, and general economic factors, which could effect the customer's ability to settle. As at March 31, 2006, the company has provided for doubtful debts of Rs. Nil (as at March 31, 2005 Rs. 11/-) on dues from customers. The company continues pursuing the parties for recovery of the dues, in part or full.

The company has written off Rs. 2,003/- as bad debts during the year.

- (xi)** The company's operations predominantly relate to providing IT services. There is thus only one reportable business segment i.e. internet related services, encompassing a comprehensive range of services, including software development, packaged software integration, colocation, web hosting, web development and web mailing solutions.

Secondary segmental reporting is performed on the basis of the geographical location of customers.

**Geographical Segment**

(Rs. in lakhs)

Particulars	Year ended March 31, 2006		Year ended March 31, 2005	
	Domestic	Overseas	Domestic	Overseas
Revenues	5,180.72	132.46	3,895.43	230.52
Net Fixed Assets	2,491.09	-	2,494.91	-
Debtors	1,654.91	201.50	1,200.83	247.32
Current Assets (Other than Debtors)	3,253.37	-	1,454.45	-

- (xii)** Term Deposits aggregating to Rs.12,815/- (P.Y.Rs.7,076/-) have been pledged with Bank as a security towards non-fund based facilities availed from Bank.

**(xiii) Remittance in Foreign Currency on account of Dividend**

The Company has paid dividend in respect of shares held by Non-residents by way of credit to their Non-Resident External Account (NRE A/c) or NRO A/c or otherwise by way of remittance in foreign currency.

The total amount remitted in this respect is given herein below:

a) Number of Non Resident Shareholders	4
b) Number of Equity Shares held by them	43,76,000
c) Amount of Dividend Paid (Rs. '000)	4,376
d) Year to which dividend relates	2004-05
e) Tax deducted at source	Rs. Nil

- (xiv)** The Company is taking steps to ascertain the actuarial Gratuity liability and necessary adjustments from the calculations done presently will be made on determination thereof. Meanwhile, the Company has established a Gratuity Fund, called the "Net 4 India Ltd Employees Gratuity Fund", under an irrevocable Trust for making provisions of gratuity benefits to the employees of the Company. This is pending approval of the Commissioner of Income-Tax.

- (xv)** Sundry Creditors, to the extent to which they could be identified as small scale and ancillary undertakings on the basis of information available with the Company, do not include any amount, which is outstanding for more than one month in excess of Rupees One Lakh. The Company is still awaiting response to letters written to other Creditors for ascertaining their status as small scale industries.

- (xvi) The Company's leasing arrangements are in respect of operating leases for premises (residential, office, stores etc). These leasing arrangements which are not non cancellable range between 11 months and 3 years generally, or longer, and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are shown as Rent under Schedule 'O'.
- (xvii) The Company's Kolkata division has been sold on a slump sale basis to its wholly owned subsidiary, Net 4 Communications Ltd, w.e.f. September 27, 2005. The sale has resulted in a net profit of Rs. 4,360/-
- (xviii) Related Party Disclosures as required by Accounting Standard-18:

List of Related Parties and Relationships

i) **Holding Companies:**

Nil

ii) **Subsidiaries of the Company:**

Net 4 Communications Ltd

iii) **Associates:**

Trak Online Net India Pvt Ltd.

Jiwan Financial Holdings Ltd

Net Four Internet.Com Ltd

iv) **Key Management Personnel and relatives of such personnel:**

Executive Directors:

Jasjit Sawhney

Amarjit S. Sawhney

Desi S. Valli

Non Executive Directors:

Biba Sawhney

S. K. Ghosh

Manish Wadhawan

Bharat Chawla

Relative of Director

Pawanjot Kaur Sawhney

v) **Other related parties:**

Sterling Capital Pvt Ltd

**Significant Related Party Transactions:**

Nature of Transaction	Subsidiary Company	Associates	Key Management Personnel	(Rs. in lakhs)	
				Others	Total
<b>Capital Transactions</b>					
Sale of Kolkata division	500	—	—	—	500
<i>Previous year</i>	—	—	—	—	—
Loans repaid	—	—	165	—	165
<i>Previous year</i>	—	—	83	—	83
<b>Revenue Transactions</b>					
Purchase of goods and services	—	1755	—	—	1755
<i>Previous year</i>	—	475	—	—	475
Purchase of shared services, including facilities and personnel					
<i>Previous year</i>	—	—	—	—	—
Sale of goods and services	847	3	—	—	850
<i>Previous year</i>	—	27	—	—	27

Sale of shared services including facilities and personnel	223	—	—	—	223
<i>Previous year</i>	—	—	—	—	—
Sitting fees	—	—	0.08	—	0.08
<i>Previous year</i>	—	—	0.05	—	0.05
Dividend	—	110	8	21	139
<i>Previous year</i>	—	—	—	—	—
Investments	5	—	—	—	5
<i>Previous year</i>	—	—	—	—	—
Balance of loans	2000	—	(55)	—	1945

- Details of remuneration paid to directors are given in note (xii) above.
- Current Liabilities include Rs. 0.08/- being sitting fees payable to Directors.

#### (xix) Basic Earnings Per Share

	2005-2006 (Rs.)	2004-2005 (Rs.)
<b>Numerator for basic earning per share</b>		
Profit before tax and prior period items	56,448	38,917
<b>Adjustment for net earnings</b>		
Prior period adjustment	-	184
Provision for Tax	23,391	14,125
<b>Total</b>	<b>33,057</b>	<b>24,608</b>

#### **Denominator for basic earning per share**

Weighted average number of shares	16,250,000	16,250,000
Basic earnings per share of Rs. 10/- each	2.03	1.51

The Company does not have any outstanding dilutive potential equity shares. Consequently, the basic and diluted earnings per share of the company remain the same.

#### (xx) Contingent Liabilities

Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favour of various government authorities and others amounting to Rs. 11,858/- (Previous year-Rs. 6,717/-) given by the Bankers in favour of various parties.

Guarantees to Banks against credit facilities extended to subsidiary amount to Rs. 140,000/- (Previous year – Rs. Nil)

Claims against the company, not acknowledged as debts amount to Rs. 91/- (Previous year Rs. 91/-)

(xxi) Estimated amount of contracts remaining to be executed on capital accounts not provided for (net of advance)- Rs. 256/- (Previous year-Rs. 14,624/-).

(xxii) It is not possible to furnish details of the quantities, due to heterogeneity of the items involved. Also, the Company is primarily engaged in the provision of services related to internet, which cannot be expressed in any generic unit. Hence, it is not possible to give the quantitative details of sales and certain information as required under paragraph 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

(xxiii) Schedule 'A' to 'S' form an integral part of the Balance Sheet and Profit and Loss Account.

Signatures to Schedule 'A' to 'S'

For Sandy Associates  
Chartered Accountants  
Sd/-  
Sandeep Gupta  
Partner

For and on behalf of the Board of Directors  
Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
CEO & Managing Director

Membership No : 86069

Place: New Delhi  
Date: June 29, 2006

Sd/-  
Krishan Kumar  
Company Secretary

**NET 4 INDIA LIMITED**  
**NOTES TO THE CASH FLOW STATEMENT**

1 Cash and Cash Equivalents

Cash and Cash Equivalents comprise the following amounts

	2005-06	2004-05
Cash in hand (including foreign currency notes and cheques)	115	157
Balances with Banks	8,900	6,530
Cheques in hand and in transit	3,093	785
Total	12,108	7,472
Effect of exchange rate changes	0	-
Cash & cash equivalents as restated	12,108	7,472



## NET 4 INDIA LIMITED

### BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

#### I. Registration Details

Registration No.  State Code   
 Balance-sheet     
 Date Date Month Year

#### II. Capital Raised during the year (Amount in Rs. '000)

Public Issue	Rights Issue
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>
Bonus Issue	Private Placement/ Preferential Issue
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>

#### III. Position of Mobilisation and Deployment of Funds (Amount in Rs. '000).

Total Liabilities	Total Assets
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="5"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="5"/>
Sources of Funds	Reserves & Surplus
Paid-up Capital	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="8"/>
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="6"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="0"/>	Unsecured Loans
Secured Loans	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="8"/> <input type="text" value="7"/>
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="6"/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="4"/> <input type="text" value="4"/>	Investments
Application of Funds	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="7"/> <input type="text" value="5"/> <input type="text" value="5"/> <input type="text" value="0"/>
Net Fixed Assets	Misc. Expenditure
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="4"/> <input type="text" value="9"/> <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="0"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>
Net Current Assets	Accumulated Losses
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="2"/> <input type="text" value="7"/> <input type="text" value="3"/> <input type="text" value="8"/> <input type="text" value="9"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/> <input type="text" value=""/>
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="2"/> <input type="text" value="7"/> <input type="text" value="3"/> <input type="text" value="8"/> <input type="text" value="9"/>	

#### IV. Performance of company (Amount in Rs. '000)

Turnover	Total Expenditure
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="7"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="4"/> <input type="text" value="8"/> <input type="text" value="6"/> <input type="text" value="9"/>
+ - Profit/Loss Before Tax	+ - Profit/Loss After Tax
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="6"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="8"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="3"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="7"/>
(Please tick appropriate box + for Profit - for Loss)	
Earning per share in Rs.	Dividend rate %
<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="."/> <input type="text" value="0"/> <input type="text" value="3"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="0"/>

#### V. Generic Names of Three Principal Products/Services of Company

(as per monetary terms)

The Company is in the Business of providing Internet related services which is not covered under ITC classification.

**For Net 4 India Ltd.**

Sd/-  
(Amarjit S. Sawhney)  
Director

Sd/-  
(Jasjit S. Sawhney)  
CEO & Managing Director

Sd/-  
(Krishan Kumar)  
Company Secretary

Place: New Delhi  
Date: June 29, 2006

## Statement Pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary companies

1	Name of Subsidiary Company	Net 4 Communications Ltd
2	Financial year ended	31.03.2006
3	Date from which they became subsidiary companies	08.07.2005
4	a Shares held by the holding company in the subsidiary	50,000 equity shares of Rs.10 each fully paid up
	b Extent of interest of holding company at the end of the financial year of the subsidiary companies	100%
5	The net aggregate amount of profits or losses of the subsidiary so far as it concern the members of holding company	
	a Not dealt with in the holding company's accounts:	
	i) For the financial year ended 31st March 2006	Rs. 109 Lakhs
	ii) For the previous financial years	Not applicable
	b. Dealt with in the holding company's accounts:	
	i) For the financial year ended 31st March 2006	NIL
	ii) For the previous financial years	Not applicable

For and on behalf of the Board of Directors

Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S.Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

Place : New Delhi  
Date : June 29, 2006

## Details of Subsidiary Companies

		(in Rs.'000)
1	Name of Subsidiary Company	Net 4 Communications Ltd
2	Capital	500
3	Reserves	10,772
4	Total Assets	319,680
5	Total Liabilities	319,680
6	Investments	Nil
7	Turnover/Total Income	292,081
8	Profit Before taxation	34,771
9	Provision for taxation	23,885
10	Profit After taxation	10,886
11	Proposed Dividend	100
12	Tax on dividend	14

For and on behalf of the Board of Directors

Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S.Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary



# *Consolidated Financial Statements and Notes*

## NET 4 INDIA LTD. CONSOLIDATED

### Auditor's Report

To, the Board of Directors of Net 4 India Ltd.

1. We have audited the attached Consolidated Balance Sheet of M/s. Net 4 India Ltd Group, as at March 31, 2006, the Consolidated Profit and Loss Account and also the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We did not audit the financial statements of the subsidiary, whose financial statements reflect total assets of Rs.3,472.96 lakhs as at March 31, 2006 and total revenues of Rs. 2,920.81 lakhs and cash inflows amounting to Rs.19.14 lakhs for the year. These financial statements and other financial information have been audited by another auditor whose report has been furnished to us, and our opinion, is based solely on the report of such other auditor.
4. We report that the consolidated financial statements have been prepared by the Company management in accordance with the requirements of Accounting Standard (AS) 21, 'Consolidated Financial Statements' issued by the Institute of Chartered Accountants of India.

In our opinion and to the best of the information and according to the explanations given to us, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India :

- (a) in the case of the Consolidated Balance Sheet, of the state of affairs of the Net 4 India Ltd Group as at 31st March, 2006; and
- (b) in the case of the Consolidated Profit and Loss Account, of the profit of the Net 4 India Group for the year ended on that date.
- (c) In the case of the Consolidated Cash Flow Statement, of the cash flows of the Net 4 India Group for the year ended on that date.

For Sandy Associates  
Chartered Accountants

Sd/-

Sandeep Gupta  
Partner

Membership No : 86069

Place: New Delhi  
Date: June 29, 2006

**NET 4 INDIA LIMITED**  
**CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006**

*(in Rs.'000 )*

<b>SOURCES OF FUNDS:</b>	Schedule	<u>March 31, 2006</u>	<u>March 31, 2005</u>
<b>SHAREHOLDERS' FUND</b>			
Share Capital	A	162,500	162,500
Reserves & Surplus	B	160,408	135,890
<b>LOAN FUNDS</b>			
Secured Loans	C	272,642	114,746
Unsecured Loans	D	6,897	22,150
		<u><b>602,447</b></u>	<u><b>435,286</b></u>
<b>APPLICATION OF FUNDS :</b>			
<b>FIXED ASSETS</b>			
	E		
Gross Block		666,678	364,136
Less: Depreciation and amortization		<u>231,325</u>	<u>147,346</u>
Net Block		435,353	216,790
Add: Capital work-in-progress		<u>-</u> 435,353	<u>32,701</u> 249,491
<b>INVESTMENTS</b>			
	F	7,050	7,050
<b>CURRENT ASSETS, LOANS &amp; ADVANCES</b>			
Inventories		98,400	67,296
Sundry Debtors	G	312,291	144,815
Cash and Bank Balances	H	14,022	7,472
Other Current Assets	I	19,619	10,557
Loans and Advances	J	<u>23,436</u>	<u>60,120</u>
		467,768	290,260
Less: Current liabilities & provisions	K		
Current Liabilities		184,555	36,184
Provisions		<u>123,291</u>	<u>75,475</u>
		<u>307,846</u>	<u>111,659</u>
<b>NET CURRENT ASSETS</b>		159,922	178,601
<b>MISCELLANEOUS EXPENDITURE</b>	L	122	144
(to the extent not written off or adjusted)			
		<u><b>602,447</b></u>	<u><b>435,286</b></u>

**Significant Accounting Policies**

**Notes to Accounts**

As per our report of even date attached,

For Sandy Associates  
Chartered Accountants

Sd/-  
Sandeep Gupta  
Partner

Membership No : 86069

Place : New Delhi  
Date : June 29, 2006

For and on behalf of the Board of Directors

Sd/- Sd/-  
Amarjit S. Sawhney Jasjit S. Sawhney  
Director CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

**NET 4 INDIA LIMITED**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006**

(in Rs.'000)

	<b>Schedule</b>	<b>2005-06</b>	<b>2004-05</b>
<b>Income</b>			
Sales and Services			
Domestic		727,311	389,543
Overseas		13,246	23,052
		<b>740,557</b>	412,595
Cost of Sales and Services	M	327,352	152,063
Connectivity Charges		43,694	23,935
		371,046	175,998
<b>Gross Profit</b>		<b>369,511</b>	236,597
Personnel Cost	N	76,277	65,129
General and Administrative Expenses	O	74,788	61,760
Selling and Marketing Expenses	P	20,464	13,286
		171,529	140,175
<b>Operating Profit before interest, depreciation and amortization</b>		<b>197,982</b>	96,422
Interest and Finance Charges		24,260	12,174
Depreciation	E	76,143	42,853
Amortization on intangible assets	E	8,236	8,236
		108,639	63,263
<b>Operating Profit after interest, depreciation and amortization</b>		<b>89,343</b>	33,159
Other Income	Q	994	5,758
Prior Period adjustments		-	184
<b>Net Profit before tax</b>		<b>90,337</b>	38,733
Provision for Taxation			
Income Tax		25,720	7,200
Wealth Tax		95	
Fringe Benefit Tax		1,279	
Deferred Tax		20,182	6,925
<b>Net Profit after tax</b>		<b>43,061</b>	24,608
<b>Amount available for appropriation</b>		43,061	24,608
Proposed Dividend		16,250	16,250
Tax on Dividend		2,293	2,279
Amount transferred to General Reserve		1,650	615
Balance retained in Profit & Loss Account		22,868	5,464
<b>Significant Accounting Policies</b>	R		
<b>Notes to Accounts</b>	S		

As per our report of even date attached,

For Sandy Associates  
Chartered Accountants,  
Sd/-

Sandeep Gupta  
Partner

Membership No : 86069

Place : New Delhi  
Date : June 29, 2006

For and on behalf of the Board of Directors  
Sd/-  
Amarjit S.Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

## NET 4 INDIA LIMITED

### CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

(in Rs.'000 )

**2005-06**

#### A. CASH FLOW FROM OPERATING ACTIVITIES

<b>Net Profit before Tax and Extraordinary items</b>	<b>90,337</b>	
Adjustments for :		
Depreciation	76,143	
Amortisation of intangible assets	8,236	
(Profit) / Loss on sale of fixed assets	(22)	
Preliminary expenses written off	163	
Bad debts	2,003	
Interest on borrowings	24,260	
Interest income	(216)	
Provision for doubtful debts	-	
Exchange differences on translation of foreign currency cash and cash equivalents	0	
<b>Operating Profit before Working Capital Changes</b>	<b>200,904</b>	
Adjustments for :		
Sundry Debtors	(169,479)	
Inventories	(31,104)	
Loans and Advances	39,150	
Provision for retirement benefits	1,385	
Current Liabilities	148,371	
<b>Cash generated from Operations</b>	<b>189,227</b>	
Direct Tax paid	(12,388)	
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>		<b>176,839</b>

#### B. CASH FLOW FROM INVESTING ACTIVITIES

Purchase of fixed assets and change in capital work in progress	(270,444)	
Proceeds on disposal of fixed assets	226	
Interest received	216	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(270,002)</b>

#### C. CASH FLOW FROM FINANCING ACTIVITIES

Proceeds from secured loans	157,896	
Repayment of unsecured loans	(15,253)	
Increase in Preliminary expenses	(141)	
Dividends paid	(16,250)	
Dividend tax paid	(2,279)	
Interest paid	(24,260)	
<b>NET CASH USED FROM FINANCING ACTIVITIES</b>		<b>99,713</b>

#### D. NET INCREASE / (DECREASE) IN CASH AND

<b>CASH EQUIVALENTS (A) + (B)+ (C)</b>		<b>6,550</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>		<b>7,472</b>
(Refer Note)		
<b>CASH AND CASH EQUIVALENTS, end of the year</b>		<b>14,022</b>
(Refer Note)		

#### Notes :

- (1) The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard -3on Cash Flow Statement issued by The Institute of Chartered Accountants of India.
- (2) Previous year's figures have been regrouped wherever necessary.

For and on behalf of the Board of Directors

Sd/-  
Amarjit S.Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
CEO & Managing Director

Sd/-  
Krishan Kumar  
Company Secretary

Place : New Delhi  
Date : June 29, 2006

#### AUDITORS CERTIFICATE

We have verified the above Cash Flow Statement of Net 4 India Ltd. derived from the audited financial statements for the year ended March 31, 2006, and found the same to be drawn in accordance therewith and also with the requirements of Clause 32 of the listing agreement with stock exchange.

For Sandy Associates  
Chartered Accountants,  
Sd/-

Sandeep Gupta  
Partner

Membership No : 86069

Place : New Delhi  
Date : June 29, 2006



**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

**SCHEDULE 'E'**  
**FIXED ASSETS**

(in Rs.'000)

Name	Original Cost			Depreciation and amortization			Net Block Value		
	As at 01.04.05	Additions during the year	Sale/ Adjust-ments	As at 31.03.06	As at 01.04.05	For the year	Sale/ Adjust-ments	As at 31.03.06	As at 31.03.05
<b>TANGIBLE</b>									
Land	6,023	-	-	6,023	-	-	-	6,023	6,023
Building	-	54,200	-	54,200	2,094	2,094	-	52,106	-
Computers	191,365	217,215	56	408,524	104,397	64,648	27	239,506	86,968
Office Equipment	37,648	13,308	180	50,776	8,210	5,541	113	37,138	29,438
Furniture & Fixtures	13,839	13,863	-	27,702	6,177	2,974	-	18,551	7,662
Vehicles	3,462	4,564	372	7,654	1,109	886	260	5,919	2,353
<b>Total</b>	<b>252,337</b>	<b>303,150</b>	<b>608</b>	<b>554,879</b>	<b>119,893</b>	<b>76,143</b>	<b>400</b>	<b>359,243</b>	<b>132,444</b>
<b>INTANGIBLE</b>									
Goodwill	4,549	-	-	4,549	1,516	454	-	2,579	3,033
Trademarks	75,000	-	-	75,000	12,500	3,750	-	58,750	62,500
Hosting Platform	6,500	-	-	6,500	2,708	813	-	2,979	3,792
Technology	25,750	-	-	25,750	10,729	3,219	-	11,802	15,021
<b>Sub total (B)</b>	<b>111,799</b>	<b>-</b>	<b>-</b>	<b>111,799</b>	<b>27,453</b>	<b>8,236</b>	<b>-</b>	<b>76,110</b>	<b>84,346</b>
<b>TOTAL (A+B)</b>	<b>364,136</b>	<b>303,150</b>	<b>608</b>	<b>666,678</b>	<b>147,346</b>	<b>84,379</b>	<b>400</b>	<b>435,353</b>	<b>216,790</b>
<b>Previous Year</b>	<b>311,222</b>	<b>55,092</b>	<b>2,178</b>	<b>364,136</b>	<b>97,560</b>	<b>51,089</b>	<b>1,303</b>	<b>216,790</b>	<b>-</b>

**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE CONSOLIDATED BALANCE SHEET AS AT**

(in Rs.'000)

	<b>March 31, 2006</b>	<b>March 31, 2005</b>
<b>SCHEDULE 'F'</b>		
<b>INVESTMENTS</b>		
<b>LONG TERM, UNQUOTED, AT COST</b>		
<b>INVESTMENT IN SHARES</b>		
Non Trade		
70,500 shares of Rs. 100 each fully paid up of Net 4 Barter Pvt. Ltd.	<b>7,050</b>	7,050

**SCHEDULE 'G'**

**SUNDRY DEBTORS**  
**(Unsecured)**

Debts Exceeding 6 months:

- Considered Good *	20,167	18,590
- Considered Doubtful	11	11
	20,178	18,601
Less : Provisions for Doubtful Debts	11	11
Other debts	20,167	18,590
	292,124	126,225
	<b>312,291</b>	<b>144,815</b>

\* Debtors include Rs. 1,478/- (P.Y. Rs. 1,450/-) due from Net 4 Internet. Com Ltd, a company under the same management. Maximum amount outstanding during the year Rs. 1,478/- (P.Y. Rs. 1,450/-)

**SCHEDULE 'H'**

**CASH AND BANK BALANCES**

Cash in Hand	115	157
Balances with Scheduled Banks	10,814	6,530
Cheques in hand and Remittances in transit	3,093	785
	<b>14,022</b>	<b>7,472</b>



**NET 4 INDIA LIMITED**  
**SCHEDULES TO THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED**

	<u>2005-06</u>	<u>(in Rs.'000)</u> <u>2004-05</u>
<b>SCHEDULE 'M'</b>		
<b>COST OF SALES AND SERVICES</b>		
Purchase of finished goods and services	358,458	173,276
(Increase)/decrease in stock in trade	(31,106)	(21,213)
	<u>327,352</u>	<u>152,063</u>
<b>SCHEDULE 'N'</b>		
<b>PERSONNEL COST</b>		
Salaries, wages and bonus	67,756	58,170
Contribution to provident and other funds	5,646	3,821
Staff welfare, staff training and recruitment	2,875	3,138
	<u>76,277</u>	<u>65,129</u>
<b>SCHEDULE 'O'</b>		
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Rent	10,934	9,080
Communication	7,068	5,466
Travelling and conveyance	12,193	13,536
Repair and maintenance	8,638	7,942
Electricity and water charges	9,785	5,855
Legal and professional	5,468	5,368
Security charges	3,905	3,577
Bad Debts Written off	2,003	13,563
Increase /(Decrease) in Provision for doubtful debts	-	(9,860)
Bank Charges	4,253	1,098
Printing and stationery	1,578	1,334
Administrative and other expenses	846	932
Exchange rate fluctuation	-	247
Insurance	840	900
Membership and subscription	761	634
Books and periodicals	307	224
Preliminary expenses written off	163	196
Auditors remuneration	188	146
Loss on sale of Fixed Assets	-	97
Directors' sitting fees	22	5
Other miscellaneous expenses	5,836	1,420
	<u>74,788</u>	<u>61,760</u>
<b>SCHEDULE 'P'</b>		
<b>SELLING AND MARKETING EXPENSES</b>		
Advertising and marketing	7,838	4,495
Business promotion	2,642	2,196
Commission and brokerage	3,952	654
Entertainment	2,230	735
Exhibition expenses	601	916
Incentives	1,552	1,898
Retainership	1,649	2,392
	<u>20,464</u>	<u>13,286</u>
<b>SCHEDULE 'Q'</b>		
<b>OTHER INCOME</b>		
Credit balances / excess provision written back	251	5,237
Interest received	216	128
Exchange differences	173	-
Profit on sale of fixed assets	22	-
Miscellaneous income	332	393
	<u>994</u>	<u>5,758</u>

## SCHEDULE 'R' - SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of Accounting

The financial statements are prepared in accordance with Indian Generally Accepted Accounting principles ("GAAP") under the historical cost convention on an accrual basis. GAAP comprises mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956, and guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

The Management evaluates all recently issued or revised accounting standards on an ongoing basis.

### (ii) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes and the useful lives of fixed assets and intangible assets.

The management periodically assesses using, external and internal sources, whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Where no reliable estimate can be made; a disclosure is made as contingent liability. Actual results could differ from those estimates.

### (iii) Principles of Consolidation

The consolidated financial statements include the financial statements of the Net 4 India Ltd and its subsidiary.

The consolidated financial statements have been combined on a line-by-line basis by adding the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/ transactions and unrealized profits in full.

The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by Net 4 India Ltd for its separate financial statements.

### (iv) Fixed Assets and Depreciation

#### a) Tangible Assets:

Fixed assets are stated at cost, less accumulated depreciation. Costs directly attributable to the purchase of fixed assets are capitalized until fixed assets are ready for use. Capital work-in-progress comprises of advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use before the balance sheet date.

#### b) Depreciation:

Depreciation of Fixed Assets is provided on a pro-rata basis on the written down value method at the rates prescribed under Schedule XIV to the Companies Act, 1956.

Individual low cost assets (acquired for less than Rs.5,000/-) are depreciated in full.

#### c) Intangible Assets and amortization:

The management has assessed the future economic benefits using reasonable and supportable assumptions. As per the management's estimate

(1) Cost of hosting platform and cost of technology are amortized over a period of 8 years and

(2) Cost of Trademarks is amortized over a period of 20 years.

(3) Goodwill is being amortized over a period of 10 years.

Trademarks represent the brand image of the company and constitute an asset with no limited useful life. Based on advice received by the management and as per the provisions of the Trade Marks and Merchandise Act of 1999, the company can retain the ownership and registration of the trademarks perpetually by renewing the registration at the end of every ten years, leading to the view that the useful life of its trademarks are unlimited.

However, as a matter of abandon precaution, the cost of the Trademarks is being amortized over a period of 20 years.

**(v) Investments**

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Long Term Investments are stated at cost. Provision for diminution in their value is made only if such a decline is other than temporary in the opinion of the management.

**(vi) Revenue Recognition**

The Company recognizes revenue on accrual basis.

- a) Revenue from the sale of hardware/software products is recognised when the sale is completed with the passing of title.
- b) Revenue from services is recognized in the ratio of period expired over the total agreement period.
- c) Revenue from Fixed Price Contracts is recognized as per the terms of the respective agreements.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. Lease rentals are recognized using the time-proportion method, based on rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established.

**(vii) Foreign Currency Transactions**

Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred, is converted into Indian Rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

Monetary current assets and monetary current liabilities that are denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting gain or loss is also recorded in the profit and loss account.

**(viii) Inventories**

Inventory is valued at lower of cost (determined on First In First Out basis) and estimated net realisable value.

Cost is inclusive of all purchase costs and other costs incurred in bringing the inventories to their present location and conditions.

**(ix) Retirement Benefits**

The company's contributions towards recognized Provident Fund is charged periodically to revenue on an accrual basis.

Gratuity has been provided in the Profit and Loss Account as per the provisions of the Payment of Gratuity Act, 1972. A lump sum payment is made to employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Provision for Leave encashment is made on the basis of unutilized leave due to employees at the end of the year.

**(x) Research and development**

Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets, where management ascertains that costs incurred will be more than covered by resultant gains over a specific period of time.

**(xi) Borrowing Cost**

Interest and other costs in connection with the borrowing of funds to the extent related/attributed to the acquisition/construction of qualifying fixed assets are capitalized upto the date when such assets are ready for its intended use and other borrowing costs are charged to Profit & Loss Account.

**(xii) Earning Per Share**

Basic earning per share (EPS) is calculated by dividing the net profit after tax for the year (including the post-tax effect of extraordinary items, if any) attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

**(xiii) Taxation**

Tax expense for the year comprises of current tax and deferred tax.

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered for income taxes and the profit as per the financial statements are identified, and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of the respective carrying values at each balance sheet date. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year.

Consequent to the introduction of Fringe Benefit Tax (FBT) effective April 1, 2005, the Company has made provision for FBT in accordance with applicable Income-tax laws.

**(xiv) Miscellaneous Expenditure**

Expenses incurred on increase in authorized capital have been capitalized and written off over a period of five years commencing from the year of increase.

**(xv) Cash Flow Statement**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing, and investing activities of the company are segregated.

**(xvi) Contingent Liabilities**

Depending on the facts of each case, and after evaluation of relevant legal aspects, the Company makes a provision when there is a present obligation as a result of a past event where the outflow of economic resources is probable and a relevant estimate of the amount of obligation can be made. The disclosure is made for all possible or present obligations that may but probably will not require outflow of resources as contingent liability in the financial statement.

## SCHEDULE 'S' – NOTES TO ACCOUNTS

- (i) All amounts in the financial statements are presented in Rupees thousands, except for share data and as otherwise stated.
- (ii) Figures of the current year include those of Net 4 Communications Ltd, which was incorporated in India as a wholly owned subsidiary during the year and is being consolidated for the first time this year.
- (iii) Previous year's figures have been regrouped, rearranged and reclassified, wherever necessary to conform to current year's classification.

- (iv) The deferred tax liability for the year ended March 31, 2006 comprises of the following:

Fixed Assets	21021
Sundry Debtors	-
Retirement Benefits	839

(v) <b>Remuneration to Auditors</b>	2005-06	2004-05
Statutory Audit Fees	149	110
Tax Audit Fees	39	22
For certification and consultation in other matters	58	50
Expenses reimbursed	1	14
	<u>247</u>	<u>196</u>
<b>(vi) Managerial Remuneration</b>		
Salary	7,570	4,081
Perquisites and incentives	-	83
Contributions to Provident and other funds	580	369
Sitting Fees	22	5
Total Remuneration	<u>8,172</u>	<u>4,538</u>

The computation of net profits in accordance with Section 309(5) read with section 349 of the Companies Act, 1956, has not been given as the company does not envisage any payment of commission to directors.

- (vii) **Provision for Doubtful Debts**

Periodically the company evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, and general economic factors, which could effect the customer's ability to settle. As at March 31, 2006, the company has provided for doubtful debts of Rs. Nil (as at March 31, 2005 Rs. 11/-) on dues from customers. The company continues pursuing the parties for recovery of the dues, in part or full.

The company has written off Rs. 2,003/- as bad debts during the year.

- (viii) The company's operations predominantly relate to providing IT services. There is thus only one reportable business segment i.e. internet related services, encompassing a comprehensive range of services, including software development, packaged software integration, colocation, web hosting, web development and web mailing solutions.

Secondary segmental reporting is performed on the basis of the geographical location of customers.

### Geographical Segment

(Rs. in lakhs)

Particulars	Year ended March 31, 2006		Year ended March 31, 2005	
	Domestic	Overseas	Domestic	Overseas
Revenues	7,273.11	132.46	3,895.43	230.52
Net Fixed Assets	4,353.53	-	2,494.91	-
Debtors	2,921.41	201.50	1,200.83	247.32
Current Assets (Other than Debtors)	1,554.77	-	1,454.45	-

- (ix) Term Deposits aggregating to Rs.14,709/- (P.Y.Rs.7,076/-) have been pledged with Banks as security towards non-fund based facilities availed from Banks.
- (x) The Company's leasing arrangements are in respect of operating leases for premises (residential, office, stores etc). These leasing arrangements which are not non cancellable range between 11 months and 3 years generally, or longer, and are usually renewable by mutual consent on mutually agreeable terms. The aggregate lease rentals payable are shown as Rent under Schedule 'O'.
- (xi) Related Party Disclosures as required by Accounting Standard-18:

List of Related Parties and Relationships

i) **Holding Companies:**

Nil

ii) **Associates:**

Trak Online Net India Pvt Ltd.

Jiwan Financial Holdings Ltd

Net Four Internet.Com Ltd

iii) **Key Management Personnel and relatives of such personnel:**

Executive Directors:

Jasjit Sawhney

Amarjit S. Sawhney

Desi S. Valli

Non Executive Directors:

Biba Sawhney

S. K. Ghosh

Manish Wadhawan

Bharat Chawla

Relative of Director

Pawanjot Kaur Sawhney

iv) **Other related parties:**

Sterling Capital Pvt Ltd

Significant Related Party Transactions:

(Rs. in lakhs)

Nature of Transaction	Associates	Key Management Personnel	Others	Total
<b>Capital Transactions</b>				
Loans taken	—	15	—	15
Previous year	—	—	—	—
Loans repaid	—	175	—	175
Previous year	—	83	—	83
<b>Revenue Transactions</b>				
Purchase of goods and services	1755	—	—	1755
Previous year	475	—	—	475
Sale of goods and services	3	—	—	3
Previous year	27	—	—	27
Sitting fees	—	0.22	—	0.22
Previous year	—	0.05	—	0.05
Dividend	110	8	21	139
Previous year	—	—	—	—
Balance of loans	—	(60)	—	(60)

· Details of remuneration paid to directors are given in note (xii) above.

· Current Liabilities include Rs. 0.22/- being sitting fees payable to Directors.

**(xii) Basic Earnings Per Share**

	<b>2005-2006</b> (Rs.)	2004-2005 (Rs.)
<b>Numerator for basic earning per share</b>		
Net Profit as per Profit and Loss Account	<b>43,061</b>	<b>24,608</b>
<b>Denominator for basic earning per share</b>		
Weighted average number of shares	16,250,000	16,250,000
Basic earnings per share of Rs. 10/- each	2.65	1.51

The Company does not have any outstanding dilutive potential equity shares. Consequently, the basic and diluted earnings per share of the company remain the same.

**(xiii) Contingent Liabilities**

Outstanding guarantees and counter guarantees to various banks, in respect of the guarantees given by those banks in favour of various government authorities and others amounting to Rs. 11,858/- (Previous year-Rs. 6,717/-) given by the Bankers in favour of various parties.

Claims against the company, not acknowledged as debts amount to Rs. 91/- (Previous year-Rs. 91/-)

**(xiv)** Estimated amount of contracts remaining to be executed on capital accounts not provided for (net of advance)- Rs. 256/- (Previous year-Rs. 14,624/-).

**(xv)** Schedule 'A' to 'S' form an integral part of the Balance Sheet and Profit and Loss Account.

Signatures to Schedule 'A' to 'S'

For Sandy Associates  
Chartered Accountants

Sd/-

Sandeep Gupta

Partner

Membership No : 86069

For and on behalf of the Board of Directors

Sd/-

Amarjit S. Sawhney

Director

Sd/-

Jasjit S. Sawhney

CEO & Managing Director

Sd/-

Krishan Kumar

Company Secretary

Place: New Delhi

Date: June 29, 2006



*Net 4 Communications Ltd's  
Annual Report*

## DIRECTORS' REPORT TO THE MEMBERS

Your Directors have pleasure in presenting their 1<sup>st</sup> Annual Report together with the Audited Accounts for the year ended March 31, 2006.

(in Rs. Lacs)

<b>Financial Results</b>	<b>Year Ended March 31, 2006</b>
Total Income	2920.81
Expenditure	2198.07
Depreciation & Amortization	300.75
Interest & Finance Charges	74.28
Net Profit before Tax	347.71
Provision for Taxation (including Deferred Tax)	238.85
<b>Net Profit after Tax</b>	<b>108.86</b>

### Performance

During the year under review, the performance of the Company in its first year of operation was reasonably good. In the year 2005-2006, the Total Income of the company was Rs. 2920.81 lacs and the Net Profit after Tax was Rs.108.86 Lacs.

### Operations

In the very first year of the operation, your company has established its presence in internet related services in the Eastern part of India. There has been a significant growth in the high potential market of Kolkata and the rest of the Eastern region supported by the low cost infrastructure and easy availability of skilled manpower and congenial State Government policies. Presently your company is doing business under brand name of its holding company i.e. Net4. Your Company is already in the internet related business. In order to consolidate the business, it has already taken suitable steps to obtain necessary license or amalgamate with an ISP. It has plans to establish itself as a leader in niche areas of internet and allied IT services such as Data Center services for disaster recovery solutions, Managed services and Remote Network Management for corporate and international service provider's networks.

### Holding Company

During the year under review, the Company has become 100% wholly owned subsidiary of Net 4 India Ltd. having its head office at New Delhi. The company doesn't have any subsidiary company.

### Increase in Authorised Share Capital

In order to facilitate the issue of share capital in future, the members in their meeting held on 31<sup>st</sup> March, 2006 have approved increase in authorised share capital of the Company from Rs. 10 lacs to Rs. 5.00 crores by creation of 49,00,000 Ordinary shares of Rs.10 each.

### Dividend

The Board of Directors of the Company have recommended dividend @ 20% (Rs. 2/- per Share) for the year 2005-2006 subject to approval of members in their ensuing Annual General Meeting.

### Auditors and Auditors' Report

The Auditors M/s Avinash Verma & Associates retire at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

The notes to the accounts referred to in the Auditors' report are self-explanatory and therefore do not call for any further comments.

### Directors

Mr. Amarjit Singh Sawhney, Mr. Jasjit Singh Sawhney, Mr. Desi Subri Valli and Mr. Sandip K. Ghosh, Directors will be appointed as a regular director, to retire by rotation at the forthcoming Annual General Meeting.

### **Directors Responsibility Statement**

Pursuant to the provisions of the Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

- (i) That in the preparation of the Annual Accounts, the applicable accounting standards had been followed and wherever required, proper explanations relating to material departures.
- (ii) That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.
- (iii) That Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) That the Accounts have been prepared on a going concern basis.

### **Fixed Deposit**

Your Company has not accepted any deposits within the meaning of Section 58 A of the Companies Act, 1956. As such, no amount of principal or interest was outstanding as of the Balance Sheet date.

### **Listing**

The shares of your Company are not listed on any Stock Exchange.

### **Technology Absorption and Foreign Exchange Earnings & Outgo**

Information as required under the Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 in respect of energy conservation, Technology absorption and Foreign Exchange earnings and outgo is given in Annexure-I to this report.

### **Particulars of the employees**

None of employees of the Company fall within the preview of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended.

### **Acknowledgements**

Your Board of Directors would like to place on record their sincere appreciation for the whole hearted support and contributions made by all the employees of the Company, as well as, Customers, Bankers, Central & State Governments towards the conduct of the efficient operations of your Company. Last but not the least the Board of Directors wish to thank the customers, shareholders of the Company and the Business Associates for their unstinted support.

for and on behalf of the Board of Directors

Sd/-

Sandip K. Ghosh  
Chairman

Place: Kolkata

Dated: 29<sup>th</sup> June, 2006

## ANNEXURE -I

### A. Particulars With Respect To Conservation Of Energy:

The operations of your company are not energy conservative. Adequate measures have been taken to conserve energy by using energy efficient computers and equipments with latest technologies. Your company is on the constant look out for newer and efficient energy conservation technologies and introduces them appropriately.

### B. Research and Development (R & D)

Your Company continued its R & D efforts to build competence in Internet & related services thereby ensuring continuous movement up the value chain. Since business and technologies are changing constantly, continuous research and development needs to be undertaken. Your Company has been able to develop processes and methodologies that have resulted in constant improvement in quality and productivity. However, there is no separate allocation of funds for R & D, therefore, exact amount spent on research and development is not ascertainable.

### C. Technology Absorption, Adaptation and Innovation

Your Company's core businesses demand absorption of emerging technologies to stay at the cutting edge of technology. New methods for absorbing, adapting and effectively deploying new technologies have been developed.

### D. Foreign Exchange Earnings And Outgoings

There is no foreign exchange transaction by the Company during the year under review.

Place: Kolkata  
Dated: 29<sup>th</sup> June, 2006

for and on behalf of the Board of Directors

Sd/-  
Sandip K. Ghosh  
Chairman

## AUDITORS' REPORT

The Members

M/s. NET 4 COMMUNICATIONS LIMITED.

1. We have audited the attached Balance Sheet of M/s. NET 4 COMMUNICATIONS LTD. as at March 31, 2006, the Profit and Loss Account and also the Cash Flow Statement for the period ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us;
  - (iii) The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (iv) In our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
  - (v) On the basis of written representations received from the directors, as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
  - (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> March, 2006; and
    - (b) in the case of the Profit and Loss Account, of the profit for the period ended on that date.
    - (c) In the case of the Cash Flow Statement, of the cash flows for the period ended on that date.

For Avinash Verma & Associates  
Chartered Accountants

Sd/-  
Avinash Verma  
Proprietor

Place: Kolkata  
Date: June 29, 2006

**ANNEXURE REFERRED TO IN PARAGRAPH 3 OF THE AUDITORS' REPORT TO THE MEMBERS OF M/S NET 4 COMMUNICATIONS LIMITED ON THEIR ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2006.**

1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

All the assets have been physically verified by the management during the year. No material discrepancies were noticed on such verification.

During the year, the Company has not disposed off substantial part of fixed assets.

2. The inventory at all locations has been physically verified by the management at regular intervals during the year and at the year-end. In our opinion, the frequency of verification is reasonable.

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

The company is maintaining proper records of inventory. No material discrepancies have been noticed by the management on verification between the physical stocks and the book records.

In our opinion, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.

3. The Company has taken interest free unsecured loan from parties listed in the register maintained under section 301 of the Companies Act, 1956, (maximum amount Rs.2000 lakhs) the terms and conditions of which are prima facie not prejudicial to the interests of the Company.

The Company has not granted any loans secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of finished goods, fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls system in respect of these areas.
5. In our opinion, and according to the information and explanations given to us, the transactions that need to be entered in the register in pursuance of section 301 of the Act have been entered, and the transactions have been made at prices which are reasonable with regard to the prevailing market prices at the relevant time.
6. The Company has not accepted any deposits from the public and consequently, the directives issued by the Reserve Bank of India, the provisions of Sections 58A and 58AA of the Companies Act, 1956 and the rules framed thereunder are not applicable.

7. The Company has no formal internal audit department as such but its control procedures ensure reasonable internal checking of its financial and other records.
8. According to the information and explanations given to us, the Central Government has not prescribed maintenance of Cost records under section 209(1) (d) of the Companies Act, 1956 in respect to the company.
9. According to the information and explanations given to us, and on the basis of our examination of the books of account, the Company has generally been regular in depositing with appropriate authorities undisputed statutory dues including provident fund, income tax, wealth tax, sales-tax, customs duty, investor education and protection fund and any other material statutory dues applicable to it. Interest has been deposited wherever applicable.

According to the information and explanations given to us, no undisputed dues payable in respect of income tax, wealth tax, sales tax, customs duty and cess were outstanding at March 31, 2006 for a period of more than six months from the date they become payable.

According to the information and explanations given to us, there are no dues in respect of sales tax, income tax, wealth tax, customs duty, and cess that have not been deposited with the appropriate authorities on account of any dispute.

10. The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the financial year immediately preceding such financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any bank or financial institution. The Company has not issued any debentures.
12. The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, clause 4(xii) of the order is not applicable.
13. The Company is not a chit fund, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order is not applicable.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4(xiv) of the order is not applicable.
15. The Company has not given guarantee for loans taken by others from banks or financial institutions. Accordingly, clause 4(xv) of the order is not applicable.
16. In our opinion, the term loans have been applied for the purpose for which they were raised.
17. According to the Cash Flow Statement and records examined by us and according to the information and explanations given to us, on overall basis, funds raised on short term basis have not been used during the year for long term investment and vice versa.

18. The Company has not made any preferential allotment to parties and companies covered in the register maintained under section 301 of the Act. Accordingly, clause 4(xviii) of the order is not applicable.
19. The Company has not issued any debentures. Accordingly, clause 4(xix) of the order is not applicable.
20. The Company has not raised any money by public issues during the year. Accordingly, clause 4(xx) of the order is not applicable.
21. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For Avinash Verma & Associates  
Chartered Accountants

Sd/-  
Avinash Verma  
Partner

Place: Kolkata  
Date: June 29, 2006





**NET 4 COMMUNICATIONS LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31<sup>ST</sup> MARCH, 2006**

*in Rs.'00 0*

	<b>Schedule</b>	<b><u>2005-06</u></b>
Income from Sales and Services		<b>292,081</b>
Cost of Sales and Services		120,041
Connectivity Charges		75,488
		<hr style="width: 100%;"/>
		195,529
<b>Gross Profit</b>		<b>96,552</b>
Personnel Cost	‘K’	10,076
General and administrative expenses	‘L’	10,106
Selling and marketing expenses	‘M’	4,096
		<hr style="width: 100%;"/>
		24,278
<b>Operating Profit before interest, depreciation and amortization</b>		<b>72,274</b>
Interest		7,428
Depreciation	‘E’	29,853
Amortization	‘E’	222
		<hr style="width: 100%;"/>
		37,503
<b>Operating Profit after interest, depreciation and amortization</b>		<b>34,771</b>
Other Income, net		-
<b>Net Profit before tax</b>		<b>34,771</b>
Provision for Taxation		
Current Tax		3,220
Fringe Benefit Tax		6
Deferred Tax		20,659
		<hr style="width: 100%;"/>
<b>Net Profit after tax</b>		<b><u>10,886</u></b>
<b>Amount available for appropriation</b>		
Proposed Dividend		100
Tax on Dividend		14
Amount transferred to General Reserve		825
Balance retained in Profit & Loss Account		9,947

**Significant Accounting Policies**

‘N’

**Notes on Accounts**

‘O’

As per our report attached,

For Avinash Verma & Associates

Chartered Accountants,

Sd/-

Avinash Verma

Proprietor

For and on behalf of the Board of Directors

Sd/-

Amarjit S. Sawhney

Director

Sd/-

Jasjit S. Sawhney

Director

Sd/-

Sanjeev Jain

Company Secretary

Place : Kolkata

Date : 29th June, 2006

**NET 4 COMMUNICATIONS LIMITED**  
**CASH FLOW STATEMENT FOR THE PERIOD ENDED 31<sup>ST</sup> MARCH, 2006**

in Rs.'000

	<b>2005-06</b>
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>	
Net Profit before Tax and Extraordinary items	34,771
Adjustments for :	
Depreciation	29,853
Amortization	222
Preliminary expense written off	19
Interest expense	7,428
<b>Operating Profit before Working Capital Changes</b>	<b>72,293</b>
Adjustments for :	
Sundry Debtors	(126,651)
Inventories	(28,186)
Loans and Advances	(35)
Provision for retirement benefits	32
Current liabilities and provisions	3,584
<b>Cash generated from Operations</b>	<b>(78,963)</b>
Taxes paid	(6)
<b>NET CASH GENERATED BY OPERATING ACTIVITIES</b>	<b>(78,969)</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets	(220,456)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(220,456)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>	
Proceeds from issue of share capital	500
Proceeds from secured loans	107,898
Proceeds from unsecured loans	200,510
Preliminary expenses	(141)
Interest expense	(7,428)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>301,339</b>
<b>D. NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A) + (B)+ (C)</b>	<b>1,914</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, end of the year</b>	<b>1,914</b>

**Note :** The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard-3 on Cash Flow Statement issued by The Institute of Chartered Accountants of India.

For and on behalf of the Board of Directors

Sd/-  
Amarjit S. Sawhney  
Director

Sd/-  
Jasjit S. Sawhney  
Director

Place : Kolkata  
Date : June 29, 2006

Sd/-  
Sanjeev Jain  
Company Secretary

**AUDITORS' CERTIFICATE**

We have verified the above Cash Flow Statement of Net 4 Communications Ltd. derived from the audited financial statements for the year ended March 31, 2006, and found the same to be drawn in accordance therewith and also with the requirements of Clause 32 of the listing agreement with stock exchange.

For Avinash Verma & Associates  
Chartered Accountants,

Sd/-  
Avinash Verma  
Proprietor

Place : Kolkata  
Date : June 29, 2006

**NET 4 COMMUNICATIONS LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

in Rs.'000

**March 31, 2006**

**SCHEDULE 'A'**

**SHARE CAPITAL**

**Authorised**

50,00,000 Equity Shares of Rs.10 each 50,000

**Issued, Subscribed and Paid-up**

50,000 Equity Shares of Rs.10 each fully paid up 500

**500**

**SCHEDULE 'B'**

**RESERVES & SURPLUS**

General Reserve 825

Profit and loss account 9,947

**10,772**

**SCHEDULE 'C'**

**SECURED LOANS**

Loans and advances from Banks

- As Working Capital Loan 50,093

- As Term Loan 57,805

**107,898**

The credit limits from Banks are secured primarily by hypothecation of present and future fixed assets and entire stock in trade, book debts and other current assets of the company

**SCHEDULE 'D'**

**UNSECURED LOANS**

Loans and advances

- From Directors 510

- From Others 200,000

**200,510**

**SCHEDULE 'E'**

**FIXED ASSETS**

Name	Original Cost			Depreciation and amortization			Net Block Value	
	As at 1.4.2005	Additions during the year	As at 31.3.2006	As at 1.4.2005	For the year	As at 31.3.2006	As at 31.3.06	As at 31.3.05
<b>TANGIBLE</b>								
Computers	-	193,531	193,531	-	28,219	28,219	165,312	-
Office Equipment	-	20,375	20,375	-	1,435	1,435	18,940	-
Furniture & Fixtures	-	2,190	2,190	-	199	199	1,991	-
Sub total (A)	-	216,096	216,096	-	29,853	29,853	186,243	-
<b>INTANGIBLE</b>								
Goodwill		4,360	4,360		222	222	4,138	-
Sub total (B)	-	4,360	4,360	-	222	222	4,138	-
<b>TOTAL (A+B)</b>	-	220,456	220,456	-	30,075	30,075	190,381	-
Previous Year		-	-	-	-	-	-	-

**NET 4 COMMUNICATIONS LIMITED**  
**SCHEDULES TO THE BALANCE SHEET AS AT**

*in Rs.'00 0*

**March 31, 2006**

**SCHEDULE 'F'**

**SUNDRY DEBTORS**

(Unsecured)

Debts Exceeding 6 months:

- Considered Good

18,430

- Considered Doubtful

-

18,430

Less : Provisions for Doubtful Debts

-

18,430

Other debts

108,221

**126,651**

**SCHEDULE 'G'**

**CASH AND BANK BALANCES**

Cash in Hand

0

Balances with Scheduled Banks

- in Current Accounts

20

- in Term Deposits

1,894

1,914

**1,914**

**SCHEDULE 'H'**

**CURRENT ASSETS, LOANS AND ADVANCES**

(Unsecured, considered good)

Advances for supply of goods and rendering of services

30

Advance tax

7

Prepaid Expenses

5

**42**

**SCHEDULE 'I'**

**CURRENT LIABILITIES AND PROVISIONS**

**A) Current Liabilities**

Sundry creditors

1,720

Accrued salaries and benefits

246

Withholding and other taxes payable

1,604

Other liabilities\*

14

3,584

\* Directors sitting fees payable

**B) Provisions**

Proposed Dividend

100

Tax on dividend

14

Provision for

income tax

3,220

fringe benefit tax

7

leave encashment

32

deferred tax

20,659

**24,032**

Total (A + B)

**27,616**

**SCHEDULE 'J'**

**MISCELLANEOUS EXPENDITURE**

(To the extent not written off or adjusted)

Preliminary and preoperative expenses

141

Less: Written off during the period

19

Balance carried forward

**122**

**NET 4 COMMUNICATIONS LIMITED**  
**SCHEDULES TO THE PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED**

*in Rs.'00 0*

**2005-06**

**SCHEDULE 'K'**

**PERSONNEL COST**

Salaries, wages and bonus	9,930
Contribution to provident and other funds	96
Staff welfare, staff training and recruitment	50
	10,076

**SCHEDULE 'L'**

**GENERAL AND ADMINISTRATIVE EXPENSES**

Electricity and water charges	1,733
Communication	1,356
Travelling and conveyance	1,632
Repair and maintenance	1,569
Rent	978
Legal and professional	664
Security charges	619
Printing and stationery	265
Insurance	316
Membership and subscription	138
Auditors remuneration	28
Preliminary expenses written off	19
Directors' sitting fees	14
Books and periodicals	6
Other miscellaneous expenses	769
	10,106

**SCHEDULE 'M'**

**SELLING AND MARKETING EXPENSES**

Advertising and marketing	1,277
Business promotion	756
Commission and brokerage	107
Entertainment	914
Sales Promotion Expenses	48
Incentives	368
Retainership	626
	4,096

## SCHEDULE ' N ' - SIGNIFICANT ACCOUNTING POLICIES

### (i) Basis of Accounting

The financial statements are prepared in accordance with Indian Generally Accepted Accounting principles ("GAAP") under the historical cost convention on an accrual basis. GAAP comprises mandatory Accounting Standards issued by the Institute of Chartered Accountants of India ("ICAI"), the provisions of the Companies Act, 1956, and guidelines issued by the Securities and Exchange Board of India. Accounting policies have been consistently applied except where a newly issued accounting standard is initially adopted or a revision to an existing accounting standard requires a change in the accounting policy hitherto in use.

The Management evaluates all recently issued or revised accounting standards on an ongoing basis.

### (ii) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires the management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debts, future obligations under employee retirement benefit plans, income taxes and the useful lives of fixed assets and intangible assets.

The management periodically assesses using, external and internal sources, whether there is an indication that an asset may be impaired. An impairment occurs where the carrying value exceeds the present value of future cash flows expected to arise from the continuing use of the asset and its eventual disposal. The impairment loss to be expensed is determined as the excess of the carrying amount over the higher of the asset's net sales price or present value as determined above. Contingencies are recorded when it is probable that a liability will be incurred, and the amount can be reasonably estimated. Where no reliable estimate can be made; a disclosure is made as contingent liability. Actual results could differ from those estimates.

### (iii) Fixed Assets and Depreciation

#### a) Tangible Assets:

Fixed assets are stated at cost, less accumulated depreciation. Costs directly attributable to the purchase of fixed assets are capitalized until fixed assets are ready for use. Capital work-in-progress comprises of advances paid to acquire fixed assets, and the cost of fixed assets that are not yet ready for their intended use before the balance sheet date.

#### b) Depreciation:

Depreciation of Fixed Assets is provided on a pro-rata basis on the written down value method at the rates prescribed under Schedule XIV to the Companies Act, 1956.

Individual assets costing less than Rs. 5,000 are depreciated in full in the year of purchase.

#### c) Intangible Assets and amortization:

Intangible Assets are stated at cost less accumulated amortization. Goodwill is being amortized over a period of 10 years.

### (iv) Investments

Trade investments are the investments made to enhance the company's business interests. Investments are either classified as current or long-term based on the management's intention at the time of purchase. Current investments are carried at the lower of cost and fair value. Long Term Investments are stated at cost. Provision for diminution in their value is made only if such a decline is other than temporary in the opinion of the management.

### (v) Revenue Recognition

The Company recognizes revenue on accrual basis.

- a) Revenue from the sale of hardware/software products is recognised when the sale is completed with the passing of title.
- b) Revenue from services is recognized in the ratio of period expired over the total agreement period.
- c) Revenue from Fixed Price Contracts is recognized as per the terms of the respective agreements.

Profit on sale of investments is recorded on transfer of title from the company and is determined as the difference between the sales price and the then carrying value of the investment. Lease rentals are recognized using the time-proportion method, based on rates implicit in the transaction. Dividend income is recognized when the company's right to receive dividend is established.

**(vi) Foreign Currency Transactions**

Expenditure in foreign currency is accounted at the exchange rate prevalent when such expenditure is incurred. Exchange differences are recorded when the amount actually received on sales or actually paid when expenditure is incurred, is converted into Indian Rupees. The exchange differences arising on foreign currency transactions are recognized as income or expense in the period in which they arise.

Monetary current assets and monetary current liabilities that are denominated in foreign currency are translated at the exchange rate prevalent at the date of the balance sheet. The resulting gain or loss is also recorded in the profit and loss account.

**(vii) Inventories**

Inventory is valued at lower of cost (determined on First In First Out basis) and estimated net realisable value.

Cost is inclusive of all purchase costs and other costs incurred in bringing the inventories to their present location and conditions.

**(viii) Retirement Benefits**

The company's contributions towards recognized Provident Fund is charged periodically to revenue on an accrual basis.

Provision for Leave encashment is made on the basis of unutilized leave due to employees at the end of the year.

**(ix) Research and development**

Revenue expenditure incurred on research and development is expensed as incurred. Capital expenditure incurred on research and development is depreciated over the estimated useful lives of the related assets, where management ascertains that costs incurred will be more than covered by resultant gains over a specific period of time.

**(x) Borrowing Cost**

Interest and other costs in connection with the borrowing of funds to the extent related/attributed to the acquisition/construction of qualifying fixed assets are capitalized upto the date when such assets are ready for its intended use and other borrowing costs are charged to Profit & Loss Account.

**(xi) Earning Per Share**

Basic earning per share (EPS) is calculated by dividing the net profit after tax for the year (including the post-tax effect of extraordinary items, if any) attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

**(xii) Taxation**

Tax expense for the year comprises of current tax and deferred tax.

Income taxes are computed using the tax effect accounting method, where taxes are accrued in the same period the related revenue and expenses arise. A provision is made for income tax annually

based on the tax liability computed, after considering tax allowances and exemptions. Provisions are recorded when it is estimated that a liability due to disallowances or other matters is probable.

The differences that result between the profit considered for income taxes and the profit as per the financial statements are identified, and thereafter a deferred tax asset or deferred tax liability is recorded for timing differences, namely the differences that originate in one accounting period and reverse in another, based on the tax effect of the aggregate amount being considered. The tax effect is calculated on the accumulated timing differences at the end of an accounting period based on prevailing enacted or substantially enacted regulations. Deferred tax assets are recognized only if there is reasonable certainty that they will be realized and are reviewed for the appropriateness of the respective carrying values at each balance sheet date. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year.

**(xiii) Miscellaneous Expenditure**

Preliminary expenses incurred on incorporation have been capitalized and are being written off over a period of five years commencing from incorporation.

**(xiv) Cash Flow Statement**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular revenue generating, financing, and investing activities of the company are segregated.

**(xv) Contingent Liabilities**

Depending on the facts of each case, and after evaluation of relevant legal aspects, the Company makes a provision when there is a present obligation as a result of a past event where the outflow of economic resources is probable and a relevant estimate of the amount of obligation can be made. The disclosure is made for all possible or present obligations that may but probably will not require outflow of resources as contingent liability in the financial statement.

**SCHEDULE ‘O’ – NOTES TO ACCOUNTS**

- (i)** All amounts in the financial statements are presented in Rupees thousands, except for share data and as otherwise stated.
- (ii)** Miscellaneous Expenditure (to the extent not written off / adjusted) of Rs. 122/- represents preliminary and preoperative expenses and is being written off over a period of five years.
- (iii)** In view of book profit for the year, Minimum Alternate Tax as per Section 115JB of the Income Tax Act, is provided for as current tax.
- (iv) Deferred Tax**

Provision for deferred tax for the year ended March 31, 2006 has been made in accordance with the provisions of Accounting Standard 22 on Accounting for Taxes on Income, issued by The Institute of Chartered Accountants of India. The deferred tax charge of Rs. 20,659/- for the current year has been recognized in the Profit & Loss Account and comprises of the following:

a.	Deferred Tax Liability	
	Related to Fixed Assets	20,670
b.	Deferred Tax Assets	
	Retirement Benefits	11
c.	Provision for Deferred Tax Liability (Net)	20,659

(v) **Remuneration to Auditors**

Audit Fees	
Statutory	17
Tax	11
Total	28

(vi) **Provision for Doubtful Debts**

Periodically the company evaluates all customer dues to the company for collectibility. The need for provisions is assessed based on various factors including collectibility of specific dues, risk perceptions of the industry in which the customer operates, and general economic factors, which could effect the customer's ability to settle. As at March 31, 2006, the company has not provided for any doubtful debts as the company is confident of collecting all amounts due.

(vii) The Company is operating in a single segment, that is providing internet related services. This encompasses a comprehensive range of services, including software development, packaged software integration, colocation, web hosting, web development and web mailing solutions.

(viii) Term Deposits aggregating to Rs.1,894/- have been pledged with Bank as a security towards non-fund based facilities availed from Bank.

(ix) As at March 31, 2006, the Company has no dues outstanding to small-scale industrial undertakings.

(x) The Company has purchased the Kolkata division of its holding company, Net 4 India Ltd, as a going concern, on a slump sale basis, w.e.f. September 27, 2005.

(xi) The unsecured long term loan of Rs. 200,000 from Net 4 India Ltd is to be converted into share capital.

(xii) Related Party Disclosures as required by Accounting Standard-18:

- The Company is a wholly owned subsidiary of Net 4 India Ltd.
- Key Management Personnel (appointed by the Holding Company i.e. Net 4 India Ltd)
  - Jasjit Sawhney
  - Amarjit S. Sawhney
  - Desi S. Valli
  - S. K. Ghosh
- The Key Management Personnel are on appointment to the Company from the Holding Company Net 4 India Ltd. The Company pays no remuneration to the key management personnel as their remuneration, being either full-time employees of the Holding Company, is paid by Net 4 India Ltd or otherwise compensated by associate companies of the Holding Company. Only sitting fees of Rs.14/- has been paid to the directors for the period under review.

d) Significant Related Party Transactions: (Rs. in lakhs)

Nature of Transaction	Holding Company	Key Management Personnel
Capital Transactions		
Acquisition of Kolkata division	500	—
Financing transactions	429	—
Revenue Transactions		
Purchase of services	847	—
Purchase of shared services, including facilities and personnel	223	—
Sale of services	—	—
Sale of shared services including facilities and personnel	—	—
Sundry Debtors	—	—
Sundry Creditors	—	—



## NET 4 COMMUNICATIONS LIMITED

### BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

#### I. Registration Details

Registration No.       State Code    
 Balance-sheet        
 Date Date Month Year

#### II. Capital Raised during the year (Amount in Rs. '000)

Public Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>	Rights Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>
Bonus Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>	Private Placement/ Preferential Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>

#### III. Position of Mobilisation and Deployment of Funds (Amount in Rs. '000).

Total Liabilities <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="6"/>	Total Assets <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="6"/>
Sources of Funds	Reserves & Surplus
Paid-up Capital <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="0"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="2"/>
Secured Loans <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="7"/> <input type="text" value="8"/> <input type="text" value="9"/> <input type="text" value="8"/>	Unsecured Loans <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="5"/> <input type="text" value="1"/> <input type="text" value="0"/>
Application of Funds	Investments
Net Fixed Assets <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="9"/> <input type="text" value="0"/> <input type="text" value="3"/> <input type="text" value="8"/> <input type="text" value="1"/>	<input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>
Net Current Assets <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="1"/> <input type="text" value="7"/> <input type="text" value="7"/>	Misc. Expenditure <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="2"/>
Accumulated Losses <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/> <input type="text" value=""/>	

#### IV. Performance of company (Amount in Rs. '000)

Turnover <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="8"/> <input type="text" value="1"/>	Total Expenditure <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="7"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="0"/>
+ - Profit/Loss Before Tax <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="7"/> <input type="text" value="7"/> <input type="text" value="1"/>	+ - Profit/Loss After Tax <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="8"/> <input type="text" value="8"/> <input type="text" value="6"/>
(Please tick appropriate box + for Profit - for Loss)	
Earning per share in Rs. <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="1"/> <input type="text" value="8"/>	Dividend rate % <input type="text" value="20"/>

#### V. Generic Names of Three Principal Products/Services of Company

(as per monetary terms)

The Company is in the Business of providing Internet related services which is not covered under ITC classification.

**For Net 4 Communications Ltd.**

Sd/-  
(Amarjit S. Sawhney)  
Director

Sd/-  
(Jasjit S. Sawhney)  
Director

Sd/-  
(Sanjeev Jain)  
Company Secretary

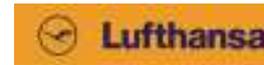
Place: Kolkata  
Date: June 29, 2006



*“We thank our shareholders, customers, partners, employees, bankers, advisors and vendors for enabling yet another successful year. We hope for their continued support in the coming year.”*

*Board of Directors  
Net 4 India Limited*

## Some of our Esteemed Clients



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