DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting their Thirteenth Annual Report together with the Audited Accounts for the year ended 31st March, 2006.

A DECADE OF PHENOMENAL TELECOM GROWTH-INDIAN SCENARIO

India has become a preferred global investment destination. Today India's 140 million telephone network is one of the largest in the world and second largest among the emerging economies after China. In the last one and a half year, more than ten multinational companies have committed nearly five billion US dollars to telecom manufacturing in India and another two billion is expected to be committed soon. By another study, other major players like Nokia, Motorola, Samsung, Sony Ericsson and LG which account for seventy seven percent of global mobile phones market, are aiming to start making mobile handsets in India.

This would result in large telecom equipment manufacturers likely to bring in their component suppliers to complete the entire manufacturing eco system, which would complete the supply chain and would lead to more investments.It is also likely to prove a boon for global component manufacturers already in India.

Our overall tele density is 12% while the urban tele density is at a respectable 36%. Rural density is very low at just about 2%, Delhi has 60%, Chennai 57% and Mumbai53%. The demographic profile is in India's favour. We have 62% under 30 years and 44% under 19years with an average age of 26 years. There are 400 million Indians in the working age. It will grow to 820 million by 2020. All in all we have the world's largest 9 to 39 age group waiting to break the tradition. There has been a tremendous upsurge in Indian Telecom market especially the increased requirement of production of wireless equipment like Mobile phones and infrastructure equipment. This is apparent from the fact that the total demand of 2001-02 was Rs.17,109 crores and has increased to 36,650 crores in 2004-05.

With the advent of the promised FDI, the scope of exports have increased immensely for goods manufactured in India and transformed India into a regional manufacturing hub.

Till last year Telecom Industry was saddled with an inverted duty structure. The Government stepped in and rationalized duties to help create a level playing field for the working of Industry in WTO/ITA-1 regime.

Over the last 5 to 7 years India has emerged as one of the leading R&D and design base for multinational IT companies like Texas Instruments, IBM, Microsoft and Telecom companies like Ericsson, Nokia, Motorola, Flextronics and Alcatel. With Research & Development and design capabilities, setting up a manufacturing base in India is a good business proposition. The business draw of course is the Indian market. India's telecom services market is growing at a healthy 16% with mobile services moving at a phenomenal 63% per annum.

India is ready for 3G services given the low penetration of wireline broadband. 3G represents a great opportunity for the industry as well as for the country as it will be a platform on which mobile broadband can be delivered economically and efficiently to Indian consumers. Early introduction of 3G would also promote roll out of rural applications such as E-governance, E-medicine etc. Much indeed has been achieved in so little a time.

FINANCIAL PERFORMANCE

Particulars	*(Rupees in Lacs)* Financial Year 2005-2006	Financial Year 2004-2005
Sales and Services	13159.93	22663.36
Profit on Sale of Investment	NIL	4537.48
Profit before Tax	269.77	1033.50
Provision for Income Tax		
Current Tax	21.20	82.00
Deferred Tax	57.37	(1237.50)
Wealth Tax	0.69	0.37
Fringe Benefit Tax	35.90	NIL
Profit after Tax	154.97	2063.13
Balance brought forward from previous year	5298.98	2210.13
Profit acquired under the Scheme of Arrangement	NIL	525.72
Transfer From Debenture Redemption Reserve	NIL	500
Balance carried to Balance Sheet	5453.95	5298.98

OPERATIONS

The Company has registered a turnover of Rs.13159.93 Lacs against Rs. 22663.36 Lacs in the year 2004-05 as there was no new tender of CorDect floated during the year under review by BSNL which is the largest buyer of this product. The other emerging product segment of the company is repeater and in-building solutions which have also done remarkably well as the company obtained orders worth more than Rs. 50 crores including exports which is over 100% growth over its previous year's turnover. The Company widened its reach and deepened its relationship with local operators including Airtel, Hutch, Spice, Idea, Reliance and Aircel, as well as with OEMs, NOKIA, Ericsson and Seimens. The Company is focusing to get into CDMA market along with GSM, Optical Repeater Solutions, inbuilding solutions and State of the Art Turnkey Projects.

EXPORTS

The Company exported products to Middle East, Africa, North & South America, Russia and CIS Countries, South Asia and Europe. The Company has set up its own base in Germany, Sweden and the US, which has primarily done to make inroads in these markets. The products of your Company meet the technical specifications of Europe, ETSI and necessary certifications have been obtained in Europe, America and other major global markets. The products have been designed to be customer oriented as per the international local needs and requirements. The Directors are pleased to inform that your Company has obtained license for GSM in UK during the year.

RESTRUCTURING

The Company is in process of the implementation of the Scheme of Arrangement which has been approved by the Hon'able High Court of Rajasthan. The shares of Shyam Telelink Ltd. would be distributed amongst the shareholders of the Company and as a consequence Shyam Telelink Ltd., subsidiary of the company would desubsidiarise and become a listed company. The Scheme also envisages reduction in the share capital and reserves of the Company and shall be reorganized accordingly.

DIVIDEND

The management has decided to conserve the financial resources and have redeployed in the business of the Company and hence do not recommend any dividend for the year ended 31st March 2006.

SUBSIDIARY COMPANIES

The Company has three subsidiaries, namely Shyam Telelink Limited, Shyam Telecom Inc, USA and Shyam Telecom UK Ltd. As per Sec 212 of the Companies Act, 1956 the reports and audited accounts of the Shyam Telelink Ltd. and Shyam Telecom Inc, USA along with the statement forms part of the Annual report. Shyam Telecom UK Ltd. was formed after the end of finacial year under review.

PUBLIC FIXED DEPOSIT

The Company has not accepted deposits from Public under Section 58A of the Companies Act, 1956.

CAPITAL STRUCTURE

During the financial year under review, the share capital of your Company remains unaltered.

DIRECTORS

In accordance with the provisions of Section 256 of the Companies Act, 1956 and Article 86 of the Articles of Association of the Company, Mr. Ajay Khanna, Mr. Ashutosh Garg, and Mr. Achintya Karati, Directors of the company, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Dr. Ashok Jhunjhunwala has resigned from the Board w.e.f. 27th April, 2006. The Company acknowledges his contribution and guidance.

DIRECTORS RESPONSIBILITY STATEMENT

In terms of the provision of section 217 (2AA) of the Companies Act, 1956 your Directors confirm that :

i) In the preparation of the Annual Accounts, the applicable Accounting Standards had been followed.

ii) 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 financial year and of the profit of the company for the year ended on that date.

iii) The Directors had taken proper and sufficient care for the maintenance of adequate Accounting Records in accordance with the provisions of this Act for safeguarding the Assets of the Company and for preventing and detecting fraud and other irregularities.

iv) The Directors have prepared the Annual Accounts on a going concern basis.

AUDITORS

M/S Mehra Goel & Co., Chartered Accountants, retiring Auditors of your Company expressed their willingness to continue as Auditors, if re- appointed at the Annual General Meeting to hold the office until the conclusion of the next Annual General Meeting. The Company has received from the auditors a certificate to this effect that their appointment, if made, would be within the prescribed limit under section 224(1B) of the Companies Act, 1956.

AUDITORS' REPORT AND CLARIFICATION

The notes to the accounts in Auditors' Report are self explanatory and no further explanation is considered necessary. However observation of Auditors are explained underneath-

- **Clarification to the point no. VIII of Annexure to the Auditors' Report**

  The Company is required to complete/update the Cost Record within 135 days from the closure of Financial Year and now records are being updated for the audit.

- **Clarification to the point no. IX of Annexure to the Auditors' Report**

  Due to the mismatch of availability of funds, there were minor delays in deposit of statutory dues. There were no outstanding's on 31st March 2006. The liability of WCT is being depoisted with interest shortly.

- **Clarification to the point no. 3 (b) of Auditors' Report on the Consolidated Financial Statements.**

  As reported last year and explained by the management of the Company in its last report the subsidiary of the Company i.e. Shyam Telelink Ltd. (STLL) sold its investment in Hexacom India Ltd to Bharti Telventures Ltd. for Rs.17510 lacs and did not treated it as a part of the Adjusted Gross Revenue (AGR) generated by the company. A legal opinion from a legal expert to that effect that revenue from this sale was not covered under the defination of AGR as interalia, such revenues do not accrue out of operations received or required to be covered by the Department of Telecommunication (DOT) under section 4 of the India Telegraph Act, 1985 which govern the issuance of UASL. Further this matter is also covered under generic petition filed by Association of Basic Telecom Operator (ABTO) with the Telecom Dispute Settlement Appellate Tribunal (TDSAT) contesting the inclusion of non telecom related services revenue in the AGR which is pending resolution. In view of the legal opinion obtained by the Subsidiary and above petition filed by the ABTO with TDSAT, Subsidiary Company is of the opinion that no revenue share is payable against the revenue from sale of above investment and has accordingly made no provision in its books of accounts.

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

The information relating to Conservation of Energy, as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 is annexed and forms part of this Report.

PARTICULARS OF THE EMPLOYEES

In compliance with the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 a statement of particulars of employees is annexed hereto and forms part of this report.

INDUSTRIAL RELATIONS

Relations with the employees remain cordial and your Directors wish to place on record their appreciation of the co-operation and contribution made by the employees at all levels.

CORPORATE GOVERNANCE

A Report on Corporate Governance as required under Clause 49 of the Listing Agreement as applicable forms part of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

A report on Management Analysis and Discussion as required under Clause49 of the Listing Agreement as applicable forms part of this report.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 the Audited Consolidated financial statements have been attached which form part of this report & accounts.

COMPOSITION OF AUDIT COMMITTEE

Disclosure pursuant to the provisions of Section 292A of the Companies Act, 1956 the Audit Committee of the Company consists of:

Mr. Ashutosh Garg	–	NED, ID & Chairman
Mr. Arun Khanna	–	NED & Member
Mr. N. Kumbhat	–	NED & Member
Mr. Ravi Kant Jaipuria	–	NED , ID & Member
Mr. Hemant Kumra	–	NED, ID & Member
Mr. Achintya Karati	–	NED,ID& Member
Mr. Dharmender Dhingra	–	Secretary

ACKNOWLEDGMENT

Your Directors acknowledge with gratitude the commitment and dedication of the employees at all levels, that has contributed to the growth and success of the Company. The Directors would also like to thank other stakeholders including Bankers, Business Associates, Financial Institutions, Government and Non-Government agencies who have continued to provide support and encouragement and for the valuable assistance and co-operation extended to the company.

On Behalf of the Board of Directors of
SHYAM TELECOM LIMITED

PLACE : New Delhi
DATE : 8th July, 2006

RAJIV MEHROTRA
Chairman & Managing Director

ANNEXURES TO DIRECTORS' REPORT

ANNEXURE-1

STATEMENT OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY, ABSORPTION OF TECHNOLOGY AND FOREIGN EXCHANGE EARNINGS AND OUTGO IN ACCORDANCE WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988 ARE GIVEN HEREIN BELOW:

CONSERVATION OF ENERGY

(a) Energy Conservation measures taken:

a. All high-energy lighting is controlled to switch off at preset timing with the help of timers, thus consuming energy only during essential periods.

b. Employment of highly efficient low power consuming manufacturing equipment e.g. Automatic Wave Soldering Machines, Progressive Assembly, Conveyer Belt system and utilizing state-of-the art technology.

c. The factory is designed in such a way that Solar Energy (day light) is utilized for illumination in the working area. Thus reducing substantially, the consumption of electrical energy.

d. Use of fibre glass, axial flow cooling towers thereby reducing the power consumption by 25%.

e. Conservation of existing chilled water coil plain air washer system to chilled water air-washer system in 180 TR central air-conditioning plant.

f. We use programmable power supplies to test our equipment which consume lesser power than the conventional supplies.

(b) Additional investments and proposals, if any, being implemented for reduction consumption of energy:

- A continuous study is being made on measures to conserve energy and several new measures are under implementation.

(c) Impact of measures at (a) and (b) above:

- In some of the manufacturing processes, saving in energy/fuel consumption has been achieved by implementing energy saving schemes, which definitely reduces the processe cost of the products.

DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY

RESEARCH AND DEVELOPMENT (R &D)

Rs. (In lacs)

- Salary & Other Benefits	114.52
- Traveling & Conveyance	25.11
- Others	21.67

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

Efforts, in brief, made towards Technology absorption, adaptation and innovation.	The Technology being used has been developed in house. The company is in full control of the technology and has been able to technically upgrade the products by unstinted efforts of its R&D set up.
Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution, etc.	Continuous efforts have added better features in terms of coverage and in cost reduction.
In case of imported technology (imported during the last 5 years reckoned from the beginning of the information) may be furnished: (a) Technology imported (b) Year of import. (c) Has technology been fully absorbed? (d) If not fully absorbed, areas where this has not taken place, reasons therefore and further plans of action.	Technology used has been indigenously developed and used captively to cater the market with better features in terms of coverage and cost effectiveness as have beaten China and European countries in terms of both price and performance.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and exports plans:

The Company has been exporting Repeaters and Accessories to several countries around the world including Bahrain, USA, Argentina, Bulgaria, Italy, France, Spain, Costa Rica, Indonesia, Russia, Nigeria, Ghana and many more, beating the aggressive Chinese and European companies in terms of both price and performances.The company has also participated in more than 15 exhibitions in North and South America, Europe, South east Asia and the Indian Subcontinent. During the period under review the product of the Company are being used in more than 15 network worldwide.

Total foreign exchange used:

a)	Expenditure in Foreign Currency	(Rs. in lacs)
i)	Traveling	41.74
ii)	Commission	2.97
iii)	Exhibition & Advertisement	140.04
iv)	Legal & Professional Charges	51.72
v)	Raw Material	1342.13
vii)	Capital Goods	381.54
b)	Income in Foreign Currency	597.74

ANNEXURE II

INFORMATION AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE PERIOD FROM 01.04.2005 TO 31.03.2006.

(FOR PART OF THE YEAR)

Sl. No.	Name	Designation	Remuneration Received	Nature of Employment	Other terms & Conditions	Nature of Duties	Qualification & Experience	Date of Commen-cement of Employment	Age	Last Employment	% of Equity Share held
1	M M Nandwani	President & COO, International Marketing	1501424	Regular	As per Service Rules of the Company	International Marketing	MBA- Lucknow University 1989 Exp : 31 Yr.	3 September, 2005	52 Yr.	1) Tata Indicom Enterprises Business Unit 2) Xerox Modicorp Ltd.	NIL
2	Lokesh Bhan	President & COO India Sales & Marketing	2488944	Regular	As per Service Rules of the Company	Domestic Marketing	MBA-Manchester Business School 2004 Exp : 30 Yr.	13 April, 2005	49 Yr.	Modi Xerox Ltd.	NIL

Note :- None of the Employees is related to the Directors of the Company.

CORPORATE GOVERNANCE REPORT 2005-2006

A. CORPORATE GOVERNANCE AT SHYAM

Corporate Governance is the system by which business corporations are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporations such as the Board of Directors, managers, shareholders and other stakeholders. It provides the structure through which the Company's objectives are set and the means of attaining those objectives and monitoring performance are laid. Consequently the organization is able to enhance the trust and confidence of the stakeholders.

Good Corporate Governance plays a vital role in underpinning the integrity and efficiency of financial market.

The Company follows the principles of Corporate Governance, which call for Directors "capable of exercising independent judgments" and for a Board capable in conducting the affairs of the company ethically.

At the core of our corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the company. We believe that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance. In The Board, 4 out of 9, are Independent Directors. Further, we have Remuneration, Finance, Investor Grievance and Audit Committees, which comprise of Independent Directors.

B. BOARD OF DIRECTORS

Composition of Directors during the Financial Year 2005-2006

Name of the Director	Category	Designation	Number of Directorship held in other companies	Number of membership in committees of the Board of other companies	Number of Chairmanship in committees of the Board of other companies
Rajiv Mehrotra	Promoter & Executive	Chairman & Managing Director	2	-	1
Ajay Khanna	Promoter & Executive	Managing Director	5	1	-
Alok Tandon	Promoter & Executive	Managing Director	3	3	-
Arun Khanna	Non Executive	Director	1	-	2
N. Kumbhat	Non Executive	Director	2	1	-
Ashutosh Garg	Independent & Non-Executive	Director	-	-	-
Ravi Kant Jaipuria	Independent & Non-Executive	Director	3	-	-
Achintya Karati	Independent & Non-Executive	Director	8	7	-
Hemant Kumra	Independent & Non-Executive	Director	3	1	-
*Dr. Ashok Jhunjhunwala	Independent & Non-Executive	Director	4	3	-

**Dr. Ashok JhunJhunwala has resigned from the Board of the Company w.e.f 27th April, 2006.*

NOTES:

1. Number of other Directorships and Committee Membership indicated above is exclusive of Private Limited Companies, Foreign Companies, Companies U/s Section 25 of the Companies Act, 1956 and only 2 Committees viz. the Audit Committee and the Shareholders' Grievance Committee.
2. Mr. Ajay Khanna and Mr. Arun Khanna are related to each other as brothers.

The Company has a broad based Board and meets the composition criteria. As on 31st of March 2006 the Board was having a strength of ten directors comprising right mix of Executive, Non-Executive and Independent Directors which ensured the transparency, rationality and professionalism in decision making. There are Seven Non-Executive Directors out of which five are Independent and are eminent and highly experienced professionals drawn from the fields of business, finance and public enterprises and the Chairman is executive. The Composition is as under:

Total Strength: 10
Executive Directors: 3
Non-Exeutive Directors: 7

3. At present the Board has strength of nine Directors comprising of three executive Directors and six non executive Directors.

4. **SHAREHOLDING OF DIRECTORS AS ON 31.03.06**

S.No.	Name of the Director	No. of Shares held as on 31.03.06
1.	Mr. Rajiv Mehrotra	150300
2.	Mr. Ajay Khanna	12910
3.	Mr. Alok Tandon	50200
4.	Mr. Arun Khanna	1400
5.	Mr. N. Kumbhat	100
6.	Mr. Ashutosh Garg	1700
7.	Mr. Ravikant Jaipuria	-
8.	Mr. Achintya Karati	-
9.	Mr. Hemant kumra	-
10.	Dr. Ashok Jhunjhunwala	1000

C. BOARD MEETINGS

In the Financial Year 2005-2006 the Board of Directors met on six occasions in compliance with Sec 285 of The Companies Act, 1956 and clause 49 of the Listing Agreement. The Board held its meetings on the following dates:

- 23rd April, 2005
- 15th June, 2005
- 30th July, 2005
- 31st August, 2005
- 28th October, 2005
- 27th January, 2006

Attendance of each Director at Board Meetings and Last Annual General Meeting

Name of the Director	Number of Meetings attended	Present at the Eleventh Annual General Meeting held on 27th September, 2004 at Jaipur*
Rajiv Mehrotra	3	No
Ajay Khanna	6	Yes
Alok Tandon	6	Yes
Arun Khanna	6	Yes
N. Kumbhat	5	Yes
Ashutosh Garg	3	Yes
Ravi Kant Jaipuria	–	No
Achintya Karati	6	No
Hemant Kumra	6	Yes
Ashok Jhunjhunwala**	2	No

* Twelfth and Thirteenth Annual General Meetings are scheduled to be held on the same date i.e 7th August, 2006. Therefore the presence of Directors in the 12th AGM has not been shown.

** Dr. Ashok Jhunjhunwala has resigned from the Board of the Company w.e.f 27th April, 2006

- In accordance with Revised Clause 49 of the Listing Agreement, the required information was placed before the Board and was also made a part of the minutes of the Board Meeting.
- None of the Directors are member of more than ten Committees of Board nor are they Chairman of more than five Committees in which they are members.
- All Pecuniary relationship or transactions of the Non-Executive Directors viz.-a viz. the Company, if any, have been disclosed in financial statements of the Company for the year ended 31st March, 2006. (Refer Note No. 11 of Schedule 16 - Notes to Accounts to the Balance Sheet).

BOARD PROCESS:

It has always been the Company's policy and practice that apart from matters requiring Board's approval by law, all major decisions including quarterly results of the Company, financial restructuring, capital expenditure proposals, collaboration, material investment proposal in joint venture/ promoted companies, sale and acquisition of material nature of assets, mortgages, guarantees, donations etc. are regularly placed before the Board.

CODE OF CONDUCT

The Board has approved the code of conduct for all Board members and senior management of the Company. The same is also placed on the company's website. All Board members and senior management personnel have affirmed compliance with the Code.

CEO/CFO CERTIFICATION

The Board has recognized Chairman and Managing Director of the Company as CEO and the Director Finance as the CFO for the purpose of Compliance under the Listing Agreement. The CEO and CFO have certified, in terms of revised Clause 49 of the listing agreement, to the Board that the financial statements present a true and fair view of the Company's affairs and are compliant with existing accounting standards, internal control and disclosures.

D. COMMITTEES OF THE BOARD

In compliance of Clause 49 of the Listing Agreement the Board of Directors has constituted following Committees -

1. AUDIT COMMITTEE

The Committee comprises of six Non Executive Directors, four of whom are Independent Directors, having expertise in Financial & Accounting aspects. The Chairman of the Committee is an Independent Director. All the members are generally well versed with accounting and Financial Knowledge. Mr. Dharmender Dhingra, Company Secretary, acts as the Secretary of the Committee. The Chairman of the Committee was also present at the last Annual General Meeting of the Company.

- During the Financial Year 2005-2006 the Committee Meetings were held five times:

  23rd April, 2005; 30th July, 2005; 31st August, 2005; 28th October 2005; 27th January,2006;

Composition of the Committee and Attendance at its meetings during the Year 2005-2006

Name of the Member	Category	Designation	Number of Meetings attended
Ashutosh Garg	NED & ID	Chairman	3
Arun Khanna	NED	Member	5
Ravi Kant Jaipuria	NED & ID	Member	–
N. Kumbhat	NED	Member	4
Mr. Hemant Kumra	NED & ID	Member	5
Mr. Achintya Karati	NED & ID	Member	1

Note :-

1. NED- Non Executive Director; **ID-** Independent Director.

The Committee deals with accounting matters, financial reporting and internal controls. The power, role and terms of reference are as prescribed in Section 292A of the Companies Act, 1956 and guidelines as prescribed in Clause 49 of the Listing Agreement.

POWERS OF AUDIT COMMITTEE-

The Audit Committee has powers which include the following –

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it, considers necessary.

Brief description of the terms of reference:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and creditable.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the Statutory Auditor and the fixation of Audit fees.
- Approval of payment of fees for any other services rendered by the Statutory Auditors.
- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  a. Matters required to be included in the Director's responsibility statement to be included in the Board's Report in terms of clause (2AA) of section 217 of the companies act, 1956.
  b. Changes, if any, in accounting policies and practices and reasons for the same .
  c. Major accounting entries involving estimates based on the exercise of judgment by management.
  d. Significant adjustments made in the financial statements arising out of Audit findings.
  e. Compliance with listing and other legal requirements relating to financial statements.
  f. Disclosure of any related party transactions.
  g. Qualification in the draft Audit Report.
- Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
- Reviewing with the management performance of statutory and internal Auditors, adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up thereon.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or a failure of internal control systems of material nature and reporting the matter to the Board.
- Discussion with Statutory Auditors before the audit commences, about the nature and scope of audit as well as post- audit discussion to ascertain areas of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

REVIEW OF INFORMATION BY AUDIT COMMITTEE

The Audit Committee shall mandatory review the following information.

1. Management Discussion and Analysis of financial condition and results of operations.
2. Statement of significant related party transactions (as defined by the Audit Committee), submitted by management.
3. Management letters/letters of internal control weaknesses issued by the Internal Auditors.
4. Internal audit reports relating to internal control weaknesses and,
5. The appointment, removal and terms of remuneration of the chief internal Auditor shall be subject to review by the Audit Committee.

SUBSIDIARY COMPANIES

- The Company has three subsidiaries namely Shyam Telelink Ltd., Shyam Telecom Inc. USA and Shyam Telecom UK Ltd. Shyam Telecom UK Ltd. has been formed after the end of Financial Year under review.
- The Audit Committee of the company reviews the financial statements of the subsidiary companies.
- The minutes of Board Meetings of subsidiary companies are placed before the Board of the company and reviewed in detail.
- The Board has also appointed its nominee on the Board of its Subsidiary Companies.

2. REMUNERATION COMMITTEE

The Company has a Remuneration Committee consisting of three Independent & Non-Executive Directors.

Composition of the Committee

Name of the Member	Category	Designation
Ashutosh Garg	NED & ID	Chairman
Achintya Karati	NED & ID	Member
Ravi Kant Jaipuria	NED & ID	Member

There was no meeting of Remuneration Committee held during the year under review.

Terms of Reference:

The following terms of reference have been specified for the Committee:

- To determine the Company's policy on, and approve, remuneration packages for Executive Directors and their relatives working in the Company, including pension rights and compensation payment.
- To approve the remuneration payable to the managerial personnel (Under the Companies Act, 1956), taking into account the financial position of the Company, trend in the industry, the appointee's qualification, experience, past remuneration and performance.

Remuneration Policy:

The Remuneration Policy as outlined by the Committee aims at

- Recognizing and rewarding performance and achievements.
- Motivating and inducing the concerned executive to put in their best.

  This policy is in tune with current national and international practices considering the highly competitive business scenario.

Details of Remuneration to all the Directors

A. *Remuneration to Executive Directors*

Since the Executive Directors are drawing remuneration from another company as per the provisions of section 316(2) of The Companies Act, 1956 read with Schedule XIII to the said Act, the Company is not paying any remuneration to them.

B. *Details of Remuneration to Non-Executive Directors:*

Non-Executive Director are entitled to sitting fees only for attending the Board and Committees meetings. The Company does not pay any other remuneration to them besides sitting fees. Appropriate records are maintained in respect of the payment made to them.

4. SHAREHOLDERS COMMITTEE

Mr. Arun Khanna, Non-Executive Director is the Chairman of the Committee alongwith Mr. N. Kumbhat, who in his absence chairs the meetings and Mr. Dharmender Dhingra, Company Secretary acts as the Compliance Officer for the Committee.

Brief description of terms of reference:

The Company has a Share Transfer and Investors Grievance Committee which looks after the following matters:

- Redressal of shareholder and investor's complaints etc. relating to transfer of shares, non receipt of Balance Sheet, non receipt of declared Dividends.
- Consolidation and sub-division of Share Certificates
- Approval of Transfer and Transmission of Share Certificates
- Issue of Duplicate or Fresh Share Certificates

During the period under review the committee met 31 times.

Composition of Committee and attendance at its meetings during the year 2005-06

Name of the member	Category	Designation
Arun Khanna	Non-Executive Director	Chairman
N. Kumbhat	Non-Executive Director	Member
Dharmender Dhingra	Company Secretary	Compliance Officer

Details of Queries/Complaints received and solved during the year under review:

Nature of Queries/Complaints	Received (No.'s)	Solved (No.'s)	Pending (No.'s)
Non- receipt of Share Certificate	3	3	NIL
No. of requests for change of address	2	2	NIL
No. of requests for Transfer	91	91	NIL
Issue of Duplicate Share Certificates	3	3	NIL
Non-receipt of Dividend Warrants	NIL	NIL	NIL
Revalidation of Dividend Warrants	7	7	NIL
Non-receipt of Annual Report	1	1	NIL
Total	**107**	**107**	**NIL**

The Company addresses all complaints, suggestions and grievances expeditiously and replies are sent /issues resolved usually within 15 days.

The Company has complied with submission of its response to the queries/clarifications sought by the Stock Exchanges on various market related information like clarifications on market rumours, etc. from time to time. These responses have not been included in the above list.

Share transfer work is done by Registrar and Transfer agent and as on 31st March 2006 no complaints were pending.

G. GENERAL BODY MEETINGS:

•*The Details of last three Annual General Meetings are given below:*

AGM	Year	Day & Date	Time	Venue
10th AGM	2003	Saturday, September 27, 2003	9.30 A.M.	Rajshree Hotels & Resorts Ltd., New Sanganer Road opposite RIICO Indl. Area Mansarover, Jaipur-302019
11th AGM	2004	Monday, September 27,2004	9.30 A.M.	Rajshree Hotels & Resorts Ltd., New Sanganer Road, opp. RIICO Indl. Area, Mansarover, Jaipur
12th (Scheduled to be held)	2005	Monday, August 7, 2006	9.30 A.M.	"THE RISALA, 6, Karni Nagar, Queens Road, Jaipur- 302021

POSTAL BALLOT

There has been no resolution passed through Postal Ballot during the year 1st April, 2005 to 31st March, 2006

H. DISCLOSURES:

- **Disclosure on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, Directors or the management, their subsidiaries or relative that may have potential conflict with the interest of the Company at large:**

  Disclosure on related party transaction is made in Note No. 11 of Schedule 16 to the Balance sheet.

- **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:**

  The Company has complied with the requirement of regulatory authorities of capital markets and no penalties/ Strictures have ever been imposed against it in the last three years.

- **Management Discussion & Analysis Report**

  It forms a part of Annual Report

- **Risk Management**

  The Company has laid down procedures to inform the Board members about the risk assessment and minimization procedures. Audit Committee reviews the risk assessment and control process in the company every quarter and is satisfied that the process is appropriate to the Company's needs. The Board also periodically reviews the risk assessment procedure and risk mitigation procedures laid down by the company.

- The company is complying with all the mandatory requirements and is also complying with various non mandatory requirements.

- **Accounting Treatment**

  The Company's Financial Statements are prepared as per the prescribed accounting standards.

I. MEANS OF COMMUNICATIONS

- **QUARTERLY RESULTS:**

  Quarterly Results along with the notes are normally published in Hindustan Times, Business Standard and Mehka Bharat and are also informed to the Stock Exchanges where the shares of the Company are listed.

- **EDIFAR:**

  In accordance with clause 51 of the Listing Agreement the Quarterly as well as Annual Results are simultaneously posted on the Electronic Data Information Filing and Retrieval website namely **www.sebiedifar.nic.in.** The website is also accessible through a hyperlink **EDIFAR** through SEBI's official website **www.sebi.gov.in**

- **WEB-SITE:**

  The results and official news are displayed on the Companies website viz. **www.shyamtelecom.com**

J. GENERAL SHAREHOLDERS INFORMATION

- **Annual General Meeting**

AGM	Year	Day & Date	Time	Venue
13th AGM	2006	Monday, August 7, 2006	10.30 A.M.	"THE RISALA' 26, Karni Nagar Queens Road, Jaipur-302021

- **FINANCIAL CALENDAR**

Particulars	Due Date
First Quarter Results	Released on July 30th, 2005
Second Quarter Results	Released on October 28th, 2005
Third Quarter Results	Released on January 27, 2006
Fourth Quarter Results	Released on 27th April, 2006
And Audited Annual Results	Released on 8th July, 2006

- **Date of Book Closure**

  1st August, 2006 to 7th August, 2006 (both days inclusive)

- **Dividend Payment Date**

  The Company has not declared dividend for the Financial year ending 31st March 2006.

- **Listing on Stock Exchanges**

  The Company's Shares are listed on The National Stock Exchange of India Limited and The Stock Exchange, Mumbai.

  The Company has paid the Annual Listing Fees due to all stock exchanges upto the year 2005-2006

- **STOCK CODE**

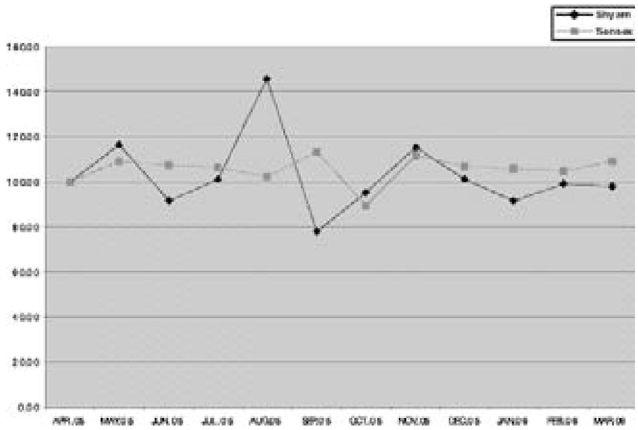
i. BSE, Mumbai 517411
ii. NSE SHYAMTELE
iii. ISIN INE635A01015

- A monthly report of Securities Dematerialised/ Rematerialised is sent to the Stock Exchanges within 7 days from the end of the month.

- **Market price data:** high, low during each month in the financial year 2005-06.

Month	BSE (In Rs.)		NSE (In Rs.)	
	High	Low	High	Low
April 2005	86.40	66.00	86.95	65.50
May 2005	97.00	79.50	95.95	79.15
June 2005	101.20	77.00	101.40	76.55
July 2005	90.00	82.00	90.70	82.25
August 2005	133.80	82.00	133.90	82.25
September 2005	133.50	90.25	132.00	90.00
October 2005	106.85	83.80	106.85	82.65
November 2005	117.35	90.00	117.00	90.95
December 2005	114.00	90.05	114.30	95.05
January 2006	127.20	95.20	127.20	95.50
February 2006	107.40	93.80	107.80	93.20
March 2006	105.40	93.15	105.20	93.30

- The Performance of the Shyam's Equity share relative to the BSE Sensitive Index (Sensex) is given in the chart below:



- **Registrar and Transfer Agents**

  Share transfer work in physical as well as demat mode is done by Company's Registrar & Transfer Agent

  Indus Portfolio Pvt. Ltd.
  G-65, Bali Nagar,New Delhi-110015.
  Email: rnt@indusinvest.com

- **Share Transfer System**

  Physical share transfers are registered and returned within a period of 15 days of receipt, if the documents are correct and valid in all respects.

- **Distribution of Shareholding**

  Distribution of shareholding as on 31st March, 2006

Number of share	No. of share holders	% of Total share-holders	No. of Shares held	% of total Equity
Upto 100	10620	65.80	745316	2.31
101-500	4173	25.85	1120055	3.48
501-1000	676	4.19	563952	1.75
1001-5000	504	3.12	1140327	3.54
5001-10000	77	0.48	596519	1.85
10001-20000	35	0.22	517297	1.61
20001-30000	13	0.08	310075	0.96
30001-40000	5	0.03	170105	0.53
400001-50000	6	0.04	293991	0.91
50001-100000	8	0.05	470181	1.46
100001-500000	10	0.06	2861498	8.89
500001 and above	14	0.09	23410684	72.70
Total	**16141**	**100**	**32200000**	**100**

- **Dematerialisation of Shares and Liquidity**

  The Securities and Exchange Board of India (SEBI) mandated compulsory trading in shares of the Company by all investors in electronic form. As on March 31, 2006, 31955675 shares of the Company, held by shareowners, are in dematerialised form, aggregating to 99.24 % of the Equity Share Capital. With this, the problem associated with the physical delivery will now be reduced to a large extent.

- **Investor Query/ Address for Correspondence**

  The Company Secretary
  Shyam Telecom Limited,
  A-60, Naraina Industrial Area,
  Phase – I, New Delhi – 110028.
  Telephone No.: 25799606, 41411070, 71, 72
  Fax No.: 25794981
  Email : ddhingra@shyamtel.com

- **Plant Location**
  246, Phase-IV, Udyog Vihar,
  Gurgaon-122015, Haryana, India.
  Tel: 91-124-340804.

  Brief Resume of the Directors proposed to be re-appointed:

■ **AJAY KHANNA**

Name of the Director	Mr. Ajay Khanna
Date of Birth	25.01.1956
Date of Appointment	03.07.1992
Qualification	B.Com, Diploma in Leather Technology

Mr. Ajay Khanna, was inducted on the Board of Shyam in the year 1992 and holds the position as Managing Director in the company.

He has been principally involved in setting up Distributors/Channel Network for Cable TV and Cellular Business and also co-ordination and high level liason with all Local Authority/Statutory Regulatory bodies to ensure smooth function of various group companies. He has promoted various Business of Shyam Group Viz; Hexacom, Telelink & Essel Shyam. He Successfully did an IPO of Shyam Telecom in 1994 which got an Overwhelming response and was over Subscribed by 25 times.

He is heading the Commercial Operations as well as Financial Management and Credit Monitoring for the group. He was instrumental in creating a consortium and closing the financing for the Cellular and V-SAT business of the Group.

He is also responsible for exploring new expansion opportunities in the telecom sector, raising resources for their successful financial closure besides financial planning.

Other Directorships

Name of the Company	Position
1. Shyam Telelink Limited	Mg. Director
2. Bharti Hexacom Limited	Director
3. Shyam Antenna Electronics Limited	Director
4. RMS Automation Systems Limited	Director
5. Kribhco Shyam Fertilizers Limited	Director

Committee Membership in other Companies:

Name of the Company	Committee	Position
Shyam Antenna Electronics Limited	Audit Committee	Member

■ ASHUTOSH GARG

Name of the Director	Mr. Ashutosh Garg
Date of Birth	30th September, 1956
Date of Appointment	28th December, 2001
Qualification	M.B.A. & specialization in Marketing and Finance

Mr. Ashutosh Garg, an MBA, has worked in the corporate sector for 27 years. He worked for ITC Limited for 17 years leaving in 1995 as the youngest ever Managing Director of one of the ITC Group Companies, based in Singapore. Thereafter he spent 8 years in the aerospace industry, four years each as the Head of Asia for Lockheed Martin and Hughes, running their satellite systems.

In April 2003, he embarked upon an entrepreneurial venture in Health Care. In August 2003, he started a chain of Health and Beauty Retail outlets in North India under the name Guardian Pharmacy, which has now grown to 42 outlets and is growing at 4 outlets per month. He has built this company into North India's largest pharmacy chain and has now embarked upon an exciting social initiative to build entrepreneurs in rural India by supporting individuals to establish pharmacies under the brand name "Aushadhi".

A regular speaker at various conferences, he has published a number of papers on International Marketing and the Satellite Industry in Asia and has chaired many panel discussions around the World.

He is on the Advisory Council of the Centre for Policy Research, a premier Think Tank supported by the Government of India. In addition, he serves on the Boards of several companies.

In January 1995, he was recognized as a Global Leader for Tomorrow by the World Economic Forum, Switzerland. This enabled him to join a select group of 400 individuals from around the World.

He is an active member of the Young Presidents' Organization since 1994 and is the current Delhi Chapter Chairman.

Other Directorships

He is a Director in Seven other Private Ltd. Companies but for the purpose of consistency, the names of private companies have not been given.

■ MR. ACHINTYA KARATI

Name of the Director	Mr. Achintya Karati
Date of Birth	23.03.1956
Date of Appointment	28.07.2004
Qualification	Bachelor in Law, Bachelor in Commerce.

Mr. Achintya Karati was inducted on the Board in the year 2004. He has worked in ICICI Ltd from the year 1978 till 2001 holding responsible business development positions starting from Deputy Zonal Manager-North, Head of Major Client Group-North and finally taking charge as Country Head of Government and Institutional Solutions Group. His tenure at ICICI Ltd. included top level interactions with large PSUs including NTPC, NHPC, PGCIL, BHEL etc. and large corporates including Hero Honda, Escorts, Honda Motors etc. April 2004 onwards. He headed Govt. & Institutions of NCDEX a Commodity Exchange promoted by ICICI Bank, NABARD, LIC, NSE, CRISIL, etc. & acted as a Senior Advisor of ICICI Securities with responsibility to interact with Govt., PSU & Large Corporates for Investment Banking Solutions. He was associated with ICICI Prudential for 'Fund Management' by ICICI Prudential as approved by IRDA in respect of Gratuity & Superannuation Fund of PSU & other large Corporates.

Other Directorships

Name of the Company	Position
1. J.K.Cement Ltd.	Director
2. BPL Display Devices Ltd	Director
3. Flex Industries Ltd.	Nominee Director
4. ICICI West Bengal Infrastructure Development Corporation ltd.	Nominee Director
5. Sangam (India) Ltd.	Director
6. Delton Cables Ltd.	Director
7. Tech Process Solutions Ltd.	Director
8. Hindustan Motors Ltd.	Nominee Director

Committee Membership in other Companies :

Name of the Company	Committee	Position
1. BPL Display Devices Ltd.	Audit Committee	Member
2. BPL Display Devices Ltd.	Shareholder Grievance	Member
3. Flex Industries Ltd.	Audit Committee	Member
4. Sangam (India) Ltd.	Audit Committee	Member
5. Sangam (India) Ltd.	Shareholder Grievance	Member
6. J.K.Cement Ltd.	Audit Committee	Member
7.Hindustan Motors Ltd.	Audit Committee	Member

SHARE HOLDING PATTERN

- **Categories of shareholders as on 31st March, 2006.**

Shareholders Category	% of holding
Promoters, relative and associates	65.66
Bodies Corporate (Domestic)	5.95
Banks & Financial Institutions (FIs)	-
Mutual Funds	2.95
Foreign Institutional Investors (FIIs)	12.19
Non – Resident Indians (NRIs) & Overseas Corporate Bodies (OCBs)	0.21
Resident Individuals	12.75
Any Other*	0.28
Total	**100.00**

* *Any Other includes shares held by Clearing Houses, Clearing Member & Trust*

- **Shareholding with more than one percent holding as on 31st March, 2006.**

Shareholders	% of holding
Intell Invofin India Pvt. Ltd.	15.06
Mehrotra Invofin India Pvt. Ltd.	13.85
Cellcap Invofin India Pvt. Ltd.	7.26
Teletec Finsec India Pvt. Ltd.	7.13
Cellphone Credit & Securities India Pvt. Ltd.	6.75
A.T. Invofin India Pvt. Ltd.	6.57
Shyam Antenna Electronic Ltd.	6.21
Fid Funds (Mauritius) Ltd.	6.11
Fidelity Trustee Company Pvt. Ltd. A/CF	2.94
Deutshe Securities Mauritius Ltd	2.69
Gold Man Sachs Investments (Mauritius) I Ltd.	1.69
Rakesh Kanwer / Suman Kanwer	1.65
Venus Series Trust A/C ITF Mauritius	1.47

CERTIFICATE

To the Members of

Shyam Telecom Limited

We have examined the compliance of conditions of Corporate Governance by SHYAM TELECOM LIMITED, for the year ended on 31st March, 2006, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the 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 and the representations made by the Directors and Management, we certify that the Company has during the year complied with the conditions of Corporate Governance as stipulated in the above mentioned Clause of Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India we have to state that based on the report given by the Registrar & Transfer Agent of the Company to the Share Transfer and Investors Grievance Committee as on 31st March, 2006 there were no Investor Grievances against the Company remaining unattended /pending for more than 30 days.

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

For **MEHRA GOEL & CO.**
Chartered Accountants

R.K.Mehra
(Partner)

Place : New Delhi.
Date : 8th July, 2006

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND OPPORTUNITIES

India has become a preferred global investment destination. Today India's 140 million telephone network is one of the largest in the world and second largest among the emerging economies after China. In the last one and a half year, more than ten multinational companies have committed nearly five billion US dollars to telecom manufacturing in India and another two billion is expected to be committed soon. By another study, other major players like Nokia, Motorola, Samsung, Sony Ericsson and LG, which account for Seventy Seven percent of global mobile phones market, are aiming to start making mobile handsets in India.

This would result in large telecom equipment manufacturers likely to bring in their component suppliers to complete the entire manufacturing eco system, which would complete the supply chain and would lead to more investments. It is also likely to prove a boon for Global component manufacturers already in India.

Our overall teledensity is 12% while the urban teledensity is at a respectable 36%. Rural density is very low at just about 2%, Delhi has 60%, Chennai 57% and Mumbai 53%. The demographic profile is in India's favour. We have 62% under 30 years and 44% under 19years with an average age of 26 years. There are 400 million Indians in the working age. It will grow to 820 million by 2020. All in all we have the world's largest 9 to 39 age group waiting to break the tradition. There has been a tremendous upsurge in Indian Telecom market especially the increased requirement of production of wireless equipment like Mobile phones and infrastructure equipment. This is apparent from the fact that the total demand of 2001-02 was Rs.17,109 crores and has increased to 36,650 crores in 2004-05.

With the advent of the promised FDI, the scope of exports have increased immensely for goods manufactured in India and transformed India into a regional manufacturing hub.

Till last year Telecom Industry was saddled with an inverted duty structure. The Government stepped in and rationalized duties to help create a level playing field for the working of Industry in WTO/ITA-1 regime.

Over the last 5 to 7 years India has emerged as one of the leading R&D and design base for multinational IT companies like Texas Instruments, IBM, Microsoft and Telecom companies like Ericsson, Nokia, Motorola, Flextronics and Alcatel. With Research & Development and design capabilities, setting up a manufacturing base in India is a good business proposition. The business draw of course is the Indian market. India's telecom services market is growing at a healthy 16% with mobile services moving at a phenomenal 63% per annum.

India is ready for 3G services given the low penetration of wireline broadband. 3G represents a great opportunity for the industry as well as for the country as it will be a platform on which mobile broadband can be delivered economically and efficiently to Indian consumers. Early introduction of 3G would also promote roll out of rural applications such as E governance, E medicine etc. Much indeed has been achieved in so little a time.

RE-STRUCTURING

The Company had obtained the approval of the Hon'ble High Court of Rajasthan for Scheme of Arrangement which has been partially implemented and the balance is on way for its completion. The transfer of the liabilities along with the investment of the equivalent amount i.e. Rs. 200 crores has to be carried out to Shyam Basic Infrastructure Project Pvt. Ltd. and the residual investment in 25,59,57,500 equity shares of Rs. 10/- each in STLL has to be distributed amongst the share holders of the Company.

As a consequence, there will be a Reduction in the Share Capital and Reserves and the Shares of Rs. 10/- each will be reduced to Rs. 3.50 and in turn for every 100 shares fresh 35 shares of Rs. 10/- will be issued by the Amalgamated Company i.e. Shyam Telecom Ltd. Besides 35 shares of the company the share holders will also be entitled to the shares of Shyam Telelink Ltd. in proportion of the share holding in the Amalgamated Company as on the Book Closure/Record Date reckoned for this purpose.

SHYAM TELECOM LTD.

The figures in the Balance Sheet are after Amalgamation of Shyam Telecom Manufacturing Ltd. and the company, whereby Shyam Telecom Manufacturing Ltd. has a majority share in turnover and profits. Repeaters and in building solutions is a new business line which the Company is growing. The Company obtained order worth Rs. 50 crores including exports which had grown over 100% at its previous year's turnover assuring the bright future for these products in India and Abroad.

The Company widened its reach and deepened its relationship with local operators including Airtel, Hutch, Spice, Idea, Reliance and Aircel as well as other OEMs, Nokia, Ericson and Semens. The Company is contemplating to get into CDMA market along with GSM, Optical, Repeater Solutions and in building solutions and State of Art Turnkey Projects.

SHYAM TELELINK LTD.

Shyam Telelink Ltd., another wholly owned subsidiary, inspite of increased competition both from the Mobile Operators and the new operators in the fixed line and CDMA and over all reduction in tariff rates, still has been able to improve the financial parameters during the year under review as compared to the previous year.

The total income registered an increase of more than 9% and the Operating Profit showed growth of more than 25% during the year. The company earned a cash profit against cash loss of 140 million in the last year.

There have been sizable additions in the subscriber base despite the fact that the market was regulated by Low Tariff rates and by the increased number of operators in the same circle.

The Company has laid Optical Fibre Cable to cover 123 major circles of Rajasthan where there is a large potential customer base and major intercity traffic. The Company plans to add further 800 Kms Optical Fibre to mainly close the Open-ended Cities on spurs and cover other major cities. Arrangement for sharing the infrastructure of Optical Fibre Cables, Towers etc. with the other Telecom Operators in the State has not only drastically reduced the cost of expansion but has been helpful in faster rollouts. It has also improved the bottom line of the Company.

INTERNAL CONTROL SYSTEM

The Company has an integral system of internal controls which ensures Optimal utilization and protection of resources, accurate reporting of financial transaction and compliance with applicable Laws and Regulations.

OPERATIONAL AND CORPORATE HIGHLIGHTS 2005-06

HIGHLIGHTS	REMARKS	TARGET
Shyam Telecom Limited As a part of restructuring, Shyam Telecom Manufacturing Ltd. has amalgamated with the company and whereby the transfer of liabilities along with the investments of Rs. 200 Crores and distribution of equity share worth of Rs. 255.95 crores amongst the shareholders of Shyam Telecom Limited has to be carried out in a phased manner.	Consequent to the transfer and distribution of the equity shares the issued and paid up capital of the company shall be reduced by Rs.20.93 crores bringing down capital from Rs.32.20 crores to Rs.11.27 Crores and such reduction shall be done by reducing the face value from Rs. 10 to Rs. 3.50 per Share by extinguishing Rs.6.50 per share. The amalgamated Company that is Shyam Telecom Ltd. would issue new consolidated 35 equity share of Rs.10 each against every100 equity shares held as on the Book Closure/Record Date reckoned for this purpose.	The issued and paid up capital of Shyam Telelink Ltd. as consisting of 45,59,57,500 equity shares having face value of Rs. 10 each shall be admitted for listing with National Stock Exchange & The Stock Exchange of Mumbai.
The Company in the period under review did a turnover of Rs 13159.93 lacs which comprised of supply of Cor-DECT, repeaters and inbuilding solutions and trading of telecommunication equipments	The company was able to complete the order of Cor-DECT supplied all over the country to be deployed in Semi Urban and Rural areas. The company also did well to obtain orders for more than 50 crores for repeaters and exports during the period had grown over 100% at its previous year turnover.	The Company is a Core manufacturing telephone entity and is contemplated to enter into CDMA market and in inbuilding solutions and State of Art turnkey projects.
Shyam Telelink Ltd. In spite of increased competition from the mobile operators and new operators in the fixed lines and CDMA, Shyam Telelink Ltd. has been able to improve the financial parameters during the year under review as compared to previous year.	The company has registered an increase of more than 9% in the total income and operating profit showed growth of more than 25% during the year. The company earned cash profit for the first time against the cash loss of Rs. 140 million in the last year.	The company is aiming to achieve 3 lacs subscribers to generate cash profit out of the operations during the year.
The company has laid Optical Fiber cable to cover 123 major circles of Rajasthan where there is a large customer base and major intercity traffic. The company plans to add further 800 KMS Optical Fiber to mainly close the open ended Cities on the spurs and cover other major cities.	The company has made arrangement for infrastructure sharing of Optical Fiber Cables, Towers, Sites, etc. with other various telecom operators in the State which drastically reduced the cost of expansion for your company and will be helpful in faster rollouts.	The company has striven to grow from the stage of name recognition to interest by customer, to creation of trust, equity, personality and reputation to the ultimate stage of an emotional bond with the customer. The company intend's to be more than just a service provider, it is designed to be an experience, which the customers – existing and potential, enjoy and cherish.

AUDITORS' REPORT

TO THE MEMBERS OF SHYAM TELECOM LIMITED

1. We have audited the attached Balance Sheet of SHYAM TELECOM LIMITED as at 31st March, 2006, and also the Profit & Loss Account and the cash flow statement of the Company 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 the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of 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: -

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

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

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

   (d) In our opinion, the Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;

   (e) On the basis of written representations received from the directors as on 31st March, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   (f) In our opinion, and to the best of our information and according to explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      i. in the case of the Balance Sheet, of the state of affairs of the company as at 31st March, 2006;

      ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date; and

      iii. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **MEHRA GOEL & CO.**
Chartered Accountants

R.K.MEHRA
Partner
M. No. : **6102**

Place : New Delhi
Dated : 8th July, 2006

ANNEXURE

(Referred to in paragraph 3 of our report of even date)

i) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. The fixed assets covering significant value have been physically verified by the management during the year, which in our opinion is reasonable, having regard to the size of the Company and the nature of its assets. On the basis of the information and explanations given by the management, no material discrepancies have been noticed on such verification.

ii) In our opinion, the Management at reasonable intervals has physically verified the inventories of the Company in its possession. Stocks in the possession and custody of the third parties have been verified by the Management with regard to confirmation or statement of account or correspondence of the third parties or subsequent receipt of goods. The procedures of physical verification of inventory of the Company followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.

iii) As per information & explanation given to us, the company has not granted or taken any loans, secured or unsecured to/from companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956.

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

v) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Act have been entered into the register maintained under Section 301 of the Companies Act, 1956.

In our opinion and according to the information and explanations given to us, the transaction made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 have been made at prices which are reasonable having regard to the prevailing market prices where available on the parties at which the transaction for the similar items have been made with other parties, where comparable.

vi) To the best of our knowledge and according to the information and explanations given to us, the Company has not accepted any deposits covered under Section 58 A and 58 AA or any other relevant provisions of the Companies Act, 1956.

vii) To the best of our knowledge and as per the information and explanations given to us, the Company has a reasonable internal audit system commensurate with its size and nature of its business

viii) The central government has under clause (d) of sub section (1) of section 209 of the Companies Act, 1956, prescribed maintenance of cost records for the company. *As explained to us that cost record are yet to be updated hence it could not be reviewed by us.*

ix) To the best of our knowledge and according to the information and explanations given to us, the Company is regular in depositing undisputed statutory dues including Investor Education and Protection fund, Employee State Insurance, Provident Fund, Wealth Tax, Custom Duty, Excise Duty, Service Tax, Cess and any other statutory dues, where applicable with the appropriate authorities *However some delays have been noticed in depositing Income Tax, Sales Tax, Work Contract Tax & except in the following cases the due amount has not been deposited till 31-03-2006.*

	Nature of Liability	Period	Amount
1.	W. C. T.	Oct-05 to March-06	2,28,866

There were no arrears of outstanding statutory dues at the last day of financial year for a period of more than six months from the date they became payable.

Further according to the information and explanations given by the management, there were no disputed dues of sales tax, income tax, custom duty, wealth tax, excise duty, service tax and cess.

x) The Company has no brought forward losses and has not incurred any cash losses during the financial year and in the immediate preceding financial year.

xi) On an examination of the records of the company & information & explanation given to us, the company has not defaulted in the repayment of dues to any financial institutions or bank or debenture holder as at the balance date.

xii) On the basis of verification of accounts and records maintained by the Company and to the best of our knowledge & belief, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

xiii) In our opinion, and to the best of our information and according to the explanation by the management, we are of the opinion that the company is neither a chit fund nor a nidhi/mutual benefit society.

xiv) To the best of our knowledge and according to information given to us, the Company is not dealing or trading in shares, debentures and other securities.

xv) To the best of our knowledge and according to the information and explanation given to us, the Company has given guarantee for loans taken by others from Banks/ Financial Institutions, the terms and conditions whereof are not prejudicial to the interest of the Company.

xvi) To the best of our knowledge and according to the information and explanations given to us, the term loans were applied for the purpose for which the loans were obtained.

xvii) According to the Cash Flow Statement and other records examined by us and information and explanations given to us, on an overall basis, funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.

xviii) According to the information & explanations given to us, the Company has not made any preferential allotment of shares during the year to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956.

xix) According to the information & explanations given to us the Company has not issued any debentures during the year.

xx) According to the information & explanations given to us, the Company has not raised any money by Public Issue during the year.

xxi) Based upon the audit procedure performed and information and explanation given by the management we report that no fraud on or by the Company has been noticed or reported during the year.

For **MEHRA GOEL & CO.**
Chartered Accountants

R.K.MEHRA
Partner
M. No. : **6102**

Place : New Delhi
Dated : 8th July, 2006

SHYAM TELECOM LTD

BALANCE SHEET AS AT 31st MARCH, 2006

	SCHEDULE NO.	AS AT 31-Mar-2006 (Rs.)	AS AT 31-Mar-2005 (Rs.)
I SOURCES OF FUNDS:			
SHAREHOLDER'S FUNDS			
Share Capital	1	322,000,000	322,000,000
Reserves and Surplus	2	1,910,921,748	1,895,256,689
LOAN FUNDS	3		
Secured Loans		161,945,471	100,215,848
Unsecured Loans		112,200,000	-
Deferred Tax Liability (Net)		22,037,373	16,300,398
		2,529,104,592	**2,333,772,935**
II APPLICATION OF FUNDS			
FIXED ASSETS	4		
Gross Block		425,280,908	339,553,752
Less : Depreciation		53,521,165	29,865,248
Net Block		**371,759,743**	**309,688,504**
Capital Work in Progress		11,861,204	17,349,897
PREOPERATIVE EXPENDITURE(Pending Allocation)	5	-	2,772,338
INVESTMENTS	6	4,085,713,200	3,975,477,058
CURRENT ASSETS, LOANS & ADVANCES			
Current Assets			
Inventories	7	110,851,236	98,069,582
Sundry Debtors	8	369,090,367	504,870,496
Cash & Bank Balances	9	113,668,014	108,605,873
Loans & Advances	10	115,081,517	72,686,370
		708,691,134	**784,232,321**
Less : CURRENT LIABILITIES & PROVISIONS	11		
Current Liabilities		2,645,866,038	2,753,618,386
Provisions		3,054,651	2,128,797
		2,648,920,689	**2,755,747,183**
NET CURRENT ASSETS		(1,940,229,555)	(1,971,514,862)
		2,529,104,592	**2,333,772,935**
SIGNIFICANT ACCOUNTING POLICIES	15		
NOTES TO ACCOUNTS	16		

The schedules referred above from an integral part of the Balnce Sheet.
As per our report of even date attached

For **Mehra Goel & Co.**
Chartered Accountants

R.K. Mehra *Partner* M.No. **6102**	**Rajiv Mehrotra** *Chairman & Managing Director*	**Ajay Khanna** *Managing Director*	**Alok Tandon** *Managing Director*
Place : New Delhi **Dated :** 8th July, 2006	**N. Kumbhat** *Director Finance*	**Dharmender Dhingra** *Company Secretary*	

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006

	SCHEDULE NO.	YEAR ENDED 31-Mar-2006 (Rs.)	YEAR ENDED 31-Mar-2005 (Rs.)
INCOME			
Sales & Services		1,354,705,994	2,428,559,652
Less : Excise Duty/ Service Tax		66,199,613	173,622,070
Net Sales		**1,288,506,381**	**2,254,937,582**
Other Income	12	27,487,096	11,398,613
Profit On Sale of Long Term Investments		-	453,747,861
		1,315,993,477	**2,720,084,056**
EXPENDITURE			
Manufacturing & Other Expenditure	13	1,191,657,843	2,268,973,830
Financial Charges	14	70,870,528	68,594,236
Plant & Machinery Written off		-	261,182,743
		1,262,528,371	**2,598,750,809**
PROFIT BEFORE DEPRECIATION, PRIOR PERIOD ADJUSTMENTS & TAX		**53,465,106**	**121,333,248**
Less : Depreciation		24,057,232	17,588,798
PROFIT BEFORE PRIOR PERIOD ADJUSTMENTS & TAX		**29,407,874**	**103,744,450**
Prior Period Adjustments (Net)		2,431,045	394,312
PROFIT BEFORE TAX		**26,976,829**	**103,350,138**
Provision for Taxation			
Income Tax			
- Current Tax		2,120,000	8,200,000
- Deferred Tax		5,736,975	(123,750,000)
Wealth Tax		69,000	37,400
Fringe Benefit Tax		3,590,000	-
PROFIT AFTER TAX FOR THE YEAR		**15,460,854**	**218,862,738**
- Income Tax For Earlier Year		(35,695)	12,549,864
PROFIT AFTER TAX		**15,496,549**	**206,312,874**
ADD : Profit brought forward		529,898,078	221,013,260
Profit acquired under the scheme of arrangement		-	52,571,945
ADD : Trf. From Debenture Redemption Reserve		-	50,000,000
Balance Carried to Balance Sheet		**545,394,627**	**529,898,078**
Profit After Tax		15,496,549	206,312,873
Weighted average number of equity shares for Basic EPS		32,200,000	32,200,000
Basic Earning Per Share		0.48	6.41
Nominal Value of equity share		10	10
SIGNIFICANT ACCOUNTING POLICIES	15		
NOTES TO ACCOUNTS	16		

The schedules referred above from an integral part of the Profit & Loss Account.
As per our report of even date attached

For **Mehra Goel & Co.**
Chartered Accountants

R.K. Mehra
Partner
M.No. **6102**

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

N. Kumbhat
Director Finance

Dharmender Dhingra
Company Secretary

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

(Rs. in lacs)

			Current Year	Previous Year
(A)	**CASH FLOW FROM OPERATING ACTIVITIES :**			
	Net Profit after tax and before extraordinary items		**154.97**	**2,063.13**
	Adjustments for :			
	Depreciation		240.57	175.89
	Fixed Assets written off		-	2,611.83
	Interest and Financial Charges		708.71	685.95
	Loss / (Profit) on Sale of Investment		-	(4,537.48)
	Provision for Tax		114.80	(1,029.63)
	Bad Debts Written Off		6.57	35.93
	Provision for Doubtful Debts/ Advances		107.16	461.78
	Provision (Leave Encashment)		9.26	6.00
	Loss on Sale Of Fixed Assets		3.18	1.72
	Operating Profit before working capital change		**1,345.21**	**475.12**
	Adjustments for :			
	Trade & Other Receivables		870.56	(918.33)
	Inventories		(127.82)	5,539.77
	Trade & Other Payables		(1,142.42)	1,281.30
	Cash Generated From Operations		**945.54**	**6,377.86**
	Direct Taxes Paid		(107.87)	(101.12)
	Cash flow from operating activities	**(A)**	**837.67**	**6,276.74**
(B)	**CASH FLOW FROM INVESTING ACTIVITIES :**			
	Purchase of Fixed Aseets (including Capital Work in Progress)		(785.35)	(1,705.75)
	Sale of Fixed assets		3.50	1.40
	Investments		(1,102.19)	(5,510.99)
	Investment in subsidiaries (Including adjustment for Advance For Investments)		(0.18)	(4,041.00)
	Sale of investments		-	11,866.48
	Sale of investment /Advance for Investment in subsidiaries		-	50.00
	Net cash Used In / from Investing Activities	**(B)**	**(1,884.21)**	**660.14**
(C)	**CASH FLOW FROM FINANCING ACTIVITIES :**			
	Proceed from Long Term Borrowings		1,739.30	4.93
	Repayment of long term borrowing		-	(5,524.69)
	Short term borrowings (net)		-	(320.50)
	Interest and financial charges paid		(643.81)	(831.10)
	Investment Subsidy		1.69	
	Net cash (used in) / from financing activities	**(C)**	**1,097.17**	**(6,671.36)**
	Net increase / (decrease) in cash and cash equivalents	**(A+B+C)**	**50.62**	**265.52**
	Cash and cash equivalents at beginning of the year		1,086.06	820.55
	Cash and cash equivalents at the end of the year		1,136.68	1,086.06

Notes :

1. Cash flow statement has been prepared following the "indirect method" as set out in the Accounting Standarard-3 on Cash flow statement issued by the ICAI.
2. Cash and cash equivalents represent cash and bank balance only.
3. Figures for the current year are not comparable to those of the earlier year consequent to the scheme of amalgamation of Shyam Telecom Manufacturing Ltd with Shyam Telecom Limited effective April 1, 2004 (Refer Note 2 to Schedule - 16)
4. The following Assets/ Liabilities acquired under the scheme of Amalgamation, have not been considered in the above Cash Flow Statement (Refer Note 3 to Schedule - 16)

	(Rs in Lacs)
Net Fixed Assets (including CWIP & Pre opeartives pending allocation)	4391.17
Net Current Assets	9280.37
Accumulated Profits	525.72
Loan Funds	6222.71
Deferred Tax Liability (Net)	1449.80
Investment Subsidy	13.31

As per our report of even date attached

For **MEHRA GOEL & CO.**
Chartered Accountants

R.K. Mehra	**Rajiv Mehrotra**	**Ajay Khanna**	**Alok Tandon**
Partner	*Chairman & Managing Director*	*Managing Director*	*Managing Director*
M.No. **6102**			

Place : New Delhi	**N. Kumbhat**	**Dharmender Dhingra**
Dated : 8th July, 2006	*Director Finance*	*Company Secretary*

SCHEDULES FORMING PART OF THE ACCOUNTS

	AS AT 31-Mar-2006 (Rs.)	AS AT 31-Mar-2005 (Rs.)
SCHEDULE -1 : SHARE CAPITAL		
AUTHORISED		
50000000 Equity Shares of Rs. 10/- each	500,000,000	500,000,000
2500000 Preference Shares of Rs 100/- each.	250,000,000	250,000,000
	750,000,000	**750,000,000**
ISSUED, SUBSCRIBED AND PAID UP		
32200000 Equity Shares of Rs 10/- each, fully paid up	322,000,000	322,000,000
	322,000,000	**322,000,000**
SCHEDULE - 2 : RESERVES & SURPLUS		
SECURITIES PREMIUM ACCOUNT		
As per last Balance Sheet	1,207,900,000	1,207,900,000
General Reserve		
As per last Balance Sheet	156,127,121	156,127,121
Investment Subsidy		
Acquired under the scheme of arrangement	1,331,490	1,331,490
Recevied During the Year	168,510	-
	1,500,000	**1,331,490**
Debenture Redemption Reserve		
As per last Balance Sheet	-	50,000,000
Less : Transfer to Profit & Loss Account	-	50,000,000
	-	-
Profit & Loss Account	545,394,627	529,898,078
	1,910,921,748	**1,895,256,689**
SCHEDULE - 3 : LOAN FUNDS		
SECURED LOANS		
Term Loans		
- From Bank (*)	57,000,000	-
- Vehicle Loans (**)	5,469,194	1,996,529
Cash Credit		
- From Bank (***)	99,476,277	98,219,319
	161,945,471	**100,215,848**
UNSECURED LOANS @		
- From Corporate Bodies	112,200,000	-
	112,200,000	**-**

@ Repayment due within One Year Rs. Nil (Previous Year Nil)

(*) Secured by way of assignment of the Key Man Insurance Policies of Insurance Company.

(**) Secured by hypothecation of specific Vehicles.

(***) Secured by first charge on current assets of the company (both present & future) by way of hypothecation of Stocks of all types, Book Debts & second charge on the company's all movable and immovable assets both present and future in Pari Passu with the banks providing Term Loan for working capital and personal guarantee of three Promoter Directors.

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE - 4 : FIXED ASSETS

SL. No.	ASSETS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		AS AT 01-April 2005 (Rs.)	ADDITIONS DURING THE YEAR (Rs.)	SOLD /W. OFF DURING THE YEAR (Rs.)	AS AT 31-March 2006 (Rs.)	AS AT 01-April 2005 (Rs.)	DURING THE YEAR (Rs.)	WRITTEN BACK (Rs.)	UP TO 31-March 2006 (Rs.)	AS AT 31-March 2006 (Rs.)	AS AT 31-March 2005 (Rs.)
	Tangible Assets										
1	Land Free Hold	885,900	-	-	885,900	-	-	-	-	885,900	885,900
2	Land Lease Hold	5,605,704	-	-	5,605,704	-	-	-	-	5,605,704	5,605,704
3	Building	14,537,928	24,505,374	-	39,043,302	1,771,291	592,672	-	2,363,963	36,679,339	12,766,637
4	Plant & Machinery	292,591,103	40,904,623	-	333,495,726	20,952,120	18,606,700	-	39,558,820	293,936,906	271,638,983
5	Electric Installation	962,451	865,301	-	1,827,752	206,690	79,711	-	286,401	1,541,351	755,761
6	Furniture & Fixture	5,281,559	4,864,666	-	10,146,225	1,601,537	609,934	-	2,211,471	7,934,754	3,680,022
7	Vehicles	13,575,208	7,809,953	1,069,185	20,315,976	3,906,683	1,587,815	401,315	5,093,183	15,222,793	9,668,525
8	Office Equipment	3,517,778	4,251,015	-	7,768,793	561,552	516,556	-	1,078,108	6,690,685	2,956,226
	TOTAL	**336,957,631**	**83,200,932**	**1,069,185**	**419,089,378**	**28,999,873**	**21,993,388**	**401,315**	**50,591,946**	**368,497,432**	**307,957,758**
	Intangible Assets										
1	Software	2,596,121	3,595,409	-	6,191,530	865,375	2,063,844	-	2,929,219	3,262,311	1,730,746
GRAND TOTAL		**339,553,752**	**86,796,341**	**1,069,185**	**425,280,908**	**29,865,248**	**24,057,232**	**401,315**	**53,521,165**	**371,759,743**	**309,688,504**
Previous Year figures :		492,205,752	154,845,199	307,497,199	339,553,752	56,595,164	17,588,798	44,318,714	29,865,248	309,688,504	
Capital Work in Progress										11,861,204	17,349,897
										383,620,947	**327,038,401**

- Vehicles includes Rs. 5.38 lacs (transfer value as at 01.04.2002) on which registration formalities are yet to be completed.
- Capital Work in Progress Includes advance for capital expenditure. (Unsecured, Considered Good.)

SCHEDULES - 5 :
PREOPERATIVE EXPENDITURE (Pending Allocation)

	AS AT 31-Mar-2006	AS AT 31-Mar-2005
OPENING BALANCE	2,772,338	763,530
ADDITIONS DURING THE YEAR		
Salary, Wages & Bonus	323,270	348,840
P F & other Funds	35,423	34,920
Staff Welfare	82,175	201,343
Repair & Maintenance	4,050	41,991
Power & Fuel	185,526	65,691
Printing & Stationery	2,583	8,200
Travelling & Conveyance	67,035	134,464
Advertisement & Publicity	466	15,376
Communication Expenses	41,458	117,289
Rent	-	126,500
Rates & Taxes	22,030	22,175
Interest	-	63,945
Other Administrative Expenses	327,354	828,074
	3,863,708	**2,772,338**
Less : Captalised During the Year	3,863,708	-
	-	**2,772,338**

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE - 6 : INVESTMENTS	AS AT 31-Mar-2006	AS AT 31-Mar-2005
NON TRADE		
QUOTED - Fully Paid-up(*)		
Long - Term		
3,300 Equity Shares of Rs 10/- each of Intec Securities Limited	33,000	33,000
1,460,000 Equity Shares of Rs10/- each of Spanco Telesystem and Solutions Ltd.	54,020,000	54,020,000
Current Investments		
10792629 Units of SBI Mutual Fund	110,218,591	-
	164,271,591	**54,053,000**
TRADE INVESTMENTS		
UNQUOTED - Fully Paid-up		
IN SUBSIDIARY COMPANIES		
455,957,500 Equity Shares of Rs. 10/- each of Shyam Telelink Ltd. (**)	3,920,325,000	3,920,325,000
100 Common stock of $ 1.00 each of Shyam Telecom Inc.USA	4,374	4,374
ADVANCES FOR INVESTMENT TO SUBSIDIARY COMPANIES		
Shyam Telecom Inc, USA	1,112,235	1,094,684
	3,921,441,609	**3,921,424,058**
	4,085,713,200	**3,975,477,058**

(*) Aggregated market value of Quoted Investments Rs. 3265.59 Lacs (Previous Year Rs. 1013.27 Lacs) including cost where market value is not readily available.

(**) Pledged with financial institution for loan raised by Shyam Telelink Limited (wholly owned subsidiary) and includes 63925000 equity shares received as bonus shares.

SCHEDULE - 7 : INVENTORIES	AS AT 31-Mar-2006	AS AT 31-Mar-2005
(As taken, valued and certified by the Management)		
Raw Material	96,138,904	64,566,354
Finished Goods	1,350,528	17,840,663
Work In Process	11,956,307	14,454,745
Packing Material	127,782	7,820
Stores & Spares	77,715	-
Scrap value of Machinery Retired from active use & held for disposal	1,200,000	1,200,000
	110,851,236	**98,069,582**

SCHEDULE - 8 : SUNDRY DEBTORS		
(Unsecured, Considered Good unless otherwise stated)		
Debts Outstanding for over 6 months		
- Considered Good	238,255,054	443,543,057
- Considered Doubtful	28,684,988	17,903,219
	266,940,042	**461,446,276**
Less : Provision for Doubtful Debt.	28,684,988	17,903,219
	238,255,054	**443,543,057**
Others	130,835,313	61,327,439
	369,090,367	**504,870,496**

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE - 9 : CASH & BANK BALANCES	AS AT 31-Mar-2006	AS AT 31-Mar-2005
Cash on Hand	416,178	149,702
Balance With Scheduled Banks in :		
- Fixed Deposits (including interest accrued) (*)	79,416,710	94,956,017
- Current Account	33,835,126	13,500,154
	113,668,014	**108,605,873**
(*) Under lien as Margin Money		

SCHEDULE - 10 : LOANS & ADVANCES		
(Unsecured, Considered Good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received (*)		
- Considered Good	78,542,926	58,608,215
- Considered Doubtful	35,083,267	35,083,267
	113,626,193	**93,691,482**
Less : Provision for Doubtful Advances	35,083,267	35,083,267
	78,542,926	**58,608,215**
Security Deposits	12,107,622	10,642,180
Balance with Excise Department	16,933,570	982,189
Advance Tax (Net)	7,497,399	2,453,786
	115,081,517	**72,686,370**

(*) Includes Rs 152.55 Lacs due from Subsidiary Company Shyam Telecom Inc USA & Includes ICD 106.09 Lacs.

SCHEDULE - 11 : CURRENT LIABILITIES & PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors - S.S.I	-	197,229
- Others	1,865,234,047	1,845,509,833
Advance From Customers	680,985,857	836,006,479
Book Overdraft	92,353,762	71,103,819
Interest Accrued But Not Due on Loans	6,489,276	-
Unclaimed Dividend	761,896	763,796
Due to Directors	41,200	37,230
	2,645,866,038	**2,753,618,386**
PROVISIONS		
Leave Salary	3,054,651	2,128,797
	3,054,651	**2,128,797**

(*) The outstanding amount does not include any amount, due & outstanding to be credited to investor education and protection fund.

SCHEDULE - 12 : OTHER INCOME	Year Ended 31-Mar-2006	Year Ended 31-Mar-2005
Interest On Deposits (*)	5,673,585	7,149,017
Dividend on Long Term Investments	1,825,000	-
Dividend on Current Investments	122,638	-
Miscellaneous Income (**)	19,865,873	4,249,596
	27,487,096	**11,398,613**

(*) Tax deducted at source Rs. 10.92 Lacs (Previous Year Rs 13.17 Lacs)
(**) Includes Exchange Rate Fluctuation of Rs. 88.13 Lacs (Previous Year Rs Nil)

SCHEDULES FORMING PART OF THE ACCOUNTS

	Year Ended 31-Mar-2006	Year Ended 31-Mar-2005
SCHEDULE - 13 : MANUFACTURING & OTHER EXPENDITURE		
Material Consumed & Goods Traded	793,760,253	1,334,115,499
Network planning, Projects, Software & Software Systems	108,477,214	258,969,870
Software Related Services	10,720,000	19,400,000
Stores & Spares Consumed	15,190,008	5,483,160
Power & Fuel	6,037,924	5,367,952
Manufacturing Expenses	9,565,340	29,001,325
Salary, Wages & Bonus	60,556,778	47,529,830
Employer's Contribution to P.F. & Other Fund	4,445,022	3,945,732
Staff Welfare	5,512,892	5,791,500
Repair to:		
Plant & Machinery	1,215,117	2,199,188
Building	669,554	926,108
Auditor's Remuneration :		
Audit Fee	484,877	394,080
Tax Audit Fee	127,954	103,920
Other Services	237,204	189,000
Research & Development Expenses	16,130,432	12,347,074
Communication Expenses	7,000,728	5,598,264
Printing & Stationery	1,135,897	1,987,159
Travelling & Conveyance	31,733,669	31,350,962
Royalty charges	10,200,000	56,839,316
Rent	5,868,370	5,504,186
Director Sitting Fees	67,000	18,000
Insurance	9,870,830	72,096,811
Rates & Taxes	840,594	2,364,006
Advertisement & Publicity	17,069,108	15,659,940
Packing & Forwarding	2,980,782	5,775,394
Provision for Doubtfull Debts & Advances	10,715,815	46,177,965
Bad Debts Written Off	657,138	3,592,423
Other Administrative Expenses	41,080,900	30,902,036
Loss on Sale of Assets (Net	317,870	171,943
	1,172,669,270	**2,003,802,643**
Add / Less Decrease / Increase in Stocks		
Add : Opening Stock		
Work In Process	14,454,745	275,495,895
Finished Goods	17,840,663	21,917,950
Scrap	-	52,750
Less : Closing Stock :		
Work in Process	11,956,307	14,454,745
Finished Goods	1,350,528	17,840,663
Scrap	-	-
	1,191,657,843	**2,268,973,830**

	Year Ended 31-Mar-2006	Year Ended 31-Mar-2005
SCHEDULE - 14 : FINANCIAL CHARGES		
Interest on		
- Fixed Period Loans	4,273,575	24,925,025
- Others	53,279,754	23,901,709
Bank Charges	13,317,199	19,767,502
	70,870,528	**68,594,236**

SCHEDULE-15
SIGNIFICANT ACCOUNTING POLICIES

1. BASIS FOR PREPARATION OF ACCOUNTS

The Financial Statements have been prepared under historical cost convention on accrual basis in accordance with generally accepted accounting principles and applicable Accounting Standards issued by The Institute of Chartered Accountant and the provisions of Companies Act, 1956.

2. FIXED ASSETS

Fixed Assets are stated at cost, net of VAT/ MODVAT/ CENVAT, less accumulated depreciation. All costs including borrowing costs till commencement of commercial production and adjustment arising from exchange rate variations relating to borrowings attributable to the fixed assets are capitalized. Capital expenditure on assets not owned by company is reflected in capital work in progress account till the period of completion and thereafter in the fixed assets. Machinery spares that can be used only in connection with an item of fixed asset and their use is expected to be irregular are capitalized. Replacement of such spares is charged to revenue.

3. INTANGIBLE ASSETS

In accordance with the Accounting Standard (AS) 26 relating to intangible assets, all costs incurred on technical know-how / license fee relating to production process are charged to revenue in the year of incurrence. Costs incurred on technical know-how / license fee relating to process design/ plants/ facilities are capitalized at the time of capitalization of the said plant/ facility and amortized on pro-rata basis over a period of five years. Computer software is capitalised on the date of installation and is amotised over a period of three years.

4. IMPAIRMENT OF ASSETS

Carrying amount of cash generating units/ assets is reviewed for impairment. Impairment, if any, is recognized where the carrying amount exceeds the recoverable amount being the higher of net realizable price and value in use.

5. EXPENDITURE INCURRED DURING CONSTRUCTION PERIOD

Expenditure directly relating to construction activity including trial run production expenses (net of income, if any) is capitalized.Indirect expenditure incurred during construction period is capitalized as part of the indirect construction cost to the extent to which the expenditure is indirectly related to construction or is incidental thereto. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto, is charged to the Profit & Loss Account.

6. INVESTMENTS

Investments are classified into current and long-term investments. Current investments are stated at the lower of cost and quoted/ fair value. Long term investments are stated at cost less any provision for permanent diminution in value.

7. REVENUE RECOGNITION

Sales are inclusive of trial run sales, excise duty, service tax and net of sales tax. Export sales are net of ocean freight and insurance.

Revenue in respect of long-term turnkey works contracts is recognized under percentage of completion method, subject to such contracts having progressed to a reasonable extent.

8. INVENTORY VALUATION

Inventories are valued at lower of cost or net realizable value except scrap which is valued at net realizable value. The cost is determined by using first-in-first-out (FIFO) method. Finished goods and work-in progress include costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Excise duty on closing stock of finished goods and scrap are accounted for on the basis of payments made in respect of goods cleare as also provision made for goods lying in the factory and included in the value of such stocks.

9. DEPRECIATION

Depreciation on fixed assets is provided on straight-line method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956. Leasehold land is amortised over the period of lease from the date of commencement of commercial operations.

10. PRODUCT WARRANTY EXPENSES

Liability for Warranties is recognized at the time the claim is accepted. The necessary provisions are made with respect to warranties claimed and accepted, which are received up to the end of one month from the close of the year.

11. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the date of the transaction. Monetary items denominated in foreign currencies outstanding at the year-end are translated at exchange rate applicable as on that date. Non monetary items are valued at the exchange rate prevailing on the date of transaction. Any income or expense on account of exchange difference either on settlement or on translation is recognized in the profit and loss account except in cases where these relate to the acquisition of fixed assets.

Exchange differences arising on liabilities incurred on repayment of borrowings in foreign currency for acquisition of fixed assets are adjusted in the carrying cost except borrowing utilised for acquisition of assets within India on or after 1st April 2004 in which case these are recognized in the Profit & Loss A/C.

12. BORROWING COST

Borrowing costs that are attributable to the acquisition or the construction of qualifying assets are capitalized as part of cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue.

13. INCOME ON INVESTMENTS

Dividend on shares is accounted for, as and when the right to receive the same is established.

14. CLAIMS

Claims receivables are accounted for depending on the certainty of receipt and claims payables are accounted at the time of acceptance.

15. RETIREMENT /POST RETIREMENT BENEFITS

Contribution to defined contribution schemes such as Provident Fund and Family Pension Fund are charged to the Profit & Loss Account. For gratuity, the company has opted the scheme managed by Life Insurance Corporation of India (LIC). Amount paid/ payable to LIC towards gratuity liability is charged to revenue. For the employees not covered by the said scheme, the gratuity liability is provided for in the accounts on the basis of actuarial valuation. Leave encashment benefits at the time of retirement are charged to profit & Loss accounts on the basis of actuarial valuation.

16. TAXATION

Provision for current income tax is made after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowance or otherwise, provision is made when the said liabilities are accepted by the company.

In accordance with the Accounting Standard 22-Accounting for Taxes on income, issued by the Institute of Chartered Accountants of India, the deferred tax for timing differences between the book & tax profit for the period is accounted for using the tax rates and the tax laws that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax assets arising from temporary timing difference are recognized to the extent there is virtual certainty that the asset will be realized in future.

17. GOVERNMENT GRANTS

Government grant in the nature of promoter's contribution is treated as capital receipt and credited to investment subsidy account.

Grant in the nature of revenue subsidy is treated as revenue receipt and credited to profit and loss account

18. PROVISION AND CONTINGENT LIABILITIES

Show cause notices issued by various government authorities are not considered as obligation. When the demand notice are raised against such show cause notice and are disputed by the company then these are classified as possible obligations.

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in notes.

19. MODVAT / CENVAT / VAT

Modvat/ Cenvat/ VAT claimed on capital assets are credited to assets / capital work in progress account. Modvat/ Cenvat/ VAT on purchase of raw materials and other materials are deducted from the cost of such materials.

SCHEDULE - 16 NOTES TO ACCOUNTS		Current Year (Rs in Lacs)	Previous Year (Rs in Lacs)
1	**Contingent liabilities :**		
i)	Corporate guarantees given to banks & financial institutions to secure loan & other facilities granted to :		
	- Susidiaries Companies	81,765.00	49,500.00
ii)	Performance Guarantees for : -		
	- Subsidiary Companies	-	-
iii)	Claim against the company not acknowledged as debt	108.13	108.13
iv)	Estimated amount of contracts remaining to be executed on capital account (Net of advance)	29.34	14.35

2 a) The statement of Accounts are of the company on amalgamation of Shyam Telecom Manufacturing Ltd. (STML) wholy owned subsidary of the company on pooling of interest method as per Accounting Standard 14 of the Institute of Chartered Accountants of India. Accordingly, all the assets, liabilities and reserves of STML have been clubbed with those of STL at their respective book values.

b) Persuant to the scheme of arrangement u/s 391 & 394 of the Companies Act, 1956, between Shyam Telecom Limited (STL), Shyam Telecom Manufacturing Limited (STML), Shyam Telelink Limited (STLL), Shyam Basic Infrastructure Projects Private Limited (SBIPL) approved by the Honorable High Court on 18th May 2006.

The amalgamation of STML with the company has been given effect from 01.04.2004 (appointed date of the scheme). The other arrangements approved under the scheme by the Honorable High Court of Rajasthan will be given effect from the transfer/record date provided under the scheme

On amalgamation STML stands disolved. All the assets and liabilities of the amalgamating company stands vested with the amalgamated company with effect from the appointed date.

The value of assets and liabilities taken effective from 01.04.04 and the calculation of difference between consideration and value of net identifiable assets taken is set out below:

	Rs in Lacs	Rs in Lacs
Assets/ (Liabilities) acquired	-	STML
Net Fixed Assets (including CWIP & Pre opeartives pending allocation)	-	4,391.17
Net Current Assets	-	9,280.37
Less: Accumulated Profits	-	525.72
Less: Loan Funds	-	6,222.71
Less: Deferred Tax Liability (Net)	-	1,449.80
Less: Investment Subsidy	-	13.31
Net Assets as on 01.04.04	-	5,460.00
Adjustments for		
Value of Investment in STL Books (including Advance for Share Capital)	-	5,460.00
Difference between investments and value of net identifiable assets taken	-	-

7300000 equity shares of Rs 10/- each of STML held by the company and advance of Rs. 70000000 against share capital given by the company to STML and the amounts of receivable and payables between both the company have got cancelled.

Further under the scheme stated supra liabilities of Rs. 200 Crores of the amalgamated company and in lieu therof Investment of equity shares of STLL are to be transferred to SBIPL from the transfer date 31.03.2006 or within six months from the effective date. The effect of the same shall be given in subsequent years.

The distribution of 25.595 Crores residual equity shares of the STLL held by the company shall be distributed to the share holder of the company.

Consequent to distribution of shares of STLL to the share holder to the amalgamated company the share capital of the company will be reduced from 32.20 crores to 11.27 crores and reorgnaisation of the companyas per the scheme.

3 a) The Company has invested in Telecom services through the following company:

Name	Business	Startup of Business	Investment (Rs. in Lacs)	Adv. For Investment (Rs .in Lacs)
Shyam Telelink Limited (Wholly owned subsidiary)	Basic telephone services in Rajasthan	2000-01	39203.25	0.00

The book value of above long term unquoted Trade investment is lower than cost. However, the management is of the view that the diminution in the value is of temporary nature and hence no provision has been made towards diminution in value of these investments.

b)As per Acquisition and Share Swap agreement dated April 5, 2004 as amended by the supplementary agreement dated April 12, 2004, the company sold its entire investment of 17919980 Equity Shares of Rs. 10/ each in Hexacom India Ltd. to Bharti Tele - Ventures Limited for a total consideration of Rs.6370.36 Lacs in the form of Rs 5500.00 Lacs in cash and Optionally Convertible Redeemable Debentures (OCRD) of Rs 870.36 Lacs. However, before the transfer of OCRD in its name, the company transferred its beneficial interest, right and title in these OCRD's to Shyam Cellular Infrastructure Projects Limited (SCIPL) for a consideration of Rs 819.47 lacs, net of discounting charges of Rs 50.89 Lacs.

c) As per Share Purchase Agreement dated April 5, 2004, the company acquired 4881035 equity shares in Shyam Cellular Infrastructure Projects Limited(SCIPL) for a consideration of Rs 5500.00 Lacs. The above shares were pledged with Financial Institutions/ Banks against the loans taken by Shyam Telelink Limited (Wholly Owned Subsidiary). Later on, the company transferred its holding in SCIPL to Shyam Basic Infrastructure Projects Private Limited at cost, pending physical transfer of shares due to non receipt of No Objection Certificate from Financial Institutions/ Banks. However, the shares have been transferred in the name of SBIPL subsequent to the balance sheet date.

4 During the year 2004-05 management has identified certain R&D Equipments and other machineries which are absolete & discarded from their active use. Net book value as reduced by estimated realisable scrap value of Rs. 10.00 Lacs of such capital equipments amounting to Rs. 2611.83 Lacs is charged to Profit & Loss Account.

5 In the opinion of the management the fixed assets and the current assets have a value on realisation as shown in the books of the company.

6 **Details of investment purchased and sold during the year.**	**Purchase**		**Redemption/Sale**	
	Units	**Rs.**	**units**	**Rs.**
Templeton india Mutual Fund Units	130,405	130,405	130405	1,304,050
SBI mutual Fund Units	10,792,629	110,218,591	-	-
	10,923,034	**110,348,996**	**130,405**	**1,304,050**

7 **The deferred tax liability at the year end comprise of the following :**

	AS AT 31.03.2006		**(Rs in Lacs) AS AT 31.03.2005**	
Deferred Tax Liability on account of :				
Timing difference between book & Tax Depreciation	721.37		728.44	
		721.37		**728.44**
Deferred Tax assets on account of;				
Disallowance under Section 43B	20.85		21.09	
Unabsorbed Depreciation and Business Losses	265.50		413.30	
Others	214.64	**500.99**	131.04	**565.43**
Net deferred tax liability/(assets)		**220.38**		**163.01**

In view of the business potential of the company, the management is of the opinion that the company would be able to adjust the amount of the deferred tax assets arising on account of timing difference of unabsorbed depreciation and carry forward losses.

8 **Bad debts debited to accounts include :**	**Current Year**	**(Rs in Lacs) Previous Year**
Debit balances written off	57.77	71.00
Credit balances written off	51.20	35.08
Net	**6.57**	**35.92**
9 **a) Remuneration to managing/whole time directors.**		
Salaries (including allowances)	8.48	16.49
Contribution to PF & other funds	0.57	1.30
Other Perquisites	–	0.04
	9.05	**17.83**

b) The company has been advised that computation of net profit in accordance with Section 198 read with Section 309(5) of the Companies Act 1956 need not be enumerated, since no commission has been paid to the directors and only fixed monthly remuneration has been paid to the managing/whole time directors as per Schedule -XIII to the Companies Act, 1956 / approval of Central Government received under Section 198 & 309 of the Companies Act 1956 in Shyam Telecom Limited

10 During the year 2004-05 company has purchased telecom equipment amounting to Rs 492.60 Lacs from Shyam Telelink Limited, the subsidiary company, for use of Research & Development as per value certified by the approved valuer. Depreciation on the same is provided at the appropriate rate. However, while calculating Income Tax for the year deduction of the whole of the expenditure incurred has been claimed.

11 RELATED PARTY INFORMATION
RELATIONSHIP

a) Names of the related parties where control exists are as under :
- Subsidiaries
- Shyam Telelink Ltd. (for full year)

- Shaym Telecom Inc. (for full year)
- Shyam Tel Singapore Pte Ltd. (Upto 30.12.04)
- Shyam International Limited (from 05.01.04 to 14.12.04)

b) - Key Management Personnel : Ajay Khanna, Alok Tandon and N. Kumbhat

c) Enterprises over which Key Management Personnel and relatives are able to exercise significant influence: Shyam Antenna Electronics Ltd., Shyam International Ltd (From 14.12.04 onwards), Shyam Singapore Pte Ltd (From 30.12.04 onwards), Intercity Cable System Pvt. Ltd, Jaipur Telecom Pvt. Ltd, Shyam Communication Systems, Shyam Basic Infrastructures Projects Pvt. Ltd, Shyam Computer Systems Pvt. Ltd.

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

Transactions with the above related parties are as follows: **(Rs In Lacs)**

Sl. No.	PARTICULARS	Subsidiary Companies		Key Management Personnel		Enterprises over which they have significant influence		Grand Total	
		Year Ended March 31, 06	Year Ended March31, 05	Year Ended March 31, 06	Year Ended March 31, 06	Year Ended March 31, 06	Year Ended March 31, 05	Year Ended March 31, 06	Year Ended March 31, 05
1	Sale of Products / Services	3,102.87	8,130.99	-	-	-	1,070.24	3,102.87	9,201.23
2	Sale of Investments	-	-	-	-	-	5,550.00	-	5,550.00
3	Transfer of interest in OCRD's (Net of Discounting Charges)	-	-	-	-	-	819.48	-	819.48
4	Assignment of Liability	-	-	-	-	-	5,550.42	-	5,550.42
5	Assumption of Liabilities	-	7,400.00	-	-	-	424.77	-	7,824.77
6	Assumption of Advance for Investments given to STLL	-	2,000.00	-	-	-	-	-	2,000.00
7	Rent Agreements (Paid)	-	-	-	-	36.47	37.92	36.47	37.92
8	Purchases	-	492.60	-	-	-	1,069.99	-	1,562.59
9	Purchases of Investments	-	-	-	-	-	-	-	-
10	Loans given	10.53	-	-	-	-	-	10.53	-
11	Security Deposit Given	-	-	-	-	-	3.00	-	3.00
12	Share Application Money Transfer to Current Liability	-	-	-	-	-	-	-	-
13	Salary & Other Perquisites	-	-	9.05	17.83	-	-	9.05	17.83
14	Investments*	0.04	15,595.79				5,500.00	0.04	21,095.79
15	Advance for Investments	10.95	10.95	-	-	-	-	10.95	10.95
16	Guarantees	-	26,500.00	-	-	-	-	-	26,500.00
17	Collaterals	-	15,595.75	-	-	-	-	-	15,595.75
	Out standings ;								
18	Receivables	-	-	-	-	226.77	553.05	226.77	553.05
19	Payables	188.12	901.05	0.41	0.37	13,265.94	10,407.84	13,454.47	11,309.26
20	Guarantees	81,765.00	49,500.00	-	-	-	-	81,765.00	49,500.00
21	Collaterals	39,203.25	39,203.25	-	-	-	-	39,203.25	39,203.25
22	Advance for Investments	10.95	10.95	-	-	-	-	10.95	10.95
23	Loans	-	-	-	-	1,110.99	-	1,110.99	-

* Investment in Subsidiaries includes advance for investment for Rs 11554.75 Lacs paid during the financial year 2003-04.

12 SEGMENT INFORMATION

The Company's operations predominantly relate to investments, providing Telecommunication and information technology services. The company has considered business segment as the primary segment for disclosure. The segments have been identified taking into account the nature of the products, the deferring risk and returns, the organisation structure and internal reporting system . The company caters wholly to the needs of the domestic market. The export turnover is not significant in context of the total turnover. As such there is no reportable geographical segment. The Telecom products & Services segment comprise of manufacturing and services in the related area. Turnkey Projects and trading services segment includes the turnkey Projects and Trading in Telecom Products. Investments are primarily in the subsidiaries which are dealing in telecommunication sectors. Software Products & services segment includes the services in the area including software and Information Technology related and Information technology enabled services.

Revenue & expenditure which relates to enterprises as a whole and are not attributable to segments are included in unallocable expenditure (Net of unallocable income). Assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segment , as the all assets and services are used interchangeably between segments, The Company believes that it is currently not practicable to provide segment disclosure relating to total assets and liabilities since a meaningful segregation of the available data is onerous.

SCHEDULES FORMING PART OF THE ACCOUNTS

(Rs in Lacs)

Segment Reporting Particulars	Year Ended 31-Mar-2006	Year Ended 31-Mar 2005
Segment Revenue		
- Telecom Products & Services	4,965.16	11,914.18
- Turnkey Projects and Trading	7,664.58	10,156.60
- Investments	18.25	-
- Software Products and Services	255.32	464.00
Gross Sales / Income From Operations	**12,903.31**	**22,534.78**
Less : Inter / Intra Segment Sales	-	-
Net Sales	**12,903.31**	**22,534.78**
Segment Results		
(Profit before Amortisation, Interest, Tax and unallocable overheads)		
- Telecom Products & Services	926.63	191.62
- Turnkey Projects and Trading	23.76	256.11
- Investments	18.25	4,537.48
- Software Products and Services	95.54	232.07
Total	**1,064.18**	**5,217.28**
Less :		
- Depreciation & Amortisation	240.57	2,787.72
- Interest & Financial Charges	708.70	685.94
Other un-allocable Expenditure (Net of un-allocable Income)	(154.85)	710.12
Profit Before Tax	**269.77**	**1,033.50**
Taxes	114.80	(1,029.63)
Net profit after taxes	**154.97**	**2,063.13**

13 Expenditure on Research & Development

	Current Year (Rs)	Previous Year (Rs)
- Raw Material	-	3,482,864
- Salary & Other benefits	11,452,157	5,762,597
- Rent	-	120,000
- Travelling & Conveyance	2,511,243	2,651,968
- Communication expenses	315,933	-
- Others	1,851,099	329,645
	16,130,432	**12,347,074**

14 The net amount of exchange difference debited/ (credited) to the profit and loss account is (Rs. 88.13 Lacs) (Previous Year Rs. 88.88 lacs)

15 Some of the personal accounts are subject to adjustments/reconciliation/confirmation.

16 In the opinion of Board of Directors Current Assets, Loans and Advances have a value on realisation in ordinary course of business at least equal to the amount at which they are stated in the Balance Sheet and provision for all liabilities have been made in the Accounts, which has been relied upon by the auditors.

17 a There is no outstanding balance payable to small scale industrial undertakings which is outstanding for more than 30 days as at balance sheet date. The above information is given to the extent available with the company.

b The Company is in the process of identifying suppliers who are covered under the "Interest on delayed payment to small scale and ancillary industrial undertaking Act 1993." as such liabilities under the said Act on account of interest is not ascertained as on 31.03.2006, however, no claims have been received for interest from suppliers with regard to the above Act.

18 Previous year figures have been regrouped/reclassified wherever considered necessary

19 Additional information pursuant to Part II of Schedule VI of the Companies Act, 1956.
(As certified by the management)

SCHEDULES FORMING PART OF THE ACCOUNTS

		Current Year	Previous Year
A	**LICENSED CAPACITY**	N.A.	N.A.
B	**INSTALLED CAPACITY**		
	Most of the Plant & Machinery is common for different products manufactured by the company, the installed capacity depends on products mix which in turn is decided by actual demand for various products from time to time, as such it is not practical to ascertain product-wise installed production capacity	N.A.	N.A.

		Qty. (Nos)	Qty. (Nos)
C	**PRODUCTION**		
	- Multi Access Rural Radio System	-	7
	- PAMS	-	5
	- Repeater	5,025	1,785
	- DIU	42	-
	- Cards	-	49

		Current Year Qty (Nos)	Current Year Value (Rs.)	Previous Year Qty (Nos)	Previous Year Value (Rs.)
D	**OPENING STOCK**				
	- Digital Microwave Radio System	3	346,687	3	691,267
	- Multi Access Rural Radio System	3	244,272	3	487,200
	- Multiplexer	8	173,383	9	199,729
	- Optical Line Terminal	2	3,024	2	6,032
	- W.L.L. System (*)	-	89,880	-	20,213,046
	- PAMS	-	-	4	320,676
	- Repeator	13	1,104,998	-	-
	- Communication Systems & Components	378,838	15,878,418	-	-
			17,840,662		**21,917,950**

		Qty (Nos)	Value (Rs.)	Qty (Nos)	Value (Rs.)
E.	**TURNOVER (Including Services)**				
	- Multi Access Rural Radio System	3	58,160	7	1,612,504
	- digital Microwave Radio	3	69,792	-	-
	- Multiplexer	8	226,824	1	22,750
	- W.L.L. System (*)	-	11,632	-	1,099,825,716
	- PAMS	-	-	8	1,244,480
	- Repeater	5,024	399,349,050	1,772	149,166,189
	- DIU	42	43,473,708	-	-
	- Cards	-	-	49	885,634
	- optical Line Terminal	2	23,264	-	-
	- Communication Systems & Components	1,052,422	678,548,402	2,027,503	823,876,900
	- Turnkey contracts and services		118,093,979	-	263,320,032
	- Software Related Services		25,531,500	-	46,400,000
	- Service Charges		48,448,141	-	33,499,776
	- Others		36,891,393	-	3,111,393
			1,350,725,845		**2,422,965,374**
F.	**CLOSING STOCK**				
	- Digital Microwave Radio System	-	-	3	346,687
	- Multi Access Rural Radio System	-	-	3	244,272
	- Multiplexer	-	-	8	173,383
	- W.L.L. System (*)	-	-	-	89,880
	- Optical Line Terminal	-	-	2	3,024
	- Repeater	14	648,842	13	1,104,998
	- Communication Systems & Components	16,024	701,686	378,838	15,878,418
			1,350,528		**17,840,662**

(*) It is not practible to give the information due to product sold in different configurations.

SCHEDULES FORMING PART OF THE ACCOUNTS

		Current Year		Previous Year	
		Qty	Value	Qty	Value
G.	**CONSUMPTION OF RAW MATERIAL**	**(Nos)**	**(Rs.)**	**(Nos)**	**(Rs.)**
	- Electronic Components	6,514,458	130,992,130	43,380,280	504,709,907
	- Mechanical Components	4,606,258	7,586,910	7,894,320	61,267,004
	- Others		3,626,654	-	3,990,033
	Sub-Total		**142,205,694**		**569,966,944**
H.	**PURCHASE OF GOODS TRADED**				
	- Communication Systems & Components	689,608	651,554,559	2,406,341	764,148,555
	Sub-Total		**651,554,559**		**764,148,555**
	Total		**793,760,253**		**1,334,115,499**

		Current Year (Rs)	Previous Year (Rs)
I.	**EARNINGS IN FOREIGN CURRENCY**		
	- F.O.B. Value of Exports	59,774,141	35,650,676
J.	**EXPENDITURE IN FOREIGN CURRENCY**		
	- Travelling	4,173,649	1,195,797
	- Commission	296,687	3,934,850
	- Exhibition Expenses	13,431,711	6,721,388
	- Advertisement	572,435	
	- Interest	–	375,639
	- Legal & Professional Charges	5,172,350	943,930
K.	**C.I.F. VALUE OF IMPORTS**		
	- Raw Material (in Rs.)	134,213,471	367,178,114
	- Capital Goods (in Rs.)	38,154,397	3,183,667

L. VALUE OF IMPORTED AND INDIGENOUS RAW MATERIALS SPARE PARTS AND COMPONENTS CONSUMED :

RAW MATERIAL	**VALUE (Rs.)**	**Current Year % OF TOTAL Consumption**	**VALUE (Rs.)**	**Previous Year % OF TOTAL Consumption**
IMPORTED	113,029,587	79.48	379,937,789	66.66
INDIGENOUS	29,176,107	20.52	190,029,155	33.34
TOTAL	**142,205,694**	**100**	**569,966,944**	**100.00**

As Per Our Report Of Even Date Attached

For **Mehra Goel & Co.**
Chartered Accountants

R.K. Mehra
Partner
M.No. **6102**

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

N. Kumbhat
Director Finance

Dharmender Dhingra
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

i REGISRATION DETAILS

Registration No.	17-17750	State Code	17
Balance Sheet Date	31 03 2006		

ii CAPITAL RAISED DURING THE YEAR (Amount in Rs Thousand)

Public Issue	NIL	Right Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

iii POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs Thousand)

Total Liabilities	2529104	Total Assets	2529104

SOURCES OF FUNDS

Paid up capital	322000	Reserve & Surplus	1910922
Advanced for Preference Share Capital	NIL	Unsecured Loans	112200
Secured Loans	161945	Deferred Tax Liability	22037

APPLICATION OF FUNDS

Net Fixed Assets (Including Capital Work in Progress)	383620	Investment (including advance for investments)	4085713
Net Current Assets	(1940229)	Preoperative Expenditure	NIL

iv PERFORMANCE OF COMPANY (Amount in Rs. Thousand)

Turnover (Including other income)	1315993	Total Expenditure	1289016
Profit Before Tax	26977	Profit After Tax	15496
Basic Earning Per Share in Rs.		Dividend Rate	NIL
- Basic	0.48		
- Diluted			

v GENERAL NAMES OF THREE PRINCIPAL PRODUCTS / SERVICES OF COMPANY
(As per monetary terms)

Item Code No. (ITC Code) 852520.09

Product Description Other Radio Communication Equipment including VHF, UHF & Microwave Communication Equipment

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

N. Kumbhat
Director Finance

Dharmender Dhingra
Company Secretary

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

1 Name of the Subsidiary Company	Shyam Telelink Limited	Shyam Telecom Inc.
2 Financial Year of the Subsidiary Company ended on	31-Mar-06	31-Mar-06
3 Financial Year of the Holding Company ended on	31-Mar-06	31-Mar-06
4 Holding Company's Interest as on 31/03/2006	Holders of the entire issued, Subscribed & paid up Equity Share Capital of 455957500 shares of Rs. 10 each	Holders of the entire issued, Subscribed & paid up Equity Share Capital of 100 shares of 1 US$ each
5 Net aggregate amount of profits/(loss)of the subsidiary Company so far as it concerns the members of Shyam Telecom Limited		
(a) Not dealt with the accounts of Shyam Telecom Ltd.		
(i) for the subsidiary's financial year ended 31-03-06	Rs. (776498101)	($181,115)
(ii) for the previous subsidiary's financial year of subsidiary's since it became Subsidiary of Shyam Telecom Limited.	Rs. (2910167123)	($190,133)
(b) Dealt with the accounts of Shyam Telecom Ltd.		
(i) for the subsidiary's financial year ended 31-03-06	Nil	Nil
(ii) for the previous subsidiary's financial year of subsidiary's since it became Subsidiary of Shyam Telecom Limited.	Nil	Nil
6 Material changes which have ocurred between the end of financial year of the Subsidiary Company and the end of the holding company's financial year in respect of a) Fixed Assets (including capital work in progress) of the subsidiary company b) Investment of subsidiary company c) Money lent by Subsidiary company d) Money borrowed by Subsidiary company for any purpose other than that of meeting of current liabilities	NA	NA

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

N. Kumbhat
Director Finance

Dharmender Dhingra
Company Secretary

SUBSIDIARIES

FINANCIAL STATEMENTS

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting their 11th Annual Report and Audited Accounts for the year ended 31st March 2006.

1. FINANCIAL HIGHLIGHTS

(Rs. In Million)

Particulars	Current Year ended 31.03.2006	Previous Year ended 31.03.2005
Total Income	1347	1236
Total Expenditure	996	954
Operating Profit Before Amortizations, Finance Expenses and Depreciation	351	282
Financial Expenses	351	422
Cash Loss	-	140
Depreciation	605	452
Amortization of Intangible Assets & Miscellaneous Expenditure	166	254
Loss for the Year	771	846
Profit on sale of Investment (exceptional item)	-	628
Loss before Tax-Current & Deferred	771	218
Current Tax	6	-
Loss after Tax	777	218
Loss Brought forward from previous year	2910	2692
Deficit Carried to Balance Sheet	3687	2910

Your Directors are happy to report that in spite of increased competition both from the Mobile Operators and the existing & new fixed line & CDMA operators; your Company has managed to improve its financial parameters during the year under review as compared to the previous year.

Even in a year, where base rental was reduced by 30%, One Time Charges reduced by 28%, STD rates reduced by 33%, ISD charges reduced by 50% for 'Rest of World' & ADC was disallowed to private operators; your Company registered increase in revenue of more than 9% being Rs. 1327 million as against Rs.1236 million in the previous year. The operating profit has also improved significantly from Rs.282 million to Rs.351 million registering a growth of more than 25%.

During the year under review the Company has earned the cash profit against the cash loss of Rs.140 million in year 2004-05.

The Company has witnessed some sizable additions in the Subscribers' base in the later half of the year even where there was increased competition both from the Mobile Operators (GSM/CDMA) and fixed line operators. The market was regulated by low tariff rates & the tariffs were reduced to match competition prices. The voice subscribers increased to 200,013 as compared to 185,000 in the previous year.

Your Company commanded a noticeable growth in the market share & subscribers' base. The narrowband & Broadband Internet customers account up to 24,547 in the year 2006.

Over all customer base of the Company with voice and Internet customers had risen to 229,246 customers as of May 2006.

2. DIVIDEND

In view of the losses during the year under review, your Directors regret their inability to recommend any dividend.

3. OPERATIONS

Your Company holds the Unified Access Service Licenses ("UASL") & offers VOICE, DATA and IMAGE services to its growing customer base in Rajasthan.

Your Company has increased its presence from 60 cities to 123 cities and plans to cover additional 52 cities during the current year, thus covering more than 175 cities in Rajasthan. To cater to the needs of various segments of the people of the State, your company is deploying world-class wireless and wire line technology.

The company has laid optical fiber cable to cover 123 major cities of Rajasthan, where there is a large potential customer base and major intercity traffic. In the year 2006-07 Company plans to lay another 800 km of optical fiber to mainly close the open ended cities on spurs and cover other major cities. Your Company has made arrangements for infrastructure sharing of optical fiber cables, Towers, sites, etc. with other various telecom operators in the state which drastically reduces the cost of expansion for your company in past and will be helpful in faster rollouts.

4. PRODUCT PORTFOLIO

Your Company continuously endeavors to provide best advantage to its growing customer base through widest coverage, innovative products and responsive services at competitive prices.

Your Company provides innovative products & services like Fixed Telephone, Mobile Phones, ISDN, PCO, Coin Collection Box along with an entire gamut of value added services, to provide one-stop access to the world of Infotainment These Value Added services have been designed to enhance customer's effectiveness and bring happiness and comfort to him. Your company has aggressively started its foray in the area of Broadband by enabling it to complete wire line network with Broadband ADSL 2+ to deliver unto 24 mbps data speeds.

To provide value to its customers and differentiate itself from the other operators, your Company has launched many new & innovative services which include:

Just TALK! - Voice Portal Service, RAINTONES - Caller Ring Back Tones, SMART TALK - MULTI-PARTY(32) CONFERENCING, , PARALLEL RINGING, SELECTIVE RINGING, KICK OUT, prepaid on Wireline etc.

Your company is the first Telecom operator in the country to launch the above-mentioned services on the fixed line platform.

5. INTERNET & BROADBAND SERVICES

Your Company offers a broad range of Internet-related products including:

Data on Wire – ADSL, enables faster data transmission up to 24 Mbps, Data on Air – PDSN, which enables a CDMA phone user to access data services (Internet) in a limited demographic area with speed up to 144kbps, Data on Cable – CABLE CorDECT : A technology mix of normal Cable connection and CorDECT technology for providing high speed Internet. Your Company has over 24,000 internet customers.

6. BRAND PHILOSOPHY

Your Company wants the services to be as integral to people's communication as rains are to the economy of the desert state Rajasthan.

The BRAND objective is to have the requisite insight to connect with the customer the vision to incorporate business strategy and the dedication to deliver promise.

Your Company has striven to grow from the stage of name recognition to interest by customer, to creation of trust, equity, personality and reputation to the ultimate stage of an emotional bond with the customer.

Your Company is intended to be more than just a service provider, it is designed to be an experience, which the customers – existing and potential, enjoy and cherish.

7. CUSTOMER RELATIONSHIP

Your Company considers the customer the most important focal point & has continuously worked towards meeting all the customer requirements & delighting them.

Your Company has taken many customer centric initiatives to create a strong bonding with its customers. Customer care is the top most priority area for your company & there is a 24 hour in house Call Centre & a Strong Customer Relationship Management (CRM) team in each city for meeting customers.

"Dil Se" – is a premium service that gives direct access to the top management of the Company and the customers' queries are resolved within 30 minutes and "Dil Se Darbar", a monthly face-to-face grievance resolution forum that offers the customers with a platform for meeting the highest officials.

Regular interaction with customers is done through events, meetings and occasion based activities.

As a result of focusing upon its customer – centric approach, your company continued to feature amongst the best basic telecom service operators in the country on a number of parameters as per the TRAI conducted independent quarterly market surveys.

In a Quality of Service (QoS) report brought out by TRAI, your company scored (more than) 90% satisfaction mark for service provisions, which itself speaks about Company's concern for its customers. Strict quality control process has enabled your Company to provide world class after sales & support services to its customers.

8. MARKET SCENARIO

The State of Rajasthan has witnessed significant growth in the recent past & there is a large untapped potential in both the Mobile and Basic landline segment. The current total number of phones in Rajasthan is approx. 6.3 million amongst the total population of around 60 million. The current National Teledensity is 13 / 100 whereas the current Teledensity in the State is 10 / 100 only.

Your Company faces competition from the incumbent operator BSNL in the Fixed line services. The duopoly in the Fixed line services in Rajasthan has been maintained by BSNL & SHYAM which is positioning itself as a value add operator. On the mobile services (GSM/CDMA) your Company faces competition from private operators namely Reliance, Hutch, Airtel, Idea and Tata.

Your Company is providing basic telephony services, WLL, Data and Image Services using various technologies like Wireline, CorDECT, CDMA, IP, ATM etc to its customers. Company has planned to move extensively towards creating world class Broadband Network in the state by deploying ADSL network.

To increase its customer base and improve the teledensity in Rajasthan, your Company plans to substantially increase capacity in Wire line, CorDECT in the coming fiscal. For this, your Company is planning to invest in the purchase and deployment of OFC backbone, additional Switches, transmission and access infrastructure. Your Company has also launched its broadband services to increase ARPU and provide high-speed Internet access to its growing customer base in Rajasthan.

9. REGULATORY ENVIRONMENT

TRAI announced a modification in the ADC Regime effective from March 1, 2006, whereby the Access Deficit Charges (ADC) payable is now payable as % of the adjusted gross revenue in place of calculation of ADC on per minute basis. This announcement will reduce the cost differential between Wireless and Fixed line telephony thus promoting usage of wireless technology for providing fixed telephony services.

The STD tariffs were reduced by more than 40% for a few distances slabs both in the intra circle and inter circle categories by introduction of ONE INDIA plan by BSNL and other operators.

It is proposed by TRAI to reduce the revenue share from existing levels of 10%, 8%, 6% to uniform level of 6%. This will reduce the License fee burden on the company.

10. FINANCIAL ARRANGEMENT

In 2006, your company has finalized revised business plan after considering various changes/ events including tariffs changes, regulations, competition and technological changes, etc. as appraised by ICICI Bank Ltd., the Lead Bank.

The Company has been making continuous efforts to reduce cost of borrowings by using Bank Guarantees. The some of the existing loans has been replaced with low interest rate borrowings using Bank Guarantees. The revised project cost has been now estimated at Rs.9680 million. The Company has sufficient equity and debt arrangement for the entire cost of the project. Till March 31, 2006, a total amount of Rs. 4559.6 Million has already been received by way of equity share capital.

The management of your Company is pleased to state that with a view to reduce the cost of borrowing the Company in the current year has replaced high interest rate debt with lower interest rate debt and saved interest of Rs. 71.4 million.

11. PROPOSED LISTING OF COMPANY'S SHARES

As reported earlier that a Scheme of Arrangement for re-organizing the Group activities i.e. manufacturing and telephony services which were presently being carried out by two wholly owned subsidiaries of Shyam Telecom Ltd. namely Shyam Telecom Manufacturing Ltd. and Shyam Telelink Ltd. respectively was framed and submitted to High Court, Rajasthan. Your Directors are pleased to report that the Scheme of Arrangment has been approved by Hon'ble High Court, Rajasthan, Jaipur Bench vide its order dtd.18th May, 2006. The Scheme would result in the manufacturing and telephony services being carried out by two independent and separate listed companies. This would also enable the management of two companies to focus on their individual operations, result in reduction in overall cost of management and operations and permit strategic investors to invest in both the companies directly.

The Scheme inter-alia envisages distribution of part of equity shares capital of the company held by STL to its shareholders and consequent listing of company's (i.e. Shyam Telelink's) shares for which necessary steps are being taken.

12. SOCIAL CONSCIENTIOUSNESS

Your Company is the pioneer of mobile PCO's, called Chalta Firta PCO & provides these Chalta-Firta PCOs for physically challenged individuals as part of its social initiative. It is a means of self-employment for the physically challenged section of society, a means to give them a choice for a normal, independent living.

Connect-A-School and Connect-A-Hospital Programs are run respectively wherein the Company installs and runs free phones at these premises to offer convenience to the customers.

Your company has installed coin collection boxes & set up Information Kiosks at various Bus stands & Airports to increase the availability of telecom facilities to the general public. Your Company employs only physically challenged individuals and preferably physically challenged ladies to man these kiosks.

13. DIRECTORS

In terms of Clause 86 of Articles of Association of the Company and as per the provisions of the Companies Act, 1956, Mr Ajay Khanna and Mr Alok Tandon retire by rotation and being eligible, offer themselves for re-appointment.

During the year under review Mr. S.S.Dawra resigned as Director from the Board w.e.f. 31-12-2005. The Board placed on record their deep sense of appreciation for the valuable services rendered by Mr. Dawra during his tenure as Director of the Company.

14. DIRECTORS' CONFIRMATION

As required under the provisions of Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

1. In the preparation of the annual accounts, the applicable accounting standards have been followed.
2. Appropriate accounting policies have been selected and applied consistently and judgment and estimates that are reasonable and prudent have been made so as to give a true and fair view of the sate of affairs of the Company at the end of the financial year ended March 31, 2006 and of the Loss of the Company for the year ended on that date.
3. Proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities have been taken.
4. The annual accounts have been prepared on a "going concern basis".

15. AUDIT COMMITTEE

Your Company has an Audit Committee of Directors. The constituant members of the Audit Committee are Mr. Hemant Kumra, Mr. C. S. Malhotra and Mr. Alok Tandon.

16. REMUNERATION COMMITTEE

Your Company has a Remuneration Committee of Directors. The constituant members of the Remuneration Committee are Mr. Amitabh, Mr. C. S. Malhotra and Mr. Hemant Kumra.

17. AUDITORS

M/s S. R. Batliboi & Associates, Chartered Accountants, the Statutory Auditors shall retire at the ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee and the Board of Directors recommend their re-appointment.

18. AUDITORS' REPORT

As regards Auditors' observations/ qualification made vide Para 3 of their report about payment of Revenue share fee in respect of consideration received during year 2004-05 upon sale of Hexacom India Ltd. Shares to Bharti Televentures Ltd. not treating it as part of adjusted Gross Revenue generated by the Company. It is submitted that the company has taken legal opinion from the experts to the effect that revenue accruing as a result of the above sale is not covered under the definition of AGR as interalia, such revenues do not accrue out of operations licensed or required to be licensed by the Department of Telecommunications (DOT) under section 4 of the India Telegraphs Act, 1885, which governs the issuance of UASL. Further this matter is also covered under generic petition filed by Association of Basic Telecom Operators (ABTO) with the Telecom Dispute Settlement Appellate Tribunal (TDSAT) contesting the inclusion of non telecom related service revenue in the AGR which is pending resolution.

In view of the legal opinion obtained by the Company and above petition filed by the ABTO with the TDSAT, the Company is of the opinion that no revenue share is payable against the revenue from sale of above investments, and has, accordingly, made no provision in its books of account during the year 2004-05.

As regards Auditors' observations made vide Para 4 of their report about the redeployment of company's original network equipment replaced with new equipments. As a part of restructuring of network the company has deployed new equipments in existing operational cities to provide new advance features to its existing customers and has already evaluated the feasibility of redeployment of equipment in rural and semi rural markets.

As regards Audit observations made vide Para (x) in the annexure of their Report, it is stated that the Company is an infrastructure company where gestation period to generate profit is normally longer. However, the company has already started generating cash profit.

As regards Audit observations made vide Para (xvii) in the annexure of their Report, it is stated that the company has finalized the restructuring plan in which the high cost debts would be replaced by low cost long term market borrowing against the non funds based facility sanctioned by existing bankers. The Company is in the process of arranging long term market borrowing and during intervening period has used the non funds based facility to borrow short term funds to prepay long terms loans in order to reduce financial expenses. The above restructuring has resulted into reduction in finance cost to Rs. 351 million from Rs. 422 million in previous years.

Other notes to the Accounts as reported to in Auditors' Report are self explanatory and do not call for any further comments or explanation.

19. FIXED DEPOSITS

The Company has not invited any deposit under Section 58A of the Companies Act, 1956.

20. INDUSTRIAL RELATIONS

Harmonious industrial relations continued to prevail during the year.

21. PARTICULARS OF EMPLOYEES

As required under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1988, as amended from time to time, a Statement of Particulars of Employees is annexed hereto and forms part of this report.

22. PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO

Particulars with respect to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, as per Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars) Rules, 1988 are given below :

a) Conservation of Energy

Your Company is in the service sector and is not a power intensive one. The provisions relating to conservation of energy are not applicable to the Company. However, it still lays emphasis on conservation of energy and the Company's facilities have been designed in such a way so as to minimize the use of energy.

b) Technology Absorption, Adaptation and Innovation

The Company has not imported technical know-how. Your Company has not yet established any separate R&D facilities.

c) Foreign Exchange Earnings & Outgo

During the year under review, the Company has not earned any foreign currency but has incurred expenditure of Rs.4.99 Million on traveling and Rs. 143.09 Million on purchase of equipments in foreign currency.

23. ACKNOWLEDGEMENT

Your Directors express their gratitude to the Government of India, Government of Rajasthan, Department of Telecommunication, TRAI, BSNL, ABTO, Local Authorities, Financial Institutions, Bankers, Vendors, Customers and People associated with the Company for their continued and valuable co-operation, support, assistance and guidance to the Company.

Your Directors wish to place on record their sincere appreciation of the valuable contribution, efforts and the spirit of dedication shown by the employees at all levels.

For and on behalf of the Board

Place : New Delhi
Dated : July 8, 2006

(Rajiv Mehrotra)
Chairman & Managing Director

ANNEXURE TO DIRECTORS' REPORT

INFORMATION AS PER SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED MARCH 31, 2006

S No.	Name	Remuneration Received (Rs.)	Nature Of Employment	Other Terms & Condition	Designation/Nature of Duty	Qualifications & Experience	Date of Commencement of Employment	Age (yrs)	Last Employment Held
FOR THE FULL YEAR									
1.	Mr. Rajiv Mehrotra	52,32,000	Contractual	As per Service rules of the Company	Chairman & Managing Director	Post Diploma in Radio & TV 29 years	28-12-2001	52	Shyam Telecom Limited as Chairman & Managing Director
2.	Mr. Ajay Khanna	52,32,000	Contractual	As per Service rules of the Company	Managing Director	B. Com, Diploma in Leather Technology 24 years	01-05-2004	50	Shyam Telecom Munufacturing Ltd
3.	Mr. Alok Tandon	52,32,000	Contractual	As per Service rules of the Company	Managing Director	Chartered Accountant 22 years	01-05-2004	45	Shyam Telecom Munufacturing Ltd
4.	Mr. Suneel Vohra	28,34,497	Contractual	As per Service rules of the Company	President	B.Com., D.B.M. 26 years	01-12-2001	43	Shyam AceS India (P) Ltd as President
FOR THE PART OF THE YEAR									
1.	Mr. Udit Mehrotra	16,00,000	Contractual	As per Service rules of the Company	Advisor (Technical)	Master of science in Telecommunication 5 years	*01-08-2005	25	Cinshyam Software Solutions Pvt. Ltd.

** effective date of payment of remuneration*

NOTES:- *(a) Mr. Udit Mehrotra is related to Mr.Rajiv Mehrotra, Chairman & Managing Director of the Company.*
(b) None of the employee holds equity shares in the Company and/or related to any other Director of the Company.
(c) The remuneration includes Salary, Allowances, Company's Contribution to Provident Fund, insurance premium and all other perquisites & re-imbursements.

AUDITORS' REPORT

To

The Members of SHYAM TELELINK LIMITED

1. We have audited the attached Balance Sheet of SHYAM TELELINK LIMITED as at March 31, 2006 and also the Profit and Loss account and 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 more fully discussed in Note No 1(d), Schedule 18 to the Financial Statements, the Company, based on legal opinion, believes that revenue arising out of consideration for sale of its investments worth Rs. 1,751 million in Hexacom India Limited ('HIL') to Bharti Televentures Limited, does not fall under the definition of Adjusted Gross Revenue (AGR) generated, and in view of such legal opinion, as well as pending generic petition (with the Telecom Dispute Settlements Appellate Tribunal (TDSAT)) covering, inter alia such non-telecom related service revenues, the Company is of the opinion that no revenue share is payable on such consideration in terms of the Unified Access Service Licence entered into by the Company, and accordingly has made no provision in its books of account for any such payment. These financial statements do not include any adjustment arising from the outcome of the above uncertainty.*

4. Without qualifying our opinion, we draw attention to Note 10 (f), Schedule 19 to the financial statements, relating to the status and re-deployment plan of the Company's original network equipment of net book value of Rs 344.98 million at March 31, 2006, replaced with the equipment purchased from the new equipment suppliers. The Company has evaluated the technical feasibility of de-installation and re-installation of its original equipment and is confident of redeploying this equipment in its planned roll-out in the rural/semi-rural areas by March 31, 2007. The Company continues to depreciate these equipments based on its original estimated useful life.

5. As required by the Companies (Auditor's Report) Order, 2003 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act') we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

6. Further to our comments in the Annexure referred to 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;

   iii) The balance sheet, 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, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;

   v) On the basis of the 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 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 Act;

   vi) In our opinion and to the best of our information and according to the explanations given to us, *subject to the effect of adjustments that would have been required had the outcome of uncertainty referred to in Paragraph 3 above* been known, the said accounts give the information required by the Act, 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 March 31, 2006;

      b) in the case of the profit and loss account, of the loss for the year ended on that date; and

      c) in the case of cash flow statement, of the cash flows for the year ended on that date.

For **S. R. BATLIBOI & ASSOCIATES**
Chartered Accountants

Place : New Delhi
Dated : July 8, 2006

Prashant Singhal
Partner
Membership No: **93283**

ANNEXURE

Annexure referred to in paragraph 5 of our report of even date

Re: **SHYAM TELELINK LIMITED**

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All Plant and machinery have been physically verified by the management during the year. Fixed assets other than plant and machinery have been physically verified by the management during the year in accordance with the regular programme of verification, which is intended to cover all the fixed assets of the Company over a three year period. As informed, no material discrepancies were noticed to the extent of physical verification done during the year.

(c) There was no substantial disposal of fixed assets during the year.

(ii) The Company is in the business of providing telecom services accordingly clause 4(ii) of the Order relating to physical verification of inventories is not applicable to the Company.

(iii) (a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act.

(b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act.

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

(v) The Company has made purchases of substantial portion of its project related goods, materials and services from the Holding Company and fellow subsidiary in terms of contracts awarded to it during the year. In view of unique and specialized nature of the transactions and in absence of comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time. According to the information and explanation given to us, there are no transaction of goods, material and services made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Act and aggregating during the year to rupees five lakh or more in respect of each party.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of accounts maintained by the Company pursuant to the notification dated October 8, 2002 issued by the Central Government for the maintenance of cost records and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.

(ix) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, custom duty, and cess have generally been regularly deposited with the appropriate authorities *though there are delays in few cases.*

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

(c) According to the records of the Company, the dues outstanding of sales-tax, income-tax and other statutory dues on account of any dispute, are as follows:

Name of the statute	**Nature of dues**	**Amount** *(rupees in millions)*	**Period to which the amount relates**	**Forum where dispute is pending**
Rajasthan Sales Tax Act, 1994	Lease tax payable on monthly rental charges collected	53.92	2001 – 2003	Deputy Commissioner (Appeals)
Income Tax Act,1962	Penalty on disallowance of expenses	2.10	AY 2001-02	ITAT, Delhi

Based on the records of the Company, there were no dues outstanding under any dispute with respect to service tax, wealth tax, excise duty, custom and cess at March 31, 2006.

(x) *The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth.* The Company has not incurred cash loss during the year and immediately preceding financial year.

(xi) Based on our audit procedures and as per the information and explanations given by the management, *the Company has delayed in repayment of interest to financial institutions and banks, as presented below:*

Lender's Name	Interest Amount (Rs. in millions)	Due date of payment of interest	Date of payment
ICICI Bank ('ICICI')	4.93	April 30, 2005	June 15 / 20 , 2005
Union Bank of India ('UBI') / Central Bank of India ('CBI')/Canara Bank ('CB')	7.68	May 1, 2005	May 19 / 26 , 2005
ICICI Bank	5.01	May 30, 2005	June 20 / 30, 2005
Bank of Baroda ('BOB') / CB / UBI/ CBI	9.79	June 1, 2005	June 2 / 3 / 4 / 19 / 22 / 23 ,2005
ICICI Bank	4.13	June 30, 2005	July 27 /August 17, 2005
UBI/ CBI/ CB/BOB	9.80	July 1, 2005	July 2 / 4/ 7 / 8 / 9 / 11 / 12 / 16 / 22 / 28 /August 3, / 17,2005
ICICI Bank	5.01	July 30, 2005	August 17 / 29 /September 5, 2005
UBI/ CBI/ CB/BOB	8.19	August 1, 2005	August 2 / 15 / 29 /September 6 / 14, 2005
ICICI Bank	5.12	Aug 30, 2005	September 5 / 7 / 23,2005
UBI/ CBI/ CB	7.95	Sept 1, 2005	September 2 / 19 / 24 / 28 / October13 , 2005
LIC	6.93	Sept 15, 2005	November 23 / December 10, 2005
ICICI Bank	4.75	Sept 30, 2005	November 28 / 29, 2005
UBI/ CBI/ CB	8.05	Oct 1, 2005	October 13 /November 8, / 11 / 17 / 25,2005
ICICI Bank	12.41	Oct 30, 2005	November 29, 2005/March 31,2006
UBI/ CBI/ CB	7.91	Nov 1, 2005	November 30 /December 10 / 13, 2005
ICICI Bank	12.96	Nov 30, 2005	March 31,2006
CB/CBI/UBI	7.28	Dec 1, 2005	December 24 / 26, 2005 / January 21,2006
LIC	7.05	Dec 15, 2005	March 1 / 13,2006
BOB	2.15	Dec 15, 2005	December 16, 2005
ICICI Bank	13.18	Dec 30, 2005	March 31,2006
BOB/CB/CBI/UBI/Federal Bank of India ('FBI')	12.18	Jan 2, 2006	January 3/4/5/7/9/10/12/13/16/20/25/27/28/ February1/3/13, 2006
BOB/CB/CBI/UBI/FBI	15.30	Feb 1, 2006	February 2 / 3 / 4 / 6 / 7 / 14 / 15 / 20 / 21 / March 4 / 23 / April, 7 / 27 /May 4 / 9, 2006
BOB/CB/CBI/UBI/FBI	16.91	Mar 1, 2006	March 2 / 3 / 6 / 7 / 13 / 14 / 17 / 18 / 20 / 21 / 23 / 30 / 31 / April 26 /May 9, 2006
LIC	6.80	Mar 15, 2006	March 24, 2006
Total	**201.47**		

Due to the delays above, the Company has paid Rs 4.28 million and accrued Rs. 0.55 million as penal interest to the financial institutions and banks.

(xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which they are obtained.

(xvii) According to the information and explanations given to us and on overall examination of the balance sheet and cash flow statement of the Company, we report that *the Company has used funds amounting to Rs 990 million raised on short-term basis for long-term investment. The Company has raised short term funds amounting to Rs 500 million based on long term guarantees provided by their bankers and Rs 490 million on security of fixed assets of the Company, which would fall due for repayment within 12 months from the date of their disbursement. The Company has utilized the money for repayment of long term loans outstanding during the year.*

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

(xix) According to the information and explanations given to us, the Company did not issue any debentures during the year.

(xx) The Company has not raised any money by public issue.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **S. R. BATLIBOI & ASSOCIATES**
Chartered Accountants

Place : New Delhi
Dated : July 8, 2006

Prashant Singhal
Partner
Membership No: **93283**

BALANCE SHEET AS AT MARCH 31, 2006

	Schedule No.	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
SOURCES OF FUNDS			
SHARE HOLDERS' FUNDS			
Share Capital	1	4,559,575,000	4,559,575,000
Reserves and Surplus	2	5,545	5,545
		4,559,580,545	4,559,580,545
LOAN FUNDS			
Secured Loans	3	3,622,845,459	3,194,241,375
		8,182,426,004	**7,753,821,920**
APPLICATION OF FUNDS			
FIXED ASSETS	4		
Gross Block		6,336,444,973	5,719,790,999
Less: Accumulated Depreciation		1,831,129,055	1,251,924,951
Net Block		4,505,315,918	4,467,866,048
Capital Work-in-progress [including capital advances of Rs 27,903,429 (2005 - Rs 424,837,566)]		195,616,044	756,014,057
		4,700,931,962	5,223,880,105
INTANGIBLE ASSETS, net	5	303,317,153	376,170,837
INVESTMENTS	6	26,105	100,416
CURRENT ASSETS, LOANS & ADVANCES			
Sundry Debtors	7 (a)	142,425,341	145,465,915
Cash and Bank Balances	7 (b)	183,190,987	94,770,457
Loans and Advances	7 (c)	82,000,895	89,232,211
Other Current Assets	7 (d)	93,248	59,711
		407,710,471	329,528,294
LESS: CURRENT LIABILITIES AND PROVISIONS	8		
Current Liabilities		1,005,447,295	1,238,508,278
Provisions		37,583,486	41,584,024
		1,043,030,781	1,280,092,302
NET CURRENT LIABILITIES		635,320,310	950,564,008
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	9	126,805,870	194,067,447
PROFIT AND LOSS ACCOUNT		3,686,665,224	2,910,167,123
		8,182,426,004	**7,753,821,920**
Summary of Significant Accounting Policies	18		
Notes to Accounts	19		

The Schedules referred to above and the notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

S.R. Batliboi & Associates
Chartered Accountants

Prashant Singhal
Partner
Membership No : **93283**

Place : New Delhi
Date : July 8, 2006

For and on behalf of the Board of Directors

Rajiv Mehrotra
Chairman and Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Suneel Vohra
President

Vinay Kumar Dadheech
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

	Schedule No.	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
INCOME			
Service Revenue		1,466,293,846	1,330,260,924
Less: Service tax		121,062,461	105,399,380
Net Revenue		1,345,231,385	1,224,861,544
Other Income	10	2,150,666	11,458,407
		1,347,382,051	**1,236,319,951**
EXPENDITURE			
Employee Costs	11	132,606,669	102,252,025
Network Operating Costs	12	622,814,793	589,813,850
Sales and Marketing Costs	13	58,139,019	86,681,193
Administrative and Other Costs	14	182,929,081	175,586,068
		996,489,562	**954,333,136**
Operating Profit Before Amortisation, Finance Expense, Depreciation and Exceptional Item		**350,892,489**	**281,986,815**
Amortisation of Intangible Assets & Miscellaneous Expenditure	15	166,063,901	254,324,280
Depreciation	4	605,119,469	451,600,013
Finance Expense	16	350,761,191	422,182,463
Loss Before Exceptional Item and Taxation		**771,052,072**	**846,119,941**
Exceptional Item	17	-	628,544,337
Loss Before Taxation		**771,052,072**	**217,575,604**
Provision for Tax			
- Current Tax	19, Note 14(a)	2,098,591	-
- Deferred Tax		-	-
- Fringe Benefit Tax		3,347,438	-
Loss After Taxation		**776,498,101**	**217,575,604**
Loss, Beginning of the Year		2,910,167,123	2,692,591,519
Loss, end of Year		**3,686,665,224**	**2,910,167,123**
Loss Per Share [Equity Shares, Par Value of Rs 10 each (2005 - Rs 10)]			
Basic and Diluted (in Rs)	19, Note 18	1.69	0.63
Weighted Average Number of Shares in Computing Earnings Per Share			
Basic and Diluted		**455,957,500**	**346,573,610**
Summary of Significant Accounting Policies	18		
Notes to Accounts	19		

The Schedules referred to above and the notes to accounts form an integral part of the Profit and Loss Account.

As per our report of even date

S.R. Batliboi & Associates
Chartered Accountants

Prashant Singhal
Partner
Membership No : **93283**

Place : New Delhi
Date : July 8, 2006

For and on behalf of the Board of Directors

Rajiv Mehrotra
Chairman and Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Suneel Vohra
President

Vinay Kumar Dadheech
Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit/(Loss) Before Tax	(771,052,072)	(217,575,604)
Adjustment for:		
Depreciation	605,119,469	451,600,013
Amortisation of Intangible Assets & Miscellaneous Expenditure	166,063,901	254,324,280
Provisions for Gratuity and Leave Encashment	5,122,511	1,019,040
Provision for Contingencies	172,053	882,524
Provision for Damaged/ Irrecoverable Assets	9,233,255	8,088,277
Finance Expenses	350,761,191	422,182,463
Gain on Sale of Investment in Hexacom India Limited, net	-	(628,544,337)
Provision for Doubtful Debts	24,667,444	29,803,246
Dividend on Current Investments	(3,061)	(762,848)
Profit on Sale of Current Investment	-	(179,696)
Profit on Sale of Fixed Assets	(175,077)	-
Provision Written Back	-	(426,856)
Interest Income	(1,972,528)	(10,089,007)
Operating Profit Before Working Capital Change	**387,937,086**	**310,321,495**
Adjustment for:		
Movement in Working Capital		
Decrease/(increase) in Sundry Debtors	(21,626,870)	(91,702,211)
Decrease/(increase) in Inventories	-	5,037,740
Decrease/(increase) in Loans and Advances	11,227,074	(16,034,250)
Decrease/(increase) in Current Liabilities and Provision	(16,761,557)	277,481,128
Cash Generated from Operations	**360,775,733**	**485,103,902**
Income Taxes Paid	(9,443,808)	(6,923,783)
Payment for Frindge Benefit Tax	-	-
Net Cash from Operating Activities	**351,331,925**	**478,180,119**
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets, Including CWIP	(439,701,319)	(169,715,951)
Purchase of Software	-	(2,165,499)
Purchase of Mutual Funds	-	(245,762,849)
Sale of Mutual Funds	74,311	246,454,424
Proceeds from Sale of Assets	651,000	49,260,074
Sale of Investment in Hexacom India Limited	-	1,649,426,387
Dividend Received on Current Investments	3,061	762,848
Interest Received	1,938,991	11,433,672
Net Cash from/(used) in Investing Activities	**(437,033,956)**	**1,539,693,106**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Issue of Share Capital	-	204,100,000
Repayment of Debenture	-	(500,000,000)
Repayment of Term Loan to Financial Institution	(2,500,000)	(150,000,000)
Repayment of Term Loans to Banks	(436,835,396)	(1,120,000,000)
Repayment of Short Term Loans to Banks	(1,000,000,000)	-
Proceeds of Short Term Loans from Banks and Commercial Papers	1,990,000,000	-
Proceeds from Other Loan	-	1,725,000
Repayment of Other Loans	(547,406)	(1,269,540)
Finance Setup Cost Paid	(25,948,640)	(78,443,998)
Interest Paid	(350,045,997)	(431,669,724)
Net Cash from/(used) in Financing Activities	**174,122,561**	**(2,075,558,262)**
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	88,420,530	(57,685,037)
Cash and Cash Equivalents at Beginning of the Year	94,770,457	152,455,494
Cash and Cash Equivalents at the End of the Year	**183,190,987**	**94,770,457**
NOTE TO CASH FLOW STATEMENT:		
1. Cash and Cash Equivalents Include:		
Cash on Hand	5,553,563	4,055,384
Cheques in Hand	-	529,415
Balances with Scheduled Banks in Current Accounts	81,424,409	-
Balances with Scheduled Banks in Deposit Account:		52,682,136
As Margin Money	46,339,223	36,000,000
Others	49,873,792	1,503,522
	183,190,987	**94,770,457**

2. Investment in Hexacom India Limited ('HIL') has been sold to Bharti Televenture Limited for a consideration of Rs Nil (2005 - Rs. 1,649,426,387, net of discounting charges of Rs 102,425,738 [Refer Note 1(d), Schedule 18])

S.R. Batliboi & Associates
Chartered Accountants

Prashant Singhal
Partner
Membership No : **93283**

Rajiv Mehrotra
Chairman and Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Date : July 8, 2006

Suneel Vohra
President

Vinay Kumar Dadheech
Company Secretary

SCHEDULES TO THE ACCOUNTS

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
SCHEDULE - 1		
SHARE CAPITAL		
Authorised		
800,000,000 Equity Shares of Rs 10 each	8,000,000,000	8,000,000,000
Issued, Subscribed and Paid Up		
455,957,500 Equity Shares of Rs 10 each fully paid up	4,559,575,000	4,559,575,000
SCHEDULE - 2		
RESERVES AND SURPLUS		
Capital Reserve	5,545	5,545
SCHEDULE - 3		
SECURED LOANS		
Long Term		
From Banks		
Term Loans	1,292,164,604	1,729,000,000
Vehicle Loans	802,895	1,350,301
Interest Accrued and Due on Loans	10,964,960	13,400,362
From Financial Institution		
Term Loan	247,500,000	250,000,000
	1,551,432,459	**1,993,750,663**
Short Term		
From Bank		
Term Loan	990,000,000	1,000,000,000
Other Loans	81,413,000	200,490,712
Commercial Papers	1,000,000,000	-
	3,622,845,459	**3,194,241,375**

SCHEDULES FORMING PART OF BALANCE SHEET AS AT MARCH 31, 2006

SCHEDULE - 4
FIXED ASSETS

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at April 1, 2005 Rs.	Additions Rs.	Deletions/ Adjustments Rs.	As at March 31, 2006 Rs.	As at April 1, 2005 Rs.	For the Year Rs.	Deletions/ Adjustments Rs.	As at March 31, 2006 Rs.	As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
Freehold Land	1,823,370	-	-	1,823,370	-	-	-	-	1,823,370	1,823,370
Leasehold Land	1,635,333	-	-	1,635,333	72,552	16,519	-	89,071	1,546,262	1,562,781
Leasehold Improvements	87,478,323	6,478,381	-	93,956,704	28,970,029	9,520,319	-	38,490,349	55,466,355	58,508,294
Building	5,686,794	-	-	5,686,794	534,907	189,939	-	724,846	4,961,948	5,151,887
Plant & Machinery	2,094,642,085	222,262,632	-	2,316,904,717	536,907,846	213,417,261	-	750,325,107	1,566,579,610	1,557,734,239
Optical Fibre and Copper Cable Network	2,334,731,533	198,292,402	-	2,533,023,935	305,216,060	129,066,549	-	434,282,609	2,098,741,327	2,029,515,473
Wireless Telephone Sets	1,088,481,349	203,000,293	(23,615,124)	1,267,866,518	300,547,386	238,948,563	(22,886,773)	516,609,175	751,257,343	787,933,963
Computers	61,325,467	11,745,223	-	73,070,690	49,051,664	8,141,118	-	57,192,781	15,877,909	12,273,804
Furniture & Fixtures	16,372,915	326,550	-	16,699,465	12,217,779	2,276,212	-	14,493,991	2,205,474	4,155,136
Office Equipment	16,389,868	998,565	-	17,388,433	11,350,746	2,053,505	-	13,404,251	3,984,182	5,039,122
Vehicles	11,223,962	669,567	(3,504,515)	8,389,014	7,055,983	1,489,484	(3,028,592)	5,516,876	2,872,138	4,167,979
Total	**5,719,790,999**	**643,773,613**	**(27,119,639)**	**6,336,444,973**	**1,251,924,951**	**605,119,469**	**(25,915,365)**	**1,831,129,055**	**4,505,315,918**	**4,467,866,048**
Prior year	4,287,206,072	1,432,584,927	-	5,719,790,999	800,324,938	451,600,013	-	1,251,924,951	4,467,866,048	-

SCHEDULE - 5

INTANGIBLE ASSETS, net

PARTICULARS	GROSS BLOCK				AMORTISATION				NET BLOCK	
	As at April 1, 2005 Rs.	Additions Rs.	Adjustment Rs.	As at March 31, 2006 Rs.	As at April 1, 2005 Rs.	For the Year Rs.	Adjustment Rs.	As at March 31, 2006 Rs.	As at March 31, 2006 Rs.	As at March 31, 2005 Rs.
Software	456,592,896	-	-	456,592,896	321,331,560	54,212,620	-	375,544,180	81,048,716	135,261,336
License Entry Fee	322,500,000	-	-	322,500,000	81,590,499	18,641,064	-	100,231,563	222,268,437	240,909,501
Total	**779,092,896**	**-**	**-**	**779,092,896**	**402,922,059**	**72,853,684**	**-**	**475,775,743**	**303,317,153**	**376,170,837**
Prior year	776,927,396	2,165,500	-	779,092,896	293,253,127	109,668,932	-	402,922,059	376,170,837	-

SCHEDULES TO THE ACCOUNTS

SCHEDULE - 6

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
INVESTMENTS (at lower of cost and market value)		
Non -Trade		
Current and Unquoted Investments in Mutual Funds		
1,645 units (2005 - 7,916 units) of Prudential ICICI Liquid Plan - Growth Option	26,105	100,416
	26,105	**100,416**

SCHEDULE - 7

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
CURRENT ASSETS, LOANS AND ADVANCES		
(a) Sundry Debtors		
Debts Outstanding for a Period Exceeding Six Months		
Secured and Considered Good	18,139,562	7,527,554
Unsecured and Considered Good	126,763	458,042
Unsecured and Considered Doubtful	91,718,825	64,539,982
	109,985,150	**72,525,578**
Other Debts		
Secured and Considered Good	49,219,213	49,723,478
Unsecured and Considered Good	74,939,803	87,756,842
Unsecured and Considered Doubtful	13,531,414	16,042,812
	247,675,580	226,048,710
Less: Provision for Doubtful Debts	(105,250,239)	(80,582,795)
	142,425,341	**145,465,915**
(b) Cash and Bank Balances		
Cash on Hand	5,553,563	4,055,384
Cheques in Hand	-	529,415
Balance with Scheduled Banks:		
In Current Accounts	81,424,409	52,682,136
In Fixed Deposit Account [includes margin money deposit of Rs 46,339,223 (2005 - Rs 36,000,000)]	96,213,015	37,503,522
	183,190,987	**94,770,457**
(c) Loans and Advances (Unsecured)		
Advances Recoverable in Cash or in Kind or for Value to be Received:		
Considered Good	52,206,681	44,740,363
Considered Doubtful	13,791,301	13,791,301
Recoverable from Department of Telecommunication	-	18,526,336
Loans to Employees	71,611	41,506
Security Deposits	11,642,132	11,839,293
Taxes Recoverable (Net)	18,080,471	14,084,713
	95,792,196	**103,023,512**
Less: Provision for Doubtful Advances	(13,791,301)	(13,791,301)
	82,000,895	**89,232,211**
(d) Other Current Assets		
Interest Accrued on Fixed Deposits	93,248	59,711
	93,248	**59,711**

SCHEDULES TO THE ACCOUNTS

SCHEDULE - 8

CURRENT LIABILITIES AND PROVISIONS

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
Current Liabilities		
Sundry Creditors - for Capital Goods	357,635,528	595,611,886
- for Expenses	166,822,776	219,730,028
Income received in advance	218,079,154	180,626,710
Advances & Deposits from Customers & Channel Partners	218,743,548	194,875,705
Interest Accrued but not Due on Loans	15,677,112	12,526,516
Book Overdraft	3,557,606	2,019,837
Other Liabilities	24,931,571	33,117,596
	1,005,447,295	**1,238,508,278**
Provisions		
Provision for Contingencies	1,781,097	20,135,380
Provision for Damaged/ Irrecoverable Assets	25,752,969	16,519,714
Wealth Tax	24,671	26,692
Leave Encashment	8,945,592	4,689,751
Gratuity	1,079,157	212,487
	37,583,486	41,584,024
	1,043,030,781	**1,280,092,302**

SCHEDULE - 9

MISCELLANEOUS EXPENDITURE

(Rs.)

PARTICULARS	GROSS				ACCUMULATED AMORTISATION				NET BALANCE	
	As at April 1, 2005	Additions/ Adjustments	Deletions/ Adjustments	As at March 31, 2006	As at April 1, 2005	Additions/ Charges	Deletions/ Adjustments	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Finance Setup Cost	671,201,559	-	-	671,201,559	477,134,112	83,985,747	-	561,119,859	110,081,700	194,067,447
Discount on Issue of Commercial Papers	-	25,948,640	-	25,948,640	-	9,224,470	-	9,224,470	16,724,170	-
Total	**671,201,559**	**25,948,640**	**-**	**697,150,199**	**477,134,112**	**93,210,217**	**-**	**570,344,329**	**126,805,870**	**194,067,447**
Prior Year	641,937,233	154,400,000		796,337,233	457,614,438	144,655,348	-	602,269,786	194,067,447	-

SCHEDULE - 10

OTHER INCOME

Profit on Sale of Current Investments	-	179,696
Dividend on Current Investments	3,061	762,848
Interest [Gross of Tax Deducted at Source - Rs 395,553 (2005 - Rs 2,162,202)]	1,972,528	10,089,007
Provision Written Back	-	426,856
Gain on Sale of Fixed Assets	175,077	-
	2,150,666	**11,458,407**

SCHEDULE - 11

EMPLOYEE COSTS

Salaries, Wages and Bonus	114,100,819	88,569,837
Contribution to Provident and Other Funds	10,104,599	7,236,979
Staff Welfare Expenses	7,738,328	5,579,162
Recruitment and Training expenses	662,923	866,047
	132,606,669	**102,252,025**

SCHEDULES TO THE ACCOUNTS

SCHEDULE - 12

NETWORK OPERATING COSTS

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
Interconnect Usage Charges	384,397,989	326,412,468
Port Charges and Other Network Related Costs	26,371,228	23,196,413
Royalty & License Fees to Wireless Planning Commission	13,333,800	11,231,548
Revenue Share License Fees	77,394,289	72,245,493
House Wiring Expenses	13,700,785	14,946,441
Site Expenses:		
Electricity and Water	23,778,956	23,458,339
Rent	14,791,436	11,583,680
Equipment Hire Charges	730,050	720,000
Insurance	3,175,636	4,313,056
Cost of Telephone Instruments Installed	12,838,464	40,451,295
Infrastructure Sharing Expenses	20,204,680	6,340,737
Testing Charges	942,760	2,572,620
Repairs and Maintenance - Network	31,154,720	52,341,760
	622,814,793	**589,813,850**

SCHEDULE - 13

SALES AND MARKETING COST

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
Advertisement and Publicity Expenses	35,296,353	40,732,370
Verification & Survey Expenses	-	842,528
Dealers' Commission	9,175,162	29,918,941
Sales Promotion Expenses	13,667,504	15,187,354
	58,139,019	**86,681,193**

SCHEDULE - 14

ADMINISTRATIVE AND OTHER COSTS

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
Rent	20,194,827	14,712,068
Electricity and Water Charges	8,574,811	7,111,544
Traveling & Conveyance Expenses	30,386,609	26,241,394
Printing and Stationery	9,340,331	7,010,196
Postage and Communication Expenses	8,700,850	9,702,101
Vehicle Hire Charges	5,579,397	5,414,947
Insurance	1,143,770	997,801
Repair and Maintenance Charges		
Building	1,610,803	1,990,717
Others	8,569,380	6,042,847
Legal, Professional and Consultancy Expenses	26,659,178	30,744,106
Rates and Taxes	2,876,943	6,270,843
Auditors' Remuneration	2,130,000	1,491,020
Membership and Subscription	501,600	242,825
Debt Collection Commission and Expenses	14,838,659	11,383,080
Provision for Doubtful Debts	24,667,444	29,803,246
Provision for Contingencies	172,053	882,524
Provision for Damaged/ Irrecoverable Assets	9,233,255	8,088,277
Miscellaneous Expenses	7,749,171	7,456,532
	182,929,081	**175,586,068**

SCHEDULES TO THE ACCOUNTS

	31st March, 2006 (Rupees)	31st March, 2005 (Rupees)
SCHEDULE - 15		
AMORTISATION OF INTANGIBLE ASSETS & MISCELLANEOUS EXPENDITURE		
Amortisation of License Fee	18,641,064	18,641,064
Amortisation of Software	54,212,620	91,027,868
Amortisation of Preliminary Expenses	-	1,201,248
Amortisation of Deferred Revenue Expenditure	-	21,975,488
Amortisation of Finance Setup Costs	93,210,217	121,478,612
	166,063,901	**254,324,280**
SCHEDULE - 16		
FINANCE EXPENSES		
Interest:		
- on Debentures	-	12,097,158
- on Term Loans	278,523,297	369,874,566
- Others	29,211,420	9,065,114
Bank Charges and Commission	43,026,474	31,145,625
	350,761,191	**422,182,463**
SCHEDULE - 17		
EXCEPTIONAL ITEM		
Gain on sale of investment in Hexacom India Limited (Net of discounting charges)	-	628,544,337

(i) As more fully discussed in [Note 1(d), Schedule 18], the Company has made a gain of Rs 628,544,337, net of discounting charges of Rs 102,425,738 on sale of investment in Hexacom India Limited.

SCHEDULE 18

BACKGROUND & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. BACKGROUND

(a) *Nature of business and ownership*

Shyam Telelink Limited ('the Company' or 'STLL'), a wholly owned subsidiary Company of Shyam Telecom Limited ('the Holding Company' or 'STL'), was incorporated on April 20, 1995. The Company was awarded Basic Telephony Service Licence by Department of Telecommunications ('the DoT') on March 4, 1998 for the Rajasthan Circle under fixed licence fee regime under National Telecom Policy ('NTP') 1994, valid for a period of 20 years from the effective date. The Company migrated from fixed licence fee regime to revenue sharing regime upon implementation of NTP'99.

The Company commenced commercial operations in Jaipur on June 30, 2000 under the 'Rainbow' brand name and has since then as of March 31, 2006, extended its coverage to 112 cities in the state.

Further to the Telecom Regulatory Authority of India's ('TRAI') recommendations of October 27, 2003 and the DoT guidelines on Unified Access (Basic & Cellular) Services Licence ('UASL') dated November 11, 2003, the Company migrated to the UASL with effect from November 14, 2003 by paying an aggregate amount of Rs 29.6 million on November 12, 2003. Pursuant to the migration, the Company has signed UASL Agreement on August 20, 2004.

On May 18, 2006, the Honourable High Court of Rajasthan has approved the Scheme of Arrangement filed on August 11, 2005 between STL, Shyam Telecom Manufacturing Limited ('STML'), STLL and Shyam Basic Infrastructure Projects Private Limited ('SBIPL') ('petitioner Companies') (hereinafter refered to as 'the Scheme'). The Scheme, inter-alia provides for STML, a wholly owned subsidiary of STL, to be amalgamated with STL; STL to transfer its investment to the extent of Rs 2,000 million equity shares of STLL to SBIPL, together with certain liabilities; and the balance investment of Rs 2,560 million equity shares of STLL to its existing shareholders, without any consideration, in proportion to their shareholding in STL. The Scheme also envisages STLL to be listed in the Bombay Stock Exchange and National Stock Exchange. The Company, along with the other petitioner companies to the Scheme, are in the process of completing the requirements for executing the Scheme as approved by the Honourable High Court of Rajasthan. Consequently, the shares in STLL will get transferred on completion of the execution of the scheme.

(b) *Licence Entry Fees*

The Licence Entry Fees for Rajasthan Circle was based on the total licence fees of Rs 292.9 million paid under the old licence fee regime, wherein the annual licence fee dues from inception till July 31, 1999 were considered as the

Licence Entry Fees as part of the migration package to NTP '99. In addition, the Company paid Rs 29.6 million on November 12, 2003 to migrate to UASL.

As per the UASL entered into by the Company, it is required to pay revenue share fees at the rate of 8 per cent on AGR of the Company. AGR, under the licence agreement is defined as Gross Revenue inclusive of installation charges, late fees, sale proceeds of handsets, revenue on account of interest, dividend, value added services, interconnection charges, roaming charges, revenue from permissible sharing of infrastructure and any miscellaneous revenue after deduction of access charges paid to other operators and service tax paid to the Government.

In addition, spectrum charges calculated at 2 per cent of the revenue earned through the CDMA and CorDect wireless technology is payable under the licence agreement.

(c) Project Financing

During the year ended March 31, 2006, the Company has incurred a loss of Rs 776 million (accumulated loss of Rs 3,687 million) for the year ended March 31, 2006 and has a working capital deficiency of Rs 635 million as of that date. In addition, loans and Commercial Papers of Rs 2,055 million are due for repayment within the next twelve month. Further, the net worth of the Company as at March 31, 2006 is Rs 873 million (after adjusting the accumulated losses) i.e. an erosion of over 80 percent.

Based on the current business plan, the Company has estimated a peak funding requirement of Rs 9,680 million, to be funded by way of equity share capital of Rs 4,560 million and long term debt of Rs 3,500 million and balance through other means of finance including vendor financing. Of the total funding requirement, the Company has tied up equity share capital of Rs 4,560 million and term loans of Rs 2,530 million, Commercial Papers of Rs 1,000 million and LC liability of Rs 81.4 million as at March 31, 2006. The Company is in the process of converting its existing fund based limits into non-fund based limits to raise low cost funds in phases and is proposing to fund the entire requirement of Rs 3,500 million by way of non fund facilities from the ICICI and other syndicate member lenders and balance from vendor financing and other means of finance. As a part of restructuring its existing debt, the Company has raised low cost funds to prepay Rs 1,427 million of its existing long term loans by utilising long term non-funds based facilities from lenders.

Further the non fund facility shall be used for the purpose of raising long term funds by issue of Optionally Convertible Bonds ('OCB') and Foreign Currency convertible loans in domestic and international markets. The funds raised would be used for pre payment of remaining existing debts. Presently, the Company has obtained sanctions of Rs 4,120 million of financial bank guarantees from ICICI and other syndicate member lenders. The Company envisages only restructuring of the existing debts portfolio by substituting low cost funds with high cost debts and believes that no future debts are required.

During the year ended March 31, 2006, the Company entered into a contract with an equipment supplier for expansion of capacity and roll out of CDMA, Wireline and broadband equipment network in Rajasthan for USD 50 million over the next 5 to 7 years under the vendor financing arrangement.

Based on the commitments and funding provided by the shareholders so far and debt raised till now, the Company is confident that it would be able to arrange the balance long-term funding of the project and, accordingly, these financial statements are prepared on a going concern basis.

(d) Sale of investment in Hexacom India Limited ('HIL')

During the year ended March 31, 2005, the Company invested Rs 1,020.88 million for 27.5 percent stake in HIL. As per Acquisition and Share Swap agreement dated April 5, 2004 as amended by the supplementary agreement dated April 12, 2004, the Company sold its holding in HIL to Bharti Televentures Limited for a consideration of Rs 1,751.87 million in the form of 17,519 Optionally Convertible Redeemable Debentures ('OCRD') at the rate of Rs 0.1 million per OCRD; these OCRDs were repayable at the end of one year from May 14, 2004. However, before the transfer of OCRD in its name, the Company transferred its beneficial interest, right and title in these OCRDs to Shyam Cellular Infrastructure Projects Limited ('SCIPL') for a consideration of Rs 1,649.42 million, net of discounting charges of Rs 102.45 million.

Accordingly during the year ended March 31, 2005, the gain on sale of the transaction of Rs 628.54 million, net of discounting charges of Rs 102.45 million has been disclosed as Exceptional Item in the Profit and Loss Account.

With respect to the income arising on the transaction referred above, the Company, based on a legal opinion, believes that it is not covered under the definition of Adjusted Gross Revenue ('AGR') [Refer Note 1(b), Schedule 18], as inter alia, such revenues do not accrue out of operations licenced or required to be licenced by the Department of Telecommunications ('DoT') under section 4 of the India Telegraphs Act, 1885, which governs the issuance of UASL. This matter is covered under generic petition filed by Association of Basic Telecom Operators ('ABTO') with the Telecom Dispute Settlement Appellate Tribunal ('TDSAT') contesting the inclusion of non telecom related service revenues in the AGR, which is pending resolution. In view of the legal opinion obtained by the Company and above petition filed by the ABTO with the TDSAT, the Company is of the opinion that no revenue share is payable against the revenues from sale of above investments, and has, accordingly, made no provisions in its books of account.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared to comply in all material respects with the mandatory Accounting

Standards issued by The Institute of Chartered Accountants of India ('ICAI') and the relevant provisions of the Companies Act, 1956 ('the Act'). The financial statements have been prepared under the historical cost convention, on the accrual basis of accounting. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The significant accounting policies are as follows:

2.2 Fixed Assets

Fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use. Capital spares/ standby equipment are capitalised as part of the respective mother assets they relate to. Any expenditure on upgradation of existing assets resulting in increase in their capacity and the benefits expected there from is capitalised. All expenditure, including advances given and capital inventory are shown as capital work-in-progress until the assets are ready for commercial use. Capital work-in-progress is stated at cost. Provision for slow moving and obsolescence related to capital work-in-progress is made based upon the ageing of the capital assets and a periodic technical evaluation undertaken by the Company.

2.3 Depreciation

(i) Fixed assets are depreciated prorata from the date on which the asset is ready to use (except for Wireless Telephone Sets which are depreciated from the beginning of the month, following the month of purchase), on a straight line method, based on the following estimated useful economic lives of assets:

Particulars	Useful Life(in years)
Leasehold Land	Over the period of the lease
Leasehold Improvements	Over the period of the lease or 10 years, whichever is lower
Building	30
Plant and Machinery:	
Network Equipments	12
Air Conditioners, Generators, Electrical equipment	6
Tools and Testing Equipment	5
Optical Fibre and Copper Cable Network	20
Wireless Telephone Sets	5
Computers	3
Furniture and Fixtures	6
Office Equipment	6
Vehicles	5

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

(iii) Depreciation on the amount capitalised on upgradation of existing assets is provided over the remaining useful lives of the original assets.

(iv) Fixed assets individually costing less than Rs 5,000 are fully depreciated in the year of acquisition.

2.4 Impairment

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

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

2.5 Intangible Assets

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

Software is capitalised on the date of installation and is amortised over a period of 5 years.

For accounting policy related to Licence Entry Fees, see Note 2.7(i), Schedule 18, below.

2.6 Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments; all other investments are classified as long-term investments. Current investments are carried at lower of cost and fair market value determined on an individual investment basis. Long-term investments are carried at cost, except the cost of investments acquired or partly acquired by the issue of shares or other securities, which is the sum total of the fair value of the securities issued and other acquisition costs. Provision for diminution in value of long-term investments is made to recognise only a decline other than temporary in the value of the investments.

2.7 Licence Fees

(i) Licence Entry Fee

The Licence Entry Fee has been recognised as an intangible asset and is amortised over the remainder of the licence period of 20 years from the date of commencement of commercial operations [Refer Note 1(b), Schedule 18].

Fees paid for migration of the original licences to the UASL is amortised over the remainder of the licence period of 20 years from the date of migration to UASL.

(ii) Revenue Sharing Fee

Revenue Sharing Fee, computed at the rate of 8 per cent of AGR [Refer Note 1(b), Schedule 18] is expensed in the Profit and Loss Account in the year in which the related income from providing Unified Access Services is recognised.

An additional revenue share towards spectrum charges is computed at the rate of 2 per cent of the service revenue earned from the customers who are provided services through the CDMA and CorDect wireless technology.

2.8 Foreign Currency Transactions

(i) Initial Recognition

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

(ii) Conversion

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

(iii) Exchange Difference

Exchange differences arising on the settlement of monetary items or on restatement of the Company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise. Exchange differences arising on conversion of monetary items pertaining to acquisition of fixed assets acquired from outside India denominated in foreign currencies are adjusted to the cost of the assets.

2.9 Miscellaneous Expenditure

(i) Finance set up costs

Finance set-up cost, including financial fees and cost of arranging and restructuring long-term loans, is amortised over the period of the loan or five years, whichever is lower, commencing from the date of the first draw-down of the related loan, on a straight-line basis.

(ii) Discount on issue of Commercial Papers

Discount on issue of Commercial Papers represents the difference between the face value and issue price of Commercial Papers. This cost is deferred and amortised on a straight-line basis over the redemption period of Commercial Papers commencing from the date of issue of Commercial Papers.

2.10 Service Revenues

Service Revenues are recognised as services are rendered and are net of discounts and service tax. Unbilled revenues resulting from Unified Access Services provided from the billing cycle date to the end of month is recorded based on billing system reports. Revenues from Unified Access Services rendered through prepaid cards are recognised based on actual usage by the customers. For the purposes of disclosure in these financial statements, service and lease line revenues are reflected gross and net of service tax in the Profit and Loss Account.

Revenue from infrastructure services are recognised as services are rendered, in accordance with the terms of the related contracts.

Indefeasible right of use contracts are accounted for as operating lease and revenue is recognized over the term of lease. Payments received from customers, before the relevant criteria for revenue recognition are satisfied, are included in income received in advance.

2.11 Interconnection Usage Charges Regulation

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

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

Further, effective March 1, 2006, the TRAI has issued an amendment to IUC Regulation 2006, requiring to pay additional 1.5 per cent of AGR towards access deficit charge. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

2.12 Retirement Benefits

Retirement benefits to employees comprise contributions to provident fund and gratuity in respect of which, the Company's contributions are charged to the Profit and Loss Account. . The contributions towards provident fund are made to statutory authorities. The Company makes contribution to a Group Gratuity Scheme with Life Insurance Corporation of India to cover the gratuity liability for its employees. In respect of gratuity, provision for the year has been made on the basis of an independent actuarial valuation at the year end.

2.13 Leave Encashment

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

2.14 Borrowing Costs

Borrowing costs attributable to the acquisition or construction of a qualifying asset are capitalised as a part of the cost of that asset. The accounting treatment of finance set-up cost has been discussed in Note 2.9 (i), Schedule 18 to the financial statements. Other borrowing costs are recognised as an expense in the period in which they are incurred.

2.15 Income Taxes

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

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

2.16 Loss Per Share

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

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

2.17 Operating Lease

(i) Where the Company is the lessee

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

(ii) Where the Company is the lessor

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

2.18 Segment reporting

(i) Identification of segment

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

(ii) Allocation of common costs

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

(iii) Unallocated items

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

2.19 Provisions

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

SCHEDULE 19 : NOTES TO ACCOUNTS

	March 31, 2006 (Rupees)	March 31, 2005 (Rupees)
1. Capital Commitments		
Estimated value of contract remaining to be executed on capital account and not provided (net of advances)	**185,157,281**	**292,302,174**
2. Contingent Liabilities		
Financial bank guarantee	8,000,000	80,000,000
Performance bank guarantee	171,008,200	123,410,000
Claims not acknowledged as debts	167,331,867	556,605,902
	346,340,067	**760,015,902**

a) As per decision of the Supreme Court in the case of State of Uttar Pradesh v Union of India based on the UP Sales Tax Act dated February 9, 2003, charges collected which are in the nature of charges for use of the various assets that form the network, essentially rental charges would be liable to lease tax. The Company has received demand notes from Rajasthan Sales Tax Department for Rs 53.92 million towards sales tax dues on charges collected which are in the nature of charges for use of the various assets that form the network, essentially rental charges. Accordingly, on August 23, 2004, the Company has challenged the above demands in Honorable Rajasthan High Court and has obtained stay order on the above demands. The Company has determined the maximum liability on this account to be Rs 167.33 million as at March 31, 2006 (2005 -- Rs 120.92 million). The Supreme Court on a writ petition filed by BSNL has decided that no sales tax can be levied on telecom services. In view of the above, the Company is confident that, there would be no liability from these demand notes.

b) The Company had executed certain contracts ('the contracts') with an equipment vendor ('the vendor') for the supply of network equipment and services for the turnkey implementation of the basic telephone service project in Rajasthan. Under the contracts, the vendor was obliged to ensure a total financing solution for the project, including credit enhancement support from the vendor's sponsors. As the vendor defaulted in its contractual obligations in providing a total financing solution for the project, the vendor executed an agreement ('the agreement') with the Shyam Group of Companies to subscribe to warrants of the Group Companies aggregating 50 per cent of the value of supplies of equipment and services by the vendor to the Company. Disputes have arisen between the Company and vendor with respect to fulfillment of obligations under the contracts and the agreement. As at March 31, 2006, Rs 247 million (March 31, 2005 -- Rs 247 million) was due by the Company to the vendor. The Company and the vendor are in the process of resolving their differences. The management of the Company believes that the default under the contracts and the agreement primarily lies on the part of the vendor and thus the Company does not bear any liability under the same. However, the vendor has made a counter claim for an interim award of Rs 287.5 million, which has been rejected by the Arbitral Tribunal. Since the matter is under process for resolution with the Arbitral Tribunal and based on legal opinion from the Company's counsel, no additional liability has been provided in these financial statements.

	March 31, 2006 (Rupees)	March 31, 2005 (Rupees)
3. Expenditure in Foreign Currency (on a cash-basis)		
Travel expenses	4,997,333	1,773,854
Purchase of equipment and spares	142,526,046	2,339,362
Services	563,198	–
	148,086,577	**4,113,216**
4. Managerial Remuneration		
Salary	10,800,000	10,200,000
Contribution to PF and other funds	1,296,000	1,224,000
Other Allowances	3,600,000	3,400,000
	15,696,000	**14,824,000**

The Company provides for gratuity and leave encashment on an actuarial basis for the Company as a whole, the amount pertaining to the director is not readily ascertainable and hence not included above.

	March 31, 2006 (Rupees)	March 31, 2005 (Rupees)
5. Payment to Auditors (excluding service tax)		
As Auditors	1,300,000	1,100,000
Other Services	650,000	–
Reimbursement of Out-of-Pocket Expenses	180,000	278,820
	2,130,000	**1,378,120**
6. Value of imports calculated on CIF basis		
Import of Capital Equipment	**18,970,696**	**144,775,810**

7. Quantitative particulars of equipments

a) Under the schemes offered by the Company to its customers, ownership of the FWTs and Cordect instruments are retained by the Company. Accordingly, these have been classified as Fixed Asset / Capital Work-in-Progress.

b) Cost of Telephone Instruments installed under Network operating expenses primarily includes Telephone instruments provided to wireline customers. Hence, other information pursuant to the provisions of paragraph 6 of Part II, Schedule VI to the Act are not applicable to the Company.

8. Share capital

a) Currently, STL holds 100 per cent equity shares in the Company and is considered as Holding Company for related party disclosures as required under Accounting Standard ('AS') 18, Related Party Disclosures [See Note 16, Schedule 19]. As more fully discussed in Note 1(a), Schedule 18, pursuant to the Scheme, STL shall transfer its investment to the extent of Rs 2,000 million equity shares of the Company to SBIPL; and the balance investment of Rs 2,560 million equity shares of the Company to its existing shareholders, without any consideration, in proportion to their shareholding in STL. Also, as proposed in the Scheme, STLL shall be listed in the Bombay Stock Exchange and National Stock Exchange. Subsequent to the execution of the Scheme, the Company would cease to be a subsidiary company of STL.

b) Out of 455,957,500 shares, 63,925,000 shares were allotted as fully paid up Bonus Shares by capitalisation of Capital Reserve on September 12, 2000.

9. Loans

a) Term Loans of Rs 1292 million (2005 - Rs 17.29 million) from Banks are repayable in 24 quarterly installaments from December 15, 2005 to September 15, 2011. During the year, the Company had prepaid the loan of Rs. 426.83 million. Term Loan repayable within one year to the Banks amounts to Rs.52.3 million (2005 - Rs.17.29 million).

b) Term Loans of Rs 247.50 million (2005 - Rs 250 million) from a financial institution are repayable in 24 quarterly installaments from December 15, 2005 to September 15, 2011. Term loans repayable within one year to the FI amounts to Rs 12.5 million (2005 - Rs 2.5 million).

c) Short-term loan of Rs 490 million (2005 -- Rs Nil) are repayable on March 22, 2007.

d) Short-term loan of Rs Nil (2005 -- Rs 1,000 million) was fully repaid on December 29, 2006.

e) During the year, ICICI Bank Limited agreed to provide the Letter of Credit ('LC') facility to the extent of Rs 650 million to the Company allowing 100 per cent inter changeability with the existing guarantee.

All the above loans and credit facility are fully secured by way of assignment of the Licence from the DoT for provision of UASL in the Rajasthan Circle and an equitable mortgage on all immovable properties by way of deposit of title deeds and hypothecation of movable assets of the Company including movable machinery, machinery spares, tools and accessories, both present and future, subject to prior charges created and/ or to be created in favour of the Company's bankers on specified movables for securing borrowings for working capital requirements. The term loans are further secured by way of pledge of entire shareholding of the Holding Company in the Company, joint and several unconditional and irrevocable personal guarantees of key management personnel, and a corporate guarantee from the Holding Company. Further, in case of any shortfall in the minimum required security in the form of shareholding in STLL will be made up by the Promoters of STL and SBIPL. As per the terms of the agreement, there is an event of default as the Company has defaulted in payment of interest on due date. However, the Company has not received any notice / intimation from the lender for exercising its rights provided under the agreement on the occurrence of an event of default.

f) Other Loans of Rs 0.8 million (2005 -- Rs 1.35 million) relate to purchase of vehicles and are secured by way of exclusive hypothecation charge in favour of Bank on the specific assets acquired out of the loan proceeds of the Company. These loans are repayable in monthly installments and shall be fully repaid by March 2007.

g) Short term loan of Rs 500 million (2005 -- Rs Nil) is secured by way of unconditional and irrevocable Bank guarantee of ICICI Bank Limited for repayment of principal and interest amount of Rs 520 million and is repayable on June 27, 2006.

h) Commercial papers of Rs 1,000 million (2005 -- Rs Nil) are secured by bank guarantee of ICICI Bank Limited. Commercial Paper are repayable on May 30, 2006, July 4, 2006 and July 5, 2006 for Rs 480 Million, Rs 350 million and Rs 170 million respectively. [Maximum balance outstanding at any time during the year is Rs 1,000 million (2005 -- Rs Nil)].

i) All the loans, bank guarantee facilities are secured by way of first charge on the assets on pari-passu basis.

j) During the year, the Company has defaulted in payment of interest dues, and accordingly, has recorded Rs 4.28 million (2005 -- Rs 6.53 million) as penal interest. In addition, as of March 31, 2006, the Company has not paid interest due of Rs 10.97 million (including penal interest of Rs 0.23 million) payable under the loan arrangements. The Company has, subsequent to the year-end, paid Rs 10.97 million and believes that there are no implications on its loan arrangements with respect to this delayed payment.

10. Fixed Assets and Capital Work in Progress ('CWIP')

a) Plant and Machinery includes Loose Tools of Rs 21.52 million (2005 -- Rs 20.33 million).

b) Leasehold Land amounting to Rs 0.98 million (2005 -- Rs 0.98 million) is pending registration in the name of the Company.

c) Optical fibre and copper cable network and capital work-in-progress include optical fibre and ducts of Rs 7.38 million (2005 -- Rs 7.72 million) lying with third parties for building of the backbone and feeders and plant and machinery included equipment of net book value of Rs 5.40 million (2005 – Rs 6.04 million) located at other operators sites.

d) The Company has capitalized direct project related cost for the network implementation of Rs 2.66 million (2005 -- Rs 8.73 million) during the year.

e) As on March 31, 2006, wireless telephone sets included equipment aggregating to net book value of Rs 572.59 million (2005 -- Rs 627.93 million) located at customer premises.

f) During the year ended March 31, 2005, the Company, in order to take the advantage of full mobility under UASL, changes in regulatory and competitive environment, has entered into a fresh contract with equipment supplier for expansion of capacity and coverage. The new equipment suppliers are different from the original equipment suppliers of the initial phase of roll-out. As at March 31, 2006, the Company has de-installed the original equipment of net book value of Rs. 344.98 million (Gross block -- Rs. 544.97 million) and replaced it with the equipment purchased from the new equipment supplier. The Company intends to redeploy the equipment purchased from the original equipment suppliers in its future roll-out in the rural/semi-rural areas by March 31, 2007.

Further, [Refer note 2(b), Schedule 19], the Company is in arbitration with the original equipment vendor on account of non-compliance of certain contractual obligations relating to the supply of the network equipment and has also discontinued the annual maintenance contract with the vendor with effect from January 1, 2005, however, it is confident of servicing the equipment through its own team of network engineers.

The Company has evaluated the technical feasibility of de-installation and re-installation of the equipment purchased from the original equipment supplier, including its operation in a multi vendor network roll out environment and is confident of using these equipments without any equipment loss or impairment other than the original installation costs, consequently, net book value of Rs 12.12 million representing the installation cost of the original vendor's switch has been fully written-off during the year. The Company is confident that the same shall be redeployed within the planned period and hence, not estimated any additional cost.

11. Investments

The following units have been purchased and sold by the Company during the year:

Mutual Fund	Purchases		Redemption / Sales	
	Units	**(Rs.)**	**Units**	**(Rs.)**
Prudential ICICI Mutual Fund	259	3,061	6,529	77,374

12. Debtors

Debtors includes unbilled debtors of Rs 7,915,259 (2005 -- Rs 9,506,154).

13. Current Liabilities and Provisions

a) Sundry creditors for goods and expenses include dues to Small Scale Industrial Undertakings ('SSI') aggregating to Rs0.16 million (2005 -- Rs 1.05 million). The names of SSIs to whom the Company owes any sum, which is outstanding for more than 30 days at the Balance Sheet date are Mittal Brother, Jaipur and Khushboo Polymers. The information regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company, which has been relied upon by the auditors.

b) Salary outstanding to the Chairman and Managing Directors as at March 31, 2006 was Rs 0.82 million (2005 -- Rs 0.75 million).

c) Advance and deposits from customers and channel partners include amounts refundable to subscribers of Rs. 8.56 million (2005 -- Rs 5.89 million), which represents security deposits received from permanently deactivated subscribers pending final settlement.

d) Provisions:

The following table sets forth the movement in the provisions:

(Amount in Rs.)

S.No.	Description	As at April 1, 2005 (April 1, 2004)	Additions during April 1, 2005 to March 31, 2006 (April 1, 2004 to March 31, 2005)	Amount used April 1, 2005 to March 31, 2006 (April 1, 2004 to March 31, 2005)	As at March 31, 2006 (March 31, 2005)
1.*	Contingencies	20,135,380 (19,252,856)	172,053 (882,524)	18,526,336 (-)	1,781,097 (20,135,380)
2.**	Damaged/Irrecoverable Assets	16,519,714 (8,431,437)	9,233,255 (8,088,277)	(-) (-)	25,752,969 (165,519,714)

* *The Company makes contingency provision for any un-anticipated regulatory liabilities that may arise subsequent to the year end*

** *In accordance with companies policy (See Note 2.2, of Schedule 18), the company makes provision for slow moving and obsolescence related to capital work-in-progress, based on the ageing of the capital assets and a periodic technical evaluation undertaken by the Company.*

14. Income Taxes

a) Current taxes

For assessment year 2001-02, the assessing officer had levied penalty under section 271(1)(c) of the Act. On the Company's appeal before the Commissioner (Appeals) against the order levying penalty, CIT (A) has upheld the penalty on the amount of addition of Rs 5.3 million. Accordingly, the Company has made provision of Rs 2.1 million being the tax payable on the disallowed amount at the then applicable tax rates on addition amount.

b) Deferred taxes

During the year ended March 31, 2006, the Company has incurred book loss of Rs 776 million, aggregating to accumulated losses of Rs 3,687 million as on that date, resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Indian Income-tax Act, 1961, beginning with the financial year in which the Company started providing telecommunication services. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

15. Segmental Reporting

The primary reporting of the Company has been performed on the basis of business segments. The Company has only one business segment, which is providing unified access services. Accordingly, the amounts appearing in these financial statements relate of this primary business segment. Further, the Company provides services only in the state of Rajasthan and, accordingly, no disclosures are required under secondary segment reporting.

16. Related Party Disclosure

(in rupees)

Name of Party	Relationship	Description	April 1, 2005 to 31-Mar-2006	Balance as at 31-Mar-2006	April 1, 2004 to 31-Mar-2005	Balance as at 31-Mar-2005
Shyam Telecom Limited.(STL)	Holding Company	Payable to SCIPL adjusted against STL	-		740,000,000	
		Payment of STL's share in the HIL deal net of discounting charges	-		81,947,661	
		Expenses Paid/ Payable	3,433,428		-	
		Purchase of Capital Goods/Services	303,678,500		814,479,925	
		Sale of Capital Goods	-		49,260,074	
		Capital Advances	-	**18,811,783**	-	**90,105,585**
Bharti Hexacom Limited	Enterprise over which Key Management Personnel is able to exercise Significant influence.	Service Income	-		1,227,725	
		Infrastructure sharing expenses	-		615,828	
		Services	-		861,264	
		Sundry Debtors	-	-	-	**1,062,576**
Shyam Basic Infrastructure Projects (P) Ltd ('SBIPL')	Enterprise over which Key Management Personnel exercise significant influence	Fund transfer from SBIPL to the Company	106,350,000		184,900,000	
		Payment made on behalf of SBIPL	208,822,511		1,802,551,246	
		Sundry Creditors for capital goods	-	**(10,000,000)**	-	**(112,472,511)**
Rajiv Mehrotra	Chairman & Managing Director	Remuneration	5,232,000		5,232,000	
		Payable Amounts	-	**(111,977)**	-	**(29,022)**
Ajay Khanna	Managing Director	Remuneration	5,232,000		4,796,000	
		Payable Amounts	-	**(468,053)**	-	**(447,341)**
Alok Tandon	Managing Director	Remuneration	5,232,000		4,796,000	
		Payable Amounts	-	**(315,811)**	-	**(271,640)**
Udit Mehrotra	Relative of Key Management Personnel	Remuneration	1,600,000		-	
		Payable Amounts	-	**(127,049)**	-	-

Note :- The numbers in brackets represent liability

With effect from May 18, 2004, HIL has ceased to be an Enterprise over which Key Management Personnel is able to exercise significant influence [Refer Note 1(d), Schedule 18].

17. Operating Leases

a) Where the Company is a lessee

The Company has entered into various lease agreements for leased premises, which expire at various dates over the next ten years. Lease rental expense for the year was Rs 34.99 million (2005 -- Rs 26.30 million). Further, the Company has entered into infrastructure sharing agreement with Telecom Operator for a period of ten years. Infrastructure sharing expense for the year is Rs 19.73 million (2005 -- Rs 6.34 million).

Future lease payments under operating leases are as follows:

	2006	2005
		(in rupees)
Payable not later than one year	16,662,904	9,178,643

b) Where the Company is a lessor

(i) IRU agreement

During the year ended March 31, 2005, the Company has entered into Indefeasible Right of Use contract for use of optical fibre with telecom operators for a period of 15 years. The gross carrying amount and accumulated depreciation of the optical fibre is Rs 237.59 million and Rs 34.86 million. The income and depreciation recognised in the Profit and Loss for the year is Rs 7.15 million (2005 -- Rs 2.52 million) and Rs 11.88 million (2005 -- Rs 7.45 million) respectively.

Future minimum lease payments under operating leases are as follows :-

	2006	*(in rupees)* 2005
(i) not later than one year	12,695,479	8,769,327
(ii) later than one year and not later than five years	63,477,393	43,846,633
(iii) later than five years	104,593,930	76,405,568
	180,766,802	**129,021,528**

(ii) Infra sharing agreement

The Company has entered into infrastructure sharing agreement to lease its network infrastructure (Gross book value Rs 54.26 million and Net book value Rs 20.53 million) with Telecom Operator for a period of ten years. Infrastructure sharing income for the year is Rs 12.6 million (2005 -- Rs 6.8 million).

Future lease receipts under operating leases are as follows:

	2006	*(in rupees)* 2005
Receivable not later than one year	7,278,807	1,859,000

18 Earning Per Share ('EPS')

	2006 Rs Million	2005 Rs Million
Net loss as per profit and loss account	771.05	217.58
Net loss for calculation of diluted EPS	771.05	217.58
Weighted average number of equity shares in calculating basic EPS	455,957,500	346,573,610
Weighted average number of equity shares in calculating diluted EPS	455,957,500	346,573,610
Loss per Share (equity shares, par value of Rs 10 each)		
Basic and Diluted (in Rs)	1.69	0.63

The share capital of the Company does not include any future dilutive equity shares, it only comprises of equity share capital hence the basic and dilutive EPS is same.

19. Licenced Capacity, Installed Capacity and Actual Production

Due to the nature of its activities, the Company is not subject to industrial licensing and the clause related to licenced capacity, installed capacity and actual production is not applicable.

20. Prior Year Comparatives

Prior year comparatives have been reclassified, where necessary, to conform with current year's presentation.

As per our report of even date

S.R. Batliboi & Associates
Chartered Accountants

Prashant Singhal
Partner
Membership No : **93283**

Place : New Delhi
Date : July 8, 2006

For and on behalf of the Board of Directors

Rajiv Mehrotra
Chairman and Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Suneel Vohra
President

Vinay Kumar Dadheech
Company Secretary

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

i. REGISRATION DETAILS

	March 31, 2006	March 31, 2005
Registration No.	17–17779	17–17779
State Code	17	17
Balance Sheet Date	31032006	31032005

ii. CAPITAL RAISED DURING THE YEAR (Amount in Rs. Thousand)

	March 31, 2006	March 31, 2005
Public Issue	NIL	NIL
Right Issue	NIL	NIL
Bonus Issue	NIL	NIL
Private Placement	NIL	204100*

* *Including advance for share capital.*

iii. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in Rs. Thousand)

	March 31, 2006	March 31, 2005
Total Liabilities	9225457	9033914
Total Assets	9225457	9033914
SOURCES OF FUNDS		
Paid-up capital	4559575	4559575
Advance against Share Capital	–	–
Reserves & Surplus	6	6
Secured Loans	3622845	3194241
Unsecured Loans	–	–
APPLICATION OF FUNDS		
Net Fixed Assets*	4700932	5223880
Net Intangible Assets	303318	376171
Investments	26	100
Net Current Assets	(635320)	(950564)
Misc. Expenditure	126806	194067
Accumulated Losses	3686665	2910167

* Including Capital work in Progress)

iv. PERFORMANCE OF COMPANY (Amount in Rs. Thousand)

	March 31, 2006	March 31, 2005
Turnover*	1347382	1236319
Total Expenditure	2118434	2082440
Loss for the year	771052	217576
Loss per share Rs.	1.69	0.63
Dividend Rate	NIL	NIL

* Including other income

v. GENERAL NAMES OF THREE PRINCIPAL PRODUCTS / SERVICES OF COMPANY (as per monetary terms)

Item Code No. (ITC Code)	Not applicable
Product Description	Provision of telephony services in the state of Rajasthan

BALANCE SHEET AS OF MARCH 31, 2006

	AS AT 31-Mar-2006 US$	AS AT 31-Mar-2005 US$
ASSETS		
CURRENT ASSETS		
CASH IN BANKS	43,526	16,232
ACCOUNT RECEIVABLE	28,423	-
ADVANCES	138,684	-
TOTAL CURRENT ASSETS	**210,633**	**16,232**
FIXED ASSETS		
OFFICE FURNITURE	3,875	-
TOTAL FIXED ASSETS	**3,875**	**-**
OTHER ASSETS		
DEPOSITS - RENT	3,800	-
TOTAL OTHER ASSETS	**3,800**	**-**
TOTAL ASSETS	**218,308**	**-**
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITY		
ACCOUNTS PAYABLE - STL	39,091	-
LOANS PAYABLE	100	100
TAXES PAYABLE	500	-
TOTAL CURRENT LIABILITIES	**39,691**	**100**
LOANS PAYABLE - STL	343,600	-
TOTAL LIABILITIES	**383,291**	**100**
SHAREHOLDERS EQUITY:		
CAPITAL	100	100
ADDITIONAL PAID IN CAPITAL	25,050	25,050
RETAINED EARNINGS	(190,133)	(9,018)
TOTAL SHAREHOLDERS EQUITY	**(164,983)**	**16,232**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**218,308**	**16,232**

THE BALANCE SHEET HAS BEEN PREPARED AND REVIEWED BASED ON THE INFORMATION SUPPLIED BY THE MANAGEMENT

SOHAG MUNSHI CPA

26th June, 2006

INCOME STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

	For the period ended 31-Mar-2006 US$	For the period ended 31-Mar-2005 US$
SALES AND COMMISSION	**83,758**	**-**
OPERATING EXPENSES		
COST OF GOODS SOLD	71,194	-
CONFERENCE CHARGES	7,121	-
BANK CHARGES	491	25
CONSULTING	26,539	-
MARKETING CONVENTIONS	76,705	-
OFFICE SUPPLIES	374	47
PROFESSIONAL FEES	1,075	-
TELEPHONE	1,883	-
RESEARCH AND TESTING	33,715	-
TRAVEL	20,792	8,946
COMPUTER SUPPLIES	954	-
EDUCATION	2,795	-
AUTO EXP.	85	-
FCC CERTIFICATION	12,000	-
RENT	1,900	-
DUES & SUBSCRIPTIONS	5,000	-
ADVERTISING	1,750	-
TOTAL OPERATING EXPENSES	**2,64,373**	**9,018**
INCOME/(LOSS) BEFORE INCOMES TAXES	**(180,615)**	**(9,018)**
INCOME TAXES	500	-
NET INCOME/(LOSS)	**(181,115)**	**(9,018)**
RETAINED EARNINGS BEGINNING	(9,018)	-
RETAINED EARNINGS ENGING	**(190,133)**	**(9,018)**

THE INCOME STATEMENT HAS BEEN PREPARED AND REVIEWED BASED ON THE INFORMATION SUPPLIED BY THE MANAGEMENT

SOHAG MUNSHI CPA

Date : 26th June, 2006

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of

SHYAM TELECOM LIMITED

1. We have examined the attached Consolidated Balance Sheet of Shyam Telecom Limited and its subsidiaries in which audited accounts of Shyam Telelink Limited and Shyam Telecom Inc. USA, have been incorporated as at 31st March 2006 and the Consolidated Profit & Loss Account and the Consolidated Cash Flow Statement for the year ended on that date, annexed thereto. The audited accounts of Shyam Telecom Inc. do not contain the auditor's report and notes and accounting policy thereon. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

3. a) We did not audit the financial statements of Shyam Telelink Limited (subsidiary Company) and Shyam Telecom Inc. (subsidiary Company), whose financial statements reflect total assets of Rs.81921 Lacs as at 31st March 2006 and total revenues of Rs.13511 Lacs for the year then ended. The financial statements of Shyam Telelink Limited have been audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.

   The financial Statement of Shyam Telecom Inc. USA, whose financial statement reflects total assets of Rs. 97 Lacs as at 31st March 2006 and total revenue of Rs. 37 Lacs for the year ended, are incorporated in the Consolidated Financial Statement as certified by the auditors without report thereon (Refer Note No. 5 (a) of Schedule 19).

   b) As explained in Note No. 1 (c) of schedule 18 to the consolidated financial statement, Shyam Telelink Limited (STLL) subsidiary Company, based on legal opinion, believes that revenue arising out of consideration for sale of its investments worth Rs. 175,10 Lacs in Hexacom India Limited ('HIL') to Bharti Televentures Limited, does not fall under the definition of Adjusted Gross Revenue (AGR) generated, and in view of such legal opinion, as well as pending generic petition (with the Telecom Dispute Settlements Affiliate Tribunal (TDSAT)) covering, inter alia such non-telecom related service revenues , the Company is of the opinion that no revenue share is payable on such consideration in terms of the Unified Access Service Licence entered into by the Company, and accordingly has made no provision in its books of account for any such payment. These financial statements do not include any adjustment arising from the outcome of the above uncertainty.

4. Without qualifying our opinion, we draw attention to Note 7, Schedule 19 to the financial statements, relating to the status and re-deployment plan of the Company's original network equipment of net book value of Rs 34,49.80 Lacs at March 31, 2006, replaced with the equipment purchased from the new equipment suppliers. The Company has evaluated the technical feasibility of de-installation and re-installation of its original equipment and is confident of redeploying this equipment in its planned roll-out in the rural/semi-rural areas by March 31, 2007. The Company continues to depreciate these equipments based on its original estimated useful life.

5. Refer Note 6 of Schedule 19 regarding non-adjustment of impact arising out of dissimilar accounting policies followed by the companies in the group in preparation of consolidated financial statements.

6. Subject to the effect of adjustments that would have been required had the outcome of uncertainty referred to in Paragraph 3(b) above

   a) We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and audited/certified financial statements of its subsidiaries included in the consolidated financial statements.

   b) On the basis of the information and explanations given to us and on the consideration of separate audit reports on individual audited financial statements of the Company and its subsidiaries, we are of the opinion that the said consolidated financial statements give a true & fair view in conformity with the accounting principles generally accepted in India :-

      i. in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Company and its subsidiaries as at 31st March 2006;

      ii. in the case of Consolidated Profit & Loss Account, of the consolidated results of operations of Company and its subsidiaries for the year then ended; and

      iii. in the case of Consolidated Cash Flow Statement, of the Consolidated cash flow of the Company and its subsidiaries for the year then ended.

For Mehra Goel & Co.
Chartered Accountants

R.K.Mehra
Partner
M. No. : **6102**

Place : New Delhi
Dated : 8th July, 2006

SHYAM TELECOM LTD

CONSOLIDATED BALANCE SHEET AS AT 31st MARCH, 2006

	SCHEDULE NO.	AS AT 31-Mar-2006 (Rs.)	AS AT 31-Mar-2005 (Rs.)
I. SOURCES OF FUNDS			
SHARE HOLDER'S FUNDS			
Share Capital	1	322,000,000	322,000,000
Reserves and Surplus	2	1,848,655,545	1,848,487,035
DEFERRED TAX LIABILITY (Net)		22,037,383	16,300,398
LOAN FUNDS	3		
Secured		3,784,790,930	3,294,457,223
Unsecured		112,200,000	-
		6,089,683,858	**5,481,244,656**
APPLICATION OF FUNDS			
FIXED ASSETS	4		
Gross Block		6,572,300,236	5,891,716,700
Less : Depreciation		1,887,421,512	1,305,154,129
Net Block		**4,684,878,723**	**4,586,562,571**
Capital Work in Progress		186,283,123	685,369,152
INTANGIBLE ASSETS (Net)	5	303,639,925	373,862,044
PREOPERATIVE EXPENDITURE (Pending Allocation)	6	-	2,772,338
INVESTMENTS	7	164,297,696	54,153,416
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	8	110,851,236	98,069,582
Sundry Debtors	9	511,042,049	650,336,412
Cash & Bank Balances	10	298,791,555	204,144,080
Loans & Advances	11	188,199,239	161,891,889
		1,108,884,079	**1,114,441,963**
Less : CURRENT LIABILITIES & PROVISIONS	12		
Current Liabilities		3,632,505,990	3,902,025,441
Provisions		40,613,466	43,686,129
		3,673,119,456	**3,945,711,570**
NET CURRENT ASSETS		**(2,564,235,377)**	**(2,831,269,607)**
MISCELLANEOUS EXPENDITURE	13	126,805,870	194,067,447
(to the extent not written off or adjusted)			
PROFIT & LOSS ACCOUNT		3,188,013,898	2,415,727,295
		6,089,683,858	**5,481,244,656**
SIGNIFICANT ACCOUNTING POLICIES	18		
NOTES TO ACCOUNTS	19		

As per our report of even date attached
For **Mehra Goel & Co.**
Chartered Accountants

R.K Mehra
Partner
M.No. : **6102**

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

Dharmender Dhingra
Company Secretary

N. Kumbhat
Director Finance

CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2006

	SCHEDULE NO.	YEAR ENDED 31-Mar-2006 (Rs.)	YEAR ENDED 31-Mar-2005 (Rs.)
INCOME			
Sales & Services		2,514,449,675	2,936,498,052
Less : Excise Duty/ Service Tax		187,262,074	270,969,423
Net Sales		**2,327,187,601**	**2,665,528,629**
Profit on Sale of			
- Long Term Investments		-	453,747,861
- Current Investments		-	628,724,033
Other Incomes	14	29,407,166	22,677,324
		2,356,594,767	**3,770,677,847**
EXPENDITURE			
Manufacturing, Administrative & Other Expenditure	15	1,292,830,501	1,856,759,605
Network Operating Expenditure	16	619,381,365	589,813,850
Financial Charges	17	421,653,451	490,777,789
Amortisation of Intangible Assets & Miscellaneous Expenditure		167,027,745	252,888,407
Plant & Machinery Written off		-	261,182,743
		2,500,893,062	**3,451,422,394**
PROFIT/(LOSS) BEFORE DEPRECIATION, PRIOR PERIOD ITEMS & TAX		**(144,298,295)**	**319,255,453**
Less : Depreciation		608,584,048	453,973,993
PROFIT/(LOSS) BEFORE PRIOR PERIOD ITEMS & TAX		**(752,882,343)**	**(134,718,540)**
- Prior Period Adjustments (Net)		2,431,045	394,312
PROFIT/(LOSS) BEFORE TAX		**(755,313,388)**	**(135,112,852)**
Provision for Income Tax			
- Current Tax		4,240,816	8,200,000
- Deferred Tax		5,736,985	(123,750,000)
- Fringe Benefit tax		6,937,438	-
Provision for Wealth Tax		93,671	64,092
Income Tax for earlier years		(35,695)	12,549,864
PROFIT/(LOSS) AFTER TAX		**(772,286,603)**	**(32,176,808)**
Add : (Loss) brought forward		(2,415,727,295)	(2,451,705,981)
Less : Adjustment of Loss on account of subsidiary disposed off (Refer Note No. 5 (b) of Schedule 19).		-	-
- Loss brought forward		-	(18,005,152)
Add : Adjustment of gain on account of subsidiary disposed off (Refer Note No. 5 (b) of Schedule 19).		-	150,342
Add : Transferred from Debenture Redemption Reserve		-	50,000,000
Balance Carried to Balance Sheet		**(3,188,013,898)**	**(2,415,727,295)**
Loss Per Share (Face Value Rs 10 Each) (Refer Note No. 10 of Schedule 19)			
- Basic		23.98	1.00
- Diluted		23.98	1.00
SIGNIFICANT ACCOUNTING POLICIES	18		
NOTES TO ACCOUNTS	19		

As per our report of even date attached
For **Mehra Goel & Co.**
Chartered Accountants

R.K Mehra Partner M.No. : **6102**	**Rajiv Mehrotra** Chairman & Managing Director	**Ajay Khanna** Managing Director	**Alok Tandon** Managing Director
Place : New Delhi **Dated :** 8th July, 2006	**Dharmender Dhingra** Company Secretary	**N. Kumbhat** Director Finance	

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH'2006

(Rs. in Lacs)

		Year Ended 31-Mar-2006	Year Ended 31-Mar-2005
A.	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Profit/(Loss) after Tax and before prior period/ extra ordinary items	(7,722.87)	(321.77)
	Adjustment for :		
	Depreciation	6085.84	4,548.40
	Expenses amortised	1670.28	2,520.23
	Fixed Assets Written off	-	2,611.83
	Provision (leave encashment)	60.48	16.19
	Interest and financial charges	4216.53	4,907.77
	Loss on sale / write off of Fixed Assets	1.43	1.72
	Loss/(Profit) on sale of Investments/Provision for diminution	-	(10,822.92)
	Provision for tax	169.73	(1,029.63)
	Bad debts / Provision for doubtful debts / advances	360.40	795.74
	Dividend on Investments	(19.51)	(7.63)
	Profit on Sale of Investment	-	(1.80)
	Interest Income	(76.46)	(100.89)
	Bad debts / Provision for doubtful debts / advances	3.14	7.63
	Provision for Contingencies	1.72	8.83
	Provision for Irecoverable Assests	92.33	80.88
	Provision Written Back	-	(4.27)
	Operating profit before working capital change	**4,836.78**	**3,210.32**
	Adjustment for :		
	(Increase)/ Decrease in Trade and Other Receivables	677.53	(1,848.81)
	(Increase)/ Decrease in Inventories	(127.82)	5,590.15
	Increase /(Decrease) in Trade Payable	(2,791.59)	8,889.55
	Cash Generated from operations	**2,594.90**	**15,841.20**
	Direct Taxes Paid	(202.55)	(170.36)
	Cash flow before prior period items	**2,392.35**	**15,670.85**
	Prior period items	-	-
	Net Cash (used in) From Operating Activities	**2,392.35**	**15,670.85**
B	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Purchase of Fixed Assets including Capital Work in Progress	(2,061.86)	(9,292.40)
	Purchase of Software	(35.95)	(21.65)
	Purchase of Mutual Funds	(1,102.19)	(2,457.63)
	Sale of Mutual Fund	0.74	2,464.54
	Sale of Fixed Assets	10.01	1.40
	Advance for Investments	-	(5,510.99)
	Dividend on Invetments	19.51	-
	Sale of Investments	-	28,421.77
	Interest received	76.46	114.34
	Capital Subsidy Received	1.69	-
	Net cash (used in) / from investing activities	**(3,091.59)**	**13,719.38**
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Proceeds from Long-term borrowing	1,134.57	4.93
	Repayment of Debenture	-	(5,500.00)
	Repayment of term loan to Financial Instituion	(25.00)	(1,500.00)

	Year Ended 31-Mar-2006	Year Ended 31-Mar-2005
Repayment of term loan to Banks	(3,898.35)	(11,200.00)
Repayment of Long-term borrowing	-	(5,264.69)
Proceeds from Other loan	29.25	17.25
Repayment of Other loan	(1,190.78)	(12.70)
Short-term borrowing (Net)	10,000	(320.50)
Finance setup cost paid	(259.49)	(784.44)
Interest & Financial Charges	(4,144.49)	(5,147.80)
Net cash (used in) / from Financing Activities	**1,645.71**	**(29,707.94)**
Net increase/(Decrease) in cash and cash equivalents (A+B+C)	946.48	(317.71)
Cash and cash equivalents at beginning of the Period	2,041.44	2,360.56
Less Adjustment on account of subsidary disposed off	-	(1.41)
Cash and cash equivalents at the end of the Period	2,987.92	2,041.44

Notes :
Cash flow statement has been prepared following the "indirect method" as set out in the Accounting Standard-3 on cash flow statement issued by the ICAI.

As per our report of even date attached

For **Mehra Goel & Co.**
Chartered Accountants

R.K.Mehra
Partner
M.No. : **6102**

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

Dharmender Dhingra
Company Secretary

N. Kumbhat
Director Finance

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	AS AT March-31-2006 (Rs.)	AS AT March-31-2005 (Rs.)
SCHEDULE - 1 : SHARE CAPITAL		
AUTHORISED		
50000000 Equity Shares of Rs. 10/- each	500,000,000	500,000,000
2500000 Preference Shares of Rs 100/- each.	250,000,000	250,000,000
	750,000,000	**750,000,000**
ISSUED, SUBSCRIBED AND PAID UP		
32200000 Equity Shares of Rs 10/- each, fully paid up	322,000,000	322,000,000
	322,000,000	**322,000,000**
SCHEDULE - 2 : RESERVES & SURPLUS		
Securities **Premium Account**		
At the commencement & end of the year	**1,207,900,000**	**1,207,900,000**
Debenture Redemption Reserve :		
At the commencement of the year	-	50,000,000
Less : Transfer to Profit & Loss Account	-	50,000,000
	-	-
Capital Reserve		
At the commencement & end of the year	**639,255,545**	**639,255,545**
Investment Subsidy		
At the commencement of the year	1,331,490	1,331,490
Received During The Year	168,510	-
	1,500,000	**1,331,490**
	1,848,655,545	**1,848,487,035**
SCHEDULE - 3 : LOAN FUNDS		
SECURED LOANS		
From Bank		
- Term Loan	2,339,164,604	2,729,000,000
- Vehicle Loans	6,272,089	3,346,830
- Cash Credit	99,476,277	98,219,319
- Other Loans	81,413,000	200,490,712
Interest Accrued & Due on Loans	10,964,960	13,400,362
From Financial Institution		
- Term Loan	247,500,000	250,000,000
Commercial papers	1,000,000,000	-
	3,784,790,930	**3,294,457,223**
UNSECURED LOANS		
Loan from Corporate Bodies	112,200,000	-
	112,200,000	**-**

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE - 4 : FIXED ASSETS

Sl. No.	ASSETS	NET BLOCK				DEPRECIATION				NET BLOCK	
		Cost As At 1st April 2005 (Rs.)	Additions (Rs.)	Deletions/ Adjust-ments (Rs.)	As At 31st March 2006 (Rs.)	As At 1st April 2005 (Rs.)	For the Year (Rs.)	Adjust-ments (Rs.)	As At 31st March 2006 (Rs.)	As At 31st March 2006 (Rs.)	As At 31st March 2005 (Rs.)
1	Land Free Hold	2,709,270	-	-	2,709,270	-	-	-	-	2,709,270	2,709,270
2	Building	23,365,350	24,505,374	-	47,870,724	5,445,826	782,611	-	6,228,437	41,642,287	17,919,524
3	Leasehold Land	7,241,037	-	-	7,241,037	72,552	16,519	-	89,071	7,151,966	7,168,485
4	Leasehold Improvements	87,478,323	6,478,381	-	93,956,704	28,970,029	9,520,319	-	38,490,348	55,466,356	58,508,294
5	Plant & Machinery	4,674,733,234	455,761,038	23,615,124	5,106,879,148	935,648,560	355,358,289	-	1,291,006,849	3,815,872,299	3,739,084,674
6	Wireless Telephone Sets	1,017,463,912	202,069,855	-	1,219,533,767	286,793,567	234,294,522	22,886,773	498,201,316	721,332,451	730,670,345
7	Electric Installation	1,464,545	865,301	-	2,329,846	708,784	79,711	-	788,495	1,541,351	755,761
8	Furniture & Fixture	25,641,361	5,363,311	-	31,004,672	17,807,203	2,886,162	-	20,693,365	10,311,306	7,834,158
9	Vehicles	30,127,845	8,479,520	4,573,700	34,033,665	16,291,321	3,077,299	3,429,907	15,938,713	18,094,952	13,836,524
10	Office Equipment	21,491,823	5,249,580	-	26,741,403	13,416,287	2,568,631	-	15,984,918	10,756,485	8,075,536
	Total	**5,891,716,700**	**708,772,360**	**28,188,824**	**6,572,300,236**	**1,305,154,129**	**608,584,063**	**26,316,680**	**1,887,421,512**	**4,684,878,723**	**4,586,562,571**
	Prior Year	4,722,537,865	1,543,532,149	374,353,314	5,891,716,700	962,343,555	453,973,993	111,163,419	1,305,154,129	4,586,562,571	

CAPITAL WORK IN PROGRESS		
(Unsecured, Considered Good)	186,283,123	685,369,152
TOTAL	**186,283,123**	**685,369,152**

NOTES

1. Addition to Fixed Assets includes Rs. 7.53 lacs (Previous Year Rs. 7.53 lacs) on which registration formalities are yet to be completed.
2. Capital work in progress includes advance for capital expenditure. (Unsecured, Considered Goods)
3. Plant & Machinery includes Loose Tools of Rs. 215.20 Lacs (Previous Year Rs. 203.30 lacs).
4. Leasehold Land amounting to Rs. 9.77 Lacs (Previous Year Rs. 9.77 lacs) is pending registration in the name of the company.
5. Plant & Machinery and capital work in progress includes optical fibre and ducts of Rs. 73.80 Lacs (Previous Year Rs. 77.20 Lacs) lying with third parties for building up backbone and feeders.
6. The Company has capitalized direct project related cost for the network implementation of Rs 26.60 Lacs (Previous Year Rs. 87.30 Lacs) during the current year.
7. As on March 31, 2005, wireless telephone sets included equipment aggregating net book value of Rs 5725.90 Lacs (Previous Year Rs. 6279.30 Lacs) located at customer premises.
8. As at March 31, 2005, Plant & Machinery included equipment of net book value of Rs. 54.00 Lacs (Previous Year Rs. 60.40 Lacs) located at others operators sites.

SCHEDULE - 5 INTANGIBLE ASSETS

SL. No.	ASSETS	GROSS BLOCK				AMORTISATION				NET BLOCK	
		Cost As At 1st April 2005 (Rs.)	Additions (Rs.)	Deletions/ Adjust-ments (Rs.)	As At 31st March 2006 (Rs.)	As At 1st April 2005 (Rs.)	For the Year (Rs.)	Adjust-ments (Rs.)	As At 31st March 2006 (Rs.)	As At 31st March 2006 (Rs.)	As At 31st March 2005 (Rs.)
1 .	Software	453,689,017	3,595,409	-	457,284,426	320,736,474	55,176,464	-	375,912,938	81,371,488	132,952,543
2 .	Licence Fees	322,500,000	-	-	322,500,000	81,590,499	18,641,064	-	100,231,563	222,268,437	240,909,501
	Total	**776,189,017**	**3,595,409**	**-**	**779,784,426**	**402,326,973**	**73,817,528**	**-**	**476,144,501**	**303,639,925**	**373,862,044**
	Prior Year	771,427,396	4,761,621	-	776,189,017	292,892,666	109,434,307	-	402,326,973	373,862,044	

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	AS AT March-31-2006 (Rs.)	AS AT March-31-2005 (Rs.)
SCHEDULE -6 : PREOPERATIVE EXPENSES (Pending Allocation)		
Opening Balance	2,772,338	763,530
Site Expenses:		
Salary & Wages	323,270	348,840
Contribution to Provident Fund and other Funds	35,423	34,920
Staff Welfare Expenses	82,175	201,343
Rent	-	126,500
Power & Fuel	185,526	65,691
Travelling & Conveyance	67,035	134,464
Advertisement & Publicity	466	15,376
Interest	-	63,945
Repair & Maintenance	4,050	41,991
Printing & Stationery	2,583	8,200
Rates & Taxes	22,030	22,175
Communication Expenses	41,458	117,289
Other Administrative Expenses	327,354	828,074
	3,863,708	**2,772,338**
Less; Allocated to fixed assets	3,863,708	-
Less; Charged to Profit and Loss Account	-	-
Balance carried to balance sheet	**-**	**2,772,338**
SCHEDULE - 7 : INVESTMENTS		
NON TRADE-QUOTED		
Long Term		
3300 Equity Shares of Rs 10/- each of Intec Securities Limited	33,000	33,000
1460000 Equity Shares of Rs 10/- Each of Spanco Telesystem and Solutions Limited	54,020,000	54,020,000
Current Investments		
10792629 (Previous year Nil) units of SBI Mutual funds	110,218,591	-
1645 (Previous Year 7916) Units of Prudential ICICI Liquid Plan - Growth Option	26,105	100,416
	164,297,696	**54,153,416**
SCHEDULE - 8 : INVENTORIES		
(As taken, valued and certified by the Management)		
Raw Material	96,138,904	64,566,354
Finished Goods	1,350,528	17,840,663
Work In Process	11,956,307	14,454,745
Stores	77,715	-
Packing Material	127,782	7,820
Scrap value of Machinery Retired from active use & held for disposal	1,200,000	1,200,000
	110,851,236	**98,069,582**
SCHEDULE - 9 : SUNDRY DEBTORS		
Debts Outstanding for over 6 months		
Secured & Considered Good	18,139,562	7,527,554
Unsecured & Considered Good	238,381,817	444,001,099
Unsecured & Considered doubtful	120,403,813	82,443,201
	376,925,192	**533,971,854**
Less : Provision for doubtful debts	120,403,813	82,443,201
Others debts ;		
Secured & Considered Good	49,219,213	49,723,478
Unsecured & Considered Good	205,301,457	149,084,281
Unsecured & Considered doubtful	13,531,414	16,042,812
	268,052,084	**214,850,571**
Less : Provision for doubtful debts	13,531,414	16,042,812
	511,042,049	**650,336,412**

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE -10 : CASH & BANK BALANCES	AS AT March-31-2006 (Rs.)	AS AT March-31-2005 (Rs.)
Cash on Hand	5,969,741	4,205,086
Balance With Scheduled Banks in :		
- Fixed Deposits / Margin Money (*) (including interest accrued)	175,629,725	132,519,250
- Current Account	115,259,535	66,182,290
Balance With Other Banks in :		
- Current Account	1,932,554	708,039
Cheques in hand	-	529,415
(*) under bank lien as margin Money	**298,791,555**	**204,144,080**

SCHEDULE - 11 : LOANS & ADVANCES		
(Unsecured, Considered Good unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received		
Considered Good	121,816,196	121,916,420
Considered Doubtful	48,874,568	48,597,156
	170,690,764	**170,513,576**
Less : Provision for doubtful amounts	48,874,568	48,597,156
Advance Tax (Net)	25,530,999	16,511,807
Security Deposits	23,918,474	22,481,473
Balance with Excise Department	16,933,570	982,189
	188,199,239	**161,891,889**

SCHEDULE - 12 : CURRENT LIABILITIES & PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors - S.S.I	159,745	1,202,229
- Others	2,413,572,776	2,692,220,702
Income recevied in advance	218,079,154	180,626,710
Advances and Deposits From Customers and Others	880,917,622	940,776,599
Due to Directors	937,041	785,233
Interest Accrued but not due on loans	22,166,388	12,526,516
Book Overdraft	95,911,368	73,123,656
Unclaimed Dividend*	761,896	763,796
	3,632,505,990	**3,902,025,441**
PROVISIONS		
Provision for contingencies **	1,781,097	20,135,380
Provision for Damaged/ Irrecoverable Assets ***	25,752,969	16,519,714
Retirement Benefits	13,079,400	7,031,035
	40,613,466	**43,686,129**

* The outstanding amount does not include any amount due & outstanding to be credited to Investor Education and Protection Fund.

** Provision for contingency of Rs 17,81,097 represents provision for license fee on income generated from treasury activities.

** During the year, the Company has charged Rs 172,053 (2005-Rs 882,524) to the Profit and Loss Account as provision made for contingencies.

*** During the year, the Company has charged Rs 92,33,255 (2005 Rs.) 8,088,277 to the Profit and Loss Account as provision for damaged/irrecoverable assets

SCHEDULE - 13 : MISCELLANEOUS EXPENDITURE		
Finance Set up cost	110,081,700	194,067,447
Discount on Issue of Commercial papers	16,724,170	-
	126,805,870	**194,067,447**

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	YEAR ENDED March-31-2006 (Rs.)	YEAR ENDED March-31-2005 (Rs.)
SCHEDULE - 14 : OTHER INCOMES		
Dividend on current investment	125,699	762,848
Dividend on Long term investment	1,825,000	-
Interest On Deposits	7,646,113	17,238,024
Miscellaneous Income	19,810,354	4,249,596
Excess Provision / Liability written back	-	426,856
	29,407,166	**22,677,324**
SCHEDULE - 15 MANUFACTURING, ADMINISTRATIVE & OTHER EXPENDITURE		
Material Consumed & Purchase of Goods Traded	793,760,253	1,329,597,545
Projects Services, Software & Software Systems	119,197,214	278,369,870
Stores & Spares Consumed	15,190,008	5,483,160
Power & Fuel	14,612,735	12,479,496
Manufacturing Expenses	9,565,340	29,001,325
Salary, Wages & Bonus	174,657,597	135,233,620
Employer's Contribution to P.F. & Other Fund	14,549,621	11,182,711
Staff Welfare	13,251,220	11,370,662
Repair to:		
- Plant & Machinery	1,215,117	2,199,188
- Building	2,280,357	2,916,825
- Others	8,611,785	6,042,847
Auditor's Remuneration :		
- Audit Fee	1,784,877	1,606,280
- Tax Audit Fee	127,954	103,920
- Certification fee	887,204	189,000
- Other	180,000	278,820
Research & Development Expenses	17,600,776	12,347,074
Directors Sitting Fee	67,000	148,000
Rates & Taxes	4,250,937	8,634,849
Insurance	11,014,600	73,094,612
Selling & Administrative Expenses :		
Communication Expenses	15,785,050	15,300,365
Printing & Stationery	10,476,228	8,997,355
Travelling & Conveyance	63,038,264	57,982,581
Rent and utilities	26,147,652	20,216,254
Royalty charges	10,200,000	56,839,316
Advertisement & Publicity	69,494,520	72,422,192
Dealers commission	9,175,162	29,918,941
Debt Collection Commission and Expenses	14,838,659	11,383,080
Packing & Forwarding	2,980,782	5,775,394
Bad debts /Advances written off	657,138	3,592,423
Other Administrative Charges	84,123,614	76,337,897
Loss on Sale/write off of Assets (Net)	142,793	171,943
Provision for doubtful debts /advances	35,383,259	75,981,211
Provision for Contingencies	172,053	882,524
Provision for Damaged/Irrecoverable Assets	9,233,255	8,088,277
Less: Equipments Capitalised for own use	(280,811,096)	(772,581,117)
	1,273,841,928	**1,591,588,440**
Add / Less Decrease / Increase in Stocks :		
Add : Opening Stock :		
Work In Process	14,454,745	275,495,895
Finished Goods	17,840,663	21,917,950
Scrap	-	52,750
Less : Closing Stock:		
Work in Process	11,956,307	14,454,745
Finished Goods	1,350,528	17,840,663
	1,292,830,501	**1,856,759,627**

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

	YEAR ENDED March-31-2006 (Rs.)	YEAR ENDED March-31-2005 (Rs.)
SCHEDULE -16		
NETWORK OPERATING EXPENSES		
Interconnect Usage Charges	384,397,989	326,412,468
Port Charges and other Network Related Cost	26,371,228	23,196,413
House Wiring Expenses	13,700,785	14,946,441
Royalty & license Fees to Wireless Planning Commission	13,333,800	11,231,548
Revenue Share License Fees	77,394,289	72,245,493
Infrastructure Sharing Expenses	20,204,680	6,340,737
Site Expenses :		
- Electricity and Water	23,778,956	23,458,339
- Rent	14,791,436	11,583,680
- Equipment Hire Charges & DG Set running expenses	730,050	720,000
- Insurance	3,175,636	4,313,056
Cost of Telephone Instruments Installed	12,838,464	40,451,295
Testing Charges	942,760	2,572,620
Repairs and Maintenance	27,721,292	52,341,760
	619,381,365	**589,813,850**
SCHEDULE - 17 : FINANCIAL CHARGES		
Interest on		
- Debentures and other fixed period Loans	282,796,872	406,896,749
- Others	82,491,174	32,966,823
Bank Charges and commission	56,365,405	50,914,217
	421,653,451	**490,777,789**

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE - 18 BACKGROUND & SIGNIFICANT ACCOUNTING POLICIES

I. BACKGROUND OF SHYAM TELELINK LTD.

A. NATURE OF BUSINESS AND OWNERSHIP

Shyam Telelink Limited ('the Company' or 'STLL'), a wholly owned subsidiary Company of Shyam Telecom Limited ('the Holding Company' or 'STL'), was incorporated on April 20, 1995. The Company was awarded Basic Telephony Service Licence by Department of Telecommunications ('the DoT') on March 4, 1998 for the Rajasthan Circle under fixed licence fee regime under National Telecom Policy ('NTP') 1994, valid for a period of 20 years from the effective date. The Company migrated from fixed licence fee regime to revenue sharing regime upon implementation of NTP'99.

The Company commenced commercial operations in Jaipur on June 30, 2000 under the 'Rainbow' brand name and has since then as of March 31, 2006, extended its coverage to 112 cities in the state.

Further to the Telecom Regulatory Authority of India's ('TRAI') recommendations of October 27, 2003 and the DoT guidelines on Unified Access (Basic & Cellular) Services Licence ('UASL') dated November 11, 2003, the Company migrated to the UASL with effect from November 14, 2003 by paying an aggregate amount of Rs 296 Lacs on November 12, 2003. Pursuant to the migration, the Company has signed UASL Agreement on August 20, 2004.

On May 18, 2006, the Honourable High Court of Rajasthan has approved the Scheme of Arrangement filed on August 11, 2005 between STL, Shyam Telecom Manufacturing Limited ('STML'), STLL and Shyam Basic Infrastructure Projects Private Limited ('SBIPL') ('petitioner Companies') (hereinafter refered to as 'the Scheme'). The Scheme, inter-alia provides for STML, a wholly owned subsidiary of STL, to be amalgamated with STL; STL to transfer its investment to the extent of Rs 2,000 million equity shares of STLL to SBIPL, together with certain liabilities; and the balance investment of Rs 2,560 equity shares of STLL to its existing shareholders, without any consideration, in proportion to their shareholding in STL. The Scheme also envisages STLL to be listed in the Bombay Stock Exchange and National Stock Exchange. The Company, along with the other petitioner companies to the Scheme, are in the process of completing the requirements for executing the Scheme as approved by the Honourable High Court of Rajasthan. Consequently, the shares in STLL will get transferred on completion of the execution of the scheme.

B. LICENCE ENTRY FEES

The Licence Entry Fees for Rajasthan Circle was based on the total licence fees of Rs 2930.0 Lacs paid under the old licence fee regime, wherein the annual licence fee dues from inception till July 31, 1999 were considered as the Licence Entry Fees as part of the migration package to NTP '99. In addition, the Company paid Rs 296 Lacs on November 12, 2003 to migrate to UASL.

As per the UASL entered into by the Company, it is required to pay revenue share fees at the rate of 8 per cent on AGR of the Company. AGR, under the licence agreement is defined as Gross Revenue inclusive of installation charges, late fees, sale proceeds of handsets, revenue on account of interest, dividend, value added services, interconnection charges, roaming charges, revenue from permissible sharing of infrastructure and any miscellaneous revenue after deduction of access charges paid to other operators and service tax paid to the Government.

In addition, spectrum charges calculated at 2 per cent of the revenue earned through the CDMA and CorDect wireless technology is payable under the licence agreement.

C. PROJECT FINANCING

During the year ended March 31, 2006, the Company has incurred a loss of Rs 7764.98 Lacs (accumulated loss of Rs. 36866 Lacs) for the year ended March 31, 2006 and has a working capital deficiency of Rs 6353 Lacs as of that date. In addition, loans and Commercial Papers of Rs 2,055 million are due for repayment within the next twelve month. Further, the net worth of the Company as at March 31, 2006 is Rs 8729 Lacs (after adjusting the accumulated losses) i.e. an erosion of over 80 percent.

Based on the current business plan, the Company has estimated a peak funding requirement of Rs 9,6800 Lacs, to be funded by way of equity share capital of Rs 4,5600 Lacs and long term debt of Rs 3,5000 Lacs and balance through other means of finance including vendor financing. Of the total funding requirement, the Company has tied up equity share capital of Rs 4,5600 Lacs and term loans of Rs 2,5297 Lacs, Commercial Papers of Rs 1,0000 Lacs and LC liability of Rs 814 Lacs as at March 31, 2006. The Company is in the process of converting its existing fund based limits into non-fund based limits to raise low cost funds in phases and is proposing to fund the entire requirement of Rs 3,5000 Lacs by way of non fund facilities from the ICICI and other syndicate member lenders and balance from vendor financing and other means of finance. As a part of restructuring its existing debt, the Company has raised low cost funds to prepay Rs 1,4270 Lacs of its existing long term loans by utilising long term non-funds based facilities from lenders.

Further the non fund facility shall be used for the purpose of raising long term funds by issue of Optionally Convertible Bonds ('OCB') and Foreign Currency convertible loans in domestic and international markets. The funds raised would be used for pre payment of remaining existing debts. Presently, the Company has obtained sanctions of Rs 4,1200 Lacs of financial bank guarantees from ICICI and other syndicate member lenders. The Company envisages only restructuring of the existing debts portfolio by substituting low cost funds with high cost debts and believes that no future debts are required.

During the year ended March 31, 2006, the Company entered into a contract with an equipment supplier for expansion of capacity and roll out of CDMA, Wireline and broadband equipment network in Rajasthan for USD 500 Lacs over the next 5 to 7 years under the vendor financing arrangement.

Based on the commitments and funding provided by the shareholders so far and debt raised till now, the Company is confident that it would be able to arrange the balance long-term funding of the project and, accordingly, these financial statements are prepared on a going concern basis.

D. SALE OF INVESTMENT IN HEXACOM INDIA LIMITED ('HIL')

During the year ended March 31, 2005, the Company invested Rs 10,209 Lacs for 27.5 percent stake in HIL. As per Acquisition and Share Swap agreement dated April 5, 2004 as amended by the supplementary agreement dated April 12, 2004, the Company sold its holding in HIL to Bharti Televentures Limited for a consideration of Rs 17,518 Lacs in the form of 17,519 Optionally Convertible Redeemable Debentures ('OCRD') at the rate of Rs 1 Lacs per OCRD; these OCRDs were repayable at the end of one year from May 14, 2004. However, before the transfer of OCRD in its name, the Company transferred its beneficial interest, right and title in these OCRDs to Shyam Cellular Infrastructure Projects Limited ('SCIPL') for a consideration of Rs 16,494 Lacs, net of discounting charges of Rs 1,024 Lacs.

Accordingly during the year ended March 31, 2005, the gain on sale of the transaction of Rs 6,285 Lacs, net of discounting charges of Rs 1,024 Lacs has been disclosed as Exceptional Item in the Profit and Loss Account.

With respect to the income arising on the transaction referred above, the Company, based on a legal opinion, believes that it is not covered under the definition of Adjusted Gross Revenue ('AGR'), as inter alia, such revenues do not accrue out of operations licenced or required to be licenced by the Department of Telecommunications ('DoT') under section 4 of the India Telegraphs Act, 1885, which governs the issuance of UASL. This matter is covered under generic petition filed by Association of Basic Telecom Operators ('ABTO') with the Telecom Dispute Settlement Appellate Tribunal ('TDSAT') contesting the inclusion of non telecom related service revenues in the AGR, which is pending resolution. In view of the legal opinion obtained by the Company and above petition filed by the ABTO with the TDSAT, the Company is of the opinion that no revenue share is payable against the revenues from sale of above investments, and has, accordingly, made no provisions in its books of account.

II. SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF CONSOLIDATION

The consolidated financial statements relate to Shyam Telecom Limited (the company) and its subsidiary companies.

A. BASIS OF ACCOUNTING

i. The financial statements of the subsidiary companies used in the consolidation are drawn up to the same reporting date as of the Company i.e. year ended March 31, 2006.

ii. The financial statements of the Company and subsidiary companies have been prepared in accordance with the Accounting Standards issued by the Institute of Chartered Accounts of India and generally accepted accounting principles.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared on the following basis:

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

ii. Investment in Associate Companies has been accounted as per the Accounting Standards – 13 "Accounting of Investments" issued by the Institute of Chartered Accountants of India.

iii. In case of foreign subsidiary, revenue items are consolidated at the exchange rate by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Foreign currency monetary items are converted at rates prevailing at the end of the year. Non- Monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the transaction.Non- Monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined. Any exchange difference arising on consolidation is recognised in the profit & loss account.

iv. The excess of cost to the Company of its investments in the subsidiary companies over its share of the equity of the subsidiary companies, at the dates on which the investments in the subsidiary companies are made, is recognized as 'goodwill' being an asset in the consolidated financial statements. Alternatively, where the share of equity in the subsidiary companies as on the date of investment, is in excess of cost of investment of the Company, it is recognized as 'capital reserve' and shown under the head 'Reserves and Surplus', in the consolidate financial statements.

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

vi. The difference between the proceeds from disposal of investment in a subsidiary and the carrying amount of its assets less liability as of the date of disposal is recognized in the consolidated statement of profit & loss account as the profit or loss on disposal of investment in subsidiary.

C. INFORMATION ON SUBSIDIARY COMPANIES

i. The following subsidiary companies are considered in the preparation of consolidated financial statements:

Name of the Company	Country of Incorporation	% of voting power held As at March 31, 2006
Shyam Telelink Limited	India	100
Shyam Telecom Inc. Ltd., from 07-03-2005 (Refer Note No. 5 (b) of Schedule 19)	USA	100

2. BASIS FOR PREPARATION OF ACCOUNTS

The Financial Statements have been prepared under historical cost convention on accrual basis in accordance with generally accepted accounting principles and applicable Accounting Standards issued by The Institute of Chartered Accountant and the provisions of Companies Act, 1956.

3. FIXED ASSETS

Fixed Assets are stated at cost, net of VAT/ MODVAT/ CENVAT, less accumulated depreciation. All costs including borrowing costs till commencement of commercial production and adjustment arising from exchange rate variations relating to borrowings attributable to the fixed assets are capitalized. Capital expenditure on assets not owned by company is reflected in capital work in progress account till the period of completion and thereafter in the fixed assets. Machinery spares that can be used only in connection with an item of fixed asset and their use is expected to be irregular are capitalized. Replacement of such spares is charged to revenue.

4. EXPENDITURE INCURRED DURING THE CONSTRUCTION PERIOD

Expenditure directly relating to construction activity including trial run production expenses (net of income, if any) is capitalized. Indirect expenditure incurred during construction period is capitalized as part of the indirect construction cost to the extent to which the expenditure is indirectly related to construction or is incidental thereto. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto, is charged to the Profit & Loss Account.

5. DEPRECIATION

i. Depreciation on fixed assets is provided on straight line method at the rates and in the manner prescribed in Schedule XIV to the companies Act, 1956 except in respect of the following assets of Shyam Telelink Limited which are depreciated over their useful economic lives as given below;

Particulars	Useful Life (in years)
Leasehold Improvements	Over the period of the lease or 10 years, whichever is lower
Building	30
Plant and Machinery :	
Network Equipments	12
Air Conditioners, Generators, Electrical equipment	6
Tools and Testing Equipment	5
Optical Fibre and Cooper Cable Network	20
Wireless Telephone Sets	3 – 5
Computers and IT hardware	3
Office Equipment	6
Furniture and Fixtures	6
Vehicles	5

Leasehold Land is amortised over the period of lease from the date of commencement commercial operations.

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

iii. Depreciation on the amount capitalized on up-gradation of existing assets is provided over the remaining life of the original assets.

iv. Fixed assets individually costing less than Rs. 5,000 are fully depreciated in the year of acquisition.

6. INTANGIBLE ASSETS

In accordance with the Accounting Standard (AS) 26 relating to intangible assets, all costs incurred on technical know-how / license fee relating to production process are charged to revenue in the year of incurrence. Costs incurred on technical know-how / license fee relating to process design / plants / facilities are capitalized at the time of capitalization of the said plant / facility and amortized on pro-rata basis over a period of five years.

Software is capitalised on the date of installation and is amortised over a period of 3 to 5 years.

For accounting policy related to Licence Entry Fees, see Note 10, Schedule 18, below.

7. IMPAIRMENT

Carrying amount of cash generating units / assets is reviewed for impairment. Impairment, if any, is recognized where the carrying amount exceeds the recoverable amount being the higher of net realizable price and value in use

8. INVESTMENTS

Investments are classified into current and long-term investments. Current investments are stated at the lower of cost and quoted/ fair value. Long term investments are stated at cost less any provision for permanent diminution in value.

9. INVENTORIES

Inventories are valued at lower of cost or net realizable value except scrap which is valued at net realizable value. The cost is determined by using first-in-first-out (FIFO) method. Finished goods and work-in progress include costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Excise duty on closing stock of finished goods and scrap are accounted for on the basis of payments made in respect of goods cleared as also provision made for goods lying in the factory and included in the value of such stocks

10. LICENSE FEE

(i) Licence Entry Fee

The Licence Entry Fee has been recognised as an intangible asset and is amortised over the remainder of the licence period of 20 years from the date of commencement of commercial operations. Fees paid for migration of the original licences to the UASL is amortised over the remainder of the licence period of 20 years from the date of migration to UASL.

(ii) Revenue Sharing Fee

Revenue Sharing Fee, computed at the rate of 8 per cent of AGR (refer note no. 1(B) of schedule 18) is expensed in the Profit and Loss Account in the year in which the related income from providing Unified Access Services is recognised.

An additional revenue shre towards spectrum charges is computed at the rate of 2 percent of the service revenue earned from the customer who are provided services through CDMA and CorDect wireless technology.

11. FOREIGN CURRENCY TRANSACTIONS

i Transactions denominated in foreign currencies are normally recorded at the exchange rate prevailing at the time of the transaction.

ii Monetary items denominated in foreign currencies at the year end are translated at the year end rates. Premium in respect of foreign exchange contract is recognized over the life of the contract.

iii Non-monetary foreign currency items are carried at cost.

iv Any income or expense on account of exchange difference either on settlement or on translation is recognized in the profit and loss account except in cases where they relate to the acquisition of fixed assets.

v Exchange differences arising on liabilities incurred or on repayment of borrowing in foreign currency for acquisition of fixed assets are accounted in the following manner:

In respect of fixed assets acquired from a country outside India, exchange differences are adjusted in the carrying cost.

In respect of fixed assets acquired within India:

- Exchange differences on transaction in foreign currency entered prior to 1st April, 2004 are adjusted in the carrying cost.
- Exchange differences on transactions in foreign currency entered on or after 1st April, 2004 are recognized in the Profit & Loss Account.

12. MISCELLANEOUS EXPENDITURE

(i) Finance set up costs

Finance set-up cost, including financial fees and cost of arranging and restructuring long-term loans, is amortised over the period of the loan or five years, whichever is lower, commencing from the date of the first draw-down of the related loan, on a straight-line basis.

(ii) Discount on issue of Commercial Papers

Discount on issue of Commercial Papers represents the difference between the face value and issue price of Commercial Papers. This cost is deferred and amortised on a straight-line basis over the redemption period of Commercial Papers commencing from the date of issue of Commercial Papers.

13. REVENUE RECOGNITION

Sales are inclusive of trial run sales, excise duty, service tax and net of sales tax. Export sales are net of ocean freight and insurance.

Revenue in respect of long-term turnkey works contracts is recognized under percentage of completion method, subject to such contracts having progressed to a reasonable extent.

Service Revenues are recognised as services are rendered and are net of discounts and service tax. Unbilled revenues resulting from Unified Access Services provided from the billing cycle date to the end of month is recorded based on billing system reports. Revenues from Unified Access Services rendered through prepaid cards are recognised based on actual usage by the customers. For the purposes of disclosure in these financial statements, service and lease line revenues are reflected gross and net of service tax in the Profit and Loss Account.

Revenue from infrastructure services are recognised as services are rendered, in accordance with the terms of the related contracts.

Indefeasible right of use contracts are accounted for as operating lease and revenue is recognized over the term of lease. Payments received from customers, before the relevant criteria for revenue recognition are satisfied, are included in income received in advance.

14. INCOME ON INVESTMENTS

Dividend on shares/units is accounted for, as and when the right to receive the same is established.

15. INTERCONNECTION USAGE CHARGES REGULATION

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

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

Further, effective March 1, 2006, the TRAI has issued an amendment to IUC Regulation 2006, requiring to pay additional 1.5 per cent of AGR towards access deficit charge. These costs are expensed in the Profit and Loss Account in the year in which the related revenues are recognised.

16. BORROWING COST

Borrowing costs that are attributable to the acquisition or the construction of qualifying assets are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to revenue in the year in which they are incurred. The accounting treatment of finance setup costs (loan arrangement fees) has been discussed in Policy no. 12 (ii) of this schedule.

17. OPERATING LEASE

(i) Where the Company is the lessee

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

(ii) Where the Company is the lessor

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

18. PRODUCT WARRANTY EXPENSES

Liability for Warranties is recognized at the time the claim is accepted. The necessary provisions are made with respect to warranties claimed and accepted, which are received up to the end of one month from the close of the year.

19. RETIREMENT BENEFITS

Contribution to defined contribution schemes such as Provident Fund and Family Pension Fund are charged to the Profit & Loss Account. For gratuity, the company has opted the scheme managed by Life Insurance Corporation of India (LIC). Amount paid/payable to LIC towards gratuity liability is charged to revenue. For the employees not covered by the said scheme, the gratuity liability is provided for in the accounts on the basis of actuarial valuation. Leave encashment benefits at the time of retirement are charged to profit & Loss accounts on the basis of actuarial valuation.

20. CLAIMS

Claims receivable are accounted for depending on the certainty of receipt and claims payable are accounted for at the time of acceptance.

21. TAXATION

Provision for current income tax is made after taking credit for allowances and exemptions. In case of matters under appeal, due to disallowance or otherwise, provision is made when the said liabilities are accepted by the company.

In accordance with the Accounting Standard 22-Accounting for Taxes on income, issued by the Institute of Chartered Accountants of India, the deferred tax for timing differences between the book & tax profit for the period is accounted for using the tax rates and the tax laws that have been enacted or substantively enacted as of the balance sheet date.

Deferred tax assets arising from temporary timing difference are recognized to the extent there is virtual certainty that the asset will be realized in future.

22. GOVERNMENT GRANTS

Government grant in the nature of promoter's contribution is treated as capital receipt and credited to investment subsidy account.

Grant in the nature of revenue subsidy is treated as revenue receipt and credited to profit and loss account

23. PROVISION AND CONTINGENT LIABILITIES

Show cause notices issued by various government authorities are not considered as obligation. When the demand notice are raised against such show cause notice and are disputed by the company then these are classified as possible obligations.

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in notes.

24. MODVAT / CENVAT / VAT

Modvat/ Cenvat/ VAT claimed on capital assets are credited to assets / capital work in progress account. Modvat/ Cenvat/ VAT on purchase of raw materials and other materials are deducted from the cost of such materials

SCHEDULES FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE - 19 NOTES TO ACCOUNTS

	Year Ended March 31,2006	(Rs in Lacs) Year Ended March 31,2005
1 Contingent liabilities :		
i) Outstanding Bank Guarantees	80.00	10,800.00
ii) Performance Bank Guarantees	1,710.08	1,234.10
iii) Estimated amount of contracts remaining to be executed on capital account (net of advances).	587.03	2,502.41
iv) Claim against the company not acknowledged as debt	1,781.45	5,674.19

2 a) As per decision of the Supreme Court in the case of State of Uttar Pradesh vs Union of India based on the UP Sales Tax Act dated February 9, 2003, charges collected which are in the nature of charges for use of the various assets that form the network, essentially rental charges would be liable to lease tax. The Company has received demand notes from Rajasthan Sales Tax Department for Rs 539.20 Lacs towards sales tax dues on charges collected which are in the nature of charges for use of the various assets that form the network, essentially rental charges. Accordingly, on August 23, 2004, the Company has challenged the above demands in Honorable Rajasthan High Court and has obtained stay order on the above demands. The Company has determined the maximum liability on this account to be Rs 167.33 million as at March 31, 2006 (2005 -- Rs 1209.2 Lacs). The Supreme Court on a writ petition filed by BSNL has decided that no sales tax can be levied on telecom services. In view of the above, the Company is confident that, there would be no liability from these demand notes.

b) The Company had executed certain contracts ('the contracts') with an equipment vendor ('the vendor') for the supply of network equipment and services for the turnkey implementation of the basic telephone service project in Rajasthan. Under the contracts, the vendor was obliged to ensure a total financing solution for the project, including credit enhancement support from the vendor's sponsors. As the vendor defaulted in its contractual obligations in providing a total financing solution for the project, the vendor executed an agreement ('the agreement') with the Shyam Group of Companies to subscribe to warrants of the Group Companies aggregating 50 per cent of the value of supplies of equipment and services by the vendor to the Company. Disputes have arisen between the Company and vendor with respect to fulfillment of obligations under the contracts and the agreement. As at March 31, 2006, Rs 2470 Lacs (March 31, 2005 - Rs 247 Lacs) was due by the Company to the vendor. The Company and the vendor are in the process of resolving their differences. The management of the Company believes that the default under the contracts and the agreement primarily lies on the part of the vendor and thus the Company does not bear any liability under the same. However, the vendor has made a counter claim for an interim award of Rs 287.5 million, which has been rejected by the Arbitral Tribunal. Since the matter is under process for resolution with the Arbitral Tribunal and based on legal opinion from the Company's counsel, no additional liability has been provided in these financial statements.

3 a) As per Acquisition and Share Swap agreement dated April 5, 2004 as amended by the supplementary agreement dated April 12, 2004, the company sold its entire investment of 67199980 Equity Shares of Rs. 10/ each in Hexacom India Ltd. to Bharti Tele - Ventures Limited for a total consideration of Rs.23888.88 Lacs in the form of Rs 5500.00 Lacs in cash and Optionally Convertible Redeemable Debentures (OCRD) of Rs 18388.88 Lacs. However, before the transfer of OCRD in its name, the company transferred its beneficial interest, right and title in these OCRD's to Shyam Cellular Infrastructure Projects Limited (SCIPL) for a consideration of Rs 17313.67 lacs, net of discounting charges of Rs 1075.15 Lacs.

b) As per Share Purchase Agreement dated April 5, 2004, the company acquired 4881035 equity shares in Shyam Cellular Infrastructure Projects Limited(SCIPL) for a consideration of Rs 5500.00 Lacs. The above shares were pledged with Financial Institutions/ Banks against the loans taken by Shyam Telelink Limited (Wholly Owned Subsidiary). Later on, the company transferred its holding in SCIPL to Shyam Basic Infrastructure Projects Private Limited (SBIPL) at cost, pending physical transfer of shares due to non receipt of No Objection Certificate from Financial Institutions/ Banks. However, the shares have been transferred in the name of SBIPL subsequent to the balance sheet date.

4 During the year 2004-05 management has identified certain R&D Equipments and other machineries which are absolete & discarded from their active use. Net book value as reduced by estimated realisable scrap value of Rs. 10.00 Lacs of such capital equipments amounting to Rs. 2611.83 Lacs is charged to Profit & Loss Account.

5 a) Shyam Telecom Inc. USA, a wholly owned subsidiary was incorporated on 07-03-2005. The Financial Statement of STI as certified by the auditor is consolidated in these accounts. The Auditors Statement of STI do not contain the auditors' report & accounting policy and notes thereon. Non furnishing of report by auditors' shall in the opinion of the management, do not have any bearing on the financial statements.

b) Shyam International Ltd. (SIL), Subsidiary of company ceased to be subsidiary of STL w.e.f.14-12-2004. The Profit &Loss of the said subsidiary has been considered & included in the consolidated accounts up to the appointed date on the basis of unaudited accounts and as per statement of accounts submitted to us by the management on which we have relied. The balance Sheet as at 31-3-2005 does not include the figures of said subsidiary as the same was not subsidiary as at that date. The amount brought forward from previous year, as also the figures for the current year are not comparable as the assets & liabilities of the aforesaid subsidiary have been excluded.

6 As it has not been practible to adopt uniform accounting policies in respect of all Companies in the group becauase dissimilar nature of their business activities from those of the other companies in the group . Such fact has been suitably disclosed and the proportion of such items in the consolidated financial statement could not be quantified.The total impact of such adjustment due to dissimilar accounting policy on consolidated profit would be depreciation would be lower by is Rs 2463.40 Lacs (Rs. 1826.62 Lacs) and profit for the year by same amount.

7 "During the year ended March 31, 2005, the Company, in order to take the advantage of full mobility under UASL, changes in regulatory and competitive environment, has entered into a fresh contract with equipment supplier for expansion of capacity and coverage. The new equipment suppliers are different from the original equipment suppliers of the initial phase of roll-out. As at March 31, 2006, the Company has de-installed the original equipment of net book value of Rs 3449.8 lacs (Gross block -- Rs 5449.70 Lacs) and replaced it with the equipment purchased from the new equipment supplier. The Company intends to redeploy the equipment purchased from the original equipment suppliers in its future roll-out in the rural/semi-rural areas by March 31, 2007.

Further, the Company is in arbitration with the original equipment vendor on account of non-compliance of certain contractual obligations relating to the supply of the network equipment and has also discontinued the annual maintenance contract with the vendor with effect from January 1, 2005, however, it is confident of servicing the equipment through its own team of network engineers.

"The Company has evaluated the technical feasibility of de-installation and re-installation of the equipment purchased from the original equipment supplier, including its operation in a multi vendor network roll out environment and is confident of using these equipments without any equipment loss or impairment other than the original installation costs, consequently, net book value of Rs 121.2 Lacs representing the installation cost of the original vendor's switch has been fully written-off during the year. The Company is confident that the same shall be redeployed within the planned period and hence, not estimated any additional cost.

8 Advance and deposits from customers and channel partners include amounts refundable to subscribers of Rs 85.6 Lacs (2005 -- Rs 58.9 Lacs), which represents security deposits received from permanently deactivated subscribers pending final settlement.

			(Rs in Lacs)
9	**Bad debts debited to accounts include :**	**March 31,2006**	**March 31,2005**
	Debit balances written off	57.77	71.00
	Credit balances written off	51.20	35.08
	Net	**6.57**	**35.92**
10	**Earnings per share (Basic and Diluted) :**		
		Year Ended March 31,2006	**Year Ended March 31,2005**
	Opening Number of Shares	32,200,000	32,200,000
	Closing Number of Shares	32,200,000	32,200,000
	Weighted Average number of shares outstanding	32,200,000	32,200,000
	Loss after Tax (Rs.)	(772,286,603)	(32,176,808)
	EPS (in Rupees) (Basic)	(23.98)	(1.00)
	EPS (in Rupees) (Diluted)	(23.98)	(1.00)

11 **DEFERRED INCOME TAX**

				(Rs. in Lacs)
The deferred tax liability at the year end comprise of the following :	**AS AT 31.03.2006**		**AS AT 31.03.2005**	
Deferred Tax Liability on account of;				
Timing difference between book & Tax Depreciation	721.31		728.44	
Deferred Revenue Expenditure	-	721.31	-	728.44
Deferred Tax assets on account of;				
Disallowance under Section 43B	20.85		21.09	
Brought Forward unabsorbed losses	265.50		413.30	
Others	214.64	500.99	131.04	565.43
Net deferred tax liability		**220.38**		**163.01**

In view of the business potential of the company, the management is of the opinion that the company would be able to adjust the amount of deferred tax assets arising on account of timing difference of unabsorbed depreciation and carry forward losses

Further, Shyam Telelink Limited (STLL) subsidiary, during the year ended March 31, 2006, the Company has incurred book loss of Rs 7764.98Lacs, aggregating to accumulated losses of Rs 3,6866.65 Lacs as on that date, resulting into a tax loss carry forward situation. The Company is eligible for a tax holiday under section 80IA of the Indian Income-tax Act, 1961, beginning with the financial year in which the Company started providing telecommunication services. Though the management is confident of generating profits in the future, there is currently no convincing evidence of virtual certainty that the Company would reverse the tax loss carry forwards beyond the tax holiday period. Accordingly, the Company has not recognized any deferred tax assets resulting from the carry forward tax losses. Further, no deferred tax liabilities on account of temporary timing differences have been recognized since they are expected to reverse in the tax holiday period.

12 RELATED PARTY INFORMATION RELATIONSHIP

a) Key Management Personnel : Mr. Rajiv Mehrotra, Mr. Ajay Khanna, Mr. Alok Tandon and Mr. N. Kumbhat

b) Enterprises over which Key Management Personnel and relatives are able to exercise significant influence: Shyam Antenna Electronics Ltd., Shyam International Ltd (From 14.12.04 onwards), Shyam Singapore Pte Ltd (From 30.12.04 onwards), Bharti Hexacom Ltd. (up to 31.05.04), Intercity Cable System Pvt. Ltd, Jaipur Telecom Pvt. Ltd, Shyam Communication Systems, Shyam Basic Infrastructure Projects (P) Ltd. (SBIPL), Shyam Cellular Infrastructure Projects (P) Ltd.

Note : Related party relationship is as identified by the Company and relied upon by the auditors.
Transactions with the above related parties are as follows:

(Rs. in Lacs)

Sl. No.	PARTICULARS	Key Management Personnel	Relatives of Key Management Personnel and Enterprises over which they have significant influence	Grand Total
1	Sale of Products/Services	**-** -	**-** 1,091.13	**-** 1,091.13
2	Sale of Investments	**-** -	**-** 5,550.00	**-** 5,550.00
3	Transfer of Interest in OCRD's (Net of Discounting Charges	**-** -	**-** 819.48	**-** 819.48
4	Assignment of Liability	**-** -	**-** 5,550.42	**-** 5,550.42
5	Assumption of Liabilities	**-** -	**-** 424.77	424.77
6	Infrastructure Sharing Expenses	**-** -	**-** 6.16	**-** 6.16
7	Purchases	**-** -	**-** 1,069.99	**-** 1,069.99
8	Rent Agreements (Paid)	**-** -	**36.47** 37.92	**36.47** 37.92
9	Remuneration	**166.01** 166.07	**16.00** -	**182.01** 166.07
10	Security Deposit Given	**-** -	**-** 3.00	**-** 3.00
11	Fund transfer from SBIPL to the Company	**-** -	**1,063.50** 1,513.00	**1,063.50** 1,513.00
12	Fund transfer from SBIPL to the Company payment made on behalf of SBIPL	**-** -	**2,088.22** 336.00	**2,088.22** 336.00
13	Payment of SCIPL's share in the HIL deal net of discounting Charges	**-** -	**-** 17,852.51	**-** 17,852.51
14	Investments	**-** -	**-** 5,500.00	**-** 5,500.00
15	Payment made on behalf of SBIPL	**-** -	**-** 1.73	**-** 1.73
	Out standings ;			
16	Receivables*	**-** 563.68	**226.77** -	**226.77** 563.68
17	Payables	**-** -	**13,367.21** 11,532.57	**13,367.21** 11,532.57
18	Payables to Directors	**9.36** 7.85	**-** -	**9.36** 7.85
19	Loan	**-** -	**1,110.99** -	**1,110.99** -

* Includes Rs. 10.62 Lacs representing balance due from Hexacom India Ltd. As on 18-05-2004

13 **Operating Leases**

a) Where the company is a lessee

"The Company has entered into various lease agreements for leased premises, which expire at various dates over the next ten years. Lease rental expense for the year was Rs 349.90 Lacs.

(2005 -- Rs 263 Lacs). Further, the Company has entered into infrastructure sharing agreement with Telecom Operator for a period of ten years. Infrastructure sharing expense for the year is Rs 197.30 Lacs (2005 -- Rs 63.40 Lacs).

Future lease payments under operating leases are as follows:

		(Rs in Lacs)
	March 31,2006	**March 31,2005**
Payable not later than one year	166.62	91.79
Total	**166.62**	**91.79**

b) Where the company is a lessor

IRU Agreement

"During the year ended 31st March, 2005 the Company has entered into Indefeasible Right of Use contract for use of optical fibre with Telecom Operator for a period of 15 years. The gross carrying amount and accumulated depreciation of the optical fibre is Rs 2,375.90 Lacs and Rs 348.60 Lacs respectively. The depreciation recognised in the profit and loss for the year is Rs 71.50 Lacs. (2005-Rs.25.20 Lacs) and Rs. 118.80 Lacs (2005-Rs. 74.50 Lacs) respectively.

Future minimum lease payments under operating leases are as follows:

	March 31,2006	**March 31,2005**
(i) not later than one year	126.95	87.69
(ii) Later than one year and not later than five years	634.77	438.47
(iii) later than five years	1,045.94	764.06
Total	**1,807.66**	**1,290.22**

c) Infra sharing agreement

The Company has entered into infrastructure sharing agreement to lease its network infrastructure (Gross book value Rs 542.60 lacs and Net book value Rs 205.30 Lacs) with Telecom Operator for a period of ten years. Infrastructure sharing income for the year is Rs 126 Lacs (2005 -- Rs 68 Lacs).

Future lease payments under operating leases are as follows:

		(Rs in Lacs)
	March 31,2006	**March 31,2005**
Payable not later than one year	72.79	18.59
Total	**72.79**	**18.59**

14 **SEGMENT INFORMATION FOR THE YEAR ENDED ON 31ST MARCH, 2006**

The Company and its subsidiary operations predominantly relate to providing Telecommunication and information technology services . The company has considered business segment as the primary segment for disclosure.The segments have been identified taking into account the nature of the products, the deffering risk and returns, the organisation structure and internal reporting system . The company catters wholly to the needs of the domestic market as such there are no reportable geographical segment . The Telecom products & Services segment comprise of manufacturing and services in the related area.Turnkey Projects and trading services segment includes the turnkey Projects and Trading in Telecom Products. Software Products & services segment includes the services in the area incuding software and Information Technology related and Infomation technology enabled services.Unfied Access telephony services Segment is opertated by Company's wholly owned subsidiary Shyam Telelink Limited in Rajasthan.

Revenue & expenditure which relates to enterprises as a whole and are not attributable to segments are included in unallocable expenditure (Net of unallocable income). Assets used in the Company's business or liabilities contracted have not been identified to any of the reportable segment except basic telephony services and internet services, as all the assets and services are used interchangeably between segments, The Company believes that it is currently not practicable to provide segment disclosure relating to total assets and liabilities since a meaningful segregation of available data is onerous except basic telephony services.

(Rs in Lacs)

Segment Reporting	Telecom Products	Turnkey Projects & Trading	Software Products & Services	Unified telephony Services	Investment	Unallocable	Total
Segment Revenue							
Gross Sales / Income	**5,002.61**	**7,664.58**	**255.32**	**13,452.31**	**18.25**	**-**	**26,393.07**
From Operations	9,827.91	12,257.46	464.00	12,248.61	-	-	34,797.98
Less : Inter / Intra Segment	**731.59**	**2,371.35**	**-**	**-**		**-**	**3,102.94**
Sales and services	271.05	7,871.65	-	-	-	-	8,142.70
Total Revenue	**4,271.02**	**5,293.23**	**255.32**	**13,452.31**	**-**	**-**	**23,271.88**
	9,556.86	4,385.81	464.00	12,248.61	-	-	26,655.28
Segment Results							
(Profit (Loss) before Depreciation							
(Except directly attributed),							
Amortisation, Interest, Tax and	**658.84**	**(17.16)**	**95.54**	**(4,020.16)**	**18.25**	**-**	**(3,264.68)**
unallocable overheads)	(357.89)	805.62	232.07	(4,341.69)	10,822.92	-	7,161.03
Less :							
Depreciation & Amortisation	**-**	**-**	**-**	**-**	**-**	**240.57**	**240.57**
	-	-	-	-	-	2,795.29	2,795.29
Interest & Financial Charges	**-**	**-**	**-**	**-**	**-**	**4,216.53**	**4,216.53**
	-	-	-	-	-	4,907.77	4,907.77
Other un-allocable Expenditure	**-**	**-**	**-**	**-**	**-**	**(168.66)**	**(168.66)**
(Net of un-allocable Income)	-	-	-	-	-	809.11	809.11
Profit(Loss) Before Tax	**-**	**-**	**-**	**-**	**-**	**-**	**(7,553.13)**
	-	-	-	-	-	-	(1,351.14)
Taxes	**-**	**-**	**-**	**-**	**-**	**-**	**169.73**
	-	-	-	-	-	-	(1,029.37)
Net profit (Loss) after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**(7,722.86)**
	-	-	-	-	-	-	(321.77)
Segment Assets	**-**	**-**	**-**	**55,206.85**	**-**	**8,642.76**	**63,849.61**
	-	-	-	61,095.35	-	8,301.74	69,397.09
Segment Liabilities	**-**	**-**	**-**	**10,273.29**	**-**	**26,236.24**	**36,509.53**
	-	-	-	12,675.39	-	26,656.41	39,331.80
Capital expenditure including	**-**	**-**	**-**	**562.56**	**-**	**1,570.26**	**2,132.82**
intangible assets	-	-	-	6,979.23	-	8,069.37	15,048.60
Depreciation	**-**	**-**	**-**	**6,583.45**	**-**	**240.57**	**6,824.02**
	-	-	-	5,612.69	-	21.39	5,634.08
Non Cash expenditure other	**-**	**-**	**-**	**1,272.83**	**-**	**113.73**	**1,386.56**
than depreciation	-	-	-	1,834.29	-	3,088.86	4,923.15

(Rs in Lacs)

15 a) Remuneration to Managing /Whole time Director	Year Ended March 31,2006	Year Ended March 31,2005
Salaries (including Allowances)	116.48	118.49
Contribution to P.F. & other funds	13.53	13.54
Other perquisites	36.00	34.04
	166.01	**166.07**

b) The Company provides for gratuity and leave encashment on an actuarial basis for the Company as a whole, the amount pertaining to the director is not readily ascertainable and hence not included above

STL has been advised that computation of net profit in accordance with Section 198 read with Section 309(5) of the Companies Act 1956 need not be enumerated, since no commission has been paid to the directors and only fixed monthly remuneration has been paid to the managing/whole time directors as per Schedule -XIII to the Companies Act, 1956 / approval of Central Government received under Section 198 & 309 of the Companies Act 1956 in Shyam Telecom Limited

(Rs in Lacs)

		Year Ended March 31,2006	Year Ended March 31,2005
16	Expenditure on Research & Development		
	Raw Material	-	34.83
	Salary & Other benefits	114.52	57.62
	Rent	-	1.20
	Travelling & Conveyance	25.11	26.52
	Others	36.37	3.30
		176.00	**123.47**

17 The net amount of exchange difference debited / (credited) to the profit and loss account is (Rs. 88.13 Lacs) (Previous Year Rs. 88.90 Lacs).

18 Some of the personal accounts are subject to adjustments / reconciliation / confirmation .

19 In the opinion of Board of Directors Current Assets, Loans and Advances have a value on realisation in ordinary course of business at least equal to the amount at which they are stated in the Balance Sheet and provision for all liabilities have been made in the Accounts, which has been relied upon by the auditors.

20 Figures pertaining to the holding company or subsidiaries have been reclassified wherever necessary to bring them in line for preparation of consolidated financial statements.

21 In view of Note no 5, the figure of current year are not comparable with those of the previous year. Further previous year figures have been regrouped where considered necessary.

As per our report of even date attached

For **Mehra Goel & Co.**
Chartered Accountants

R.K Mehra
Partner
M.No. : **6102**

Rajiv Mehrotra
Chairman & Managing Director

Ajay Khanna
Managing Director

Alok Tandon
Managing Director

Place : New Delhi
Dated : 8th July, 2006

Dharmender Dhingra
Company Secretary

N. Kumbhat
Director Finance

SHYAM TELECOM LIMITED

NOTICE OF THE THIRTEENTH ANNUAL GENERAL MEETING

TIME: 10:30 A.M.

DAY & DATE: MONDAY THE 7th AUGUST, 2006

VENUE: "THE RISALA", 26 KARNI NAGAR, QUEENS ROAD, JAIPUR-302021

Notice is hereby given that the Thirteenth Annual General Meeting of the Members of SHYAM TELECOM LIMITED will be held at The Risala, 26, Karni Nagar, Queens Road Jaipur-302021, on Monday, the 7th Day of August, 2006, at 10:30 A.M. for transacting the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March 2006 and Profit and loss account for the period ended on that date together with the Directors' and Auditors' Report thereon.
2. To appoint a director in place of Mr. Ajay Khanna, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a director in place of Mr. Achintya Karati, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a director in place of Mr. Ashutosh Garg, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of next Annual General Meeting and authorize the Audit committee of the Board /Board of Directors to fix their remuneration. M/S. Mehra Goel & Co.,Chartered Accountants, the retiring auditors of the Company, being eligible, offer themselves for re-appointment.

By Order of the Board of Directors
For **SHYAM TELECOM LIMITED**

Place : **New Delhi** **DHARMENDER DHINGRA**
Dated : **8th July, 2006** Company Secretary

Registered Office:
B2-D, Shiv Marg, Bani Park
Jaipur-302016

NOTES :-

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.

   The instrument appointing a proxy should be deposited at the Company's Registered Office not less than 48 hours before the time for holding the Annual General Meeting.
2. Please bring the Admission Slip duly filled-in and hand over the same at the entrance of the Meeting Hall.
3. The Register of Members and Share Transfer Books of the Company will remain closed from 1st of August, 2006 (Tuesday) to 7th August, 2006 (Monday). The Board of Directors of the Company, have also decided the above said period i.e. from 1st August 2006 to 7th August, 2006 shall also be reckoned for the purpose of ascertaining the shareholders of the Company, entitled to receive the shares of Shyam Telelink Limited and fresh shares of the Amalgamated Company i.e. STL, consequent to consolidation of reduced share capital in terms of Scheme of Arrangement as approved by Rajasthan High Court vide their final order dated 18.05.2006.
4. Members desirous of getting any information from the Company are requested to send their queries to the Company at its Registered Office well in advance so that the same may reach at least 7 days before the date of the Meeting to enable the management to keep the required information, readily available at the Meeting.
5. Members are requested to bring their copy of the Annual Report to the meeting.
6. Members are requested to immediately intimate the change of their address, if any, along with pin-code numbers with the Registered Office of the Company quoting their Folio Numbers and members holding shares in electronic form may inform the same to their Depository Participants.
7. Information u/s 205A read with the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules 1978, as amended is given below :
   - Pursuant to Section 205 of the Companies Act, 1956, all unclaimed/unpaid dividends upto the financial year ended 31.03.1995 have been transferred to the General Revenue Account of the Central Government, Shareholders who have not yet encashed their dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Rajasthan, 132 Vijay Nagar Part II, Kartarpura Railway Crossing, Jaipur (Raj) by submitting an application in the prescribed Form.
   - Consequent upon the amendment of Section 205A, of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999 the amount of dividend for the subsequent years i.e. from financial year ended 31.03.96 and onwards, remaining un-

paid or unclaimed for a period seven years from the date of transfer to unpaid dividend account of the Company shall be transferred to the Investor Education and Protection Fund (IEPF) set up by the Government of India and no payments shall be made in respect of any such claims. The Company has already transferred the Unclaimed dividend for the year ended 31st March 1996 & 1997 to IEPF.

- Members who have not yet encashed their dividend warrant(s) for the financial year ended 31.03.1999 and onwards, are requested to claim the amount forthwith from the Company.

8. Listing Fees to all the Stock Exchanges had been paid upto 2006-07.

INFORMATION REQUIRED TO BE FURNISHED UNDER THE LISTING AGREEMENT.

As required under the Listing Agreement, the particulars of Directors who are proposed to be appointed/reappointed are as given below:

1. Name : Mr. Ajay Khanna

Age : 50years

Qualification : B.Com, Diploma in Leather Technology

No. of Shares held in the Company : 12,910

Expertise : He was inducted on the board in the year 1992 and holds the position as Managing Director in the Company. He has been principally involved in setting up Distributors/Channel Network for Cable TV and Cellular Business and also co-ordination and high level liason with all Local Authority/Statutory Regulatory bodies to ensure smooth function of various group companies. He has been promoting various Business of Shyam Group Viz; Hexacom, Telelink & Essel Shyam. He Successfully did an IPO of Shyam Telecom in 1994 which got an overwhelming response and oversubscribed by 25 times.

He is heading the Commercial Operations as well as Financial Management and Credit Monitoring for the group. He was instrumental in creating a consortium and closing the financing of the Cellular and V-SAT business of the Group.

He is also responsible for exploring new expansion opportunities in the telecom sector, raising resources for their successful financial closure besides financial planning.

Other Directorship : 1. Shyam Telelink Limited

2. Shyam Antenna Electronics limited

3. Bharti Hexacom Limited

4. RMS Automation Systems Ltd.

5. Kribhco Shyam Fertilizers Ltd.

Chairmanship/Membership of Board Committees of the Company :

Shyam Telecom Ltd. - Finance Committee - Member

2. Name : Mr. Ashutosh Garg

Age : 49 years

Qualifications : M.B.A. With specialization in Marketing and Finance

No. of Shares held in the Company : 1700

Expertise : Mr. Ashutosh Garg, an MBA, has worked in the corporate sector for 27 years. He worked for ITC Limited for 17 years leaving in 1995 as the youngest ever Managing Director of one of the ITC Group Companies, based in Singapore. Thereafter he spent 8 years in the aerospace industry, four years each as the Head of Asia for Lockheed Martin and Hughes, running their satellite systems.

In April 2003, he embarked upon an entrepreneurial venture in Health Care. In August 2003, he started a chain of Health and Beauty Retail outlets in North India under the name Guardian Pharmacy, which has now grown to 42 outlets and is growing at 4 outlets per month. He has built this company into North India's largest pharmacy chain and has now embarked upon an exciting social initiative to build entrepreneurs in rural India by supporting individuals to establish pharmacies under the brand name "Aushadhi".

A regular speaker at various conferences, he has published a number of papers on International Marketing and the Satellite Industry in Asia and has chaired many panel discussions around the World.

He is on the Advisory Council of the Centre for Policy Research, a premier

Think Tank supported by the Government of India. In addition, he serves on the Boards of several companies.

In January 1995, he was recognized as a Global Leader for Tomorrow by the World Economic Forum, Switzerland. This enabled him to join a select group of 400 individuals from around the World.

He is an active member of the Young Presidents' Organization since 1994 and is the current Delhi Chapter Chairman.

Other Directorship : He is a Director in Seven other Private Ltd. Companies but for the purpose of consistency, the names of private companies have not been given.

Chairmanship/Membership of Board Committees of the Company :

Shyam Telecom Limited	- Audit Committee	- Chairman
	- Remuneration Committee	- Chairman

3. Name : Mr. Achintya Karati

Age : 60 years

Qualifications : Bachelor in Law, Bachelor of Commerce.

No. of Shares held in the Company : NIL

Expertise : Mr. Achintya Karati was inducted on the Board in the year 2004. He has worked in ICICI Ltd from the year 1978 till 2001 holding responsible business development positions starting from Deputy Zonal Manager-North, Head of Major Client Group-North and finally taking charge as Country Head of Government and Institutional Solutions Group. His tenure at ICICI Ltd. included top level interactions with large PSUs including NTPC, NHPC, PGCIL, BHEL etc. and large corporates including Hero Honda, Escorts, Honda Motors etc. April 2004 onwards. He headed Govt. & Institutions of NCDEX a Commodity Exchange promoted by ICICI Bank, NABARD, LIC, NSE, CRISIL, etc. & acted as a Senior Advisor of ICICI Securities with responsibility to interact with Govt., PSU & Large Corporates for Investment Banking Solutions. He was associated with ICICI Prudential for ' Fund Management' by ICICI Prudential as approved by IRDA in respect of Gratuity & Superannuation Fund of PSU & other large Corporate.

Other Directorship :

	Name of the Company	Position
1.	J.K.Cement Ltd.	Director
2.	BPL Display Devices Ltd	Director
3.	Flex Industries Ltd.	Nominee Director
4.	ICICI West Bengal Infrastructure Development Corporation Ltd.	Nominee Director
5.	Sangam (India) Ltd.	Director
6.	Delton Cables Ltd.	Director
7.	Tech Process Solutions Ltd.	Director
8.	Hindustan Motors Ltd.	Nominee Director

Chairmanship/Membership of Board Committee of the Company :

Shyam Telecom Limited	- Audit Committee	- Member
	- Remuneration Committee	- Member

By Order of the Board of Directors
For **SHYAM TELECOM LIMITED**

Place : New Delhi.
Dated : 8th July, 2006

DHARMENDER DHINGRA
Company Secretary

Registered Office:
B2-D, Shiv Marg, Bani Park,
Jaipur-302016

ATTENDANCE SLIP

SHYAM TELECOM LIMITED

Regd. Office : B2-D, Shiv Marg, Bani Park, Jaipur-302016, Rajasthan.

13th Annual General Meeting

Please complete this Attendance Slip and hand it over at the entrance of the Meeting Hall.

D.P.Id *			L.F. No.	
Client Id *			No. of Shares held :	

NAME OF THE SHAREHOLDER / PROXY____

ADDRESS ____

I hereby record my presence at the 13th ANNUAL GENERAL MEETING of the Company held on Monday, the 7th August, 2006 at 10.30 a.m at 'THE RISALA',26, Karni Nagar, Queens Road, Jaipur-302021, Rajasthan.

* Applicable for holding in electronic form.

SIGNATURE OF THE SHAREHOLDER/PROXY

Tear Here

PROXY

SHYAM TELECOM LIMITED

Regd. Office : B2-D, Shiv Marg, Bani Park, Jaipur-302016, Rajasthan.

13th Annual General Meeting

D.P.Id *			L.F. No.	
Client Id *			No. of Shares held :	

I/We ____being a member / members of

Shyam Telecom Limited hereby appoint ______________________________________

of____

or failing him____

of ____

as my/our proxy to vote for me/us and on my/our behalf at the 13th ANNUAL GENERAL MEETING of the Company to be held on Monday, the 7th August, 2006 at 10.30 a.m and at any adjournment thereof.

Signed this ____________ [Affix a 1.00 Rupee Revenue Stamp] ____________________ day of ____________________________ 2006

* Applicable for holding in electronic form.

Note : The proxy must be returned so as to reach the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting. The proxy need not be a member of the Company.