India Infoline Limited

Annual Report 2005-06

In today's world, realities change by the minute. An

opportunity

lasts for a moment. When it arrives, will you be armed with all the information? Will you be able to transact with speed? Will you have an advisor you can trust?

Retail financial services is one of the fastest growing businesses in India today.

Contents

And India Infoline is best positioned to capitalise on this opportunity.

Purpose

To be a one-stop financial services shop, most respected for quality of its advice, personalised service and cutting-edge technology.

Positioning

A unique combination of full-service and competitive pricing with an online as well as offline execution platform.

Products

Equities and commodities broking, life insurance, mutual funds, fixed income instruments, investment banking, distribution of mortgages and personal loans.

Presence

Headquartered in Mumbai, India.

Pan-Indian presence with 177 branches across 19 Indian states.

Memberships in the NSE, BSE (securities trading), MCX, NCDEX and DGCX (commodities trading).

Registered as a Category I Merchant Banker.

Depository Participant with NSDL and CDSL

SEBI-registered Portfolio Manager.

Listed on the Mumbai and National Stock Exchanges.

Portals

www.indiainfoline.com - the Company's flagship portal, known for the most comprehensive information and incisive analysis of Indian business, finance and investments.

www.5paisa.com, the group's trading platform, widely regarded for the most advanced features and speed of execution.

Promoters

A group of professionals with an impeccable track record and a deep understanding of the Indian financial services space, holding over 35% stake in the Company.

Position

Well-placed to emerge as the leading player in the retail financial services space in India with a significant presence in businesses like equities and commodities broking, as well as distribution of mutual funds and life insurance products across India. One of the pioneers in the field of online broking, we are the biggest corporate agency for the distribution of life insurance products. We have achieved a critical mass in all key segments of our business.

Performance

Revenues witnessed at a CAGR of 146% over three years; profit after tax increased 156% over the same period. Net worth registered an increase of 272% to Rs 1,942 mn.

Highlights of performance in 2005-06

182.2%
increase in net revenue over 2004-05

125.7%
increase in profit after tax over 2004-05

39.8%
EBIDTA margin

39.7%
return on average equity

178.8%
increase in profit before tax over 2004-05

32.3%
return on capital employed

100
branches added in 2005-06

2,986
manpower increased in 2005-06

Financial highlights

(Rs mn)

Parameters	2005-06	2004-05	Growth (%)
Income from operations	2,134.1	757.3	181.8
Equities brokerage and related income	1,427.1	511.1	179.2
Life Insurance	215.9	59.8	261.0
Distribution of Mutual Funds	199.9	117.7	69.8
Commodities broking	41.3	4.8	753.9
Financing and investment	46.9	–	–
Online media and content	200.6	63.8	214.3
Distribution of Mortgages and loans	2.4	–	–
Other income	46.4	15.3	203.1
EBIDTA	868.8	297.9	191.7
Gross profit	933.9	312.9	198.4
Profit after tax	489.3	216.8	125.6
Cash profit	574.9	241.9	137.6
E.P.S. (Rs)	11.5	8.0	44.3
Cash E.P.S. (Rs)	12.7	7.6	67.1
D.P.S. (Rs)	3.0	–	–
Net worth	1,942.6	522.5	271.8
Capital employed	3,778.4	1,064.2	255.0

Our Rs 900 mn public issue in April 2005 was oversubscribed 7.22 times.

'Our vision is to be the most **respected company** in the financial services space'

Mr Nirmal Jain, Founder and Chairman, highlights the rationale of the Company vision

Dear Shareholders

At India Infoline we are convinced that even as a number of our peer companies are focused on emerging as the biggest and the best in the financial services space in India, there is an even more critical opportunity available in emerging as the most respected.

This is an engaging subject.

- Is there really such an opportunity, considering the plethora of banks and entrepreneurial companies in the sector?
- How does one define and measure respect?
- Is 'respect' a compelling vision over 'largest' or 'most profitable'?
- Can 'respect' suffice as the rationale for one's existence?
- What do we need to do to achieve this vision?
- What we should not do to make this vision happen?

It might be a relevant time in our post-IPO annual report to be addressing a subject that is clearly at the head of our priorities.

Is there really an opportunity?

There are indeed a number of respected companies in India's financial sector, including well managed private sector banks and rapidly growing entrepreneurial outfits. And yet I feel that the opportunity that is being addressed by India Infoline is indeed unique for an important reason: private sector banks may be respected for their size and management depth but when it comes to commanding respect for research, advice and execution speed that can make a distinctive difference to a retail investor, India Infoline is better equipped.

As things stand today,

- Investors respect our calls on the market
- Traders swear by our entrepreneurial dynamism that has helped them tide over a volatile environment
- Those who want to borrow, prefer us for our vendor-neutral shopping platform
- Our technology team is respected by peer companies, reflected in their prompt emulation

It is this complement of trust, thought, technology and service that evokes a distinctive and spontaneous respect for India Infoline over other banking and non-banking financial services firms in India.

How do we define and measure respect?

At India Infoline, we are convinced that respect must be earned through one's performance. At the Company, we believe that this 'performance' is not only a play on our core competence in the narrow sense but a broader demonstration of acceptable behavior.

While core competence has been discussed in the factors listed earlier in this report, the 'acceptable behaviour' bit comprises our advice timeliness, service efficiency, governance standards, general transparency and an ongoing fulfillment of societal and statutory obligations.

This is the tricky part. Unlike money, respect cannot be quantified or measured but must be perceived from the quality of positive responses of all who deal - or even not - with us over a period of time. More challengingly, it must extend from an intermittent achievement to sustained consistency over time.

Is this the preferred vision?

At India Infoline, we recognise that we are engaged in dealing with people's hard-earned money for which the business is understandably regulated. In view of this, we recognise that we need to build an organisation that lasts the test of time and wins the trophy of trust each time a customer deals with it. At the Company, we believe that we need to be single-mindedly in the pursuit of orderly conduct and blemishless reputation.

This brings me to an important point. History is replete with instances of scores of individuals and organisations that gained wealth, fame, recognition almost overnight through an unexpected stroke of luck. In my mind, no one ever gained respect through a stroke of luck. On the contrary, respect, even though it is difficult to gain, is easy to lose, which is what makes its pursuit challenging and its achievement precious.

Does this define the rationale for our existence?

At India Infoline, while to be the most respected is our singular vision, we recognise that it cannot be achieved in isolation. No organisation can claim to be the most respected with a profitability among the lowest or presence in the last quartile or growth that lags the industry average.

This brings me to another conclusion. To achieve our vision, we must perform well across all parameters. We may not rank first across all aspects of business but must rank among the top few across all. While on the whole, we need to grow fast, profitably and strive for leadership, our conflict situations will be resolved through our vision. In view of this, we may let a profitable opportunity pass, should it hold even a semblance of a prospect of threatening our reputation.

What do we need to do to achieve this vision?

At India Infoline, the pursuit of our vision is not a fixed goal but a moving target. In view of this, we need to continuously reinforce our research capability, transaction delivery model, service efficiency and compliance standards, even though we are already second to none in them. More importantly, we need to reinforce our capabilities and set new industry standards in a sustainable way.

At the end of the day, the potency in our achievement must be reflected in customer response. We need to enhance our credibility to the point so that when people trust us with their money, they can sleep peacefully; what our research puts out after considerable analysis attracts even expert attention; instances of our outstanding service get discussed over tea in clubs and corporate offices.

The goal is clear: to delight the customer with the comfort and convenience of a one-stop shop, reaching out to her, wherever she may be. And we can do all this only if our only asset – people - function at the peak of their morale and productivity.

What we should not do in order to make this vision happen?

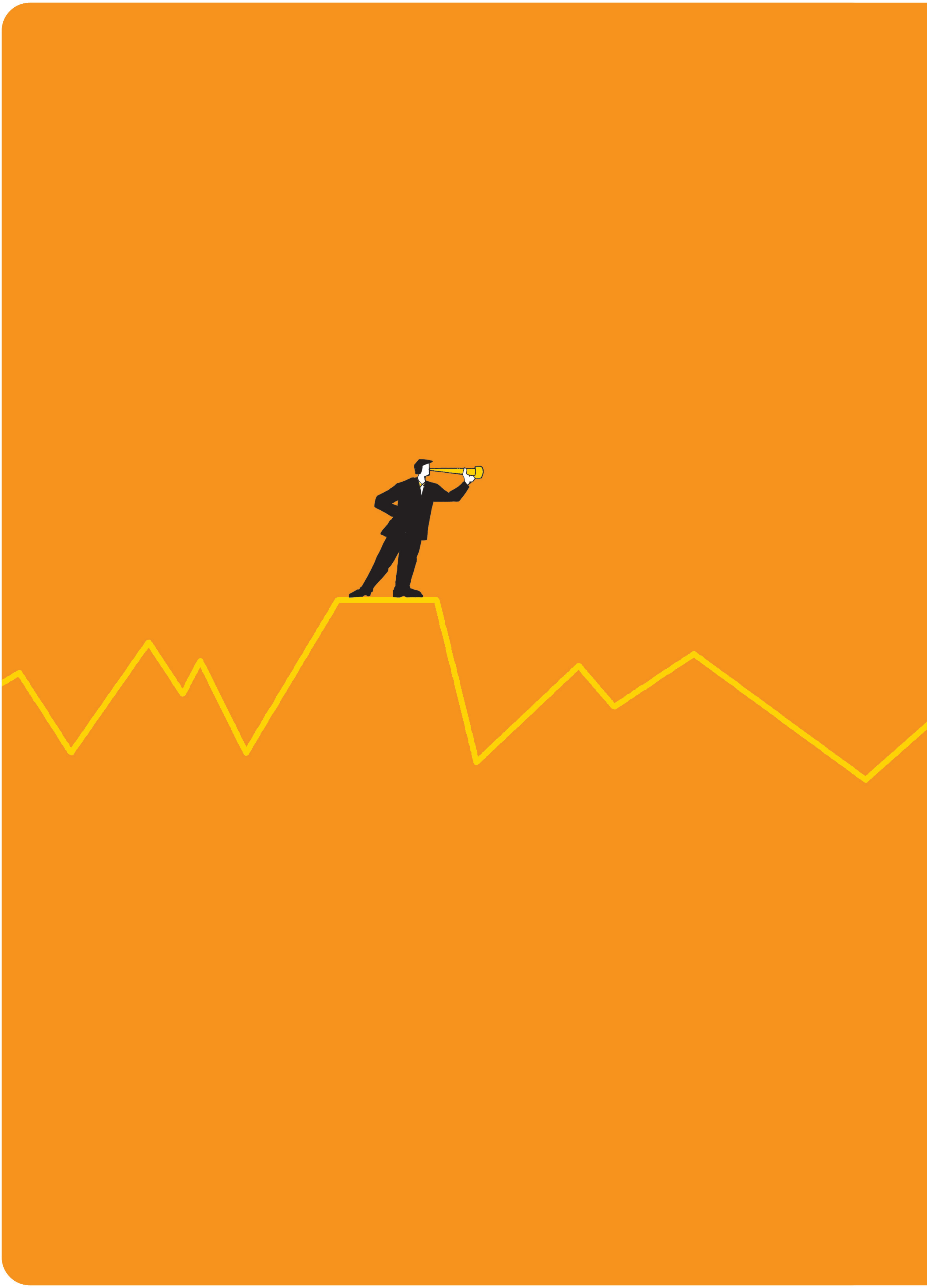
As important as what we need to do will be our courage to say 'no' at the right points. At India Infoline, I am pleased to state that this discerning ability is already embedded in our DNA.

We are emphatically prepared to say 'no' to poor quality in the pursuit of instant results. Prepared to say 'no' to short-term stop-gap alternatives. 'No' to unfair or ad hoc policies, be they for customers or employees. 'No' to reckless hire-and-fire policies. 'No' to using legal loopholes to ensure our sole benefit. 'No' to cutting corners, to policies that may be legal but not fair. 'No' to hidden charges and unethical suppliers, even if they represent a lower cost.

More importantly, this intolerance for the sub-standard needs to percolate to the smallest of things – for instance, saying 'no' to reaching late for appointments and 'no' to shirking responsibilities.

So even as the theme of this annual report is 'opportunity', the opportunity to occupy the position of the 'most respected' is the only one for India Infoline that will remain enduring and eternal. A journey with no destination, where the journey is the reward in itself.

Nirmal Jain
Founder and Chairman



Success

is nothing but
opportunity meeting
the prepared.

Opportunity: Technology

"A brick-and-mortar mindset restricted capital market participation to a privileged few.

Trading required dealing with messy paper-based settlement, opaque trading systems and high costs. Understandably not everyone could participate. Suddenly, one fine day, the walls started disappearing, paving the way for a level playing field even for small investors."

Technology

FOR LONG, the conventional prevailed over the contemporary. Shares were sheets of paper. Bids were shouted. Trades were scribbled.

Then technology changed everything. Shares were dematerialised. Bids punched. Trades matched.

In the pre- net era, an intermediary would differentiate customers based on size, as an institution placing an order for 100,000 shares would be 1000 times preferred and revered over a retail customer placing an order for 100 shares.

The Internet triggered a sea change to the business of broking and India Infoline was one of the first to capitalize on this paradigm shift.

In the world of online trading, it makes no difference if a client places an order for 100,000 shares or 1000 customers place an order of 100 shares each. They all get the same pricing and the same access to information.

The result is democratization of information and equity trading. Several players followed the India Infoline way of pricing and dissemination of information.

Opportunity: Distrust

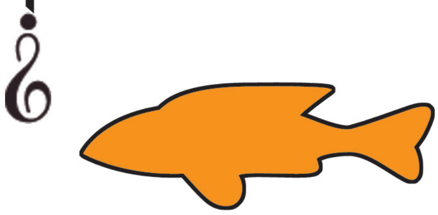
“The investor thought twice before trusting somebody with his hard-earned money.”

For decades, the business of financial services attracted opacity and investor distrust. This evoked the usual questions: ‘Am I being charged right?’, ‘Was my transaction put through first?’ and ‘Am I getting the right instrument for my risk appetite?’ among other reservations.

AT INDIA INFOLINE, we are proud to have brought to this space a rigorous ethical commitment. Leading to unquestionable transparency.

- We recognise that we are in this business to enhance client interest first and last
- All our initiatives, intentions and actions are influenced by the need to enhance transparency
- We run our business with an ‘involved detachment’; this makes it possible to advise on the basis of complete impartiality at all times
- We market products only after we are convinced that they represent complete customer benefit
- We hire the best quality people and train them intensively
- We have fool-proofed our technology systems against fraudulent manipulation
- We have protected our process and systemic integrity through the recruitment of multi-level audit experts

The result is trust. Our customers have trusted us with custody of over Rs 15 Bn of their assets.

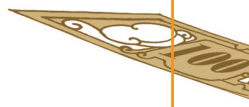


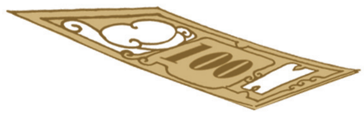
distrust

Opportunity: Intermediation cost

"It once cost a small fortune to put through a trade on the stock markets – even before the investor could make one."

For decades, intermediaries made money whether the investor did or not, on account of commission and brokerage rates as high as 100-150 paise for every Rs 100. Until India Infoline introduced the lowest brokerage in the country's history – 5 paise per Rs 100 of the traded amount – and changed the face of Indian investing forever.





intermediation cost

• We leveraged technology to deliver more than customer expectations at a charge far lower than he could imagine

• We focused on growing the market rather than merely capturing market share.

• We started an across-the-board rationalization in brokerage and commission rates, incentivising investing

The result is expansion. India Infoline grew its broking client base to over 75,000 and emerged as among the leading online players in broking, accounting for about 20% share of all of India's online equity trading volumes.

"You are nervous, yet relish a small gamble; your needs are long-term but you wouldn't mind playing the short-term."

Every investor is really a mix of 'pure types'. So even the 'risk-prone' need a life insurance; even the conservative invest in an equity mutual fund. Typically, these solutions were sourced from different financial experts.

Varied needs

AT INDIA INFOLINE, we were among the first to converge this dispersed and time-guzzling agenda into a holistic and one-stop financial solution.

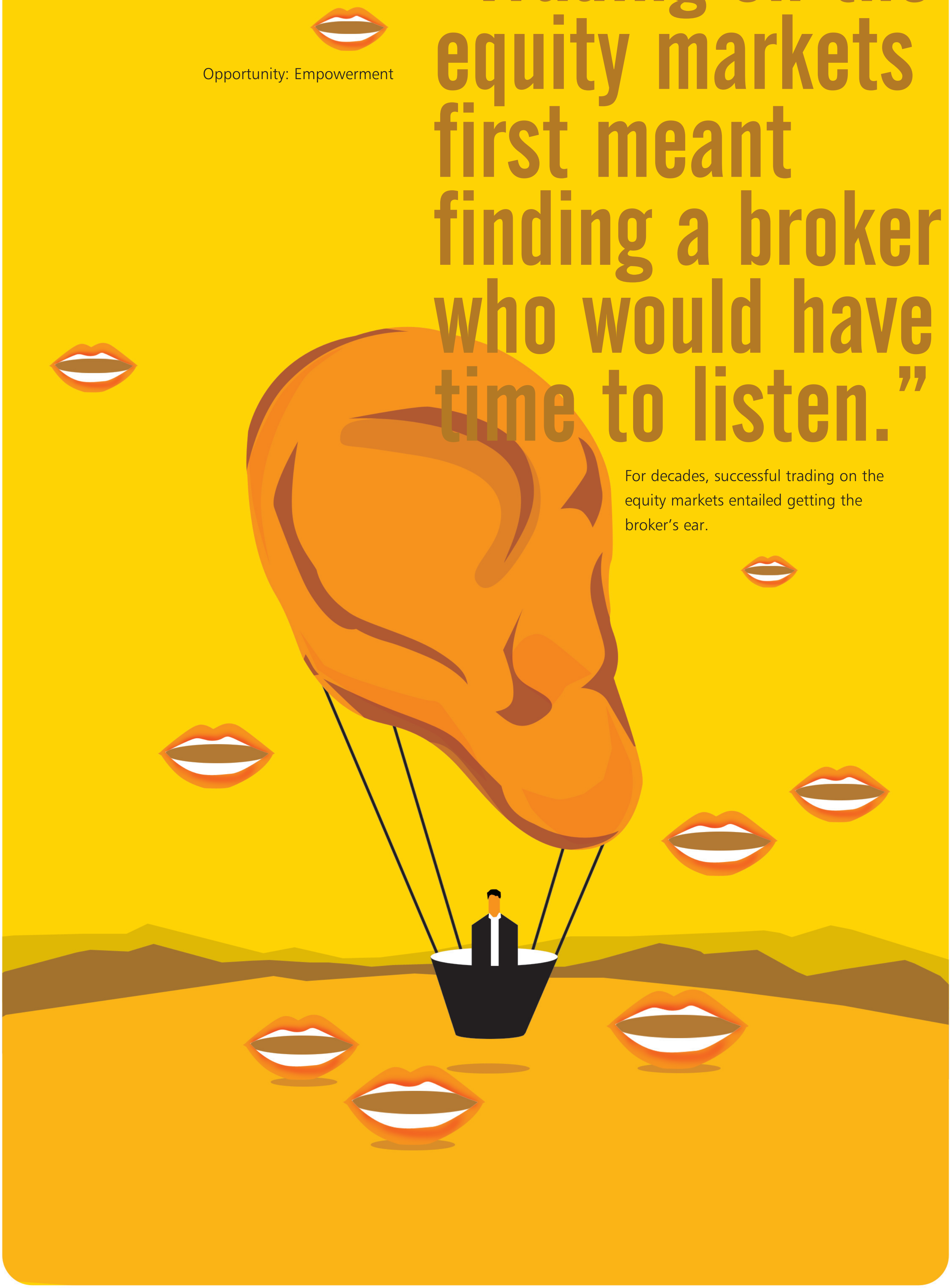
- We cover the entire asset class and liabilities segment of an individual's financial statement
- We have widened our product and service offering to encompass equities broking, insurance, mutual funds, commodities, fixed income securities, distribution of mortgages and other loan products.
- We have consistently added new products and services
- We have widened choice within each variant; for instance, our software provides the flexibility to transact business on the stock as well as commodities markets.

The result is growth with gradual de-risking. We have grown every business segment of our presence year-on-year resulting in annual topline growth at 182.2%.

Opportunity: Empowerment

“Trading on the equity markets first meant finding a broker who would have time to listen.”

For decades, successful trading on the equity markets entailed getting the broker’s ear.



Empowerment

AT INDIA INFOLINE, we are proud to have reversed the paradigm: we have empowered our clients to transact directly, bringing the broad sweep of the market within an elbow's reach.

- We invested aggressively in cutting-edge technology over the past three years.
- We launched the Trader Terminal 2005, which allows our clients to trade directly on the BSE and NSE and capitalize on real time streaming quotes, live intra-day tick by tick charts, historical charts, price alerts, a one- click access to our back office and research library and much more.
- We highlight intra-day as well as investment opportunities via various channels like our SMS service and our websites, apart from our research reports.
- We provide customers with multiple and interactive service platforms - internet, email, toll-free calls and in person - through which they can interface with us based on their convenience.
- We provide online banking facility (with pre-designated banks) for efficient utilization of client funds

The result is a loyal and satisfied customer base. A significant part of new customer additions are through referrals from the existing customers.

Opportunity: Information

“For long, it was felt that success in the financial markets required an ear for rumour rather than an eye for detail.”

For decades, rumour moved the markets; today, research beats it. There is a greater respect for research today than ever before in India’s financial markets.

AT INDIA INFOLINE, we have invested in our ability to read economies, geographies, commodities, industries, managements and people.

- We do not just execute transactions on behalf of our clients; we facilitate informed investing
- We have done so through an investment in a dedicated research team
- This team reinforces its understanding of ground realities through periodic plant and company visits
- This research is encapsulated in reports which are provided to our retail investors free of cost (earlier available only to financial institutions and high net worth clients)
- This research is also available on our website www.indiainfoline.com (rated as 'a must read for investors…' by Forbes magazine and the 'best and most comprehensive personal finance site in India' according to BBC, Moneywise)

The result is accuracy. We have been able to correctly predict industry trends ahead of the market, we spotted the cement boom, the strength of the sugar sector, the growth of IT sector, among others, much ahead of competitors.

information

Our strategy is to capture a larger slice of the 'India opportunity' by leveraging 'people' and 'technology' more effectively

Mr R. Venkataraman, Co-promoter and Executive Director, articulates the Company's strategy

The India opportunity

Opportunity India is more than just a flavour of the season; it is emerging as an enduring global theme, reflected in special reports in The Economist to a dedicated Indian issue by McKinsey Quarterly.

This India opportunity is supported on two important legs – voracious Indian consumption of products and services on account of its broad and deep domestic market as well as the India advantage on account of its low cost and skilled labor. As a result, by general consensus, India's GDP is expected to grow at about 8% for the next three years at least, inflation is expected to be stable, interest rates benign, forex reserves strong and FDI and portfolio investments rising.

Opportunity for India Infoline

India is now seeing the visible result of its economic reforms – a full decade and half after the first reforms wave – and has reached the tipping point in its economic life cycle from which there should be no looking back. Two examples why financial services would grow at a rapid pace due to significant under-penetration:

- Life insurance premia as a proportion of the GDP is a mere 2.2% in India compared to 8.6% in Japan or even 6% in Singapore; per capita premium is US$16 in India as against US$ 3,190 for UK, US$ 1,693 for USA or US$ 27 for China
- Mortgages as a proportion of GDP in India is about 4.9% compared to 17% in Malaysia and 9% in Thailand

Attributes of our business

India Infoline is attractively placed to capitalise on this opportunity. On the face of it, we are a retail financial services intermediary, but scratch the surface and you will recognise that we are essentially and intrinsically a knowledge-based, technology-driven services business.

One, financial services intermediation requires an in-depth understanding and knowledge of various investment products.

Two, financial services intermediation requires the expert use of technology to deliver products and services in the most cost-effective manner.

Since any retail product offering is by nature customer service-centric, the complement of these attributes – knowledge and technology - are critical for sustainable growth in the challenging space of financial services intermediation, making it no different for India Infoline.

Our core competencies

To appreciate what India Infoline has achieved over the last few years, it would perhaps be pertinent to look at where the Company came from:

- First generation professional entrepreneurs without the backing of a big industrial house
- Limited capital for investment and to grow the business
- No intellectual property (a la Coke

formula)

• No mass popular brand (a la Lux)

• No monopoly or privileged access to raw materials

• No unique software code or technology

• No privileged access to customers or a ready client base

If India Infoline survived and succeeded, it was only because it successfully leveraged its most critical resource – its people (resident knowledge) and technology - to deliver quality service for an affordable cost.

Our people strategy

At India Infoline, we don't just employ over 4,000 people across India; we provide our people an environment where they can grow personally and professionally; we provide them with space where they can fulfill their aspirations aligned with the Company's objectives.

There is no magic formula that makes this happen. We simply recruit individuals with enthusiasm, provide them with a platform to deliver, ensure that they do not compromise on ethics and put in place a fair incentive structure that recognises and rewards efforts. The result is a team that is charged to set stretch goals and achieve them, leading to extra ordinary corporate growth.

Above all, we sensitise our employees to the overriding organisation ethos of Owner Mindset. These two words define our culture and the way our people respond to situations. Our people behave like owners of businesses and take decisions like owners in the best interests of the Company. And as an extension, most of our people are indeed owners because of our ESOP scheme, a philosophy that will not change.

Our technology strategy

At India Infoline, we invested in technology not because we had a dot com origin but because we believed that technology could help us leverage a cost-effective delivery system that could help us widen the market as opposed to merely enabling us to capture a larger share of it.

The Internet helped us do so; it empowered our clients to place orders directly on the exchange. Our Internet-enabled back office helped clients access information anytime anywhere, coupled with an 'untouched by hand' technology that circumvented the need for agent intervention and hence, reduced the cost of delivery.

The reason we have succeeded when others with better technology credentials or capital have not is because we leveraged our domain depth to develop systems. The core promoters bring to the table a unique combination of an in-depth understanding of what the retail client needs and how technology can be leveraged to provide it. Best of all, being hands on, the promoters possess a unique ability to spot trends ahead of the crowd leading to proactive innovation.

Leveraging people and technology

At India Infoline, we have been able to leverage technology to boost per agent productivity. We made customer payments automatic and paperless. We automated the customer response-handling unit to allow our agents to handle more queries.

Given the way the financial services sector in India is growing, your Company's investments in people and technology will enable it to stay ahead of the crowd and lead to sustainable growth over the coming years.

R Venkataraman
Co-promoter and Executive Director

Inflection points in the recent past

No downtime at India Infoline following record floods on 26 July 2005

The city of Mumbai witnessed the heaviest downpour in the century and the entire city was submerged resulting in loss of several hundred lives. Our head office, located on the ground floor, wasn't spared either. When heavy downpour caused flooding and submerged our head office on 26 July 2005, employees realized that it was not just another monsoon shower. Soon electricity and telecommunications system in the area collapsed making it impossible for ordinary people to connect with the rest of the world. Team India Infoline got together, and rather than losing heart, they decided not to lose time. They had a quick emergency meeting and crack teams were formed to ensure that customers' trading did not get affected the next day, and this is what they did

- Wading through waist deep waters in the darkness, a team carried servers to another office located nearby on the higher floor, while another managed to reach a nearby fuel station to procure diesel to fire the generator and restore electricity to ensure smooth trading.

- Teams took the TFT monitors, CPUs and laptops to drier locations, saving all the PCs in office.

- While one team got cracking to ensure food and water for all those who were working or were stranded in office, another team was ensuring safe passage for female staff to their homes

Two of the last telephone lines were commissioned into action.

Functional roles soon blurred; everyone did everything with the broad understanding that no effort would be too great and no challenge too daunting when compared with the need to sustain the first-rate service to customers even on such an occasion

As a result, India Infoline customers did not lose a single moment – no downtime - of trading, the following day or the day after, even as a number of Mumbai brokerages remained closed.

Unorthodox and bold cross-mobility creates exceptional leaders at India Infoline

There are several case studies of leaders being created at India Infoline owing to the bold and unorthodox cross-mobility which the Company facilitates. An office boy rising to the level of the Area Manager. A programmer going on to head a business line. A data entry operator rising to the level of Regional Manager. Here is one case study of two individuals with different backgrounds; with the only common factor being lack of experience, combining to form a team, which successfully turned around operations in a state and made it one of the fastest growing areas. Here is a background to these two leaders.

One was recruited as a junior research analyst in the Company's Mumbai office. Within a few months, his father met with a major accident. He put in his papers to go back to his native place to take care of his family, but rather than lose him, the Company retained him and empowered him to launch India Infoline's branch in his town.

The other had worked in back office operations prior to joining India Infoline. He wanted an opportunity to prove his mettle in the front. The company gave him the opportunity.

Since then, the combination has spread our footprint across their states of operation, making a healthy contribution in the Company's revenue basket.

Our businesses

INDIA INFOLINE offers almost the entire gamut of financial services in India. They can be broadly categorised into:

- Equities and commodities broking
- Portfolio and Wealth Management Services
- Investment banking
- Distribution of Life Insurance products
- Distribution of Mutual Funds, Fixed Deposits, RBI Bonds and Small Savings among others
- Distribution of Mortgages and other loan products

The Company has structured its business into various subsidiaries primarily to comply with the all the regulatory requirements and facilitate a sharp focus on each business segment. The corporate structure is depicted in the chart below.

India Infoline Limited*

Content related services and online media

India Infoline Securities Pvt. Ltd.

- Equities broking
- Portfolio Management
- Investment Banking

Member of BSE, NSE, NSDL and CDSL

India Infoline Distribution Co. Ltd.

- Mobilisation of personal investments in
  - Mutual funds
  - RBI bonds
  - Fixed deposits
  - Small savings
- Distribution of mortgages and other loan products

India Infoline Insurance Services Ltd.

- Life Insurance
  - Corporate agent of ICICI Prudential Life Insurance Co. Ltd.

India Infoline Commodities Pvt. Ltd.

- Commodities broking
  - Member of MCX, NCDEX and DGCX

India Infoline Investment Services Pvt. Ltd.

- Financing
- Investment

* The above chart reflects only the major subsidiaries of the Company.

Our performance

Rs mn

Equities broking	2005-06	2004-05	Growth (%)
Revenue	1,427.1	511.1	179
EBIDTA	220.5	89.4	147
Capital employed	1,338.1	857.3	56

Rs mn

Life Insurance	2005-06	2004-05	Growth (%)
Revenues	215.9	59.8	261
EBIDTA	96.0	9.6	900
Capital employed	71.4	11.5	521

Rs mn

Commodities broking	2005-06	2004-05	Growth (%)
Revenue	41.3	4.8	760
EBIDTA	0.8	(2.9)	128
Capital employed	19.7	17.0	16

Rs mn

Distribtion of Mutual funds	2005-06	2004-05	Growth (%)
Revenue	199.9	117.7	70
EBIDTA	107.2	6.2	1,629
Capital employed	83.9	50.2	67

Rs mn

Online media and content services	2005-06	2004-05	Growth (%)
Revenue	200.6	63.8	214

Business segment # 1

Equities broking

Of the 1.3 bn population and 250 mn households in India, only about 40 mn Indians invest in shares and mutual funds. In terms of retail household assets, only 1.6% is invested in equity related instruments, indicating a huge growth potential. India Infoline is attractively positioned to capitalise on this inflection opportunity.

Key features

- Membership on the Bombay Stock Exchange Limited and the National Stock Exchange
- Registered with the NSDL as well as CDSL as a depository participant, providing a one-stop solution for clients trading in the equities market
- Broking services in cash and derivative segments, online as well as offline under the brand of 5paisa.com
- Presence across 19 states through a 177 strong branch network, with 75,000 online registered users
- Provision of free and world-class research to all clients

Highlights, 2005-06

- More than doubled overall broking clients
- Launch of the Trader Terminal 2005, a revolutionary product for retail investors and traders
- Introduction of the lifetime prepaid broking and depository account service for a nominal Rs 555
- Addition of 100 branches to the network

Overview

- Informed transaction: India Infoline provided the prospect of researched investing to its clients, which was hitherto restricted only to the institutions. Research for the retail investor did not exist prior to India Infoline
- Online trading: India Infoline leveraged technology to bring the convenience of trading to the investor's location of preference (residence or office) through computerised access
- Automation: India Infoline made it possible for clients to view transaction costs and ledger updates in real time

Competitive edge

Over the last five years, India Infoline sharpened its competitive edge through the following initiatives:

Multi-channel delivery model: The Company is among the few financial intermediaries in India to offer a complement of online and offline broking. The Company's network of branches also allows customers to place orders on phone or visit our branches for trading.

Integrated middle and back office: While the customer enjoys choice of multiple options for the front office, where he places and executes orders, the Company's middle office (risk management) and back office (Accounts, DP) are integrated. This allows the customer to view his combined positions on a real time basis through any front end channel. For instance, a customer places an order through his Internet terminal in the morning, places another order from his mobile on his way to office and then walks into a branch to place yet another order. When he sees his position on the terminal, it will incorporate all the orders and trades.

Multiple-trading options: The customer can trade on the BSE and NSE, in the cash as well as the derivatives segment all through the available multiple options of Internet, phone or branch presence.

Technology: The Company provides a prudent mix of proprietary and outsourced technologies, which facilitate business growth without a corresponding increase in costs.

Content: The Company has leveraged its research capability to provide regular updates and investment picks across the short and long-term.

Service: Clients can access the customer service team through various media like toll-free lines, emails and Internet-messenger chat for instant query resolution. The Company's customer service executives proactively contact customers to inform them of key changes and initiatives taken by the Company. Business World rated the Company's customer service as 'Best' in their survey of online trading sites carried out in December 2003.

How we strengthened our competitive edge in 2005-06

During the year under review, the Company strengthened its broking business through the following initiatives:

Established in

2000

75,000

registered clients

Contribution to revenue

65%

Why 5paisa?

5paisa is the trade name of India Infoline Securities Pvt Ltd, a wholly owned subsidiary of India Infoline Ltd. The trade name signifies the paradigm shift brought about by India Infoline in the broking business.

The company offered broking services at 5 paisa per Rs 100 of trades or 5 bps or 0.05% in the year 2000, when prevalent rates were 100-125 bps

Widened presence: Expanded our presence by over 100 branches in 2005-06 of which a major share of branches was in Category B towns.

Leveraged technology: Launched the upgraded and superior Trader Terminal 2005 and advanced version of the earlier Trader Terminal, a cutting-edge trading platform with the following features:

- Trading facility on the BSE and NSE on the cash and derivatives segments
- Application-based platform (as opposed to the slower, browser-based option offered by competitors)
- Lightning fast order execution
- Real-time streaming quotes
- Intra-day and historical charts available on a real-time basis at the click of a mouse
- Event tracker and tick watch to help track the pulse of the market.

Strengthened risk management and compliance: The Company made substantial investments in improving its risk management algorithm and strengthening the resources for an ongoing compliance.

Growth strategy

The Company has embarked on the following initiatives to drive growth:

Increasing presence: Aggressive addition of branches during the current year since efficient acquisition and servicing of clients entails a physical presence. Also, with the efficient usage of technology, an 'online' branch can cater to a far greater number of customers as opposed to a branch with only 'offline' customers.

Improved customer service: Shrinking turnaround time for a number of services, facilitating client accretion. The Company has taken steps towards decentralising its customer service operations to the different zones with an adequate authority and responsibility in order to reduce turnaround time.

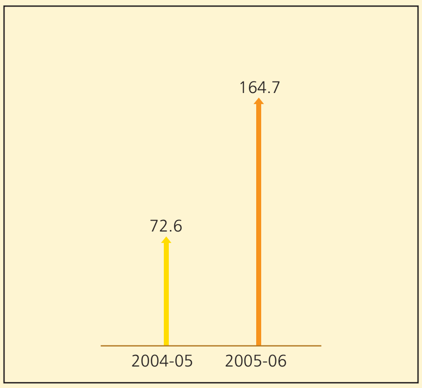
Technological upgradation: Strengthening the proprietary real-time risk management system, coupled with better connectivity and communication.

Training: Providing continuous training inputs to team members in advanced areas of customer service and domain depth coupled with terrain awareness and advisory capability.

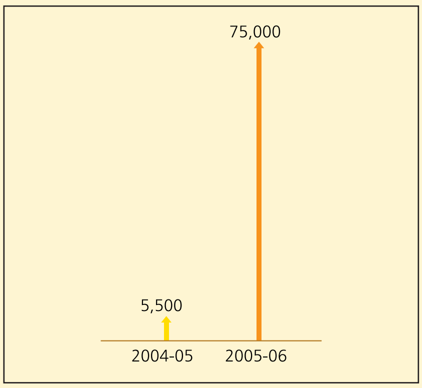
How we grew our broking business in 2005-06

Revenue (Rs mn)

PBIT (Rs mn)



Client base



Business segment # 2

Life Insurance

Currently the penetration of insurance products in India is just 1.4% while the global average is around 5%. With increasing awareness and rising income levels, the sector is growing rapidly and penetration is improving. India Infoline expects to enhance its exposure in this business and ride the transition.

Key features

- India Infoline was the first corporate in India to get the agency licence in early 2001
- The Company is the biggest corporate agency in India for life insurance products
- The Company operates multiple channels, namely branch network, preferred client group, direct marketing, corporate tax advisory, walk-ins and seminars, to reach out to customers.

Highlights, 2005-06

- Trebled annualised premium income (weighted) for the third successive year
- Marketed about 43,000 policies to retail investors
- Insured about 40,000 lives in the year alone

Overview

One-stop solution: An entry into this segment helped complete the client's product basket; concurrently, it graduated the Company into a one-stop retail financial solutions provider.

Multiple channel approach: To ensure maximum reach to customers across India, we have employed a multi-pronged approach and reach out to customers via our Network, Direct and Affiliate channels.

Opportune moment: Following the opening of the sector in 1999-2000, a number of private sector insurance service providers commenced operations aggressively and helped grow the market.

Business de-risking: The Company's entry into the insurance sector de-risked the Company from a predominant dependence on broking and equity-linked revenues.

Sustainable revenues: The annuity-based income generated from insurance intermediation result in solid core revenues across the tenure of the policy.

Competitive edge

Over the last five years, India Infoline sharpened its competitive edge in this business segment through the following initiatives:

Client base: Grew its 40,000 strong client base through knowledge-led analysis, translating into an attractive opportunity to cross-sell products and generate referral business.

Distribution network: Invested in a distribution network of 177 branches across 19 states, which provided it with an unmatched reach within its segment.

Hands-on training: Invested aggressively in training its field force-more than 100 hours a year in product attributes across the insurance sector - highlighting various product details and marketing skills apart from regular meets where best practices are shared.

Research and advice: Provided clients with advice on diverse investment products based on the customer's existing and prospective financial profile.

How we strengthened our competitive edge in 2005-06

Cross selling: Focused our energies to utilise our existing resources for enhanced productivity by cross-selling insurance products with other products.

Training: Along with the Company's principal ICICI Prudential, the Company invested substantially in upgrading the training facilities, material and process. The Company instituted systems to monitor of training efficacy and gathering feedback.

Investor education: The Company made a major effort and investment in educating investors on life insurance products, their relevance to a portfolio and the process to make an assessment of human life value, risk- return profile and investment objectives with the intention of choosing the right product. The Company carried out the process through an Investor Handbook, monthly newsletters and investor meets at local levels.

Growth strategy

India Infoline expects to grow its insurance business through the following initiatives:

Growing the network: Focus on addressing the vast middle-class potential arising out of category B

Established in
2001

40,000
lives insured in 2005-06

Contribution to revenue
10%

towns and semi-urban locations.

Growing our field force: Reinforcing its team of advisors to market products face-to-face.

Growing the business: Extend its insurance business beyond marketing of life insurance products to general insurance (the insurance broking license, a prerequisite, is awaited).

Business model

In the capacity of a corporate intermediary, the Company selected to market insurance products of only one vendor for the following reasons:

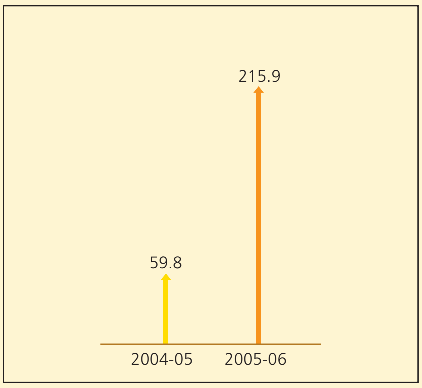
Economics: Currently in India, a corporate can act for an agency licence of one principal or broking licence to sell products of multiple insurance companies. The regulations permit higher agency commission rates as compared to brokerage commissions. When the Company commenced operations, it required substantial investment. With a view of break even quickly and generate acceptable return on investment, the Company chose to opt for the agency route.

Reputed and strong partner: The life insurance business has a long selling cycle, stringent regulations and intense training requirements. The Company's strategy of aligning with only one but the strongest and reputed partner - namely ICICI Prudential Insurance paid rich dividends. The Company could contribute meaningfully to ICICI Prudential and forge a special relationship. ICICI Prudential Life Insurance Ltd., has emerged as the largest private entity in India's insurance space and India Infoline emerged as the largest corporate agent in India.

Skilled manpower: The Company believes in ensuring that its staff involved in selling insurance needs to be well trained and skilled. As the Company's employees have to focus on products of only one insurance company, their level of expertise and depth of understanding is far superior, enhancing customer confidence and comfort. ICICI Prudential has a bouquet of products, which more or less meet requirements of all customer segments.

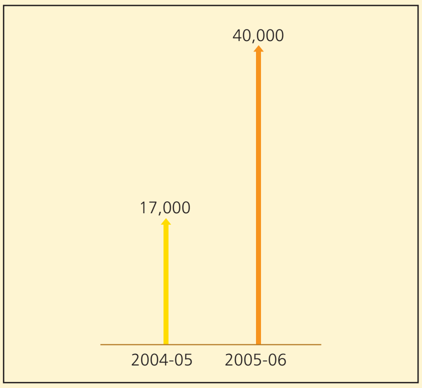
How we grew our life insurance business in 2005-06

Revenue (Rs mn)



PBIT (Rs mn)

Client base



Business segment # 3

Commodities broking

As India's nascent commodities market grew 350% to a turnover of Rs 21 lac cr in 2005-06, India Infoline possessed the insight and credentials to capitalise on this transition.

Key features

- Enjoys memberships with the MCX and NCDEX, two leading Indian commodities exchanges
- Recently acquired membership of the DGCX
- Multi-channel delivery model, making it among the select few to offer online as well as offline trading facilities
- Extended commodity trading to retail investors, among the few Indian financial intermediaries to do so
- Online business at 80% of revenues dominates commodities trading revenues
- Provides regular commodity updates pertaining to the Indian and international environment

Highlights, 2005-06

- Established systems and processes designed to foster business growth
- Acquired membership of the Dubai Gold Commodities Exchange (DGCX)

Overview

India Infoline's extension into commodities trading reconciles its strategic intent to emerge as a one-stop solutions financial intermediary.

Extension: Its experience in securities broking has empowered it with requisite skills and technologies.

Increased offering: The Company's commodities business provides a contra-cyclical alternative to equities broking.

First-mover's advantage: The Company was among the first to offer the facility of commodities trading in India's young commodities market (the MCX commenced operations only in 2003).

Revenue booster: Average monthly turnover on the commodity exchanges increased from Rs 0.34 bn to Rs 20.02 bn

Cycle proof: The commodities market has several products with different and non-correlated cycles. On the whole, the business is fairly insulated against cyclical gyrations in the business.

Competitive edge

India Infoline distinguished its business through the interplay of knowledge and technology:

Complete solution: The Company provides a complete - advice to execution – solution facilitated by information and advice on likely commodity trends in the Indian and international environment.

Technology: The Company has extended the trading terminal to the investor's home/workplace reinforced with real-time commodity information and ledger position.

Rates: The Company harnessed technology to offer services at among the lowest rates in the business.

Membership: The Company widened client reach in trading on the domestic and international exchanges.

Growth strategy

The Company's blue print to enhance client experience comprises the following initiatives:

Established in
2004

2000
registered clients

Contribution to revenue
2%

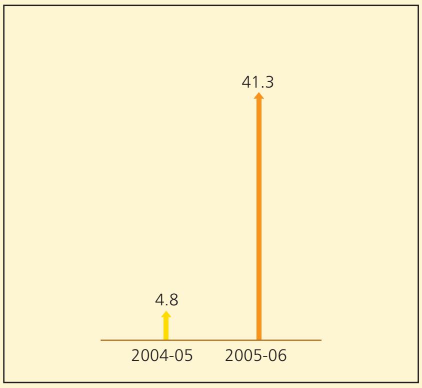
Increased visibility: Aggressive branch roll out resulting in a pan-Indian presence.

Cross selling: Increasing cross-sell of commodities as an investment option to existing clients.

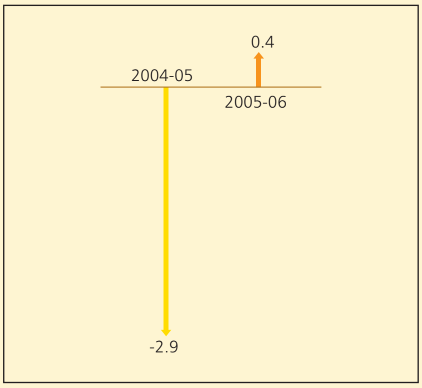
Harnessing technology: Improved trading features for an enhanced user experience.

How we grew our commodities broking business in 2005-06

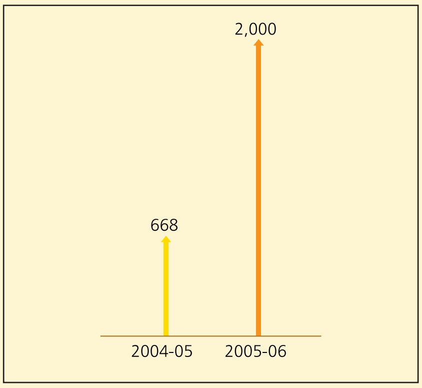
Revenue (Rs mn)



PBIT (Rs mn)



Client base



Business segment # 4

Distribution of Mutual Funds

The Indian mutual fund industry is coming of age. With Assets Under Management to the tune of USD 173 bn, the industry has hit a sweet spot; as a pan-Indian player, India Infoline has capitalised on this development.

Key features

- Vendor-neutral platform coupled with world-class research permits the provision of unbiased expert advice to clients
- Expanded business to include the online distribution of mutual funds. Online users are able to view and compare product offerings and download application forms, which they then submit to the product provider
- Expert advice is provided to investors at their doorsteps, completely free of cost, across all investment options, thereby facilitating an informed decision
- High networth customer segment is serviced by a team of dedicated relationship managers
- Its business is primarily in the retail segment. A dominant part of the business comes from branch channels: the Company's present branch roll-out plan will help us reach out to a wider audience

Overview

India Infoline is one of the leading pan-Indian distributors for all leading fund houses. This initiative was also driven by the following reasons:

- Income levels of the Indian investor increased, while interest rates declined to the lowest levels in decades, leaving a considerable investible surplus in the hands of the retail investor not to be directed towards erstwhile popular investment avenues like bank deposits and other fixed return products
- With the advent of online trading and better governance through stringent regulations, investor confidence in the stock markets and in products linked to the stock markets was strengthened
- Foreign financial majors entered the Indian mutual fund market, enhancing the industry's image

Competitive edge

- Leveraged technology to reach out to our clients continuously through newsletters and research reports besides providing advice on tax matters, creating a top-of-the-mind recall for our clients for investment purposes
- Offered a broad spectrum of products to cater to a large spectrum of retail investors
- Provided an in-depth product knowledge of every scheme including valuable investment advice to our clients to suit their needs and matching their cash flow
- Provided the customer with service, among the best in the industry. It included calls to inform him of the dividend declared by the fund,

distributing the new mutual fund offering at his doorstep, periodic pamphlets, reports and newsletters to increase industry awareness and of the scheme in particular

- Offered the customer the ultimate convenience of doorstep service in terms of advice in choosing the right fund, pick-up and drop of forms or collection of cheques
- Commenced offering customers the option to subscribe to Mutual Fund units online, thereby enhancing his convenience by completely doing away with paperwork

Growth strategy

Cost reduction: The Company expects to improve operational efficiency by rationalising its branch network to ensure that every node in this network is a profit center.

Expand footprint: The Company is in the process of expanding its network and establishing its mutual funds business in markets, which have not been tapped.

Data mining for cross-selling: India Infoline is exploring the opportunity to cross-sell mutual fund products among its existing clients in a structured manner. For this, the Company plans to undertake an analysis of its client base for their investment preferences with a view to market desired products to select clients, improving the hit-ratio significantly.

Leveraging the power of the Internet: India Infoline is one of the pioneers in the Internet broking space in India. It possesses a sound understanding of technology and the manner in which it can be leveraged for business growth. Recently, the Company commenced offering customers the facility to transact in mutual funds online from the comfort of their homes. This facility, well received by the investors, reflects attractive potential.

Investor education and awareness: The Company works with leading mutual funds to conduct investor education seminars as well as small meets at branch level. Besides, the Company publishes and distributes several educative material and newsletters through its branches as well as online through its website.

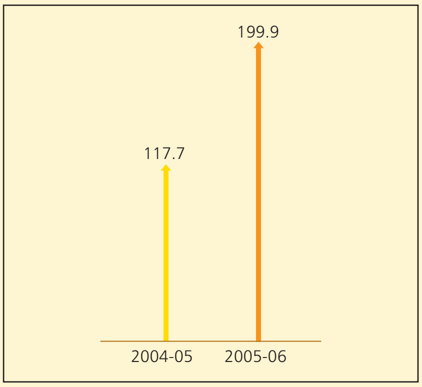
Established in
2000

Rs **31** bn
gross mobilisation

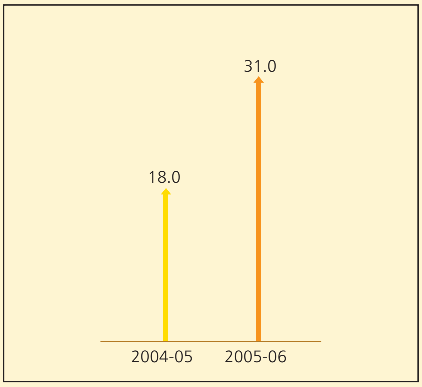
Contribution to revenue
9%

How we grew our Distribution business in 2005-06

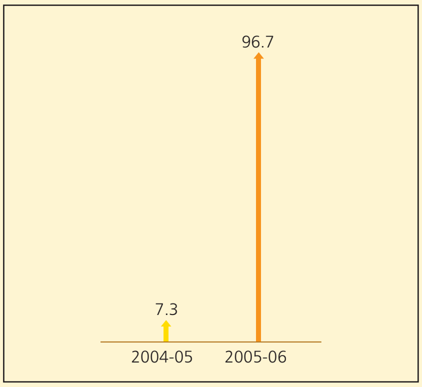
Revenue (Rs mn)



Gross mobilisation (Rs bn)



PBIT (Rs mn)



Business segment # 5

Online media and content services

Key features

Online media entails monetising of the Company's Internet properties , www.indiainfoline.com and www.5paisa.com -- via advertisements. The focus of this segment is not just revenue generation but also brand building since India Infoline derives its origins from the Internet era.

The content services segment represents a strong support that drives the broking, commodities, mutual fund and portfolio management services businesses. Revenue generation is through the sale of content to financial and media houses, Indian as well as global.

Critical support service to other business segments: The content available on our website includes updated market news, market statistics, products and commodities database, analysis of Indian companies and industry, coverage of Indian mutual fund industry with information on the various players and schemes, articles on the Indian economy and Indian business. In addition, a popular 'Leader Speak' section covers interviews with corporate chieftains from India and abroad.

Revenue generation: The Company's revenues are primarily driven by online advertisements, sourced by the team. The Company markets space on its website www.indiainfoline.com in the form of banners, pop-ups, ear panels and sponsorship of certain modules. It also generates revenue by banners strategically placed in e-mailers and also by emailing customised advertisement messages to our registered customers. The Company's client base is spread across the globe comprising a number of international advertisers like Google and Tribal Media.

In addition to the publicly available online content, the Company provides fee based research and analysis of Indian businesses and markets for a wide range of institutional clients in India and abroad. This research is available on Bloomberg (Code: IILL), Thomson Financials and ISI Emerging Markets among others.

Why this business?

India Infoline was historically a research house, created with the objective to provide independent information to market intermediaries and investors. With sustainable growth prospects being limited, the Company evolved research into a support function and ventured into synergic businesses.

Concurrently, the Company made two path-breaking changes in its business model:

- Provided insightful research on corporate and industry trends absolutely free
- Replaced the medium of information dissemination from the printed to electronic, increasing accessibility

This service helped catalyse the transition of the novice retail investor into an informed participant. While other participants such as the mutual funds and financial institutions were historically serviced with adequate information, there was no such service available to the retail investor. This market was left untapped; it was an opportunity which when capitalised would alter investment styles, and a mind space if captured, would grow the business exponentially.

How we strengthened pur competitive edge in 2005-06

While this business was the smallest when judged by the parameter of revenue generation, it emerged as the key differentiator, provides a research an advisory edge, positioning India Infoline among the leading financial intermediaries in India.

Content

- Pioneered the free delivery of quality research to the Indian retail investor, generating a top-of-the-mind recall
- Focus on original research at par with

the best in the industry derived out of a rich experience in the understanding of various industry sectors and corporate managements

- A dedicated team of professionally qualified research analysts comprising sector specialists
- Tie-ups with international and domestic financial institutions for revenue generation from content; availability of research reports available via electronic channels like Bloomberg, First Call and Internet Securities; access to content from these vendors, generating revenue for the Company

Online media

- The Company's advertisement offer includes a basket of products- banners, screen captures, mouse rollovers, text links, pop ups and mailers- to suit client needs
- Customisation of the space on the website to meet client budgets and requirements

Other services

The Company has an SMS service to provide investors with market updates and investment opportunities. On a daily basis, it sends 5-6 messages regarding intra-day as well as investment ideas.

Growth strategy

The significance of this business segment is increasing manifold primarily on two accounts:

Investment scenario

- Increasing complexity of investment products, leading to an active search by discerning investors for sound advice on various investment options and products
- Improved products and services through the website, with a preference towards interactive features
- Improved site planning for improving the speed of information access

Visibility

Increased preference towards advertisements on websites for important reasons:

- Increased penetration, not just regional or domestic but addressing the globe, creating a greater visibility
- Greater up-time of the advertisement
- Increased viewership with faster computer penetration and slashing of the connectivity rates, especially in developing economies
- Ability of Internet advertising to engage the viewer at multiple levels and offer complete interactivity sorely lacking in other traditional advertising media

Website statistics

- 27,000 hits per hour
- 25,000 visitors per day
- 520 seconds of time spent per visitor on average
- 10,000 unique IPs per day
- 1,400 book marks a day

'India Infoline is a must read for the investors in South Asia', - Forbes Magazine

What does www.indiainfoline.com offer?

The website is a book-mark of among those with an interest and involvement with Indian business, finance and investment. The reason is a superior quality and depth of content, which includes the following:

Business news: An insight into emerging industry trends and corporate strategy for capitalising on emerging trends.

Stock market news: Latest news on the markets and related investment opportunities

Global market indicators: Updated information on stock indices and commodity prices the world over as cues to local investors and traders.

Technical analysis: Regular columns by renowned technical analysts along with updated real time technical indicators.

Analytical features and stories: Articles and features by some of the best business analysts and columnists, which are also read by chieftains of the corporate world.

Corporate database: Offers customers access to a huge database of over 5,000 Indian companies. This database comprises all relevant details like financials over the years, annual reports, outcomes of board meetings and more.

Investment ideas: Expert advice on short and long-term investment strategies keeping in mind the prevailing market trends.

Latest results: Periodic performances of corporates with an analysis of the numbers achieved.

Company and sector reports: A synopsis of the strategic decisions and key initiatives of select companies and sectors.

Leaderspeak: A one-on-one meeting with leading lights of corporate India and industry experts for an insight into a changing industry environment.

Business segment # 6

Mortgages and other loan products

During the year under review, India Infoline acquired a 75% stake in Moneytree Consultancy Services to mark its foray into the business of mortgages and other loan products distribution. The business is still in the investing phase and at the time of the acquisition was present only in the cities of Mumbai and Pune.

The Company brings on board expertise in the loans business coupled with existing relationships across a number of principals in the mortgage and personal loans businesses. India Infoline now has plans to roll the business out across its pan-Indian network to provide it with a truly national scale in operations.

Risks and concerns

Managing risks at India Infoline

In few businesses is there such a premium on real time management of risk as in financial intermediation. Risk mitigation is integrated seamlessly into business strategy at India Infoline.

At India Infoline, the objective of our risk management process is to insulate the Company from the risks associated with the business while simultaneously creating an environment conducive for its growth.

This objective is indeed challenging: it entails a comprehensive estimation, control and pricing of risk to protect organisational value.

At the Company, a governance process has been institutionalised, which ensures that risk management concepts are applied to all businesses and risk types. This approach comprises:

Senior management supervision: Risk strategies, policies and limits are subject to approval by the senior management. The management reviews periodically the key risks, policies and corresponding mitigating strategies of the Company.

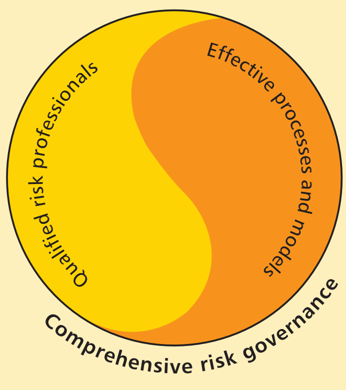
Decision-making: Decision making levels are based on the Company's objectives and risk tolerance limits.

Diversification: Strategies, policies and limits are designed to ensure that risks are prudently diversified.

Independent review: Risk mitigating activities are reviewed periodically by an internal audit team and concurrent auditors. They are appointed by the Company but are independent of the business line managers. Our experienced compliance and risk management team also plays a vital role in ensuring that the law of the land is followed, not just in letter but also in spirit.

Integration: Comprising prudential norms, structured reporting and control; this approach ensures that the risk management discipline is centrally initiated but prudently decentralised; percolating to the line managers and helping them mitigate risks at the transactional level, the most effective form of risk management.

Training: Regular training is conducted across all our branches so that all key employees are sensitised to issues pertaining to risk and compliance.



OUR KEY RISKS AND HOW WE MANAGE THEM

1 CORPORATE RISKS

Reputation risk: In the business of financial intermediation, a prevalent perception is that intermediaries often push products/vendors in which they possess a vested interest, making it imperative for the Company to not just be fair but also appear to be so. Any event, which threatens to dent our reputation, is the biggest risk in our business.

India Infoline's response: At the time of induction training, the Company clearly communicates and inculcates its vision to be the most respected company to all employees. The Company's policies take strict disciplinary actions against those deviating from the same. Over the years, it has built systems, processes, checks and balances which ensure that operating managers say 'No' to poor quality in the pursuit of instant results, short cuts, stop-gap alternatives, unfair / ad hoc policies and cutting corners, among others. It endeavours to ensure that the law of the land is followed not in letter but also in spirit. A testimony to the fact our system has been working is that in recent capital market scams in India, India Infoline was a respectable omission.

Biased research: Clients may feel that the Company provides research content in those sectors or companies in which it has an interest.

India Infoline's response: As a conscious business policy, the Company invested in building an independent research franchise. Also, it has in place stringent employee trading guidelines and policies. In addition, the quality of recommendations is periodically reviewed. These measures have, over the years, enhanced stakeholder confidence in the Company's unbiased research.

Funds mismanagement: At any given point in time the Company has a large amount of clients' funds at its disposal, from the Portfolio Management Service and broking businesses. Any mismanagement of these funds could severely affect our goodwill.

India Infoline's response: The Company has institutionalised a number of measures to secure customer interests: To reinforce client confidence, the Company does not hold client securities acquired under Portfolio Management Service, despite being a depository participant itself. It keeps custody of PMS client securities with HDFC Bank for safe keeping, eliminating the possibility of mismanagement. Under the Portfolio Management Service, clients' funds are deployed only as per the stated objectives of the particular scheme chosen by them. The Portfolio Manager has a separate dealing desk to execute Portfolio Management trades. Regular audits are conducted accompanied by a periodic reporting discipline.

- **Trading business:** Trader terminals provide real-time data and ledger balances of the share stock and funds position. The Company transfers client funds to their accounts in designated banks, eliminating the possibility of fund mismanagement. No dealings are done in cash and the Company makes a constant and concerted effort to educate customers not to hand over blank cheques or demat slips to its employees. Demat operations are audited at regular intervals. It makes increasing use of technology to minimise agent intervention in day-to-day operations.

- **Others:** As a policy, the Company adheres strictly to the credit limits stipulated for clients and the respective security category; it liquidates stock if trading and margin limits are exceeded. Also its risk management is systemic with the lowest possible human intervention.

Risk of data loss: At any point in time, India Infoline has sizeable assets of customers, in addition to records being maintained electronically. Any major disaster at its head office location in Mumbai, can affect business operations and client assets.

India Infoline's response: Currently the Company keeps a 100% 'end-of-day' back up of data and software at a separate office in Mumbai as well as at Delhi. The company has already implemented various grades of Disaster Recovery vis-a-vis recovery of crucial data in the event of a disaster. DRBCP (Disaster Recovery and Business Continuity Planning) has been addressed by the company in a holistic and systematic manner. The aim of this DRBCP methodology for the company is to reduce recovery time for Trader Terminal 2005 software from the current 5 minutes to 2 minutes. Also, the company's trading servers are co-located at a facility which is ISO 27001(formerly BS7799) certified.

2 TECHNOLOGY RISK

At India Infoline, the pre-dominantly online nature of our business model makes the selection and management of technology critical to our success.

System obsolescence: India Infoline's business depends on technology. Increasingly, the technology evolution cycle has shrunk significantly over the last few years. Once it invests significantly in technology and it evolves and moves into the next level, the Company could be faced with the need to overhaul its entire technology infrastructure at a significant cost of money, time and opportunity.

India Infoline's response: Over the years, India Infoline has invested in cutting-edge technologies with a single-minded objective: to enrich end-user experience. For instance, it was among the first to upgrade its trading platform from browser-based technology to an application- based one, accelerating transaction speed and allowing for an increased bundling of advanced features; it provided a number of screen options to suit diverse customer requirements; it invested in servers at regular intervals to build redundancy and accelerate transaction speed.

Communication network downtime: A disruption – however momentary - in connectivity and bandwidth can affect the brand in an online-driven business.

India Infoline's response: The Company collaborated with the best back-end service providers - NetMagic Soutions (ISP) for Internet bandwidth and interconnectivity options sourced from multiple service providers (Reliance, BSNL, Tata Indicom and Bharti). The result: built-in redundancy minimised communication downtime significantly. The Company's bandwidth of more than 35 Mbps (expandable to 100 Mbps) also serves as an effective buffer against unexpected demand spikes.

Virus attack: In a world where virus attacks are getting increasingly potent, any successful attack could affect the Company's IT infrastructure.

India Infoline's response: Over the years, the Company has invested in a multiple CISCO PIX firewall to effectively protect its servers, routers and desktops. Besides, the Company invested in the McAfee anti-virus software with an auto-updation facility. The Company's IT infrastructure is also structured in a manner that every server is linked to 50 nodes and in the unlikely event of the anti-virus software not having been updated at the node, the server automatically detects the flaw, updates the software and protects the node. Result: the Company's IT system delivered virus-uninterrupted performance across the years.

Incompatibility with client operating systems: A software incompatibility may prevent the Company from engaging with customers across the country.

India Infoline's response: The Company not only invested in software compatible with contemporary operating systems but also with legacy systems covering every possible user system. For instance, the Company's 'Trader Terminal' product (launched in 2001) was upgraded to 'Trader Terminal 2005' with a provision for Windows 98 and all subsequent versions of this operating system. Result: the Company's customer base grew to over 175,000 in 2005-06.

Hardware robustness: The Company's IT infrastructure may not be able to keep in step with volume growth, slowing down speed (at the client end).

India Infoline's response: As a policy, the Company has consistently overprovided for business volumes at every point in its IT network. For instance, the Company's servers have been provided with built-in redundancy, auto switch-over capability and stand-by servers. Besides, the Company continuously monitors infrastructure performance, ensuring optimum utilisation. It also has a policy of providing accelerated depreciation and writing off hardware assets completely in three years. This provides adequate resources to replace assets in time and deal with obsolescence risk.

Vendor stability: An error in vendor selection can lead to sub-optimal performance.

India Infoline's response: Over the years, the Company invested consistently in branded hardware. Its IT infrastructure has been procured from best-of-the-breed vendors like Dell and IBM with adequate annual maintenance contracts and appropriate resolution timelines to ensure maximum uptime. All the Company's software is covered under warranty agreements with a provision for updates to ensure that the customised software works seamlessly on the operating system. The in-house technology team works closely with vendors to understand the software. Result: the Company enjoys an ever-increasing share of the NSE online trading market and is among the leading online players in the Indian broking space.

Tampering with system algorithms: As the business is primarily dominated by an extensive use of technology, tampering with systemic algorithms could affect clients and the Company.

India Infoline's response: Over the years, the Company's IT investment has been subject to an operational discipline covering the following initiatives:

- Use of copyrighted software
- Restricted access to the development room
- Restricted access to the software logic
- Provision of audit trail to software access through intelligent security systems
- Access to the entire software package limited by codes
- Maintenance of logs for software usage
- There has been no recorded instance of software manipulation at the Company

Data loss: Any loss in legacy data in the unforeseen event of infrastructure collapse could affect the accuracy in transaction reporting.

India Infoline's response: The Company has prudently located its main trading servers (application and database servers) and broadcast servers at different secure locations. Besides, the Company has co-located certain servers with select telecom service providers resulting in a faster customer access to its trading systems. The Company follows a mandatory, periodic, documented and institutionalised protocol for taking a preventive back-up of its system data, which is securely stored offline. These offline facilities are not subject to the same risks as the main facility. Result: the Company has not encountered a single case of data loss arising out of system problems.

3 REGULATORY RISK

The government/regulatory bodies regulates the business and monitors compliance, any violation in which could lead to stoppage of business or halting of growth through a freeze on new accounts, etc. In view of this, compliance management assumes importance.

Compliance default: Failure to comply with regulatory norms, which are revised frequently.

India Infoline's response: In an age where most market participants regard compliance as a 'necessary evil', the Company believes that complete compliance represents a competitive advantage. It is this mindset, which gets reflected in the fact that it created a 10-member regulatory cell that possesses more than four decades of collective experience in compliance and interaction with the relevant regulatory authorities (SEBI, AMFI, NSDL, BSE, NSE and IRDA among others) for ongoing compliance. In addition, the Company appointed the following experts for assistance:

- Its compliance team is headed by Mr R.Mohan, whose rich experience enables it to take on compliance as an opportunity and competitive advantage. A Chartered Accountant; Mr Mohan was with the Securities and Exchange Board of India (SEBI) for about 12 years in the Integrated Market Surveillance Department and Investigations Department as the division chief
- Regular compliance audit conducted by Ravi Ramaiya, Chartered Accountants
- Compliance and internal audit inspection conducted by Aneel Lasod & K P Mehta, Chartered Accountants
- Appointment of an external agency as the statutory internal auditor to monitor all organisational functions
- Appointment of experts for a systems audit to ensure workflow as per set systems in compliance with regulatory standards

4 HUMAN RESOURCES RISK

At India Infoline, we share the risk that is currently faced by any service-led business: people attrition especially at a time when the economy is on the boil, salary levels rising and job-hopping more frequent, making it imperative to make people retention core to its business strategy.

Key people attrition: In a people-driven business, people attrition could translate into staggered growth.

India Infoline's response: Over the years, the Company undertook the following initiatives to retain its people capital:

- Created an environment which is conducive for the overall growth and progress of our employees
- Empowered employees to take decisions. With the fundamental ethos of 'Owner Mindset' people are treated more like 'co-owners' than employees
- Goal setting in consultation with key business executives, enhancing a sense of ownership
- Rolling out an attractive ESOP scheme, where-in 'Owner Mindset' does not just remain as an esoteric proposition but it actually makes owners out of employees
- Encouraged growth from within as a strategy to plug vacancies

People-led growth: The Company's growth depends on being able to recruit the right individuals to man the network across the country.

India Infoline's response: To grow its business, the Company is tapping talent by recruiting aggressively from management schools. In line with this, the Company's people strength increased manifold in the previous year.

Training: Insufficient training at a time of rapid change and frequent introduction of new products could affect revenue diversification and growth.

India Infoline's response: The Company strengthened its training through the following initiatives:

- A two-day standard training programme to acquaint new recruits with the Company's business, ethos, technology, systems and processes
- Periodic review of member performance to understand training gaps
- Periodic training in soft skills and business-oriented aspects
- An in-house training department with regional trainers to reach out to employees across our network and provide customised training solutions
- Leveraged external trainers and partners for product specific training inputs

Lack of growth: Career stagnation may reflect in inefficiency leading to slower growth.

India Infoline's response: The Company provided for significant employee growth through the following guidelines:

- Setting only a goal for the individual, but allowing her to select the path to reach it, fostering creativity and growth
- An open culture where an individual can request a move to another area of interest to beat monotony
- A healthy job rotation policy which ensures that an individual gets exposure to all the aspects of a business and even the opportunity to move across business lines
- An institutionalised periodic performance review, providing for multiple increments (if necessary) during a year

Lack of ownership: An inability of the Company's members to own their goals could lead to collective or under-performance.

India Infoline's response: Over the years, the Company has successfully created and fostered an environment to evolve employees into business entrepreneurs through the following initiatives:

- Individual and team goals are aligned with incentives in order to reinforce each other
- KRAs for every member set in consultation with the individual; encouraging target ownership till its logical completion
- Absence of an institutionalised roadmap for the achievement of any goal, encouraging individuals to chart out their own strategy and evolve into business drivers (as opposed to employees)
- Offering of ESOP schemes to evolve employees into part-owners (holding about 7% of the Company's equity)

Uninspiring environment: A monotonous working environment could affect recruitment.

India Infoline's response: At India Infoline, we take pride in the fact that we are a preferred employer for the following reasons:

- Inspite of our ever-growing size, it has managed to retain a relatively flat organisation structure
- Senior management is ever-accessible which leads to frequent interaction and consequently instant doubt-resolution
- Being in many business segments which are growing rapidly, there is a tremendous amount of learning which happens 'on the job'

5 MARKET RISK

At India Infoline, any unexpected volatility or stagnation in the equity market could affect performance, making it imperative to initiative relevant counter-initiatives.

Sustained bear markets: With more than 60% of the Company's revenues derived from equity broking, a sustained bear market could impact earnings.

India Infoline's response: As the Company expects to enhance its exposure to non-equity businesses including commodity broking, distribution of life insurance products, mortgages and personal loans. It expects to reduce the proportion of revenues derived from equity broking from the present 65% to about 35% over the next five years (even as equity income enlarges in absolute terms). This optimism is based on the fact that the Company is the largest corporate agency in the distribution of life insurance products and this exposure is expected to grow. The Company also plans to foray into distribution of general life insurance products as well. The Company has also drawn up aggressive plans for growth in commodities broking and distribution of mortgages and personal loans. Also in equity broking business, the Company is consciously increasing a base of customers that trade more on delivery basis. Their business is expected to be less vulnerable to stock market gyrations. As a part of its overall strategy, the Company intends to increase rapidly its branch network and increase its customer base by focusing on the Indian retail investor.

Unexpected meltdown: There is a latent risk of clients not honouring their financial commitments when faced with adverse price movements, which could result in a loss for the Company.

India Infoline's response: The Company protects its interests with a deposit from every client. It follows prudent risk management guidelines in the extension of credit, which comprise limits on leverage, quality of collateral, diversification, pre-determined margin call thresholds and pre-determined thresholds to liquidate collaterals. Besides, the Company developed and deployed an IT-based risk management tool, which provides real time information on all client transactions, client snapshot and detailed payment history. When the credit limit is breached, a system-generated alert makes it possible to appropriately liquidate holdings, reducing the risk. A stock-based categorisation allows limits to be set based on the liquidity and the quality of the specific stock.

6 RESOURCE RISK

Working capital management: With each business segment growing at a rapid pace, it is imperative for the Company to manage its working capital requirements.

India Infoline's response: The Company managed its working capital requirements through a complement of prudent policies and measures.

- Monitoring the working capital allocated to equities business with client accounts being maintained and monitored on a real time basis
- Prudently raising bank overdraft limits in anticipation of growth in business volumes
- Periodic accounts reconciliation of the Company, preparation of the financial statements, primarily the Trial Balance facilitates in monitoring expenses
- Cross selling of products helps in improving employee productivity and absorbing fixed costs more effectively
- Efficient use of technology reduces the day-to-day operational cost for the Company
- Drive taken to eliminate wasteful expenditure in the Company
- Revenue growth has outpaced the growth in working capital requirements

7 COMPETITION RISK

With competition becoming more intense, it is imperative for the Company to innovate continuously in terms of product and service quality.

Product and service innovation: With competitors and competing products increasing, it is imperative for the Company to establish and maintain cutting-edge products to sustain leadership.

India Infoline's response:

- Introduction of the 'Trader Terminal 2005', which is widely accepted as one of the best trading platforms in the country
- Development and introduction of its own IT-based risk management tool, which curtails client loss in an adverse market
- Introduction of online commodities trading
- Leverage unbiased research and investment advice so that the customer can choose the right product depending on the risk-return profile

Bigger brands: Stronger brands with a better recall could affect the Company's competitive edge.

India Infoline's response: The Company pioneered online trading in India, evolving its websites, www.indiainfoline.com and www.5paisa.com, into brands. Forbes rated the Company's flagship website www.indiainfoline.com as '…a must read for Asian investors'. The Company not only spends consistently on brand building across financial dailies but also ensures quality service delivery to maintain the image, which has been assiduously built over the years. Result: Its brands India Infoline and 5paisa.com have a top-of-the-mind recall amongst its target customer segments

Lower customer costs: Customers can move to service providers, who offer the dual prospect of superior service and lower transaction costs.

India Infoline's response: India Infoline has successfully leveraged technology to innovate and continuously offer superior service at competitive costs to customers through the following initiatives:

- **Brokerage:** It was the first to offer broking services for 5 paise (per Rs 100 transacted), the lowest in India
- **Armchair trading facility over the Internet:** Rather than commute to the broker's office or make repeated calls to confirm trades, the Company extended the trading terminal to the client's residence through the Trader Terminal series of trading platforms.
- **Improved facility:** Its Trading Terminal 2005 is a 'best-of-breed' product, providing real-time streaming stock prices, market news and views and much more

8 PERCEPTION RISK

A diverse presence in a multi-segment environment could create an inaccurate perception in the minds of customers and investors, making it imperative to define the Company's identity and value proposition at all times.

Low awareness: A low awareness of the Company's service proposition could affect client accretion.

India Infoline's response: By virtue of being a listed entity, India Infoline enjoys a far greater visibility vis-à-vis its unlisted competitors. The Company's brand owes its origin to the dot.com era, since which time it has enjoyed tremendous popularity, reflected in the numerous awards, which it has won and the accolades, which have been showered upon it. To name a few, it won the Golden Mouse Award and the Chip Dishnet DSL Award apart from accolades from BBC World Moneywise, among others.

dot.com perception: The Company could be mistaken for a dot.com company, affecting client perception.

India Infoline's response: Over the last few years, the Company has taken a number of initiatives to reinforce its positioning as a click-and-mortar company:

- Focused on e-broking, which accounts for over 50% of revenues
- Grown other businesses like the marketing of insurance, mutual funds and risk-free products and services
- Invested in retail distribution infrastructure and at the same time educated customers that the Internet in particular and technology in general is more of a business enabler than a business in itself

Broker perception: With a greater share of India Infoline's revenues being derived from broking, the Company could be perceived as just a broker.

India Infoline's response: Over the last four years, the Company diversified its revenue streams, reduced its dependence on equity broking and evolved from an intermediary into a financial consultant through the following initiatives:

- Strengthened its presence in insurance intermediation where it is now the leading corporate agency for the leading private sector life insurance company in India
- Emerged as a strong pan-Indian marketing channel for all leading AMCs distributing mutual funds products via its growing distribution reach
- Added commodities trading and the funding business to its product basket
- Launched Wealth Management Services and Portfolio Management Services

9 COST RISK

Cost control is critical to business sustainability, making it imperative for the Company to reinforce its position as a competitive service provider.

People cost: People costs increased from Rs 1,03.2 mn in 2004-05 to Rs 3,66.0 mn in 2005-06.

India Infoline's response: Over the last few years, the Company has enhanced revenues faster than an increase in people costs through the following initiatives:

- Better leveraging of technology and conversion of manual interventions to automated processes, resulting in a sharp scale-up in customers and an efficient coverage of our fixed costs
- Leveraging better connectivity for increased e-transactions
- We have successfully maintained our EBIDTA levels inspite of rising people costs
- People driven by 'Owner mindset' drive innovation across the organisation and consciously and consistently weed out wasteful activities
- Controlling costs is a continuous effort and has become a part of the Company's DNA

Directors' Report

Dear members

Your Directors have pleasure in presenting the 11th Annual Report along with the Audited Statements of Account of your Company for the financial year ended March 31, 2006.

1. Financial Results

A snapshot of the financial performance of the Company and its subsidiaries for the year 2005-06 is as under:

(Rupees mn)

	Revenues	Profit before Interest, Depreciation and Tax	Profit After Tax
India Infoline Limited	484.7	434.0	264.7
India Infoline Securities Private Limited	1453.0	220.5	61.4
India Infoline Distribution Company Limited	204.3	107.1	80.9
India Infoline Insurance Services Limited	216.4	96.0	59.9
India Infoline Commodities Private Limited	41.5	0.8	(0.3)
India Infoline Investment Services Private Limited	53.9	40.1	27.4
India Infoline Insurance Brokers Limited	–	(0.1)	(0.1)
Moneytree Consultancy Services Private Limited	2.4	(4.5)	(4.6)
Inter Company adjustments	(275.7)	(25.2)	
Aggregate	2180.5	868.7	489.3

A snapshot of stand-alone financial performance of India Infoline Limited is as under:

(Rupees mn)

	2005 – 2006	2004 – 2005
Gross total income	484. 7	222.4
Profit before interest, depreciation and taxation	434.0	195.8
Interest and financial charges	21. 8	0.4
Depreciation	14.7	5.3
Profit before tax	397.5	190.1
Taxation - Current	(134.5)	15.4
- Deferred	2.0	–
- Fringe Benefit Tax	(0.3)	–
Net profit for the year	264.7	174.7
Less: Appropriations		
Dividend:		
Interim dividend (Rs.2 per share) paid	87.8	–
Final dividend (Re.1 per share) (Proposed)	45.5	–
Dividend distribution tax	18.7	–
Transfer to general reserve	30.0	–
Add : Balance brought forward from previous year	0.8	(173.9)
Balance to be carried forward	83.5	0.8

2. Review of Operations

There was a robust growth in all the core businesses of the Company. On a consolidated basis, the Company's income (excluding inter-group transfer) posted a healthy growth of 182 % at Rs.2180.5 mn. Income from the core business of equities broking grew by 179% to Rs.1427.1 mn, whereas life insurance agency commission grew by 261% to Rs.215.9 mn. The strong growth was driven by the Company's rapid expansion of its branch network, increasing popularity of its Internet trading software and favourable market conditions. The branch network of the Company along with its subsidiaries grew to 177 branches across India. Your Company and its subsidiaries' employee strength also rose in tandem to 4,150 as against 1,164 a year ago. Income from commodities broking grew several fold, albeit on a small base. The Company's mutual fund distribution business witnessed a healthy growth, driven primarily by a number of new fund offerings (NFOs). Your Company's online media and content income increased significantly with increased business from old customers as well as from the addition of new customers.

Operating margin (EBIDTA) on a consolidated basis increased by 192% to Rs 868.8 mn as compared to Rs 297.9 mn in the previous year, despite extraordinary growth in manpower and related costs. The margin improvement signifies the operating leverage from higher volumes. While profit before tax rose by 179% to Rs 718.1 mn, profit after tax rose by 126% to Rs 489.3 mn due to higher incidence of tax.

The Company, through its subsidiary, has forayed into the businesses of investment banking and distribution of mortgages and loan products. These new initiatives are expected to contribute significantly in the years to come.

The financial services sector is expected to grow at a rapid pace, driven by increasing per capita income, favorable demographics and the growing need for 'advice' due to multiplicity of products. Your Company, along with its subsidiaries, is well placed to seize these opportunities.

Proposed Merger

India Infoline Securities Private Limited, a wholly owned subsidiary engaged in Stock Broking, Depository Services, Portfolio Management Services and Investment Banking, has demonstrated a strong growth over the years and has been the major contributor to the revenue and profitability of India Infoline Limited. Keeping in view the prospects for further growth in the securities business, it is necessary to strengthen the financial resources of the securities company. With a view to strengthen the financial resources and capitalise the securities business, the Board of Directors of the Company and India Infoline Securities Private Limited have in their respective meetings held on April 26, 2006 approved merger of India Infoline Securities Private Limited with India Infoline Limited with effect from April 1, 2006, through a Scheme of Amalgamation under Section 391 and 394 of the Companies Act, 1956, subject to the necessary approvals from the Hon'ble Court and appropriate authorities.

The proposed merger will not involve any fresh allotment of shares to the shareholders of India Infoline Securities Private Limited as it is a wholly owned subsidiary and so will not have any effect on the capital structure of India Infoline Limited.

The Board of your Company believes that the proposal is in the best interest of its shareholders."

3. Subsidiary Companies

As at March 31, 2006, the Company had the following seven subsidiaries. The names of the subsidiary companies and holdings of the Company in these subsidiaries is as mentioned below:-

Names of subsidiaries	Holding of India Infoline Limited (in %)
India Infoline Securities Private Limited	100
India Infoline Distribution Company Limited	100
India Infoline Insurance Services Limited	100
India Infoline Commodities Private Limited	100
India Infoline Investment Services Private Limited	100
India Infoline Insurance Brokers Limited	100
Moneytree Consultancy Services Private Limited.	75

India Infoline Commodities Private Limited a wholly owned subsidiary of the Company has been granted provisional membership of Dubai Gold and Commodities Exchange, for which the membership fees of Rs 45,20,000 has also been paid. India Infoline Commodities Private Limited has also initiated steps to incorporate a subsidiary Company in Dubai for the purpose, and the same is under progress.

On an application made by the Company, the Ministry of company affairs has granted exemption under Section 212(8) of the Companies Act, 1956, from attaching to the Balance-Sheet of the Company, accounts and other documents of its subsidiaries. The Company has attached the consolidated financial statements in this Annual Report, which includes the results of these subsidiaries. Copies of the annual audited accounts of these subsidiaries can also be sought by an investor of the Company or its subsidiaries on making a written request to the Company in this regard. The accounts of these subsidiaries are also available for inspection of investors of the Company or its subsidiaries at the registered office of the Company.

4. Management Discussion and Analysis

Management discussion and analysis report for the year under review as required under Clause 49 of the Listing Agreement, is given as a separate statement in the Annual Report.

5. Changes in Equity Capital

During the year, the following changes were effected in the authorised and paid-up capital of the Company:

(a) The Authorised Share Capital of the Company was increased from Rs 450 mn to Rs 600 mn on August 10, 2005 and further to Rs 800 mn vide shareholders' approval dated January 25, 2006.

(b) The Company made an Initial Public Offering of 11,879,108 equity shares of Rs 10 each at a price of Rs 76 per share in April 2005. The allotment was completed on May 10, 2005 and the shares were listed on May 17, 2005.

(c) The Company made the following preferential allotments in February 2006 in terms of SEBI (Disclosure and Investors Protection) Guidelines 2000.

- i) 1,176,471 equity shares of Rs 10 each to Bennett Coleman & Co Limited at a price of Rs 170 (including premium of Rs 160 per share)
- ii) 8,000 optionally convertible bonds (OCBs) of Rs 100,000 each to DSP Merrill Lynch Capital Limited. Each OCB will be optionally convertible into the

number of equity shares to be issued in one or more tranches in a price range of Rs 140.4 to Rs 170 per share within eighteen months from the date of allotment.

iii) 2,600,000 Equity Warrants to the promoters on as follows.

Mr. Nirmal Jain	1,520,731
Mrs. Madhu Jain	489,767
Mr. R Venkataraman	589,502

Each Equity Warrant will be exercisable into one equity share to be issued in one or more tranches at the price of Rs 170 per share within a period of 18 months from the date of allotment. Against these, an application money of 10% of the exercisable price has been received.

(d) During the year, the Company allotted 423,410 equity shares pursuant to exercising options by the employees under the ESOP scheme 2000. The Company also implemented an ESOP (Employees Stock Option Scheme) plan, namely ESOP 2005, as per terms provided by SEBI. The scheme, which provides for grant of options aggregating to 25 lacs equity shares, was approved by shareholders on January 25, 2006.

6. Change in Registered Office of the Company

During the year under review, your Company has changed its registered office from 24, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai – 400 063 to 75, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai – 400 063, a larger premises in the same complex for operational convenience.

7. Dividend on Equity Shares

The board has declared and paid an interim dividend of Rs 2 per equity share of Rs 10 each on January 16, 2006. The total outflow on account of payment of interim dividend including Dividend Distribution Tax and Surcharge was Rs 100,169,549.

In addition, the directors are pleased to recommend a final dividend of Re 1 per equity share of Rs 10 each for the year ended March 31, 2006. The dividend, if declared by the members at the Annual General Meeting, will absorb Rs 51,845,190, including Dividend Distribution Tax and Surcharge.

8. Deposits

During the period under review, your Company has not accepted any deposits from the public within the meaning of Section 58 A of the Companies Act, 1956 and the rules thereunder.

9. Disclosure of Employee Stock Options

During the financial year 2005-06 the Company has not granted any fresh stock options. Following are the disclosures required in terms of Clause 12 of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

Sr. No.	Particulars	ESOP Scheme 2000	
(a)	Date of grant	April 1, 2003	October 1, 2004
(b)	Total number of options granted	979,250	694,200
(c)	Pricing formula	At Face Value	At Face Value
(d)	Total number of options vested	774,470	208,260
(e)	Total number of options exercised	344,800	78,610
(f)	Total number of shares arising as a result of exercise of options	344,800	78,610
(g)	Total number of options lapsed	204,780	40,550
(h)	Variation of term of ESOP	None	None
(i)	Money realised by exercise of options	3,448,000	786,100
(j)	Number of options in force	429,670	575,040

Sr. No.	Particulars	ESOP Scheme 2000
(k)	Employee-wise details of options granted to: (a) Senior managerial personnel (b) Any other employee who receives a grant in any one year of options amounting to 5% or more of options granted during the year (c) Employees who were granted, during one year, options equal to or exceeding 1% of the issued capital at the time of grant	The Company has not made any grants during the financial year 2005-06
(l)	Diluted earnings per share pursuant to issue of shares on exercise of option calculated in accordance with AS 20 'Earnings per Share'	5.72
(m)	Pro Forma of Adjusted Net Income and Earning Per Share:	
	Net Income	
	As reported	264,691,088
	Add: Intrinsic Value Compensation cost	–
	Less: Fair Value Compensation cost	965,712
	Adjusted Pro Forma Net Income	263,725,376
	Earning per Share: Basic	
	As reported	5.87
	Adjusted Pro Forma	5.85
	Earning per Share: Diluted	
	As reported	5.74
	Adjusted Pro Forma	5.72
(n)	Weighted average exercise price of options granted during the year whose	
	(a) Exercise price equals market price	N.A.
	(b) Exercise price is greater than market price	N.A.
	(c) Exercise price is less than market price	N.A.
	Weighted average fair value of options granted during the year whose	
	(a) Exercise price equals market price	N.A.
	(b) Exercise price is greater than market price	N.A.
	(c) Exercise price is less than market price	N.A.
(o)	Description of method and significant assumptions used to estimate the fair value of options	The fair value of the options granted has been estimated using the Black-Scholes option pricing model. Each tranche of vesting has been considered as a separate grant for the purpose of valuation. The assumptions used in the estimation of the same have been detailed below.

Grant Date - October 1, 2004	Vest 1 Oct 1, 2005	Vest 2 Oct 1, 2006	Vest 3 Oct 1, 2007
Variables (%)	30	30	40
Stock Price	10.0	10.0	10.0
Volatility (%)	0.0	0.0	0.0
Risk free Rate (%)	6.2	6.3	6.4
Exercise Price	10.0	10.0	10.0
Time To Maturity	3.5	4.5	5.5
Dividend Yield (%)	0.0	0.00	0.00
Option Fair Value	2.0	2.5	3.0
Weighted Avg. Option Fair Value		2.5	

Grant Date – April 1, 2003	Vest 1 March 31, 2004	Vest 2 March 31, 2005	Vest 3 March 31, 2006
Variables (%)	30	30	40
Stock Price	10.0	10.0	10.0
Volatility (%)	0.0	0.0	0.0
Risk free Rate (%)	6.0	6.0	6.1
Exercise Price	10.0	10.0	10.0
Time To Maturity	3.5	4.5	5.5
Dividend Yield (%)	0.0	0.0	0.0
Option Fair Value	1.9	2.4	2.9
Weighted Avg. Option Fair Value		2.4	

10. Directors

Mr R. Venkataraman and Mr Sat Pal Khattar the present directors retire by rotation and, being eligible, offer themselves for re-appointment at the ensuing Annual General Meeting of the Company.

11. Directors' Responsibility Statement

As required by Section 217 (2AA) of the Companies Act, 1956, your directors confirm that:

(a) In the preparation of the annual accounts, the applicable accounting standards have been followed.

(b) Appropriate accounting policies have been selected and applied consistently and that judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as on March 31, 2006, and of its profit for the year ended on that date.

(c) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities.

(d) The annual accounts have been prepared on an ongoing concern basis.

12. Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The Company is engaged in providing research and online media services. Since the Company is in the service industry, its operations do not account for substantial energy consumptions. However, the Company is taking all possible measures to conserve energy.

The management keeps itself abreast of the technological advancements in the industry, ensuring that the Company not only makes the best use of the available technology, but also benefits from innovations.

During the year under review:

a) The foreign exchange earnings of the Company was Rs 5,674,180.

b) The foreign exchange expenditure was Rs 240,192.

13. Corporate Governance Report

Your Company has complied with all the mandatory provisions of the revised Clause 49 of the Listing Agreement. As part of the Company's efforts towards better corporate practice and transparency, a separate report on Corporate Governance compliances is included as a part of annual report. A certificate from the auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated under clause 49 of the listing agreement is attached to this report.

14. Particulars of Employees

Pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the annexure attached to this report.

15. Auditors

M/s. Sharp & Tannan Associates, Chartered Accountants, Mumbai, the Company's Auditors, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. M/s Sharp & Tannan Associates have sought re-appointment and confirmed that their re-appointment shall be within the limits of Section 224(1B) of the Companies Act, 1956. The Audit Committee and Board of Directors recommend the appointment of M/s Sharp & Tannan Associates, Chartered Accountants, as the auditors of the Company.

Acknowledgement

Your Directors wish to place on record their appreciation for the continued support of the customers, bankers and financial institutions and government for their continued good relations and valuable support and to the members for their sustained confidence in the Company and its management.

Your directors also wish to place on record their deep appreciation for the dedicated services rendered by the employees towards the growth of the Company.

On behalf of the board

Nirmal Jain

Dated: April 26, 2006 *Chairman and Managing Director*

Registered Office:
75, Nirlon Complex,
Off Western Express Highway,
Goregaon (East), Mumbai – 400 063.

Annexure to the Directors' Report

Statement of Particulars of Employees as per provisions of 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 year ended March 31, 2006

Name	Mr. Nirmal Jain	Mr. R. Venkataraman	Mr. Ajit Menon[3]	Mr. Graham Sharp[3]
Age in years	40	39	46	52
Designation	Chairman and Managing Director	Executive Director	Head of Investment Banking	Head of International Operations
Gross Remuneration paid (Rs)	96,45,000	72,70,000	15,00,000	30,04,909
Qualification	ACA, AICWA, MBA (IIM Ahemdabad)	B.Tech (IIT-Kharagpur), MBA (IIM Bangalore)	MSc (London Business School), Sloan Fellow Member, PGDIM	MSc, (University of London), Sloan Fellow, C.A. (Member of Institute of Chartered Accountants of Scotland), LL.B., DPhil, (Oxford university)
Experience in years	17 years	15 years	26 years	26 years
Date of commencement of employment	October 18, 1995	June 17, 1999	December 1, 2005	December 1, 2005
Particulars of last employment	Motilal Oswal Securities Pvt Ltd.	GE Capital Services India Limited	Director, Marchmont International Financial Services Limited.	Director, Marchmont International Financial Services Limited.
Relationship with any other Director of the Company	N.A.	N.A.	N.A.	N.A.

Notes :

1. Gross remuneration includes salary, monetary value of perquisites as per Income Tax Rules and Company's contribution to Provident Fund.

2. The services of all the persons are contractual and the terms and conditions are subject to the rules and regulations of the Company as in force from time to time.

3. Mr. Ajit Menon and Mr. Graham Sharp were employed only for the part of year under review.

On behalf of the board

Nirmal Jain
Chairman and Managing Director

Dated: April 26, 2006

Registered Office:
75, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai – 400 063.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (AS PER UNCONSOLIDATED INDIAN GAAP)

Overview

These financial statements are prepared in accordance with Indian GAAP and the Companies Act, 1956. The management of India Infoline accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgments used therein. The estimates and judgments relating to the financial statements have been made prudently in order that the financial statements reflect in a true and fair manner the form and substance of transactions and reasonably present the Company's state of affairs and profits for the year.

Business Performance

Income:

Our income has four components: Online and other media, content income, client referral fees and call center income.

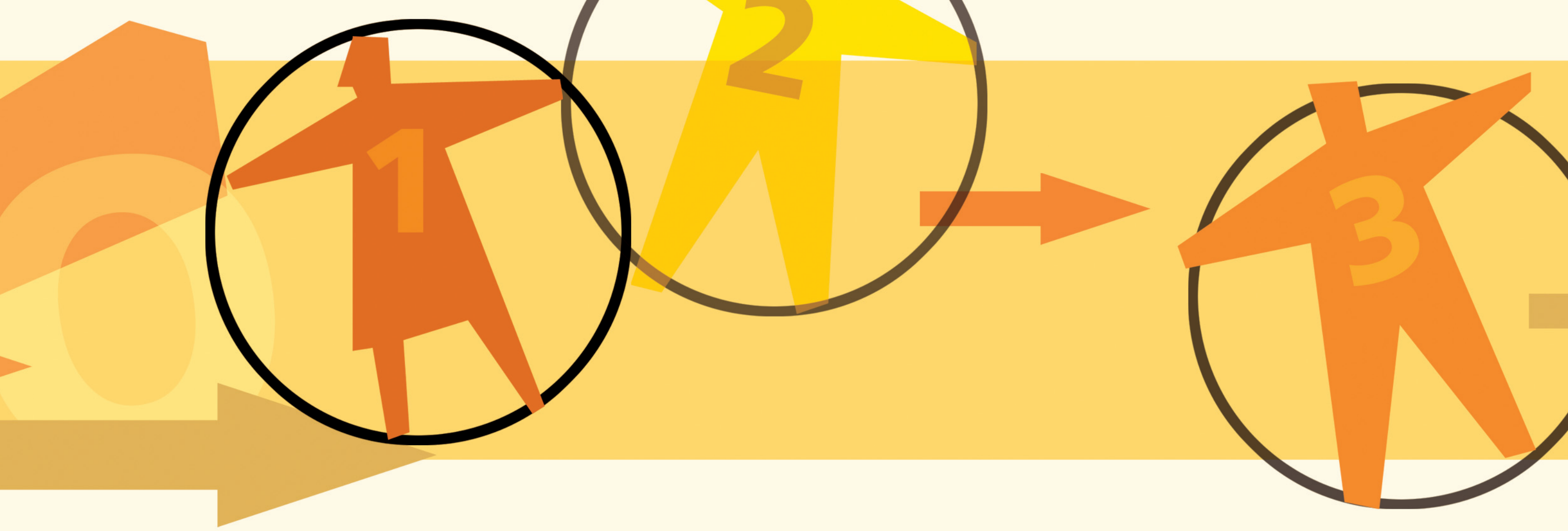
(Rs mn)

Particulars	Year ended March 31 2006	Year ended March 31 2005
Income from operations		
Online and other media	200.6	63.8
Content income	18.0	18.0
Client Referral fees	170.2	62.5
Call centre income	58.2	67.8
Other Income	37.7	10.2
Total Income	**484.7**	**222.3**

Online and other media and content income comprises sale of banner space on website, email campaigns, sale of research reports etc. It also involves providing content to our subsidiaries pursuant to contractual arrangement. Media and content income posted a growth of 214% during 2005-06 and comprised 41% of the total income compared to 29% in 2004-05.

Client referral fees is recovered from the subsidiaries on the conversion of the client leads generated from the clients either visiting the website of the Company or through other network. Client referral fees have grown by 172% which is mainly on account of the large growth in the client base of both the businesses viz., securities and distribution. The number of branch outlets of the Company has also grown over 177. The fees are generated from both online and offline customers as per the terms of the contract.

Call centre income comprises services provided by the Company to its subsidiaries pursuant to contractual arrangements. Call center services are provided to the clients of subsidiaries through the large technology network setup of the Company wherein the clients are serviced on the queries relating to investment consultancy, account operating, account opening etc. The call center income was 12% of total income during the financial year 2005 - 06. Other income primarily relates to income from sub-letting of premises taken on lease at Goregaon, Mumbai, interest on Fixed Deposit and interest on investment in subsidiary Company. Other income grew by 269% during 2005-06 and comprised 8% and 5% of total income for 2005-06 and 2004-05 respectively.



During the year under review, the Company also made a preferential allotment of convertible bonds to DSP Merrill Lynch Capital Ltd and equity to Bennett Coleman & Co Ltd

Expenditure:

(Rs mn)

Particulars	Year ended March 31 2006	Year ended March 31 2005
Employee costs	19.4	9.2
Administration and others	31.2	17.4
Interest expenses	21.8	0.4
Depreciation and amortisation	14.7	5.2
Total expenditure	**87.2**	**32.2**

Employee costs rose by 111% on account of further strengthening of our research, media, marketing and call center teams, led by growth in our businesses.

General and administration expenses rose 80% during the financial year 2006, which was in line with the growth in business and infrastructure.

The addition to assets mainly comprise of investment in technology due to the nature of the business demanding large-scale infrastructure, especially hardware, in line with the business growth. Depreciation and amortisation expenses grew by 183%. Computer assets are depreciated on a straight-line basis over three years.

Loan funds increased by Rs 808.9 mn which mainly consist of 1% Optionally Convertible Bonds of Rs 800 million issued to DSP Merrill Lynch Capital Ltd, classified as unsecured loan.

Investments rose by Rs 599.4 mn mainly because of investments in subsidiaries comprising of Rs 300 million in India Infoline Securities Private Limited and Rs 300 million in India Infoline Investment Services Private Limited.

Loans and advances rose to Rs 1721.6 mn because of higher advances to subsidiaries to meet their working capital requirements. Also, the advance tax paid and tax deducted at source has grown by Rs106.3 mn. Deposit for new branches also grew by 15.8 mn. Current liabilities rose by Rs 52.8mn due to higher outstanding from subsidiaries and provisions increased because of higher provision for tax to the extent of Rs 150.7 mn.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (AS PER CONSOLIDATED INDIAN GAAP)

In this section, discussion pertains to the consolidated financials of India Infoline along with all its wholly owned subsidiaries viz India Infoline Securities Private Limited, India Infoline Commodities Private Limited, India Infoline Distribution Company Limited, India Infoline Insurance Services Limited, India Infoline Investment Services Private Limited, India Infoline Insurance Brokers Limited and Moneytree Consultancy Services Private Limited.

As predominant part of the Company's business is conducted through its wholly owned subsidiaries, your directors believe that the consolidated accounts provide a better view of the Company and its operations.

Income:

(Rs mn)

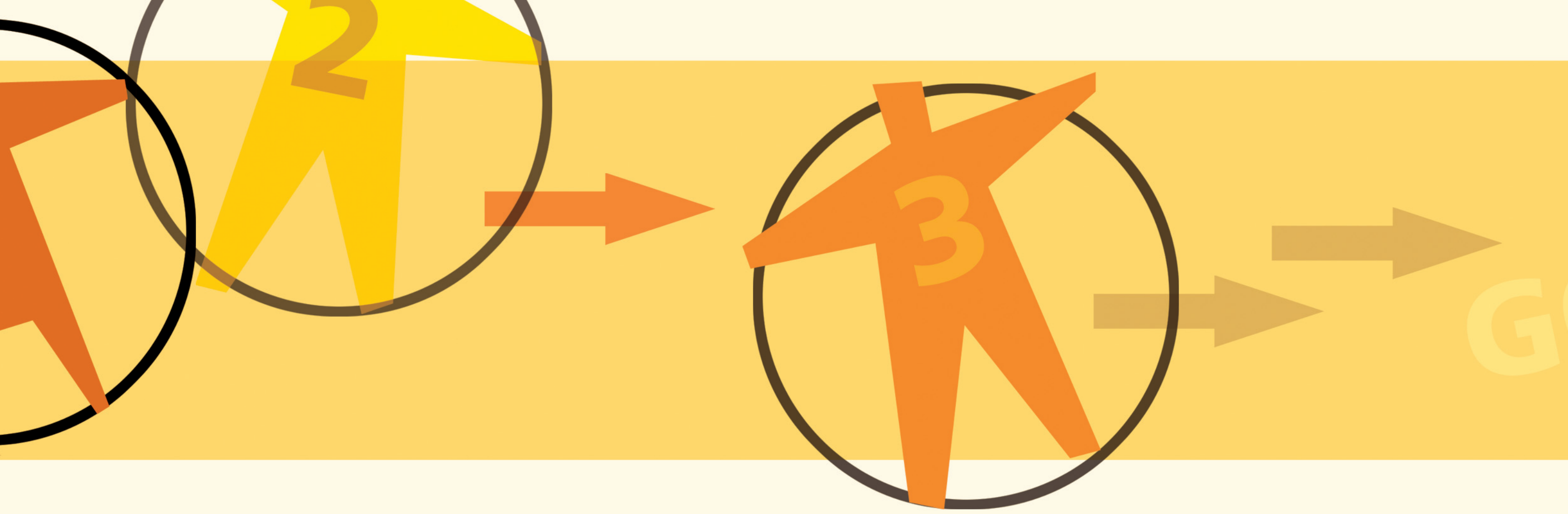
Particulars	Year ended March 31 2006	Year ended March 31 2005
Media and content income	200.6	63.8
Equities brokerage and related income	1427.1	511.1
Agency commission and fees	199.9	117.7
Commodities brokerage	41.3	4.8
Policy commission	215.9	59.8
Financing & Investing	46.9	-
Home loan commission	2.4	-
Other income	46.4	15.3
Total income	**2180.5**	**772.5**

Our consolidated income has seven components: Media and content income, equity brokerage and related income, agency commission and fees, commodities brokerage, policy commission, financing and investing and home loan commission. The following table sets forth the contribution of the different components of our revenue and of other income.

Media and content income is the income generated by selling space on our web properties, www.indiainfoline.com and www.5paisa.com. This also includes revenue generated by way of sponsorship and sale of our research reports and customised assignments. Media and content income grew by 214% during the financial year 2005–06 and contributed 9% of the total income.

Equities brokerage & related income comprises the income received from broking activities in the cash and derivatives segments of both BSE and NSE and related activities such as depository services conducted by our subsidiary, India Infoline Securities Private Limited. Equity brokerage and related income posted a growth of 179% during the year under review and comprised 65% of total income for the financial year ended March 31, 2006 on the back of increased broking turnover.

Agency commission and fees income comprises the income received from the distribution of personal investment products like mutual fund products, fixed deposits, IPOs, GoI bonds, etc. conducted by our subsidiary India Infoline Distribution Company Limited. Agency commission income grew by 70% during the year and comprised 9% of total income.



Commodities broking by the Company commenced during the last financial year and rose by 754% in FY06.

During the year, the Company also received provisional membership of Dubai Gold and Commodities Exchange (DGCX).

Commodities broking income is the revenue generated by trading activities in the commodities exchanges, MCX and NCDEX, conducted by India Infoline Commodities Private Limited. During the year, India Infoline Commodities Private Limited has been granted provisional membership of Dubai Gold and Commodities Exchange (DGCX), and it has initiated steps to incorporate a subsidiary company in Dubai for the purpose and the same is under progress. The activity of commodities broking commenced during the last financial year and has grown by 754% during the financial year 2005–06 from a smaller base of Rs 4.8 mn in the financial year 2004-05.

Policy commission income comprises the income generated from the activity of selling life insurance policies as the corporate agent of ICICI Prudential Life Insurance Company Limited by our subsidiary India Infoline Insurance Services Limited. Policy commission income recorded a growth of 261% and comprised 10% of total income during 2005-06. Annualised Premium Income rose to Rs 1100 mn from Rs 348 mn in the previous year.

Financing and investing income was generated from the new subsidiary wherein we also have received license from RBI to conduct NBFC activities. The total income in 2005-06 was Rs 46.9 mn.

Home loan commission income comprises the income generated from selling loan products to retail customers. This is a new line of business that is in its nascent stage. There is a tremendous potential for growth in this segment of business once we equip our branch network to sell this product. The Company has earned total commission income of Rs 2.4 mn during the year.

Expenditure:

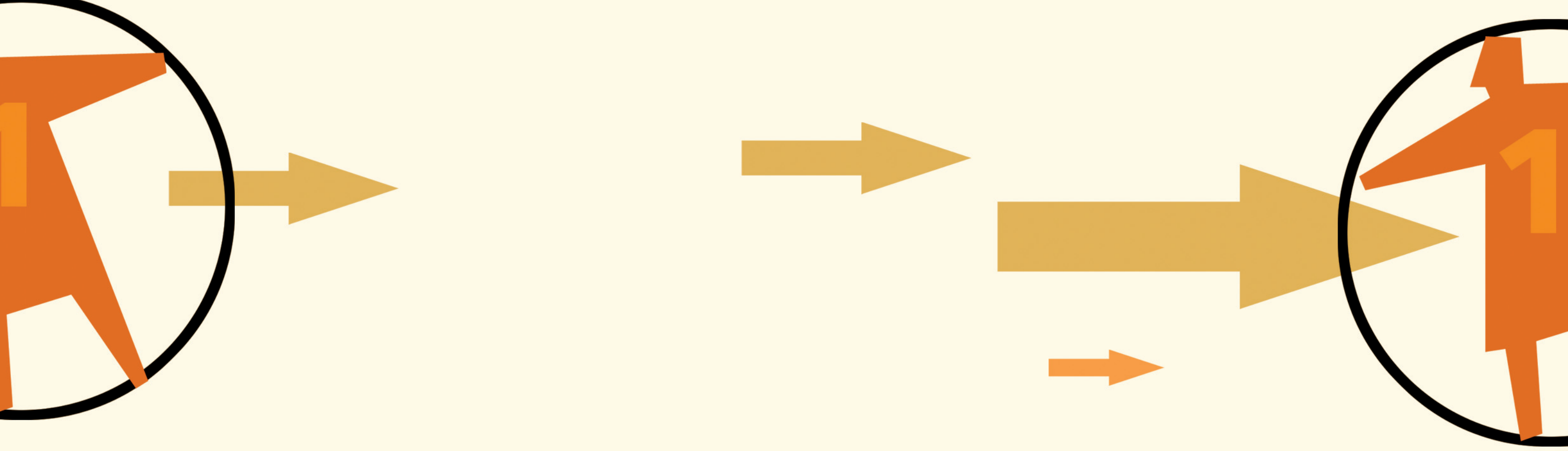
(Rs mn)

Particulars	Year ended March 31 2006	Year ended March 31 2005
Direct cost	562.7	238.1
Employee cost	366.0	103.2
Administration and other	382.8	127.9
Financial cost	65.1	20.2
Depreciation	85.6	25.1
Preliminary expenses	0.2	0.4
Total expenses	**1462.4**	**514.9**

Direct Costs consist of exchange charges, NSDL fees, referral fees, SEBI charges, service tax, stamp duty and filing fees. These costs, in general, vary with volume of business and are indicative of the levels of business activity. Direct cost grew by 136% and was Rs 562.7 mn during 2005-06. On a percentage basis, direct costs have fallen from 31% of sales to 26% on account of efficiency gains.

Employee costs grew by 255% to Rs 366.0 mn during the year under review. The total headcount stood at 4150 employees. This is an outcome of the overall growth in all the segments of our businesses, especially broking, distribution and insurance. We have also hired employees who are under training for the anticipated increase in the volume in the broking business and for our strategic expansions.

Administrative expenses has risen by 199% to Rs 382.8 mn and was 17% of income. We are building infrastructure for



The accumulated brought forward loss of Rs 33.6 mn in the subsidiary India Infoline Distribution Company Limited has been completely wiped off during the financial year.

planned growth in the coming years especially branch network expansion.

Depreciation expenses has risen by 241% to Rs 85.6 mn largely due to the investment in technology infrastructure with the growth in business demand and also setting up of terminals at all our expanded branch networks. We depreciated our computer assets on a straight-line basis over three years. We have started amortising our investment in acquisition of the BSE membership card over the next 5 years.

Gross Block rose to Rs 370.4 mn during the financial year ended March 31, 2006 largely on account of Rs 210 mn invested primarily in technology, new branches and upgradation of head office infrastructure.

Deferred tax asset and liabilities has been calculated as per the provisions of the Income Tax Act, 1961.

Working capital has increased by Rs 2329 mn because of increase in debtors outstanding and loans and advances, in tandem with increasing revenues from operations.

Accumulated brought forward loss in one subsidiary, India Infoline Distribution Company Limited to the extent of Rs 33.6 mn, has been completely written off in the current financial year. The past losses in other subsidiaries were wiped off in the previous financial years itself. Thus we don't have any brought forward accumulated loss in any of the subsidiaries.

Opportunities

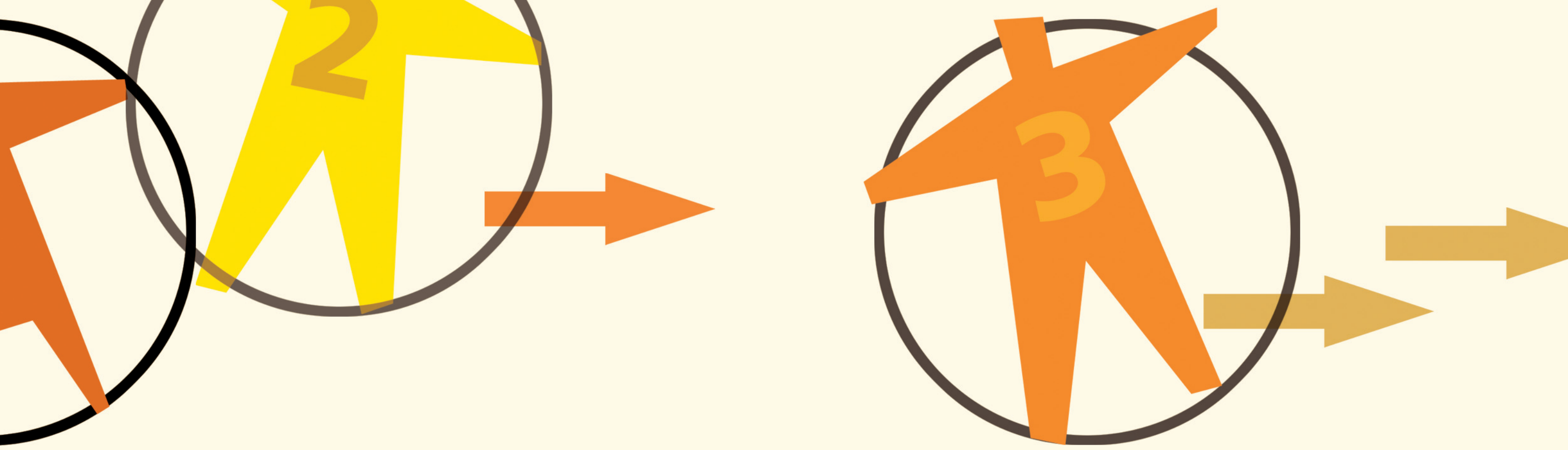
We have a diversified revenue stream, with major proportion of income coming from the broking business. India's strong economic outlook with a GDP growth of over 8% has made a positive impact on the capital markets. Mutual Fund NFO's have managed to garner over Rs 200 bn during the year 2006. The changing demographics with higher disposable income and increasingly complex financial instruments will drive demand for investment advisory services. Rapid penetration of internet and computers means that technology enabled financial services will gain market share. In such a scenario, we are well positioned to capitalise on the growth opportunity with a one-stop financial shop business model and multiple delivery channels.

Risks and concerns

Economic slowdown, political instability and rise in interest rates in the developed markets remain the key concerns to our business. Although our business has a diversified revenue stream, we continue to remain geared to the economic performance of the country. We have started venturing into other segments of the business like investment banking and advisory services and selling of loan products. As a result, any slowdown in the economy could impact our business volumes. Political stability has a huge bearing on the stock market performance as was seen in the May 17, 2004 market crash. This could lead to diminishing investor confidence, resulting in lower business volumes. Any rise in interest rates in the developed markets leads to an outflow of funds from emerging markets like India back to the developed countries. Our other offerings like tax saving products, insurance and mutual fund products are impacted by change in government's taxation policies.

Outlook

The Indian financial services industry continues to remain buoyant, powered by a strong economic performance, stable interest rates and changing demographics. India continues to remain under-penetrated in terms of insurance and



The employee strength of the Company and subsidiaries quadrupled from 1164 to 4150

investments in equity both through direct investments and through mutual funds. Rising disposable income along with a growing number of investment options and their complexities necessitates the role of financial advisors. Our Company, with a one-stop investment shop and multiple delivery channels, is well-positioned to capture the complete value chain from advice to execution. We have a superior technology platform with robust risk management systems. This, coupled with our growing geographical reach should allow us to maintain our superior service delivery standards and improve cross-selling within the group.

Risk management systems

We manage risks associated with our broking operations through use of internally developed credit algorithms implemented through fully automated risk management software and selective direct monitoring of certain operating parameters. Our automated risk management procedures rely primarily on internally developed risk management system and systems provided by our vendors. We manage our business risk through strict compliance and internal checks. We have a well-managed internal audit and internal control system working along with the external audit performing checks at regular intervals to identify any discrepancies and rectify at the earliest.

Human resources

Our total employee strength of the Company and our subsidiaries has multiplied more than fourfold from 1,164 as on March 31, 2005 to 4,150 as on March 31, 2006. The nature of our business demands skilled and trained labour force, which is one of the key assets of our organisation.

Our Human Resources policy is based on the philosophy of "Owner Mindset". We believe that the key to our continued growth lies in unleashing the entrepreneurial energy of our employees. We encourage all employees to behave more as owners of their departments rather than employees. Our people are highly driven and work towards increasing India Infoline's brand and market share across product lines.

We have developed extensive in-house training modules. We lay emphasis on "on-the-job training" where an experienced and senior person mentors a junior executive.

In addition to salary, our employees get performance-based incentives on a quarterly basis. We have also implemented an Employee Stock Option Plan.

Internal control systems

As noted by the auditors in their report, the Company has an Internal Control System commensurate with its requirements and the size of business. However, as a step further, your Company has already taken steps to document its systems and processes.

Cautionary statement

The statements made in this report describe the Company's objectives and projections that may be forward-looking statements within the meaning of applicable securities laws and regulations. The actual results might differ materially from those expressed or implied depending on the economic conditions, government policies and other incidental factors which are beyond the control of the Company.

Corporate Governance Report

Clause 49 of the Listing Agreement which relates to Corporate Governance was revised pursuant to SEBI Circular dated October 29, 2004, making far reaching amendments in the code. Your Company has already complied, in all material respects, with the revised clause 49 of the Listing Agreement. The implementation of the revised Corporate Governance Code by the Company is furnished below.

1. Corporate Philosophy

In a dynamic market, there is a need to have a continuous evaluation of Corporate Governance practices. Fairness and accountability are two pillars on which Corporate Governance stands.

At India Infoline Limited the management believes that strong and sound Corporate Governance is an important instrument of protection for shareholders and stakeholders and good corporate governance practices would enable the management to face the challenges of growth effectively and successfully. India Infoline is therefore committed to high standards of transparency and is in the forefront in adopting voluntary and mandatory compliance of laws and regulations leading to effective management of the organisation.

2. Board Of Directors

(a) Composition of the Board

The Board of Directors of the Company comprises of optimum combination of executive, non-executive and independent directors, all of whom are leading professionals in their respective fields. As of date the Board comprises of two executive directors, one non-executive director and three independent directors.

The composition of the Board is as given below:

Name of the Director	Executive/ Non-Executive/ Independent	Other Directorships in India	Membership of other Board Committees	
		Member	Member	Chairman
Mr Nirmal Jain	Executive	6	Nil	Nil
Mr R. Venkataraman	Executive	6	Nil	Nil
Mr Sat Pal Khattar	Non-Executive	9	Nil	Nil
Mr Sanjiv Ahuja	Independent	6	1	Nil
Mr Nilesh Vikamsey	Independent	Nil	Nil	Nil
Mr Kranti Sinha	Independent	4	1	1

Notes:

1. Directorship held by the Directors, as mentioned above, does not include Directorship in private limited companies and foreign companies.

2. The Committees considered for above purpose are those prescribed in Clause 49(IV)(B) of the Listing Agreement viz. Audit Committee, Share Transfer And Investor Grievance Committee And Compensation/ Remuneration Committee.

(b) Attendance at the meeting of Board of Directors and General Meeting

The Board of the Company met eight (8) times during the last financial year on the dates given below. The gap between two Board Meetings was not more that four (4) months:

April 5, 2005	May 10, 2005	May 19, 2005
July 21, 2005	September 15, 2005	October 22, 2005
December 29, 2005	January 16 , 2006	

The Company had convened its Annual General Meeting on August 10, 2005 and Extra-Ordinary General Meeting on January 25, 2006

The attendance of Directors at the Board Meeting and General Meetings was as under:

Name of Director	Board Meetings attended	Annual General Meeting attended	Extra-Ordinary General Meeting attended
Mr Nirmal Jain	8	Yes	Yes
Mr R. Venkataraman	8	Yes	Yes
Mr Sat Pal Khattar	5	No	No
Mr Sanjiv Ahuja	6	No	No
Mr Nilesh Vikamsey	8	Yes	Yes
Mr Kranti Sinha	7	No	Yes

(c) Compensation paid to Non-Executive Directors

The Non-Executive Directors and Independent Directors are paid Rs 20,000 (Rupees twenty thousand) each towards sitting fees for attending the Board Meeting and Audit Committee Meetings, and Rs 10,000 (Rupees ten thousand) each towards attending other Committee Meetings, in accordance with the resolution passed in the meeting of Board of Directors on February 11, 2005.

The Non-Executive Directors and Independent Directors are also paid commissions as approved by the shareholders in their meeting held on January 25, 2006.

(d) Periodic review of compliances of all laws applicable

With the implementation of revised Clause 49, the Company has adopted a system whereby all the acts, rules and regulations applicable to the Company have been identified and compliance with such acts, rules and regulations is monitored by professionals on a quarterly basis and the findings thereof reported to the Board of Directors in their Meetings.

(e) Code of Conduct

The Company has formulated code of conduct for all Board Members and Senior Management Personnel of the Company in accordance with the clause 49(1)(D) of the Listing Agreement which was duly approved and adopted by the Board in the Meeting held on March 21, 2005. The same has also been posted on the Company's website.

2. Audit Committee

The Audit Committee comprises one Non-Executive Director and three independent Directors. All the members of the Audit Committee are financially literate. The Managing Director and Executive Director along with the Internal and Statutory Auditors are invitees to the Audit Committee Meetings.

The Committee is chaired by an Independent Director, Mr. Nilesh Vikamsey, a qualified Chartered Accountant and Diploma holder in Information System Audit.

The Audit Committee of the Company met five (5) times during the last financial year on following dates. The gap between two Audit Committee Meetings was not more than four (4) months.

April 5, 2005	May 19, 2005	July 21, 2005
October 22, 2005	January 16, 2006	

The Constitution of the Audit Committee and attendance of each member of the Committee is given below:

Name of the Members of Audit Committee	Designation	Non-Executive/ Independent	Profession	Committee Meeting attended
Mr Nilesh Vikamsey	Chairman	Independent	Chartered Accountant	5
Mr Sat Pal Khattar	Member	Non- Executive	Lawyer	4
Mr Sanjiv Ahuja	Member	Independent	Certified Public Accountant	5
Mr Kranti Sinha	Member	Independent	Corporate Consultant	4

The scope of the Audit Committee includes the references made under Clause 49 of the Listing Agreements as well as Section 292A of the Companies Act, 1956, besides the other terms that may be referred by the Board of Directors. The broad terms of reference of the Audit Committee are to supervise the financial reporting process and all financial results, statements and disclosures and recommend the same to the Board; review the adequacy of internal control systems in the Company, including the scope and performance of the internal audit function; review of related party transactions; reviewing with management, performance of internal and statutory auditors and fixing their remuneration; holding discussions with Statutory Auditors on the nature and scope of audit, ensure compliance with all the applicable Accounting Standards; Compliance with the listing and other legal requirements and the Company's financial and risk management policies and compliance with the statutory requirements.

4. Compensation/ Remuneration Committee

The Compensation/ Remuneration Committee comprises three independent directors with Mr Sanjiv Ahuja as the Chairman of the Committee and Mr Nilesh Vikamsey and Mr Kranti Sinha as members. The Committee met once during the year under review on December 29, 2005.

The Compensation/ Remuneration Committee reviews and makes recommendations on annual salaries, perquisites, performance linked bonus, stock options, pensions and other employment conditions of Executive and Non-Executive Directors and senior employees. The Committee conducts discussions with the HR department and lays down suitable remuneration policies for the employees.

The details of remuneration paid/ payable during the year ended March 31, 2006 is as follows:

Name of the Director	Salary	Commission	Perquisite	Sitting fees
Mr Nirmal Jain	52,20,000	Nil	44,25,000	Nil
Mr R. Venkataraman	37,20,000	Nil	35,50,000	Nil
Mr Sat Pal Khattar	Nil	5,00,000	Nil	1,80,000
Mr Sanjiv Ahuja	Nil	5,00,000	Nil	2,30,000
Mr Nilesh Vikamsey	Nil	5,00,000	Nil	2,80,000
Mr Kranti Sinha	Nil	5,00,000	Nil	2,40,000

5. Share Transfer And Investor Grievance Committee

The Share Transfer And Investor Grievance Committee comprises of three directors with Mr. Kranti Sinha as the Chairman of the Committee and Mr. R. Venkataraman and Mr. Sanjiv Ahuja as members. The Committee met once during the year on January 16, 2006. Mr. Nimish Mehta, Company Secretary is the Compliance Officer of the Company.

Number of Shareholders Complaints received so far : 1,368

Number of complaints not solved to the satisfaction of the shareholders : Nil

Number of pending transfers : Nil

6. Subsidiary Company

India Infoline Limited has seven subsidiary companies out of which India Infoline Securities Private Limited, India Infoline Distribution Company Limited, India Infoline Insurance Services Limited are material un-listed subsidiary companies. Mr Sanjiv Ahuja, an independent Director on the Board of India Infoline Limited (holding company) is also Director on the Board of three material un-listed subsidiary companies.

With the application of the new Clause 49, the Company has adopted a practice of putting minutes and statements of all the significant transactions of all the un-listed subsidiary companies in the meeting of Board of Directors of India Infoline Limited. The audit Committee of the Company regularly reviews the financials of the subsidiary companies.

7. Disclosures

(a) Basis of related party transactions

There are no materially significant related party transactions entered into by the Company with its Promoters, Directors or Management or their relatives, etc. that may conflict with the interests of the Company. The Register of Contracts containing the transactions in which the Directors are interested is placed before the Board regularly for its approval.

(b) Proceeds from Public Issue of shares and Preferential Issue of shares, Optionally Convertible Bonds and Equity Warrants

During the year under review Company has raised Rs. 902,812,208 through public issue of 11,879,108 equity shares of Rs. 10 each at a premium of Rs. 66 per share. The Company had also made preferential allotment of 1,176,471 equity shares of Rs. 10 each at a premium of Rs 160 per share thereby raising Rs. 200,000,070 to Bennett Coleman and Company Limited on February 7, 2006. The Company has made a preferential allotment of 8,000 Optionally Convertible Bonds of Rs. 100,000 each aggregating to Rs. 800,000,000 to DSP Merill Lynch Capital Limited on February 7, 2006. The Company had also made preferential allotment of 2,600,000 Equity Warrants of Rs. 170 each. The Equity warrants were subscribed by the promoters of the Company and they have paid 10% of the issue size aggregating to Rs. 44,200,000.

The details of utilisation of such proceeds are disclosed to the Audit Committee. The Company has not utilised such proceeds for purposes other than those stated in any of the applicable disclosure documents.

(c) Other Disclosures

- There were no instances of non-compliance by the Company of any laws related to the capital markets during the year ended March 31, 2006 and hence the question of any penalties or strictures imposed by SEBI, Stock Exchanges or any other Statutory Authorities does not arise.
- The Company has duly complied with all the mandatory requirements of revised Clause 49 of the Listing Agreement.

(d) Means of Communication to the Stakeholders

The primary source of information to the shareholders, customers, analysts and other stakeholders of the Company and a society at large is through the flagship website of the Company www.indiainfoline.com.

The quarterly results of the Company are published in widely circulated national newspapers like Economic Times, Business Standard, Financial Express and Sagar (Marathi).

The Company also regularly files its Quarterly Reports, Annual Reports and Shareholding Pattern on the SEBI website through Electronic Data Information Filling and Retrieval System (EDIFAR).

8. General Body Meeting

The following table gives the details of the last three Annual General Meetings of the Company:

Year/ Period	Date of AGM	Location	No. of Special Resolutions passed
2004-2005	August 10, 2005	75, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai 400 063.	8
2003-2004	August 12, 2004	24, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai 400 063.	Nil
2002-2003	September 25, 2003	24, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai 400 063.	Nil

All the above Special Resolutions were passed on show of hands.

No resolutions were passed through postal ballots during the financial year ended March 31, 2006.

9. Particulars Of Directors Being Appointed/ Re-Appointed

The brief particulars of Directors seeking re-appointment at this Annual General Meeting is as under:

Name of the Director	R Venkataraman	Sat Pal Khattar
Date of Birth	27 .07.1967	22.11.1942
Total Work Experience (in years)	15 years	40 years
Date of First Appointment	17-06-1999	20-04-2001
Qualification	B. Tech (Electronics) Electrical Communications Engineering from IIT, Kharagpur MBA degree from IIM Bangalore	Lawyer
Other Directorships held	i) India Infoline Securities Private Limited	i) AB Hotels Limited
	ii) India Infoline Distribution Company Limited	ii) Devbhoomi Awas Limited
	iii) India Infoline Insurance Services Limited	iii) Gateway Distipark Limited
	iv) India Infoline Commodities Private Limited	iv) Gurgaon Technology Park Limited
	v) India Infoline Investment Services Private Limited	v) Edutech Informatics Limited
	vi) India Infoline Insurance Brokers Limited	vi) Mahindra Sona Limited
		vii) Prasha Electronics Limited
		viii) Purearth Infrastructure Limited
		ix) Solitaire Capital Advisors Private Limited.
Other Committee membership held	Nil	Nil
Number of Shares held in India Infoline Limited	33,75,000	Nil

10. General Shareholders' Information

1.	**Annual General Meeting**	July 24, 2006 at 4:00 p.m. at International Convention Hall, 1st Floor, Bombay Stock Exchange Bldg., P J Towers, Dalal Street, Mumbai-400001.
2.	**Financial Calendar** (2006-2007) Tentative	Financial Year April 1 to March 31. Annual General Meeting 2007 – August, 2007 (Tentative) Results for the Quarter Ended 30.06.2006 – 24.07.2006 Results for the Quarter Ended 30.09.2006 – 17.10.2006 Results for the Quarter Ended 31.12.2006 – 31.01.2007 Results for the Quarter Ended 31.03.2007 – 30.04.2007
3.	**Book Closure Date**	July 17, 2006 to July 24, 2006 (both days inclusive) for the purpose of determining the shareholders entitled to receive final dividend and for the purpose of Annual General Meeting.
4.	**Final dividend payment date**	The Company proposes final dividend of Re. 1 per share over and above Interim dividend of Rs. 2 per share as paid for the year in the ensuing Annual General Meeting. The Final dividend will be paid within 30 days from the the date of the Annual General Meeting, subject to the shareholders' approval.
5	**Listing of equity shares on stock exchanges at**	National Stock Exchange of India Limited The Bombay Stock Exchange Limited
6	**Stock Code**	National Stock Exchange of India Limited - INDIAINFO The Bombay Stock Exchange Limited - 532636
7	**Demat ISIN Numbers in NSDL & CDSL for equity shares**	ISIN No. INE530B01016
8	**Registrar & Transfer Agent**	Intime Spectrum Registry Limited C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai – 400 078. Tel : 2596 3838
9	**Share Transfer System**	The Company's shares are compulsorily traded in dematerialised form. In the case of transfers in physical form, which are lodged at the Registrar & Transfer Agent's Office, these are processed within a period of 30 days from the date of receipt. All Share transfers and other share related issues are approved in the Share Transfer and Investor Grievance Committee Meeting, which is normally convened as and when required.
10	**Dematerialisation of Shares:**	As on March 31, 2006 92.93% of the paid up share capital of the Company was in dematerialised form. Trading in Equity shares of the Company is permitted only in dematerialised form through CDSL and NSDL as per notification issued by the Securities and Exchange Board of India.
11	**Correspondence:** (For dematerialisation) transfer of shares, non-receipt of dividend on shares, and any other query relating to the shares of the Company	Intime Spectrum Registry Limited C-13, Pannalal Silk Mills Compound, L. B. S. Marg, Bhandup (West), Mumbai – 400 078. Tel: 2596 3838

12	**Any query on Annual Report Contact at Registered office:**	Mr Nimish Mehta Compliance Officer, 75, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai – 400 063.
13	**Outstanding Convertible instruments, conversion date and likely impact on equity:**	The Company has outstanding employee stock options as already disclosed in the Directors' Report. The options are to be converted into Equity as and when the same are exercised. The impact of the conversion of the same on the EPS is also detailed in the Directors' Report. The Company has also issued optionally Convertible Bonds and Equity Warrants as informed in Directors Report.

11. Shareholding pattern

The detailed shareholding pattern of the Company as on March 31, 2006 is as under:

Category	No of Shares held	Percentage of Shareholding
Promoter's holding		
Promoters		
– Indian Promoters	15,814,451	35.06
– Foreign Promoters	–	–
Persons acting in Concert	469,500	1.04
Sub-Total (a)	**16,283,951**	**36.11**
Non-Promoters Holding		
Institutional Investors		
Mutual Funds and UTI	3,731,636	8.27
Banks, Financial Institutions, Insurance Companies . (Central / State Govt Institutions/ Non - Government Institutions)	56,000	0.12
FIIs	5,127,660	11.37
Sub-Total (b)	**8,915,296**	**19.77**
Others		
Private Corporate Bodies	2,925,657	6.49
Indian Public	9,050,367	20.07
NRIs / OCBs	7,843,499	17.39
Any other (please specify)	–	–
Clearing Members	82,081	0.18
Sub-Total (c)	**19,901,604**	**44.13**
Grand Total (a+b+c)	**45,100,851**	**100.00**

12. Distribution of shareholding as on March 31, 2006.

No. of Equity Shares held (Range)	No. of Shareholders	% of Shareholders	No. of Shares	% of share Holdings
1 – 500	9,381	90.88	10,83,858	2.40
501 – 1000	340	3.29	2,80,753	0.62
1001 – 2000	227	2.20	3,49,561	0.78
2001 – 5000	184	1.79	6,17,255	1.37
5001 – 10000	60	0.58	4,65,306	1.03
10001 and above	130	1.26	4,23,04,118	93.80
Total	**10,322**	**100.00**	**4,51,00,851**	**100.00**

13. Stock Market Data

BSE Data			NSE Data		
Date	High (Rs)	Low (Rs)	Date	High (Rs)	Low (Rs)
May 2005	88.70	74.50	May 2005	89.00	76.70
June 2005	93.90	80.00	June 2005	93.90	79.90
July 2005	99.00	82.50	July 2005	99.30	81.00
August 2005	116.90	84.50	August 2005	117.00	84.70
September 2005	182.30	104.50	September 2005	183.40	104.35
October 2005	171.50	110.00	October 2005	171.40	111.00
November 2005	149.00	115.90	November 2005	149.95	116.10
December 2005	170.00	131.65	December 2005	176.65	131.50
January 2006	172.50	154.15	January 2006	172.45	152.00
February 2006	165.00	150.50	February 2006	164.90	150.20
March 2006	200.00	145.10	March 2006	201.45	145.35

Declaration on Compliance with the Code of Conduct

It is hereby affirmed that all the Directors and Senior Management Personnel of the Company have complied with the Code of Conduct framed by the Company and the confirmation to that effect has been obtained from the directors and senior management personnel of the Company.

For India Infoline Limited

Nirmal Jain
Chairman and Managing Director

Auditor's Certificate on Compliance of conditions of Corporate Governance

To the Members of India Infoline Limited

We have examined the compliance of conditions of corporate governance by India Infoline Limited, for the year ended 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement entered into by the Company with the stock exchanges. The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of corporate governance. It is neither an audit nor an expression of opinion on the financial statement of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied in all material respect with the conditions of corporate governance as stipulated in the Listing Agreement as mentioned herein above.

We state that no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Shareholders' Grievance Committee.

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

Sharp & Tannan Associates
Chartered Accountants
By the hand of

Place: Mumbai
Date: April 26, 2006

Tirtharaj Khot
Partner
Membership No.: 37457

Chief Executive Officer (CEO) and Chief Financial Officer (CFO) Certification

We, Nirmal Jain, Chairman and Managing Director and Kapil Krishan, Chief Financial Officer, of India Infoline Limited, to the best of our knowledge and belief, certify that:

(a) We have reviewed the financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

  (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

  (ii) these statements together present a true and fair view of the Company's affairs and are in compliance with the existing accounting standards, applicable laws and regulations.

(b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

(c) We accept responsibility for establishing and maintaining internal controls and that we have evaluated the effectiveness of the internal control systems of the Company and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

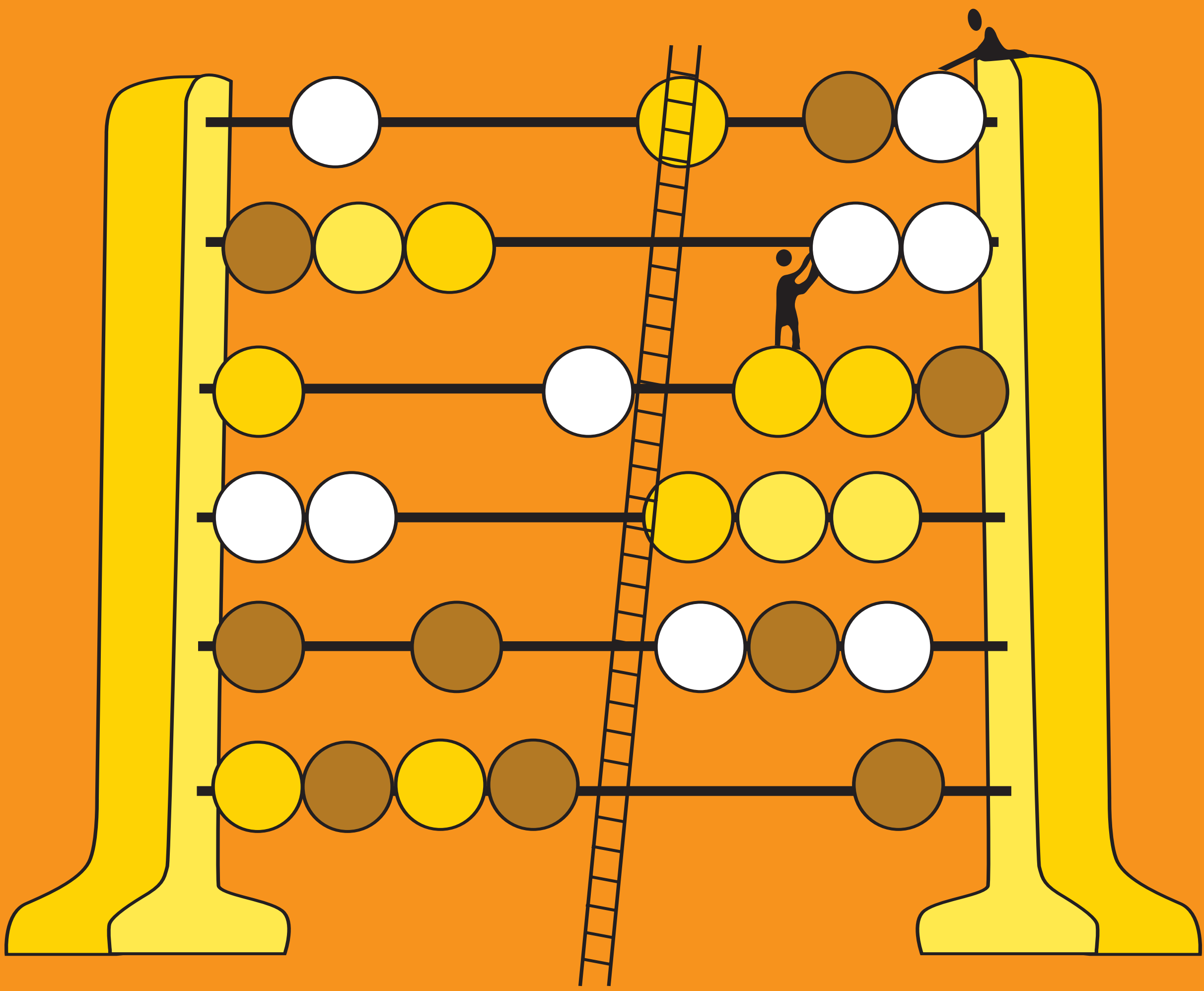
(d) We have indicated to the auditors and the Audit committee

  (i) significant changes in internal control during the year;

  (ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

  (iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control.

Mumbai	**Nirmal Jain**	**Kapil Krishan**
April 26, 2006	*Chairman and Managing Director*	*Chief Financial Officer*



These are our numbers

Auditors' Report

To the Members,

India Infoline Limited

1. We have audited the attached Balance Sheet of India Infoline Limited as at 31st March 2006, the Profit and Loss Account and also 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 and our responsibility is to express an opinion on these financial statements based on our audit.

2. We have conducted our audit in accordance with auditing standards generally accepted in India. These 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 restated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, as amended by Companies (Auditor's Report) (Amendment) Order, 2004 (hereinafter referred to as "the Order") issued by the Central Government in terms of Section 227 (4A) 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 referred to in Para 3 above, we report that:

   i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose 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 the books;

   iii) the balance sheet, profit and loss account and also 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 also Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

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

   vi) in our opinion and to the best of our information and according to the explanations given to us, the said financial statement, read together with the significant accounting policies, note no. (B) 9 with regard to reduction of share capital and other notes to accounts in schedule 'M' give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

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

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

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

Sharp & Tannan Associates
Chartered Accountants
By the hand of

Place: Mumbai
Date: April 26, 2006

Tirtharaj Khot
Partner
Membership No.: 37457

Annexure to the Auditors' Report

Annexure referred to in paragraph 3 of our report dated April 26, 2006 to the members of India Infoline Limited.

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

   (b) The Company has carried out the physical verification of fixed assets based on program, in a phased manner, during the year.

   (c) During the year the Company has neither transferred nor disposed off substantially any of its fixed assets.

2. The Company is not carrying on any manufacturing or trading activity. Therefore, the provisions of sub clause (a), (b) and (c) of clause (ii) of paragraph 4 of the Order are not applicable to the Company.

3. (a) The Company has granted loan to two Companies covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs.190,20,00,000/- and the year-end balance of loans granted to such companies was Rs.80,62,07,769/-

   (b) In our opinion, the rate of interest and other terms and conditions of such loans are not, prima facie, prejudicial to the interest of the Company.

   (c) The Companies have been regular in payment of interest, however there are no stipulations as to repayment of principal amounts.

   (d) There is no overdue amount in excess of one Rs.1 lac in respect of loan granted to Companies listed in the register maintained under Section 301 of the Companies Act, 1956 since repayment schedule is not stipulated.

   (e) The Company has not taken any loans from the companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. As the Company has not taken any loans, the provisions of sub clause (e), (f) and (g) of clause (iii) of paragraph 4 of the Order are not applicable to the Company.

4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the company and nature of its business, for the purchase of fixed assets and sale of services. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control system.

5. (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements that need to be entered into a Register in pursuance of Section 301 of the Companies Act, 1956 and those brought to our notice, have been so entered.

   (b) In our opinion and according to the information and explanations given to us, the transactions in pursuance of such contract or arrangements have been made at prices, which are not comparable since the prevailing market prices of such services, in view of the management, are not readily available.

6. The Company has not accepted any deposits from the public of the nature, which attracts the provisions of Section 58A, 58AA or any other relevant provision of the Companies Act, 1956 and the rules made there under. Therefore, the provision of clause (vi) of paragraph 4 of the Order is not applicable to the Company.

7. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business. The management, however, needs to take action on the recommendations made by the internal auditors.

8. As per the information and explanations given to us, in respect of the class of industry the Company falls under, the maintenance of cost records has not been prescribed by the Central Government under section 209 (1) (d) of the Companies act, 1956. Therefore, the provision of clause (viii) of paragraph 4 of the Order is not applicable to the Company.

9. (a) According to the information and explanations given to us, and as per the records of the Company, in our opinion the Company is generally regular in depositing undisputed statutory dues including Provident Fund,

Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues with the appropriate authorities, where applicable. Based on the information furnished to us, there are no undisputed statutory dues as on 31st March 2006, which are outstanding for a period exceeding six months from the date they became payable.

(b) According to the information and explanations given to us, there are no cases of non-deposit with the appropriate authorities of disputed dues of sales tax / income tax / customs tax / wealth tax / Service tax/ excise duty and Cess.

10. At the end of the financial year, the Company has neither accumulated losses exceeding fifty percent of its net worth nor incurred any cash loss during the financial year and in the immediately preceding financial year.

11. According to the information and explanations given to us, the Company has not defaulted in repayment of its dues to its financial institution, bank or debenture holder.

12. According to the information and explanations given to us, since the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities, the Company, in our opinion, need not maintain relevant documents and record.

13. The Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of sub clause (a), (b), (c) and (d) of clause (xiii) of paragraph 4 of the Order are not applicable to the Company.

14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause (xiv) of paragraph 4 of the Order are not applicable to the Company.

15. The Company has granted a Corporate Guarantee to bank in respect of a loan availed by its subsidiaries company. Based on the information and explanations given to us, we are of the opinion that the terms and conditions on which the guarantees are given are prima facie, not prejudicial to the interest of the Company.

16. The Company has not availed any term loan during the year. Therefore, the provisions of clause (xvi) of paragraph 4 of the Order are not applicable to the Company.

17. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investments.

18. According to the information and explanations given to us, the Company has made preferential allotment of shares in the form of warrants convertible into equity to parties covered in the Register maintained under section 301 of the Companies Act, 1956. In our opinion the price at which such warrants have been issued is not prejudicial to the interest of the Company.

19. The Company has issued unsecured debentures during the year. Therefore, the provision of clause (xix) of paragraph 4 of the Order is not applicable to the Company.

20. We have verified the statement prepared by the management of end use of money raised by the Company by way of public issues with the prospectus filed with SEBI and as disclosed in the notes to the financial statements.

21. Based on the audit procedures performed and information given to us and the representation made by the Management, we report that no fraud on or by the Company has been noticed or reported during the year.

Sharp & Tannan Associates
Chartered Accountants
By the hand of

Place: Mumbai
Date: April 26, 2006

Tirtharaj Khot
Partner
Membership No.: 37457

Balance Sheet As at 31st March, 2006

(Amount in Rupees)

	Schedules	As at 31.3.2006		As at 31.3.2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	A	451,008,510		316,218,620	
Reserves and Surplus	B	1,238,341,934	1,689,350,444	207,049,698	523,268,318
Equity Share Warrants	C		44,200,000		–
Loan Funds					
Secured Loan	D	15,013,666		13,686,909	
Unsecured Loan	E	808,852,531	823,866,197	1,996,595	15,683,504
Total			**2,557,416,641**		**538,951,822**
APPLICATION OF FUNDS					
Fixed Assets (including intangibles)	F				
Gross Block		87,481,776		44,741,759	
Less : Depreciation & Amortisation		52,308,658		37,612,373	
Net Block			35,173,118		7,129,386
Investments	G		1,002,491,597		403,090,000
Deferred Tax Assets			2,014,094		
Current Assets, Loan and Advances	H				
Sundry Debtors		54,875,242		14,902,085	
Cash and Bank Balances		20,913,151		20,330,580	
Loans and Advances		1,721,628,163		133,849,133	
		1,797,416,556		169,081,798	
Less :					
Current Liabilities & Provisions	I				
Current Liabilities		76,686,354		23,877,301	
Provisions		202,992,370		16,472,061	
		279,678,724		40,349,362	
Net Current Assets			1,517,737,832		128,732,436
Total			**2,557,416,641**		**538,951,822**
Significant Accounting policies and Notes to Accounts	M				

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

Profit and Loss Account For the year ended 31st March, 2006

(Amount in Rupees)

	Schedules	2005-06		2004-05	
INCOME					
Online & other media		200,644,975		63,832,865	
Content sale		18,000,000		18,000,000	
Client referral fees		170,169,400		62,527,000	
Call centre income		58,200,000		67,800,000	
Other income	J	37,654,325		10,200,649	
			484,668,700		**222,360,514**
EXPENDITURE					
Employee cost	K	19,434,724		9,201,101	
Administration & 0ther expense	L	31,233,914		17,385,789	
Interest expense		21,798,284		392,976	
Depreciation & Amortisation		14,696,284		5,235,860	
			87,163,206		32,215,726
Profit before tax			**397,505,494**		**190,144,788**
Provision for taxation – Current			134,500,000		15,400,000
– Fringe Benefit Tax			328,500		–
– Deferred Tax			(2,014,094)		–
Net Profit after tax available for appropriation			**264,691,088**		**174,744,788**
APPROPRIATIONS					
Dividend					
– Interim			87,848,760		–
– Proposed Final			45,468,266		–
Dividend Distribution Tax					–
– Interim			12,320,789		–
– Proposed Final			6,376,924		–
Transfer to General Reserve			30,000,000		–
Balance of Profit (Loss) brought forward from previous year			794,691		(173,950,097)
Balance of Profit carried forward			**83,471,040**		**794,691**
Earnings Per Share - Basic			6.23		6.45
- Diluted			5.94		6.18
Face Value Per Share			10.00		10.00
Significant Accounting Policies and Notes to Accounts	M				

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

Schedules forming part of the Balance Sheet

As at 31st March, 2006

(Amount in Rupees)

		As at 31.3.2006	As at 31.3.2005
A SHARE CAPITAL			
Authorised			
80,000,000 (Previous Year - 45,000,000) Equity Shares of Rs.10 each		800,000,000	450,000,000
Issued, Subscribed and Paid-up			
45,100,851 (Previous Year - 31,621,862) Equity Shares of Rs.10 each fully paid up		451,008,510	316,218,620
(Of the above 1,80,34,988 Equity shares have been issued as a bonus shares by capitalisation of Securities Premium & General Reserves)			
Total		**451,008,510**	**316,218,620**

		As at 31.3.2006	As at 31.3.2005
B RESERVES AND SURPLUS			
Securities Premium Account			
Opening Balance	206,255,007		–
Addition during the year	972,256,488		–
Deduction During The Year	(53,640,601)	1,124,870,894	206,255,007
General Reserve: Addition during the year		30,000,000	–
Profit and Loss Account		83,471,040	794,691
Total		**1,238,341,934**	**207,049,698**

	As at 31.3.2006	As at 31.3.2005
C EQUITY SHARE WARRANTS (Application money received against Equity Warrants)		
Equity Share Warrants (Application money received against Equity Warrants)	44,200,000	–

Notes:

A) The Company made an Initial Public Offering of 11,879,108 Equity Shares of Rs.10 each at a price of Rs.76 per share in April 2005. (including premium of Rs66 per share). The allotment was completed on May 10, 2005 and the shares were listed on May 17,2005.

B) During the year the company made the following preferential allotments in terms of SEBI (Disclosure & investor Protection) Guidelines 2000 and as approved by the Share holders in their EGM held on 25th January, 2006.

1) 1,176,471 Equity Shares of Rs.10 each to M/s Bennett Coleman & Company Limited at a price of Rs.170 per share (including premium of Rs. 160 per share)

2) 8,000 Optionally Convertible Bonds (OCBs) of Rs.100000 Each to M/s DSP Merryl Lynch Capital Limited on 7th February, 2006. Each OCB will be optionally convertible into such number of Equity Shares to be issued in one or more trenches at a price range of Rs.140.40 to Rs. 170 per share within 18 months of allotment.

3) 2,600,000 Equity Warrants to the promoters on 8th February, 2006 as follows

Mr. Nirmal Jain	1,520,731
Mrs. Madhu Jain	489,767
Mr. R.Venkatraman	589,502

Each Equity warrant will be exercisable into One equity share to be issued in one or more tranches at Rs. 170 per share within a period of 18 months from the date of allotment. Against these an application money of 10% of the exercisable price which shall be adjusted against the exercise price has been received.

C) During the year the company allotted 423,410 Equity shares pursuant to exercising options by the employees under the ESOP scheme 2000.

	As at 31.3.2006	As at 31.3.2005
D SECURED LOANS		
Overdraft from Bank (Secured against pledging of Fixed Deposits)	15,013,666	13,686,909

	As at 31.3.2006	As at 31.3.2005
E UNSECURED LOANS		
1% Optionally Convertible Bonds	800,000,000	–
Temporary overdrawn balances	8,852,531	1,996,595
Total	**808,852,531**	**1,996,595**

Schedules forming part of the Balance Sheet

As at 31st March, 2006

F FIXED ASSETS

(Amount in Rupees)

Assets	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.4.2005	Additions	Deductions	As at 31.3.2006	As at 01.4.2005	For the year	Deductions	As at 31.3.2006	As at 31.3.2006	As at 31.3.2005
Air Conditioner	470,000	3,757,350	–	4,227,350	470,000	751,470	–	1,221,470	3,005,880	–
Computers	24,779,374	23,245,967	–	48,025,341	20,941,018	9,672,916	–	30,613,934	17,411,407	3,838,356
Electrical Equipment	2,826,422	284,449	–	3,110,871	2,602,852	112,782	–	2,715,634	395,237	223,570
Furniture & Fixture	9,425,962	1,740,536	–	11,166,498	7,743,525	937,170	–	8,680,695	2,485,803	1,682,437
Office Equipment	4,110,148	739,607	–	4,849,755	2,808,540	499,964	–	3,308,504	1,541,251	1,301,608
Vehicle	7,100	–	–	7,100	7,100	–	–	7,100	–	–
Sub Total	**41,619,006**	**29,767,909**	**–**	**71,386,914**	**34,573,035**	**11,974,302**	**–**	**46,547,337**	**24,839,577**	**7,045,971**
Intangible Assets										
Goodwill	–	12,421,958	–	12,421,958	–	2,484,391	–	2,484,391	9,937,566	–
Software	3,122,753	550,150	–	3,672,904	3,039,338	237,591	–	3,276,930	395,974	83,415
Sub Total	**3,122,753**	**12,972,108**	**–**	**16,094,862**	**3,039,338**	**2,721,982**	**–**	**5,761,321**	**10,333,540**	**83,415**
Grand Total	**44,741,759**	**42,740,017**	**–**	**87,481,776**	**37,612,373**	**14,696,284**	**–**	**52,308,658**	**35,173,118**	**7,129,386**
Previous year	35,548,521	9,193,238	–	44,741,759	32,376,513	5,235,860	–	37,612,373	7,129,386	3,172,008

	As at 31.3.2006	As at 31.3.2005
G INVESTMENTS		
Quoted, Non-Trade, Current, Valued At Cost		
Nil (Previous Year: 99,081.25) Units of HDFC Income Fund - Growth (Aggregate Market Value: Rs.Nil, P.Y. Rs.1,560,609)	–	1,100,300
Benchmark Mutual Fund Liquid Bees (Aggregate Market Value: Rs.1897, P.Y. Rs.Nil)	1,897	–
Unquoted, Trade, Long Term, Valued At Cost		
Investments in Subsidiaries:		
1,400,100 (P.Y: 1,400,100) Equity shares of Rs.10 each in India Infoline Distribution Company Limited	49,999,700	49,999,700
8,950,000 (P.Y.: 8,200,000) Equity shares of Rs.10 each in India Infoline Securities Private Limited	600,000,000	300,000,000
481,330(P.Y: 481,330) Equity shares of Rs.10 each in India Infoline Insurance Services Limited	10,000,000	10,000,000
200,000 (P.Y.: 200,000) Equity shares of Rs.10 each in India Infoline Commodities Private Limited	20,000,000	20,000,000
5,000,000 (P.Y.: 2,000,000)Equity shares of Rs.10 each in India Infoline Investment Services Private Limited	321,990,000	21,990,000
50,000 Equity shares of Rs.10 each in India Infoline Insurance Brokers Private Limited	500,000	–
[Aggregate value of Unquoted Investments Rs.1,002,489,700 , P.Y. 401,989,700)		
Total	**1,002,491,597**	**403,090,000**

	As at 31.3.2006	As at 31.3.2005
H CURRENT ASSETS, LOANS & ADVANCES		
A) CURRENT ASSETS		
I) Sundry Debtors (Unsecured, considered good, unless otherwise stated)		
Outstanding for a period exceeding six months	443,582	34,206
Other Debts	54,431,660	14,867,879
	54,875,242	**14,902,085**
II) Cash and Bank Balance		
Cash on hand	464,463	68,435
Bank Balances		
With Scheduled Banks :		
in Current Accounts	996,440	1,736,807
in Fixed Deposits	19,452,248	18,525,338
	20,913,151	**20,330,580**

Schedules forming part of the Balance Sheet

As at 31st March, 2006

(Amount in Rupees)

	As at 31.3.2006	As at 31.3.2005
H CURRENT ASSETS, LOANS & ADVANCES *(Contd.)*		
B) LOANS & ADVANCES (Unsecured, Considered good, unless otherwise stated)		
Loans to Subsidiaries	806,207,769	–
Advances to Subsidiaries	588,914,421	113,270,985
Advances recoverable in cash or in kind or for value to be received.	552,653	297,775
Deposits	22,913,911	7,069,170
Advance Income Tax, Refund & Tax deducted at Source	118,007,864	11,662,553
Other Loans & Advances	185,031,545	1,548,650
	1,721,628,163	**133,849,133**
Total Current Assets, Loans and Advances	**1,797,416,556**	**169,081,798**

I CURRENT LIABILITIES AND PROVISIONS		
A) CURRENT LIABILITIES		
Sundry Creditors		
Dues to Small Scale Industrial Undertaking	–	–
Others	6,065,927	481,403
Dues to Subsidiary	51,045,700	5,845,577
Income Received in Advance	951,983	331,316
Other Liabilities	18,622,744	17,219,005
	76,686,354	**23,877,301**
B) PROVISIONS		
Provision for Gratuity	281,526	519,021
Provision for Leave Encashment	137,154	53,040
Provision for Taxation	150,728,500	15,900,000
Proposed Dividend	45,468,266	–
Provision for Dividend Distribution Tax	6,376,924	–
	202,992,370	**16,472,061**
Total Current Liabilities and Provisions	**279,678,724**	**40,349,362**

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

(Amount in Rupees)

	2005-06	2004-05
J OTHER INCOME		
Interest on Fixed Deposits (Gross) (Includes TDS Rs. 555,445 P.Y. Rs. 12,377)	2,107,902	1,012,914
Sub Letting Income	6,976,800	6,976,800
Miscellaneous Income	28,569,623	2,210,935
Total	**37,654,325**	**10,200,649**

K EMPLOYEES' REMUNERATION & BENEFITS		
Salaries, Bonus, Contribution to Provident Fund & Other Funds	29,131,978	15,431,161
Staff Welfare Expenses	803,876	449,656
Gratuity	–	70,284
Less :- Recovery of Expenses from Subsidiary	(10,501,130)	(6,750,000)
Total	**19,434,724**	**9,201,101**

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

(Amount in Rupees)

		2005-06	2004-05
L ADMINISTRATION AND OTHER EXPENSES			
Advertisement Expense		3,485,641	1,178,803
Rent		3,060,723	4,194,203
Rates and Taxes		20,000	38,046
Electricity Expenses		1,116,602	288,406
Communication Expenses		3,049,206	3,240,384
Printing & Stationery		3,352,803	1,977,055
Postage and Courier		820,642	143,690
Bank Charges		176,622	38,801
Repairs and Maintenance:			
– Computers	29,139		84,725
– Others	137,673	166,812	225,466
Travelling and Conveyance		1,366,818	754,429
Research Outsourced & Data Sourcing		280,413	150,524
Legal & Professional Charges		9,816,412	1,333,971
Hire Charges		20,840	176,370
Remuneration to Auditors			
Audit Fees	150,000		100,000
Certification Work & Other Matters	60,000		
Out of Pocket expenses	5,000	215,000	8,522
Office Expenses		208,336	224,374
Software Charges		3,011,876	1,627,543
Membership & Subscription		530,940	291,636
Miscellaneous Expenses		534,228	1,308,841
Total		**31,233,914**	**17,385,789**

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

A. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The financial statements have been prepared under historical cost convention on an accrual basis.

b) Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognized in the period in which the results are known / materialized.

c) Revenue Recognition

Revenue from media is recognized pro-rata over the contractual / subscription period. Content Income, Client Referral Fees and Call Centre Income are recognized based on their respective contractual terms.

d) Intangible Asset & Amortization

The Intangible Assets are stated at cost of acquisition less amortization. These are amortised as below

Software	3 years
Goodwill	5 years

e) Fixed Assets and Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation thereon. Depreciation is charged using the straight line method based on the useful lives of fixed assets as estimated by the management as specified below, or the rates specified in accordance with the provisions of schedule XIV of the Companies Act, 1956, which-ever is higher.

Full depreciation is charged on assets purchased during the year and no depreciation is charged on assets sold during the year.

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

Estimated useful life of the assets is as under:

Computer equipment	3 years
Office equipment	5 years
Furniture and fixtures	5 years

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

f) Investments

Investments are classified into current and long-term investments. Current investments are stated at lower of cost or market value. Long-term investments are carried at cost less provisions, if any, for permanent diminution in the value of such Investment.

g) Foreign exchange transactions

Transactions in foreign currencies are recorded at the prevailing rates at the time transactions were effected. Foreign currency assets & liabilities outstanding at the year-end are translated at the rates of exchange ruling on that day; gain / loss on transactions are accounted in the Profit & Loss account, or adjusted in the value of Fixed Assets, as applicable.

h) Retirement Benefits

The company's contribution towards Provident Fund and Family Pension Fund is charged against revenue on actual basis.

The Company has provided Gratuity and Leave Encashment payable to employees on the basis of actuarial valuation.

i) Leases

Lease rentals in respect of operating lease arrangements are charged to the Profit & Loss Account in accordance with Accounting Standard 19 – Leases, issued by the Institute of Chartered Accountants of India.

j) Taxes on Income

Provision for current tax is computed in accordance with relevant tax provisions.

Deferred tax is recognized for all timing differences between accounting income & taxable income and are quantified using enacted / substantially enacted tax rates as at the balance sheet date. Deferred tax assets are recognized subject to the management judgement that the realisation is virtually certain.

B. NOTES TO ACCOUNTS

1. The company has provided a Corporate Guarantee on behalf of its wholly owned subsidiary India Infoline Securities Private Limited for the following facilities provided to the later: (a) to UTI Bank Limited for bank guarantees of Rs 160,000,000 and overdraft of Rs.40,000,000 (b) to Kotak Bank Limited for bank guarantees of Rs.30,000,000 and overdraft of Rs.100,000,000 (c) to UCO Bank for bank guarantees of Rs.100,000,000 (d) to Union Bank for bank guarantees of Rs.100,000,000 (e) to Standard Chartered Bank for bank guarantees of Rs. 300,000,000. The company has also issued guarantees on behalf of its wholly owned subsidiary India Infoline Commodities Private Limited to the extent of Rs.20, 000,000 to HDFC Bank and Rs.20,000,000 to UTI Bank.

2. The Company provides for the use of its wholly owned subsidiaries certain facilities like use of premises, infrastructure and other facilities and services and the same are termed as 'Shared Services'. Hitherto, such shared services consisting of administrative and other revenue expenses paid for by the company were identified and recovered from them based on reasonable management estimates in accordance with Board Resolution passed in this regard, which are constantly refined in the light of additional knowledge gained relevant to such estimation. During the year ended 31st March 2006, these expenses are recovered on an actual basis and the estimates are used only where actuals were difficult to determine.

3. The company has entered into separate agreement with its subsidiaries, India Infoline Securities Private Limited (IISPL), India Infoline Insurance Services Limited (IIISL), India Infoline Commodities Private Limited (IICPL) towards

(1) Client Lead Fees for providing client lead services for broking and demat operations

(2) Online Media & Content Fees to provide data and information on business, finance, and Indian corporates and

(3) Providing Call Centre services to support their operations.

The Company is a registered Information Technology Enabled Services provider. The income of the previous year have been reclassified

As per these respective agreements, the structure of various charges / fees to be received by the company, is as under

(Amount in Rupees)

Particulars	Year ended 31st March, 2006 (Previous Year)			
	IISPL	IIDCL	IIISL	IICPL
Client leads fees	164,576,250	Nil	Nil	5,593,150
	(61,327,000)	(Nil)	(Nil)	-1,200,000
Online Media & Content fees	18,000,000	Nil	Nil	Nil
	(18,000,000)	(Nil)	(Nil)	(Nil)
Call centre charges	42,000,000	Nil	9,000,000	7,200,000
	(42,000,000)	(15,000,000)	(9,000,000)	(1,800,000)

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

4. The company during the financial year 1999-00 had announced an Employee Stock Option Plan (ESOP 2000), which provided for grant of share options to employees of the company. The plan had reserved a total of 815,000 shares (2,445,000 shares after giving effect to Bonus shares) for issuance under ESOP 2000. Until now the company has granted the options in three lots being 11,37,000 options on March 1, 2000; 9,79,250 options on April 1, 2003, and finally 6,94,200 options on October 1, 2004 from the balance ESOPs including lapsed options from the earlier offerings. As on date 998,360 options are in force and 24,650 options have been lapsed. No option shall be granted any further from the said scheme (ESOP 2000) in terms of the disclosures made in the prospectus dated April 11, 2005 issued by the company .

The company during the year has approved an "Employee Stock Option Plan 2005" (ESOP 2005) at the Extra ordinary General Meeting of the shareholders of the company held on January 25,2006 providing for issue of 25,00,000 options entitling to a total of 25,00,000 shares to the employees of the company and its subsidiaries including directors of the company (except an employee or director who is a promoter or belongs to the promoter group or a director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than10% of the outstanding equity shares of the company at any time) whether in India or at overseas location. The company has not granted any options under this plan during the year till March 31,2006.

5. The Company has an Investment of Rs.1,200,000 (to take a 75% stake) in the equity shares of Moneytree Consultancy Services Private Limited (MTCSPL) from its fully owned subsidiary, India Infoline Distribution Company Limited (IIDCL). MTCSPL is engaged in the business of distribution on home loan products. During the year the net worth of MTCSPL has been substantially eroded. Since the Company's Investments in the above-mentioned subsidiary is of strategic value, in management's view, the decline in the value of the said investment in the subsidiaries is considered as temporary and accordingly, no provision has been made for the said decline in value of investments in the books of the company.

6. During the year, the company has formed a new subsidiary: India Infoline Insurance Brokers Ltd with an initial investment of Rs.500,000 to undertake the business of insurance broking. However this subsidiary has not commenced operations till March 31, 2006.

7. The members of the Company, at the Extraordinary General Meeting held on January 25, 2006 resolved to (a) issue 8000 Optionally Convertible Bonds aggregating to Rs800 million to DSP Merrill Lynch Capital Limited, a 100% subsidiary of DSP Merrill Lynch Limited. (b) issue 1,176,471 equity shares to Bennett Coleman & Co Ltd aggregating to Rs.200 million and (c) issue 26,000,000 equity warrants on preferential basis to promoters exercisable into equity shares at a price of Rs170 per share (d) approve ESOP Scheme 2005 for issue of 2.5 million equity shares to the employees of the company and its subsidiaries subject to the provisions of the Sebi ESOP Guidelines. The company has not granted any options during the year against this Scheme.

8. Interest on Optionally Convertible Bonds issued to DSP Merrill Lynch Capital Limited has been provided at the agreed rate of @1% p a for the period from 7th February 2006 (date of allotment) to 31st March 2006. The OCBs carry put / call options whereby if the bonds are not converted to Equity shares on such put / call, they will be redeemed with an interest of 9% p a calculated on semi annual basis at the time of redemption. The Management is of the view that the OCBs will be exercised for conversion and interest has accordingly been provided in the accounts. In case of redemption of bonds, the additional interest payable pertaining to the period 7th February 2006) to 31st March 2006 will be Rs. 92,93,152. To this extent the profits of the company for the year are overstated.

9. Pursuant to the approval by the shareholders at the Extra-Ordinary General Meeting held on 30th December 2003, the company had submitted petition with the High Court of Mumbai under sections 78 and 100 of the Companies Act, 1956 for seeking its directions for company's proposal to (a) write off the accumulated losses by utilizing the securities premium account and (b) reduce the paid up value of the shares of the company from Rs.10 per share to Rs.5 per share. The said Court has approved the company's proposal vide its order dated 6th May 2004. However, in view of the improved operating performance, the Company decided to continue in its 'status quo' and not to reduce the paid up value of the share. Necessary submissions to this effect are being made by the company.

10. The Accounting Standard 22 on 'Accounting for Taxes on Income' first became applicable to the Company from the accounting periods beginning 1st April 2002. The company recognized deferred tax assets for the first time for the year ended on 31st March 2006 since the management is virtual certain of its profitable operations in future. Deferred tax assets as at 31st March, 2006 are as below:

Deferred Tax Asset

Sr No.	Particulars	As at 31.3.2006	As at 31.3.2005
1	On leave encashment	947,062	NIL
2	Depreciation	1,919,332	NIL
	Total	**2,014,094**	**NIL**

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

11. The company has taken Office Premise under operating leases. The total minimum lease payments in respect thereof are as under:

(Amount in Rupees)

Minimum Lease Payments Particulars Due:	2005-2006	2004-2005
Not Later than one Year	2,220,170	4,884,374
Later than one Year but not later than Five Years	NIL	NIL
Later than five Years	NIL	NIL
Total Minimum Lease Payments	**2,220,170**	**4,884,374**

Out of the above certain portion has been sub lt by the Company as Operating lease, the future rental as at 31.03.2006 of which is as under;

Minimum Lease Rental Receivables	2005-2006	2004-2005
Not Later than one Year	2,907,000	6,395,400
Later than one Year but not later than Five Years	NIL	NIL
Later than five Years	NIL	NIL
Total minimum Lease Receivables	**2,907,000**	**6,395,400**

Contingent Rent recognised in the Profit & Loss A/c NIL

12. Segment Reporting:

Segment information for the year ended 31st March, 2006

Primary segment information (by business segment) (Figures in bracket represent previous year figures)

	Online Media & content income	Call Centre Charges	Customer Leads Fees	Others	Total
Segment Revenue	218,644,975	58,200,000	170,169,400	37,654,325	484,668,700
	(81,832,865)	(67,800,000)	(62,527,000)	(10,200,648)	(222,360,514)
Segment Results	206,072,979	42,605,753	155,816,084	37,654,325	442,149,141
	(76,758,637)	(62,773,910)	(60,597,526)	(6,165,048)	(206,295,121)
Less : Unallocated Expenses net of other unallocated income					22,845,364
					(15,757,356)
Interest					21,798,284
					(392,976)
Less : Income Tax					132,814,406
					(15,400,000)
Profit After Tax					264,691,088
					(174,744,789)
Segment Assets	22,752,124	69,346,795	164,921,118	75,006,084	332,026,121
	(15,778,110)	(51,729,799)	(76,002)	(23,040,338)	(90,624,249)
Unallocated Assets				–	2,505,069,243
					(488,676,936)
Total Assets					2,837,095,364
					(579,301,184)
Segment Liabilities	951,983		–	200,000	1,151,983
	(353,782)	(3,460)	(2,094,195)	(474,732)	(2,926,169)
Unallocated Corporate Liabilities				–	1,050,547,747
					(53,106,697)
Total Liabilities					1,051,699,730
					(56,032,866)
Capital Expenditure	915,718	16,150,821	344,868	–	17,411,407
	(302,800)	(5,426,704)	(110,400)		(5,839,904)
Unallocated Capital Expenditure					17,761,711
					(3,353,334)
Total Capital Expenditure					35,173,118

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

(Amount in Rupees)

	Online Media & content income	Call Centre Charges	Customer Leads Fees	Others	Total
Depreciation	508,728	9,210,188	191,591	–	9,910,507
	(100,930)	(2,333,127)	(36,798)		(2,470,855)
Unallocated Depreciation				–	4,785,778
					(2,765,005)
Total Depreciation					14,696,285
					(5,235,860)
Non Cash Expenditure other than Depreciation					NIL
					(NIL)

Note:

The company operates in only one geographic segment i.e. 'India'. Hence separate information on geographical segment is not required. The other segment, if any, constitutes income like interest on investments etc, which are not the regular income streams of the company and hence segment results, segment assets and segment liabilities are, accordingly disclosed. The accounting policies adopted for segment reporting are in line with the accounting policies adopted for preparation of financial information of the company.

13. Related Party Disclosures:

Related party disclosures as on March 31, 2006.

Nature of relationship	**Name of party**
(a) Related parties where control exists:	
Subsidiaries	India Infoline Securities Private Limited
	India Infoline Distribution.Com Company Limited
	India Infoline Insurance Services Limited
	India Infoline Commodities Private Limited
	India Infoline Investment Services Private Limited
	India Infoline Insurance Brokers Limited
(b) Other related parties	
Key Management Personnel	Mr. Nirmal Jain
	Mr. R Venkataraman

(c) Significant Transactions with Related Parties

Significant transaction with related parties (Figures in bracket represents previous year figures)

(Amount in Rupees)

Nature of Transaction	Subsidiaries	Key Managerial Personnel	Total
Investment (refer Schedule G)	600,500,000		600,500,000
	(149,884,500)		(149,884,500)
Share Capital (refer Schedule A)	–	44,200,000	44,200,000
	–	(52,000,000)	(52,000,000)
Remuneration (refer Note 17)		14,209,000	14,209,000
	–	(7,500,000)	(7,500,000)
Reimbursement Of Expenses		2,706,000	2,706,000
		(900,000)	(900,000)
Interest Income	24,421,324		24,421,324
	(–)		(–)
Online Media & Content Fees (refer Note 3)	18,000,000		18,000,000
	(18,000,000)		(18,000,000)
Client Leads Fees (refer Note 3)	170,169,400		170,169,400
	(62,527,000)		(62,527,000)
Call Centre Charges (refer Note 3)	58,200,000		58,200,000
	(67,800,000)		(67,800,000)

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

(Amount in Rupees)

Nature of Transaction	Subsidiaries	Key Managerial Personnel	Total
Corporate Guarantee	670,000,000		670,000,000
	(100,000,000)		(100,000,000)
Advances given / Reimbursement of Expenses	4,691,811,003		4,691,811,003
	(585,449,427)		(585,449,427)
Advance taken / allocation of expenses	3,460,981,733		3,460,981,733
	(508,825,798)		(508,825,798)

Outstanding as at March 31,2006

Nature of Transaction	Subsidiaries	Key Managerial Personnel	Total
Creditors	51,045,700	7,092,396	58,138,096
	(5,845,577)	(436,692)	(6,282,269)
Loans and Advances	1,395,122,190	–	1,395,122,190
	(113,270,985)	–	(113,270,985)
Investments	1,002,489,700	–	1,002,489,700
	(401,989,700)	–	(401,989,700)
Guarantees	870,000,000	–	870,000,000
	(200,000,000)	–	(200,000,000)

Note:

The transaction between group companies comprise of extension and return of temporary advances of funds, allocation of expenses, reimbursement of expenses, etc as identified by the Company's management from the Holding / Subsidiary Company's Current Account.

14. Basic and Diluted Earning Per Share ["EPS"] computed in accordance with Accounting Standard (AS) 20 'Earnings per share"

(Amount in Rupees)

Particulars		2005-2006	2004-2005
Basic			
Profit after tax as per Profit and Loss account	A	264,691,088	174,744,788
Number of Shares Subscribed	B	42,510,382	27,102,684
Basic EPS (Rupees)	A/B	6.23	6.45
Diluted			
Profit after tax as per Profit and Loss account	A	264,691,088	174,744,788
Number of Shares Subscribed		42,510,382	27,102,684
Add: Potential Equity Shares on Account conversion of Employees Stock Options, etc.		2,052,091	1,155,550
Weighted Number of Shares Outstanding	B	44,562,473	28,258,234
Diluted EPS (Rupees)	A/B	5.94	6.18

15. Utilisation of Issue Proceeds

(Amount in Rupees)

		Projected as per Prospectus for 2005-06 & preferential Allotment
Mobilisation		
Initial Public Offering	902,812,208	
Preferential Allotment		
Equity	200,000,070	
Optionally Convertible Bonds	800,000,000	
Equity Warrants (10% advance)	44,200,000	
Total Mobilisation	1,947,012,278	
Utilisation		
Fixed Assets	100,257,969	150,000,000
Technology	109,857,557	98,400,000
Investment & Advances to subsidiaries	603,100,000	265,400,000
General Corporate purposes	200,000,000	20,000,000
Preferential Allotment - Long term business requirement	1,236,651,082	1,044,200,070
Total Utilisation	**2,249,866,608**	**1,578,000,070**

Schedules forming part of the Profit and Loss Account

For the year ended 31st March, 2006

M SIGNIFICANT ACCOUNTING POLICIES AND NOTES *(Contd.)*

Forming part of the Balance Sheet as at March 31, 2006 and Profit and Loss Account for the Year ended March 31, 2006.

16. Loans and Advances Includes Dues from Companies under same Management

(Amount in Rupees)

Sr.No.	Name	Particulars	2005-2006	2004-2005
1	India Infoline Securities Private Limited	Outstanding at year end	516,857,560	25,834,854
	Maximum Amount Outstanding		1,845,112,902	41,872,309
2	India Infoline Investment Services Private Limited	Outstanding at year end	823,924,358	NIL
	Maximum Amount Outstanding		823,924,358	
3	India Infoline Insurance Service Limited	Outstanding at year end	54,216,602	3,447,466
	Maximum Amount Outstanding		84,238,750	25,147,802
4	India Infoline.Com Distribution Company Limited	Outstanding at year end	NIL	83,988,665
	Maximum Amount Outstanding			83,988,665
5	India Infoline insurance Brokers Limited	Outstanding at year end	123,670	NIL
	Maximum Amount Outstanding		123,670	

17. Directors Remuneration

Particulars	2005-2006	2004-2005
Wholetime Directors		
Salaries & Reimbursements	14,209,000	7,500,000
Company Contribution to Provident fund	144,000	144,000
Perquisites / Expenses Reimbursement	2,706,000	900,000
Non-Wholetime Directors		
Commission	2,000,000	NIL

Computation of Net Profit in accordance with Section 349 of the Companies Act, 1956

		2005-2006	2004-2005
Profit before tax as per Profit and Loss Account		397,505,494	190,144,789
Add: Depreciation charged to the Accounts	14,696,285		
Managing and Whole -time Directors' remuneration	17,059,000		
Directors sitting fees	900,000		
		32,655,285	12,919,860
		430,160,779	203,064,649
Less: Depreciation as per section 350 of the Companies Act, 1956	12,150,446		
Excess of expenditure over income as per Section 349	–		
		12,150,446	90,541,653
Net profit as per section 349 of the Companies Act,1956		418,010,333	112,522,996
Maximum permissible remuneration under section 198 of the companies Act,1956 @ 10% of the profit computed above to Whole Time Directors		41,801,033	11,252,300
Maximum permissible remuneration under section 198 of the companies Act,1956 @ 1% of the profit computed above to Non-Whole Time Directors		4,180,103	1,125,230

18. Information under paragraphs 3 and 4 of part II to schedule VI of The Companies Act, 1956 is stated to the extent applicable

Earnings in foreign Exchange

Content Sale : Rs.NIL (P.Y. Rs.86,313)

Online Media : Rs.5,674,180 (P.Y. Rs.2,479,380)

Other Requirements of para 3 and 4 of part II to schedule VI of The Companies Act, 1956 are not applicable to the company.

19. There are no dues to small scale industrial undertaking outstanding for more than 30 days.

20. Previous year figures have been regrouped, reclassified & rearranged, wherever considered necessary to confirm to current years presentation.

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

Cash Flow Statement For the year ended 31st March, 2006

(Amount in Rupees)

Particulars	As at 31.3.2006	As at 31.3.2005
Cash flows from operating activities		
Net profit before taxation, and extraordinary item	397,505,494	190,144,789
Adjustments for		
Depreciation & Amortisation	14,696,284	5,235,860
Provisions for Gratuity	–	70,284
Provisions for Leave Encashment	137,154	53,040
Foreign exchange loss	11,422	15,765
Interest income	(22,313,422)	(1,012,914)
Loss / (Profit) on Sale of Investments	(2,666,206)	
Interest expense	21,798,284	392,976
Tax (Paid) / Refund	(118,666,100)	(11,155,115)
Operating profit before working capital changes	**290,502,910**	**183,744,686**
(Increase) / Decrease in sundry debtors	(39,973,157)	(10,893,385)
(Increase) / Decrease in Loans & Advances	(199,582,514)	(4,000,415)
(Increase) / Decrease in Group Co. Balances	(1,236,651,082)	(82,459,204)
Increase / (Decrease) in Provisions	(290,535)	(805,929)
Increase / (Decrease) in Current Liabilities	7,608,929	5,227,238
Cash generated from operations	**(1,178,385,448)**	**90,812,990**
Cash flow before extraordinary item	(1,178,385,448)	90,812,989
Foreign Exchange Loss	(11,422)	(15,765)
Net cash from operating activities	**(1,178,396,870)**	**90,797,224**
Cash flows from investing activities		
Purchase of fixed assets	(29,767,909)	(9,105,615)
Sale of Investments	3,766,206	–
Purchase of intangibles	(12,972,108)	(87,623)
Purchase of Investments	(600,501,597)	(149,884,500)
Interest received	22,313,422	1,012,914
Net cash from investing activities	**(617,161,985)**	**(158,064,824)**
Cash flows from financing activities		
Proceeds from issuance of share capital	1,097,605,777	52,000,000
(Repayment) / Proceeds of long-term borrowings	801,326,757	12,788,138
Interest paid	(21,798,284)	(392,976)
Dividend Paid	(87,848,760)	–
Net cash used in financing activities	**1,789,285,490**	**64,395,162**
Net increase in cash and cash equivalents	(6,273,364)	(2,872,438)
Cash and cash equivalents at beginning of period (see Note 1)	18,333,985	21,206,423
Cash and cash equivalents at end of period (see Note 1)	12,060,621	18,333,985
Net increase in Cash and Cash Equivalents		
Opening Cash and cash equivalents		
Cash on hand and balances with banks	20,330,580	21,206,423
Less: Bank Overdraft	(1,996,595)	–
	18,333,985	21,206,423
Closing Cash and cash equivalents		
Cash on hand and balances with banks	20,913,151	20,330,580
Less: Bank Overdraft	(8,852,530)	1,996,595
	12,060,621	18,333,985
Net increase in cash and cash equivalents	**(6,273,363)**	**(2,872,438)**

1. Cash flow statement has been prepared under the Indirect Method as set out in the Accounting Standard (AS-3) "Cash Flow Statement" issued by the Institute of Chartered Accountants of India.
2. Previous year's figure are re -group/re-arrange wherever considered necessary.

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

Balance Sheet Abstract and Company's General busines profile

I. Registration Details

Registration No.	93797	State Code	11
Balance Sheet Date	31 03 2006 (Date Month Year)		

II. Capital Raised during the year *(Amount in Rs. Thousands)*

Public Issue	118791	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	11765
Equity Warrants Application	44200	ESOP	4234

III. Position of Mobilisation and Deployment of Funds *(Amount in Rs. Thousands)*

Total Liabilities	2557417	Total Assets	2557417

Sources of Funds

Paid-up Capital	451008	Reserves & Surplus	1238342
Secured Loans	15014	Unsecured Loans	80853
Equity Warrants	44200		

Application of Funds

Net Fixed Assets and	35173	Investments	1002492
Net Current Assets	1517738	Deferred Tax Assets	2014
Accumulated Losses	NIL	Misc. Expenditure	NIL

IV. Performance of Company *(Amount in Rs. Thousands)*

Turnover	484669	Total Expenditure	87163
Profit/Loss before Tax (Please tick Appropriate box + for Profit – for Loss)	+ 397506	Profit/ Loss after Tax (please tick Appropriate box + for Profit – for Loss)	+ 264691
Basic Earnings Per Share in Rs.	6.23	Dividend	133317

V. Generic Names of Three Principal Products / Services of Company *(as per monetary terms)*

Product Description	Item Code No. (ITC Code)
Internet Related Services	NIL

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

Section 212

Statement required to be included in the Consolidated Balance Sheet pursuant to approval granted under Section 212 (8)

	Particulars	India Infoline Securities Private Limited	India Infoline Distribution Company Limited	India Infoline Insurance Srevices Limited	India Infoline Commodities Privete Limited	India Infoline Investment Services Private Limited	India Infoline Insurance Brokers Limited	Moneytree Consultancy Services Private Limited
1	Capital	89,500,000	14,001,000	2,806,300	2,090,000	50,000,000	500,000	1,600,000
2	Reserves	603,531,510	69,870,320	68,573,653	17,910,000	299,129,759	–	(4,601,490)
3	Total Asets	1,338,074,976	83,871,320	71,379,953	20,000,000	1,519,986,052	500,000	1,640,400
4	Total Liabilities	1,338,074,976	83,871,320	71,379,953	20,000,000	1,519,986,052	500,000	1,640,400
5	Details of Investment	10,000	1,717,000	–	5,000,000	234,802,211	–	–
6	Turnover	1,452,956,428	204,266,867	216,413,878	41,458,184	53,910,111	–	2,425,097
7	Profit before taxation	103,671,217	100,740,306	92,482,537	(115,632)	28,487,869	(142,759)	(4,565,490)
8	Provision for taxation (Current year)	46,153,500	21,566,000	32,956,500	166,000	1,205,000	–	36,000
9	Deferred tax	3,920,658	1,711,143	386,496	–	81,216	–	–
10	Short provision for tax of earlier year	–	–	–	–	–	–	–
11	Profit after taxation	61,438,375	80,885,449	59,912,533	(281,632)	27,364,085	(142,759)	(4,601,490.00)
12	Proposed Dividend	–	–	–	–	–	–	–

India Infoline Distribution Company Limited : Profit Before Taxation Includes Rs.4000000 Excess Provision written back of earlier years.

Details of Investment of India Infoline Securities Private Limited	
1000 Equity Shares The Bombay Stock Exchange Limited of Rs.10 each	10,000
Details of Investment of India Infoline Distribution Company Limited 3,724.86 (P.Y. 3724.86) Units of Birla Income Plus Plan B: Growth (Net Asset Value Rs.107,574 P.Y. Rs.104,716.50)	102,000.00
5,457.99 (P.Y. 5457.99) Units of Birla Mid-Cap Fund Plan B: Growth (Net Asset Value Rs.312,961 P.Y.Rs.115,764.10)	115,000.00
3,000 (-) Equity Shares of Money Tree Consultancy Services Private Limited of Rs. 100/- each fully paid up.	300,000
12,000 (-) zero coupon Redeemable Convertible Preference Shares of Money Tree Consultancy Services Private Limited of Rs.100/- each fully paid	1,200,000
Details of Investment of India Infoline Commodities Private Limited	
Investment in Mutual Fund with Franklin Templeton Fund - Daily Dividend Reinvestment Scheme	5,000,000

Details of Investment of India Infoline Investment Services Private Limited

Investment in Equity Shares	Number of Shares	Face Value	Total
EIH Limited	30,000	10	21,316,929
G. E. Shipping	25,000	10	6,588,617
Havell India	13,000	5	7,179,604
Hero Honda	45,000	2	40,628,853
India Hotels	54,000	10	72,786,837
Infosys Tech	15,000	5	45,058,487
Matrix Labs	2,500	2	717,325
NDTV Ltd	6,600	4	1,640,510
Paper Products	20,000	10	8,505,239
State Bank of India	22,500	10	21,970,677
Sadbhav Engineering	25,470	10	8,409,133

Note: The annual accounts of the subsidiary companies are available for inspection at the Registered Office of the Company at Bldg 75, Nirlon Complex, Off Western Express Highway, Goregaon (East), Mumbai 400 063 during business hours for any investor

Consolidated Auditors' Report

To The Board of Directors

India Infoline Limited

Mumbai.

Sub: Report on Consolidated Financial Statement as at 31 March, 2006

We have examined the attached Consolidated Balance Sheet of India Infoline Limited and its wholly owned subsidiaries namely, (1) India Infoline Securities Private Limited, (2) India Infoline Distribution Company Limited, (3) India Infoline Insurance Services Limited, (4) India Infoline Commodities Private Limited, (5) India Infoline Investment Services Private Limited and (6) India Infoline Insurance Brokers Limited (collectively referred to as the Group), as at March 31 2006, the Consolidated Profit and Loss Account for the year ended on that date annexed thereto, and the Consolidated cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit also includes examining, on 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 statements. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by the Company in accordance with the requirement of the Accounting Standard (AS) 21, "Consolidated Financial Statement", issued by the Institute of Chartered Accountants of India, and on the basis of the separate audited financial statements of the Group included in the consolidated financial statements.

We report that on the basis of the information and explanation given to us and on the separate audit report on individual audited financial statements of the Group, we are of the opinion that the consolidated financial statements give true and fair view in conformity with the accounting principles generally accepted in India:

a) in the case of Consolidated Balance Sheet, of the state of affairs of the Group as at March 31,2006;

b) in case of Consolidated Profit and Loss Account, of the profit of the Group for the year ended on that date; and

c) in the case of the Consolidated Cash Flow Statements, of the consolidated cash flows of the Group for the year ended on that date.

Sharp & Tannan Associates
Chartered Accountants
By the hand of

Place:Mumbai
Date: April 26, 2006

Tirtharaj Khot
Partner
M. No. 37457

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Consolidated Balance Sheet As at 31st March, 2006

(Amount in Rupees)

	Schedules	As at 31.3.2006		As at 31.3.2005	
SOURCES OF FUNDS					
Shareholders' Fund					
Share Capital	A	451,008,510		316,218,620	
Reserves and Surplus	B	1,447,377,424		206,255,007	
Equity Share Warrants	C	44,200,000	1,942,585,934	–	522,473,627
Loan Funds					
Secured Loan	D	1,002,572,513		506,207,158	
Unsecured Loan	E	833,237,490	1,835,810,003	35,339,662	541,546,820
Total			**3,778,395,937**		**1,064,020,447**
APPLICATION OF FUNDS					
Goodwill (On Consolidation)			1,523,608		–
Fixed Assets (including intangibles)	F				
Gross Block		370,429,500		131,457,636	
Less : Depreciation and Amortisation		(156,303,379)		70,707,537	
Net Block			214,126,121		60,750,099
Investments	G		240,031,108		1,317,300
Deferred Tax					
Deferred Tax Assets		10,129,969		2,645,483	
Less: Deferred Tax Liabilities		–	10,129,969	629,121	2,016,362
Current Assets, Loans and Advances	H				
Sundry Debtors		3,579,076,104		1,149,274,832	
Cash and Bank Balances		804,052,316		173,010,338	
Loans and Advances		1,722,120,238		168,751,161	
		6,105,248,658		1,491,036,331	
Less : Current Liabilities & Provisions	I				
Current Liabilities		2,455,962,780		460,232,492	
Provisions		336,700,747		47,234,406	
		2,792,663,527		507,466,898	
Net Current Assets			3,312,585,131		983,569,433
Profit and Loss Account			–		16,367,253
Total			**3,778,395,937**		**1,064,020,447**
Significant Amounting Policies and Notes to Accounts	N				

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account For the year ended 31st March, 2006

(Amount in Rupees)

	Schedules	2005-06		2004-05	
INCOME					
Online & other media income		200,644,975		63,832,865	
Equities brokerage & related income		1,427,055,456		511,056,850	
Mutual funds, etc. distribution		199,858,093		117,735,747	
Commodities brokerage		41,327,147		4,837,720	
Life insurance commission		215,866,327		59,799,508	
Financing income		46,936,622		–	
Mortgages & loans distribution		2,425,097			
Other income	J	46,374,222		15,299,702	
			2,180,487,939		**772,562,394**
EXPENDITURE					
Direct cost	K	562,722,558		238,133,641	
Employee cost	L	366,041,330		103,170,790	
Administration & other expenses	M	382,800,808		127,926,238	
Interest		65,098,365		20,158,808	
Depreciation & amortisation	F	85,595,841		25,130,410	
Preliminary expenses		166,230		366,800	
			1,462,425,132		**514,886,687**
Profit before tax			**718,062,807**		**257,675,706**
Less: Provision for taxation - Current			227,829,500		40,233,175
- Fringe benefit tax			9,082,000		-
- Deferred tax (net)			(8,113,607)		(309,505)
Short provision for tax for earlier year			–		930,102
Net Profit after tax			**489,264,914**		**216,821,934**
Add: Pre-acquision Loss			1,523,608		
Add: Minority interest in loss			1,150,372		–
Net Profit after tax for appropriation			**491,938,894**		**216,821,934**
APPROPRIATIONS					
Dividend					
– Interim			87,848,760		
– Proposed final			45,468,266		
Dividend distribution tax					
– Interim			12,320,789		–
– Proposed final			6,376,924		
Transfer to General Reserve			30,000,000		–
Balance of Loss brought forward from previous year			(16,367,253)		(233,189,419)
Less: Capital Reserve written back			–		232
Balance of Profit / (Loss) carried forward			**293,556,902**		**(16,367,253)**
Earnings Per Share - Basic			11.51		8.00
Diluted Earnings Per Share			10.98		7.67
Face Value Per Share			10.00		10.00
Significant Accounting Policies and Notes to Accounts	N				

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Schedules forming part of the Consolidated Balance Sheet

As at 31st March, 2006

(Amount in Rupees)

	As at 31.3.2006	As at 31.3.2005
A SHARE CAPITAL		
Authorised :		
80,000,000 (Previous Year-45,000,000) Equity Shares of Rs.10 each	800,000,000	450,000,000
Issued, Subscribed and Paid up :		
45,100,851 (Previous Year - 31,621,862) Equity Shares of Rs.10 each fully paid-up	451,008,510	316,218,620
(Of the above 1,80,34,988 Equity shares have been issued as a bonus shares by capitalisation of Securities Premium & General Reserves)		
Total	**451,008,510**	**316,218,620**

Notes :

A) The Company made an Initial Public Offering of 11,879,108 Equity Shares of Rs.10 each at a price of Rs.76 per share in April 2005. (including premium of Rs66 per share). The allotment was completed on May 10, 2005 and the shares were listed on May 17, 2005.

B) During the year the company made the following preferential allotments in terms of SEBI (Disclosure & investor Protection) Guidelines 2000 and as approved by the Share holders in their EGM held on 25th January,2006.

1) 1,176,471 Equity Shares of Rs.10 each to M/s Bennett Coleman & Company Limited at a price of Rs.170 per share (including premium of Rs. 160 per share)

2) 8,000 Optionally Convertible Bonds (OCBs) of Rs.100,000 Each to M/s DSP Merryl Lynch Capital Limited on 7th February, 2006 Each OCB will be optionally convertible into such number of Equity Shares to be issued in one or more trenches at a price range of Rs.140.40 to Rs. 170 per share within 18 months of allotment.

3) 2,600,000 Equity Warrants to the promoters on 8th February, 2006 as follows

Mr. Nirmal Jain	1,520,731
Mrs. Madhu Jain	489,767
Mr. R. Venkataraman	589,502

Each Equity warrant will be exercisable into One equity share to be issued in one or more tranches at Rs. 170 per share within a period of 18 months from the date of allotment. Against these an application money of 10% of the exercisable price which shall be adjusted against the exercise price has been received.

C) During the year the company allotted 423,410 Equity shares pursuant to exercising options by the employees under the ESOP scheme 2000.

		As at 31.3.2006	As at 31.3.2005
B RESERVES AND SURPLUS			
Securities Premium Account			
Opening Balance	206,255,007		–
Addition during the year	972,256,488		–
Deduction During The Year	(53,640,601)	1,124,870,894	206,255,007
General Reserves : Addition during the year		30,000,000	–
Profit and Loss Account		293,556,902	–
Less : Minority Interest		(1,050,372)	–
Total		**1,447,377,424**	**206,255,007**

	As at 31.3.2006	As at 31.3.2005
C EQUITY SHARE WARRANTS		
Equity Share Warrants (Application money received against Equity Warrants)	44,200,000	–

	As at 31.3.2006	As at 31.3.2005
D SECURED LOANS		
Overdraft from Banks (Secured against pledging of Fixed Deposits)	15,013,667	13,686,909
Term Loan	–	50,000,000
Loan from IL&FS	298,462,552	48,783,869
Overdraft from Banks (Secured against pledge of shares)	689,096,294	393,736,380
Total	**1,002,572,513**	**506,207,158**

Schedules forming part of the Consolidated Balance Sheet

As at 31st March, 2006

(Amount in Rupees)

	As at 31.3.2006	As at 31.3.2005
E UNSECURED LOANS		
(Unsecured, Considered Good)		
1% Optionally Convertible Bonds	800,000,000	–
Loan From IDBI Bank	40,400	–
Temporarily overdrawn Bank balances	33,197,090	35,339,662
	833,237,490	**35,339,662**

F FIXED ASSETS

Assets	GROSS BLOCK (AT COST)				DEPRECIATION				NET BLOCK	
	As at 01.04.2005	Additions	Deductions	As at 31.03.2006	As at 01.04.2005	For the year	Deductions	As at 31.03.2006	As at 31.03.2006	As at 31.03.2005
Air Condition	2,288,502	13,475,521	–	15,764,023	1,122,564	3,061,657	–	4,184,221	11,579,802	1,165,938
Computers	39,379,907	99,936,064	–	139,315,970	28,025,341	39,945,725	–	67,971,066	71,344,904	11,354,566
Electrical Equipment	4,021,203	9,664,678	–	13,685,881	3,317,396	2,336,000	–	5,653,395	8,032,486	703,808
Furniture & Fixture	23,018,724	64,609,279	–	87,628,000	13,068,958	16,178,657	–	29,247,615	58,380,388	9,949,766
Office Equipment	8,174,905	12,558,443	–	20,733,348	4,747,230	3,738,136	–	8,485,366	12,247,982	3,427,675
VSAT	10,278,017	9,925,101	–	20,203,118	2,653,371	4,040,623	–	6,693,994	13,509,122	7,624,646
Vehicle	766,699	–	–	766,699	766,698	–	–	766,698	1	1
Sub Total	**87,927,957**	**210,169,085**	**–**	**298,097,041**	**53,701,558**	**69,300,799**	**–**	**123,002,356**	**175,094,685**	**34,226,400**
INTANGIBLE ASSETS										
Software	15,429,678	8,380,822	–	23,810,500	11,385,980	6,590,650	–	17,976,630	5,833,870	4,043,698
Non Compete fees	–	16,421,958	–	16,421,958	–	3,284,392	–	3,284,392	13,137,566	–
Membership Rights, The Stock Exchange, Mumbai	28,100,001	–	–	28,100,001	5,620,001	5,620,000	–	11,240,001	16,860,000	22,480,000
Sub Total	**43,529,679**	**28,802,780**	**–**	**72,332,459**	**17,005,981**	**16,295,042**	**–**	**33,301,023**	**39,031,436**	**26,523,698**
Grand Total	**131,457,636**	**238,971,865**	**–**	**370,429,500**	**70,707,539**	**85,595,841**	**–**	**156,303,379**	**214,126121**	**60,750,099**
Previous year	96,163,388	35,294,247	–	131,457,635	45,577,129	25,130,409	–	70,707,538	60,750,097	47,586,259

	Number of Shares	Face Value	As at 31.3.2006	As at 31.3.2005
G INVESTMENTS				
Quoted, Non-Trade, Current, Valued At Cost				
1 Nil (Previous Year: 99,081.25) Units of HDFC Income Fund - Growth (Aggregate Market Value: Rs.NIL, P.Y. Rs.1,560,609)			–	1,100,300
2 Benchmark Mutual Fund Liquid Bees (Aggregate Market Value: Rs.1897, P.Y. Rs.Nil)			1,897	–
3 3,724.86 (P.Y. 3724.86) Units of Birla Income Plus Plan B: Growth (Net Asset Value Rs.107,574 P.Y. Rs.104,716.50)			102,000	102,000
4 5,457.99(P.Y. 5457.99) Units of Birla Mid-Cap Fund Plan B: Growth (Net Asset Value Rs.312,961 P.Y.Rs.115,764.10)			115,000	115,000
5 Investment in Mutual Fund with Franklin Templeton - Daily Dividend Reinvestment Scheme			5,000,000	–
6 Investment in Equity Shares	Number of Shares	Face Value		
EIH Limited	30,000	10	21,316,929	
G.E. Shipping Limited	25,000	10	6,588,617	
Havells India Limited	13,000	5	7,179,604	
Hero Honda Limited	45,000	2	40,628,853	
Indian Hotels Limited	54,000	10	72,786,837	
Infosys Technologies Limited	15,000	5	45,058,487	
Matrix Laboratories Limited	2,500	2	717,325	
NDTV Limited	6,600	4	1,640,510	
Paper Products Limited	20,000	10	8,505,239	
State Bank of India Limited	22,500	10	21,970,677	
Sadbhav Engineering Limited	25,470	10	8,409,133	
Aggregate Market Value of Quoted				
Investments: Rs. 241,788,500 (P.Y. Rs.1,847,530)				
Long Term, Trade, Non-Current Un-Quoted Investment (at cost)			**240,021,108**	**1,317,300**
Unquoted, Trade, Valued at Cost				
1,000 Equity Shares The Bombay Stock Exchange Limited of Rs.10 each			10,000	–
Total Investments			**240,031,108**	**1,317,300**

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Schedules forming part of the Consolidated Balance Sheet

As at 31st March, 2006

(Amount in Rupees)

	As at 31.3.2006	As at 31.3.2005
H CURRENT ASSETS, LOANS AND ADVANCES		
A) Current Assets		
I) Sundry Debtors		
(Unsecured, considered good, unless otherwise stated)		
Outstanding for a period exceeding six months	39,431,368	20,241,716
Considered doubtful	9,500,000	9,500,000
Other Debts - Unsecured and considered good	3,539,644,736	1,129,033,115
Provision for doubtful debts	(9,500,000)	(9,500,000)
	3,579,076,104	**1,149,274,832**
II) Cash and Bank Balance		
Cash on hand	3,910,706	1,229,761
Bank Balances		
With Scheduled Banks :		
in Current Accounts	252,056,234	74,469,677
in Fixed Deposits	548,085,376	97,310,899
	804,052,316	**173,010,338**
B) Loans & Advances		
(Unsecured, Considered good, unless otherwise stated)		
Advances recoverable in cash or in kind or for value to be received.	24,166,807	401,540
Deposits with Exchanges	175,142,209	112,000,100
Other Deposits	62,245,138	16,657,382
Advance Income Tax, Refund & Tax deducted at Source	253,795,903	28,980,354
Other Loans & Advances	1,206,770,181	10,711,785
Total	**1,722,120,238**	**168,751,161**

	As at 31.3.2006	As at 31.3.2005
I CURRENT LIABILITIES AND PROVISIONS		
A) Current Liabilities		
i) Sundry Creditors		
Due to Small Scale Industrial Undertaking		
Others	1,817,820,540	324,550,227
ii) Other Liabilities	636,154,093	132,203,577
iii) Income received in advance	951,983	331,316
iv) Interest accrued but not due	1,036,163	3,147,371
	2,455,962,780	**460,232,492**
B) Provisions		
Provision for taxation	278,895,282	41,983,782
Provision for gratuity	3,276,101	1,652,605
Provision for leave Encashment	2,684,174	3,598,018
Proposed final dividend	45,468,266	–
Provision for dividend distribution tax	6,376,924	–
Total	**336,700,747**	**47,234,406**

Schedules forming part of the Consolidated Profit and Loss Account

For the year ended 31st March, 2006

(Amount in Rupees)

	2005-06	2004-05
J OTHER INCOME		
Interest on Fixed Deposits (Gross)	18,043,523	5,092,521
(Includes TDS Rs. 3,879,051, P.Y. Rs.692,731)		
Share of Profit in Partnership firm	4,018,487	–
Sub Letting Income	6,976,800	6,976,800
Miscellaneous Income	17,335,412	3,185,381
Profit on Sale of Assets	–	45,000
Total	**46,374,222**	**15,299,702**

	2005-06	2004-05
K DIRECT COST		
Brokerage Related Expenses	305,015,010	94,309,151
Exchange & Statutory Charges	187,163,733	65,692,395
Business Promotion Expenses	2,583,692	2,581,250
Marketing & Commission Expenses	61,208,588	75,550,845
Investment & Finance Related Cost	6,751,535	–
Total	**562,722,558**	**238,133,641**

	2005-06	2004-05
L EMPLOYEES' COST		
Salaries and bonus	351,342,989	97,862,903
Contribution to Provident Fund & other funds	3,242,341	1,203,897
Staff Welfare Expenses	9,501,401	3,263,177
Gratuity	1,954,599	840,813
Total	**366,041,330**	**103,170,790**

	2005-06	2004-05
M ADMINISTRATIVE AND OTHER EXPENSES		
Advertisement Expense	29,785,774	6,042,125
Premise Expenses	68,845,974	20,362,911
Electricity Expenses	16,357,956	5,453,300
Communication Expenses	111,928,381	31,833,993
Printing & Stationery	33,726,648	8,870,244
Bank Charges	464,409	66,278
Repairs and Maintenance:		
– Computers	4,353,096	953,119
– Others	4,441,570	2,266,900
Travelling and Conveyance	38,356,945	16,184,887
Research Outsourced & Data Sourcing	10,575,854	5,883,863
Legal & Professional Charges	25,734,982	7,072,403
Hire Charges	668,435	339,370
Remuneration to Auditors		
– Audit Fees	843,800	530,000
– Certification Work & Other Matters	515,510	5,000
– Out of Pocket expenses	44,380	8,522
Office Expenses	2,136,366	514,639
Software & Computer Expenses	9,393,614	9,239,129
Membership & Subscription	640,230	379,225
Miscellaneous Expenses	20,683,122	6,669,744
Recruitment Expenses	734,477	652,268
Insurance Premium	–	95,820
Licence Fees	–	502,500
Sundry Balances written off	2,569,287	4,000,000
Total	**382,800,808**	**127,926,238**

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT

of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

A. SIGNIFICANT ACCOUNTING POLICIES

1) Basis of Consolidation

a) Basis of Preparation

The individual Balance Sheet as at March 31, 2006 and Profit and Loss Account for the year ended March 31, 2006 of India Infoline Limited ('the Company') and its subsidiaries ('companies and / or subsidiaries'), collectively referred to as 'Group', have been consolidated as per principles of consolidation enunciated in Accounting Standard (AS) 21- 'Consolidated Financial Statements' issued bythe Council of The Institute of Chartered Accountants of India.

b) Principles of Preparation

The financial statements of the group companies of India Infoline Limited are prepared according to uniform accounting policies, in accordance with accounting principles generally accepted in India. The effects of all inter-group transactions and balances have been eliminated on consolidation.

c) List of Subsidiaries Consolidated

The individual Balance Sheet as at March 31, 2006 and Profit and Loss Account for the year ended March 31, 2006 of following subsidiaries are included in consolidation

i) India Infoline Securities Private Limited (IISPL)
ii) India Infoline Distribution Company Limited (IIDCL)*
iii) India Infoline Insurance Services Limited (IIISL)
iv) India Infoline Commodities Private Limited (IICPL)
v) India Infoline Investment Services Private Limited (IIISPL)
vi) India Infoline Insurance Brokers Limited (IIIBL)

*includes 75% stake in Moneytree Consultancy Services Private Limited

2) Basis of preparation of financial statements

The financial statements have been prepared under historical cost convention on an accrual basis

3) Use of Estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements, the reported amount of revenues and expenses and the disclosures relating to contingent liabilities as of the date of the financial statements. Examples of such estimates include the useful lives of fixed assets and intangible assets, provision for advances/ doubtful debts, etc. Actual results can differ from these results.

4) Revenue Recognition

a) Revenue from Online Media is recognized pro-rata, over the contractual /subscription period.

b) Brokerage income earned on secondary market operations is accounted (inclusive method) on trade dates. Depository income is accounted (inclusive method) on an accrual basis.

c) The revenue of commission on sale of non-equity investment instruments at the Company's Investor Points or Online on its holding Company's website, is recognized on submission of forms by the customers along with payment at Investor Point or Online, as the case may be, provided that collection of the related recoverable, if any, is probable.

d) Commission income on first year premium on insurance policies is recognized (inclusive method), when an insurance policy sold by the Company is accepted by the principal insurance company. Renewal commission on policies is accounted for on receipt basis.

e) Brokerage income from commodities trading is accounted for on the dates of respective trades.

5) Intangible Asset & Amortization

The Intangible Assets are stated at cost of acquisition less amortization. These are amortized on straight line method as below:

Software	3 years
Non-Compete Fees	5 years
Membership Rights of The Bombay Stock Exchange, Mumbai	5 years
Goodwill	5 years

6) Fixed Assets and Depreciation

Fixed assets are stated at cost of acquisition less accumulated depreciation thereon. Depreciation is charged using the straight line method based on the useful lives of fixed assets as estimated by the management as specified below, or the rates specified in accordance with the provisions of schedule XIV of the Companies Act, 1956, which-ever is higher.

Full depreciation is charged on assets purchased during the year and no depreciation is charged on assets sold during the year

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT *(Contd.)*

of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

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

Estimated useful life of the assets is as under

Furniture and fixtures	5 years
Computer equipment	3 years
Office equipment	5 years
VSATs	5 years

7) Investments

Investments are classified into current and long-term investments. Current investments are stated at lower of cost or market value. Long-term investments are carried at cost less provisions, if any, for permanent diminution in the value of such Investments.

8) Foreign Exchange Transactions

Transactions in foreign currencies are recorded at the prevailing rates at the time transactions are effected. Foreign currency assets & liabilities outstanding at the year-end are translated at the rates of exchange ruling on that day. Any gain or loss on transactions are accounted in the Profit & Loss account, or adjusted in the value of Fixed Assets, as applicable.

9) Retirement Benefits

The company's contribution towards Provident Fund and family pension fund is charged against revenue on actual basis.

The Company has provided Gratuity and leave encashment payable to employees on the basis of actuarial valuation.

10) Leases

Lease rentals in respect of operating lease arrangements are charged to the Profit & Loss Account on accrual basis in accordance with Accounting Standard 19 - Leases, issued by the Institute of Chartered Accountants of India.

11) Taxes on Income

Provision for current tax is computed in accordance with relevant tax regulations.

Deferred tax is recognized for all timing differences between accounting income & taxable income and are quantified using enacted / substantively enacted tax rates as at the balance sheet date. Deferred tax assets are recognized subject to the management judgment that the realization is virtually certain.

12) Preliminary Expenses

Preliminary Expenses is written off in the financial year in which it is incurred.

B. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The company has provided a Corporate Guarantee on behalf of its wholly owned subsidiary India Infoline Securities Private Limited for the following facilities provided to the later: (a) to UTI Bank Limited for bank guarantees of Rs.160,000,000 and overdraft of Rs.40,000,000 (b) to Kotak Bank Limited for bank guarantees of Rs.30,000,000 and overdraft of Rs.100,000,000 (c) to UCO Bank for bank guarantees of Rs.100,000,000 (d) to Union Bank for bank guarantees of Rs.100,000,000 (e) to Standard Chartered Bank for bank guarantees of Rs.300,000,000. The company has also issued guarantees on behalf of its wholly owned subsidiary India Infoline Commodities Private Limited to the extent of Rs.20, 000,000 to HDFC Bank and Rs.20,000,000 to UTI Bank.

2. Secured loan from banks and institution is secured against pledge of securities amounting to Rs. 2,634 million (P.Y. Rs.952 million), obtained as margin and collaterals from the clients.

3. The Company shares with its subsidiaries, certain premises, infrastructure and other services and the same are termed as 'Shared Services'. Hitherto, such shared services consisting of administrative and other revenue expenses paid for by the company were identified and recovered from subsidiaries based on a reasonable management estimates in accordance with Board Resolution passed in this regard from time to time. These are constantly refined in the light of additional knowledge gained relevant for such estimation. During the year ended March 31,2006, these expenses are recovered on an actual basis and the estimates are used only where actuals were difficult to determine.

4. As per the Accounting Standard issued by the Institute of Chartered Accountants of India under Accounting Standard 28 "Impairment of Assets", the Company has assessed the recoverable amount of the relevant assets and found that no indication of impairment exists in relation to its assets as at March 31, 2006

5. The company has entered into separate agreement with its subsidiaries, India Infoline Securities Private Limited (IISPL), India Infoline Insurance Services Limited (IIISL), India Infoline Commodities Private Limited (IICPL) towards

(1) Client Lead Fees for providing client lead services for broking and demat operations

(2) Online Media & Content Fees to provide data and information on business, finance, and Indian corporates and

(3) Providing Call Centre services to support their operations.

The Company is a registered Information Technology Enabled Services provider. The income of the previous year have been reclassified

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT *(Contd.)*

of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

As per these respective agreements, the structure of various charges / fees to be received by the company, is as under:

Particulars	Year ended 31st March, 2006 (Previous Year)			
	IISPL	IIDCL	IIISL	IICPL
Client leads Fees	164,576,250	Nil	Nil	5,593,150
	(61,327,000)	(Nil)	(Nil)	(1,200,000)
Online Media & Content Fees	18,000,000	Nil	Nil	Nil
	(18,000,000)	(Nil)	(Nil)	(Nil)
Call centre charges	42,000,000	Nil	9,000,000	7,200,000
	(42,000,000)	(15,000,000)	(9,000,000)	(1,800,000)

The accounting effect of the above transactions has been nullified on consolidation.

7. The company during the financial year 1999-00 had announced an Employee Stock Option Plan (ESOP 2000), which provided for grant of share options to employees of the company. The plan had reserved a total of 815,000 shares (2,445,000 shares after giving effect to Bonus shares) for issuance under ESOP 2000. Until now the company has granted the options in three lots being 11,37,000 options on March 1, 2000; 9,79,250 options on April 1, 2003, and finally 6,94,200 options on October 1, 2004 from the balance ESOPs including lapsed options from the earlier offerings. As on date 998,360 options are in force and 24,650 options have been lapsed. No option shall be granted any further from the said scheme (ESOP 2000) in terms of the disclosures made in the Red Herring prospectus for the IPO dated April 11, 2005 issued by the company

The company during the year has approved an "Employee Stock Option Plan 2005" (ESOP 2005) at the Extra ordinary General Meeting of the shareholders of the company held on January 25,2006 providing for issue of 25,00,000 options entitling to a total of 25,00,000 shares to the employees of the company and its subsidiaries including directors of the company (except an employee or director who is a promoter or belongs to the promoter group or a director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than10% of the outstanding equity shares of the company at any time) whether in India or at overseas location. The company has not granted any options under this plan during the year till March 31,2006.

8. The Company has an investment of Rs.1,200,000 (to take a 75% stake) in the equity shares of Moneytree Consultancy Services Private Limited (MTCSPL) from its fully owned subsidiary, India Infoline Distribution Company Limited (IIDCL). MTCSPL is engaged in the business of distribution on home loan products. During the year the net worth of MTCSPL has been substantially eroded. Since the Company's Investments in the above-mentioned subsidiary is of strategic value, in management's view, the decline in the value of the said investment in the subsidiaries is considered as temporary and accordingly, no provision has been made for the said decline in value of investments in the books of the company.

9. During the year, the company has formed a new subsidiary: India Infoline Insurance Brokers Limited with an initial investment of Rs.500,000 to undertake the business of insurance broking. However this subsidiary has not commenced operations till March 31, 2006.

10. The members of the Company, at the Extraordinary General Meeting held on January 25, 2006 resolved to (a) issue 8000 Optionally Convertible Bonds aggregating to Rs800 million to DSP Merrill Lynch Capital Limited, a 100% subsidiary of DSP Merrill Lynch Limited. (b) issue 1,176,471 equity shares to Bennett Coleman & Company Limited aggregating to Rs.200 million and (c) issue 26,000,000 equity warrants on preferential basis to promoters exercisable into equity shares at a price of Rs170 per share (d) approve ESOP 2005 for issue of 2.5 million equity shares to the employees of the company and its subsidiaries subject to the provisions of the SEBI ESOP Guidelines. The company has not granted any options during the year against this Scheme.

11. Interest on Optionally Convertible Bonds issued to DSP Merrill Lynch Capital Limited has been provided at the agreed rate of @1% p a for the period from 7th February 2006 (date of allotment) to 31st March 2006. The OCBs carry put / call options whereby if the bonds are not converted to Equity shares on such put / call, they will be redeemed with an interest of 9% p a calculated on semi annual basis at the time of redemption. The Management is of the view that the OCBs will be exercised for conversion and interest has accordingly been provided in the accounts. In case of redemption of bonds, the additional interest payable pertaining to the period 7th February 2006) to 31st March 2006 will be Rs. 92,93,152. To this extent the profits of the company for the year may be overstated.

12. Pursuant to the approval by the shareholders at the Extra-Ordinary General Meeting held on 30th December 2003, the company had submitted petition with the High Court of Mumbai under sections 78 and 100 of the Companies Act, 1956 for seeking its directions for company's proposal to (a) write off the accumulated losses by utilizing the securities premium account and (b) reduce the paid up value of the shares of the company from Rs.10 per share to Rs.5 per share. The said Court has approved the company's proposal vide its order dated 6th May 2004. However, in view of the improved operating performance, the Company decided to continue in its 'status quo' and not to reduce the paid up value of the share. Necessary submissions to this effect are being made by the company.

13. The Accounting Standard 22 on 'Accounting for Taxes on Income' first became applicable to the Company from the accounting periods beginning 1st April 2002. The company recognized deferred tax assets for the first time for the year ended on 31st March

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT *(Contd.)*

of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

2006 since the management is virtual certain of its profitable operations in future. Deferred tax assets as at 31st March, 2006 are as below:

Deferred Tax Asset

Particulars	2005-2006	2004-2005
On provision for doubtful Debts	2,424,500	2,524,500
Gratuity & Leave Encashment	1,960,835	108,015
Depreciation	5,744,634	12,968
Total	**10,129,969**	**2,645,483**
Deferred tax liability		
On Current year Depreciation	–	629,121
Total	**–**	**629,121**

14. (a) The company has taken on non-cancellable operating leases certain assets, the future minimum lease payments in respect of which, as at March 31,2006 are as follows:

Particulars	2005-06	2004-05
Due:		
Not Later than one Year	2,220,170	17,767,626
Later than one Year but not later than Five Years	NIL	12,791,844
Later than five Years	NIL	442,800

(b) Out of the above, certain portion has been sub- let by the company as operating lease, the future rentals as at 31st March 2006 of which, is as under:

Minimum Lease Rental Receivables:

Particulars	2005-06	2004-05
Due:		
Not Later than one Year	2,907,000	6,395,400
Later than one Year but not later than Five Years	NIL	NIL
Later than five Years	NIL	NIL
Total Minimum Lease Receivables	**2,907,000**	**6,395,400**

Contingent Rent recognised in the Profit & Loss Account NIL

15 Segment Reporting

Segment information for the year ended March 31, 2006. Primary segment information (by business segment)

(Amount in Rupees)

Sl. No.	Particulars	Equity Brokerage and Related Income	Agency Commission & Fees	Commodities Brokerage	Life Insurance	Media & Content	Share Trading Investement & Financing	Others	Total
I	**Segment Revenue**								
	External	1,427,055,456	202,283,190	41,327,147	215,866,327	200,644,975	46,936,622	46,374,221	2,180,487,939
		(511,056,850)	(117,735,747)	(4,837,720)	(59,799,508)	(63,832,865)	–	(15,299,702)	(772,562,390)
	Inter-segment	–	–	–	–	–	–	–	–
	Total Revenue	1,427,055,456	202,283,190	41,327,147	215,866,327	200,644,975	46,936,622	46,374,221	2,180,487,939
		(511,056,850)	(117,735,747)	(4,837,720)	(59,799,508)	(63,832,865	–	(15,299,702)	(772,562,390)
ii	**Segment Result**	369,074,921	92,331,533	12,677,518	100,934,985	158,125,416	34,195,988	46,374,221	813,714,582
		(196,313,301)	(21,957,789)	(137,825)	(18,517,659)	(57,097,537)	–	(6,165,048)	(300,189,159)
	Less: Unallocated Expenses								30,553,410
								(27,448,972)	
	Operating Profit	369,074,921	92,331,533	12,677,518	100,934,985	158,125,416	34,195,988	46,374,221	783,161,172
		(196,313,301)	(21,957,789)	(137,825)	(18,517,659)	(57,097,537)	–	(6,165,048)	(272,740,187)
	Interest Expense								65,098,365
									(15,064,481)
	Profit before Tax								718,062,807
									(257,675,706)
									228,797,893
									(39,923,670)
	Short Provision for tax of earlier year								–
									(930,102)
	Net Profit after Tax								489,264,914
									(216,821,934)

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT *(Contd.)* of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

15 Segment Reporting *(Contd.)*

Sl. No.	Particulars	Equity Brokerage and Related Income	Agency Commission & Fees	Commodities Brokerage	Life Insurance	Media & Content	Share Trading Investment & Financing	Others	Total
iii	**Segment Assets**	4,387,661,397	122,248,688	6,225,730	22,222,706	22,752,124	236,182,760	–	4,797,293,405
		(1,297,798,912)	(42,216,113)	(33,354,594)	(18,730,837)	(15,778,110)	–	–	(1,407,878,567)
	Unallocated Corporate assets								1,773,766,059
									(147,241,525)
	Total Assets								6,571,059,464
									(1,555,120,092)
iv	**Segment Liabilities**	2,929,158,633	60,369,677	93,597,272	7,483,265	951,983	1,170,856,293	–	4,262,417,123
		(922,930,690)	(24,013,445)	(22,184,514)	(3,309,895)	(353,782)	–	–	(972,792,326)
	Unallocated Corporate Liabilities								314,211,218
									(76,221,392)
	Total Liabilities								4,576,628,341
									(1,049,013,718)
v	**Capital Expenditure**	149,683,672	29,968,067	1,387,333	12,938,906	915,718	1,949,000	42,075,609	238,918,305
		(17,674,438)	(7,739,043)	(305,000)	(382,529)	(302,800)	–	(8,809,437)	(35,294,247)
vi	**Depreciation**	55,841,960	10,406,424	378,270	3,499,134	508,728	649,667	14,311,658	85,595,841
		(11,206,553)	(2,898,224)	(88,333)	(81,438)	(100,930)	–	(5,235,860)	(19,510,408)
vii	**Non-Cash expenditure**								

Note:

The company / group operates in only one geographic segment i.e. 'india'. hence separate information on geographical segment is not required. The other segment, if any, constitutes income like interest on investments etc, which are not the regular income streams of the company / group and hence segment results, segment assets and segment liabilities are, accordingly disclosed. The accounting policies adopted for segment reporting are in line with the accounting policies adopted for preparation of financial information of the company.

16 Related Party Disclosures for the year ended March 31, 2006

(a) Names of the Related Parties with whom Transactions have been entered during the year and description of Relationship:

Key Management Personnel:	Directorship held
Mr. Nirmal Jain	India Infoline Limited and its all subsidiaries
Mr. R Venkataraman	India Infoline Limited and its all subsidiaries
Mr. Seshadri Bharathan	India Infoline Distribution Company Limited
	India Infoline Insurance Services Limited
Mr. Chintan Modi	India Infoline Insurance Services Limited
Mr. Mukesh Kumar Singh	India Infoline Securities Private Limited
	India Infoline Insurance Brokers Limited
Relatives of Key Management Personnel:	
Mrs. Madhu Jain	Wife of Mr. Nirmal Jain
Mrs. Aditi Venkataraman	Wife of Mr. R. Venkataraman
Nirmal Jain - HUF	

(b) Disclosure of transactions with related parties:

Particulars	Relatives	Key Managerial Personnel	Total
Purchase of Securities & Commodites	143,377,098	114,527,809	257,904,907
	(145,226,969)	(210,581,858)	(355,808,827)
Sale of Securities & Commodities	148,888,170	117,973,325	266,861,495
	(164,066,578)	(230,140,022)	(394,206,600)
Brokerage Income	263,700	153,833	417,533
	(305,871)	(278,228)	(584,099)
Share Capital	–	44,200,000	44,200,000
		(52,000,000)	(52,000,000)
Remuneration	–	19,515,144	19,515,144
	–	(8,269,200)	(8,269,200)
Reimbursement of Expenses	–	2,706,000	2,706,000
		(900,000)	(900,000)

Schedules forming part of the Consolidated Accounts

(Amount in Rupees)

I SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED STATEMENT *(Contd.)*

of Balance Sheet as at March 31,2006 and Profit and Loss Account for the year ended March 31, 2006

Nature of Transaction	Relatives	Key Managerial Personnel	Total
Payable	10,606,494	–	10,606,494
	(350,400)	(774,474)	(1,124,874)
Receivable	837,553	198366	1,035,919
	(67,341)	–	(67,341)

Note: Figures in brackets indicate previous year figures.

2. The summary of Consolidated Financial Statements represents consolidation of accounts of the Company with its following subsidiaries, all incorporated within India, as detailed below:

Subsidiary	Proportion of ownership interest	
	31-03-06	31-03-05
India Infoline Securities Private Limited	100%	100%
India Infoline.com Distribution Company Limited	100%	100%
India Infoline Insurance Services Limited	100%	100%
India Infoline Commodities Private Limited	100%	100%
India Infoline Investment Services Private Limited	100%	100%
India Infoline Insurance Brokers Limited	100%	100%
Moneytree Consultancy Services Private Limited	75%	N/A

17. Basic and Diluted Earning Per Share ["EPS"] computed in accordance with Accounting Standard (AS) 20 'Earnings per share"

Particulars		2005-2006	2004-2005
Basic			
Profit after tax as per Profit and Loss account	A	489,264,914	21,68,21,934
Number of Shares Subscribed	B	42,510,382	27,102,684
Basic EPS (Rupees)	A/B	11.5100	8.00
Diluted			
Profit after tax as per Profit and Loss account	A	489,264,914	21,68,21,934
Number of Shares Subscribed		42,510,382	27,102,684
Add: Potential Equity Shares on Account			
conversion of Employees Stock Options		2,052,091	1,155,550
Weighted Number of Shares Outstanding	B	44,562,473	28,258,234
Diluted EPS (Rupees)	A/B	10.98	7.67

18. Figures pertaining to subsidiary companies have been reclassified wherever necessary to bring them in line with parent company's financial statements

19. Figures for the previous year have been regrouped/reclassified wherever considered necessary.

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

CONSOLIDATED FINANCIAL STATEMENTS OF INDIA INFOLINE LIMITED AND ITS SUBSIDIARY COMPANIES

Consolidated Cash Flow Statement

For the year ended 31st March, 2006

(Amount in Rupees)

Particulars	31.3.2006	31.3.2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before taxation, and extraordinary items	718,062,807	257,675,706
Adjustments for:		
Depreciation & Amortisation	85,595,841	25,130,410
Provisions for gratuity	1,954,599	840,813
Provisions for leave encashment	2,684,174	3,598,018
Interest income	(18,043,523)	(5,092,521)
Share of profit in partnership firm	(4,018,487)	–
Loss / (Profit) on sale of fixed assets	–	(45,000)
Interest expense	65,098,365	15,064,481
Tax (Paid) / Refund	(237,136,339)	(27,728,952)
Operating profit before working capital changes	**614,197,436**	**269,442,955**
(Increase) / Decrease in Sundry Debtors	(2,429,801,272)	(761,365,008)
(Increase) / Decrease in Loans & Advances	(1,325,172,205)	(76,112,555)
Increase / (Decrease) in Provisions	(3,929,121)	(14,642,874)
Increase / (Decrease) in Current Liabilities	1,997,841,496	158,343,149
Cash generated from operations	**(1,146,863,666)**	**(424,334,333)**
Cash Flow before Extraordinary Item	(1,146,863,666)	(452,063,285)
Capital Reserve written back	–	232
Net cash from operating activities	**(1,146,863,666)**	**(452,063,053)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(210,169,085)	(34,540,226)
Purchase of intangible assets	(28,802,780)	(754,022)
Purchase of Investments	(234,812,211)	–
Share of profit in partnership firm	637,165	
Sale of fixed assets	–	45,000
Interest received	18,043,523	5,092,521
Net cash from investing activities	**(455,103,388)**	**(30,156,727)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	1,053,405,777	52,000,000
Proceeds from issuance of minority share capital	100,000	–
(Repayment) / Proceeds of long-term borrowings	1,296,405,754	476,978,322
Equity share warrants issued	44,200,000	–
Dividend paid	(87,848,760)	–
Interest paid	(67,209,573)	(15,064,481)
Net cash used in financing activities	**2,239,053,199**	**513,913,841**
Net increase in cash and cash equivalents	637,086,145	31,694,060
Cash and cash equivalents at beginning of period (see Note 1)	138,987,977	79,564,964
Cash and cash equivalents at end of period (see Note 1)	776,074,122	111,259,024
Opening Cash and cash equivalents		
Cash on hand and balances with banks	173,010,338	81,080,405
Short-term investment	1,317,300	1,417,300
Less: Bank Overdraft	(35,339,661)	(2,932,741)
	138,987,977	79,564,964
Closing Cash and cash equivalents		
Cash on hand and balances with banks	804,052,316	173,010,338
Short-term investment	5,218,897	1,317,300
Less: Bank Overdraft	(33,197,091)	(35,339,661)
	776,074,122	138,987,976
Net increase in cash and cash equivalents	**637,086,145**	**59,423,012**

1. Cash flow statement has been prepared under the Indirect Method as set out in the Accounting Standard (AS-3) "Cash Flow Statement" issued by the Institute of Chartered Accountants of India.
2. Previous year's figures are re-group/ re-arrange wherever considered necessary.

As per our attached report of even date

For **Sharp & Tannan Associates**
Chartered Accountants
By the hand of

For **India Infoline Limited**

Tirtharaj Khot
Partner
M. No. 37457

Nirmal Jain
Managing Director

R. Venkataraman
Executive Director

Kapil Krishan
Chief Financial Officer

Nimish Mehta
Company Secretary

Place: Mumbai
Dated : April 26, 2006

HDT&W

Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
India Infoline Limited and Subsidiaries:

We have audited the accompanying consolidated statement of financial condition of India Infoline Limited and Subsidiaries (an Indian Public Limited Company) (the Company) as of March 31, 2006, and the related statements of operations, stockholders' equity, and cash flows for the year then ended. 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.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

The financial statements are presented in the Company's functional currency which is the Indian Rupee.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at March 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

HELIN, DONOVAN, TRUBEE & WILKINSON, LLP

Helin, Donovan, Trubee + Wilkinson, LLP

Austin, Texas
April 26, 2006

Helin, Donovan, Trubee & Wilkinson, LLP
5918 West Courtyard Drive Suite 400 Austin, TX 78730
512.258.9670 **phone** 512.258.5895 **fax** 866.331.5336 **toll free**
www.helindonovan.com

Russell Bedford

CONSOLIDATED US GAAP FINANCIAL STATEMENTS

Consolidated Statement of Financial Condition

(In Indian Rupees millions)
March 31, 2006

ASSETS		
Cash and cash equivalents	Rs.	678
Accounts receivable, net of allowance		2,705
Income taxes refunds receivable and advance payments of taxes		234
Securities owned, at market value		243
Property and equipment, net		198
Deferred tax asset		9
Goodwill		11
Intangible assets, net		13
Prepaid expenses and other assets		462
Total assets	**Rs.**	**4,553**
Liabilities, Minority Interest and Stockholders' Equity		
Accounts payable, accrued expenses and other liabilities	Rs.	702
Accounts payable, customers		63
Bank overdrafts		610
Income tax payable		59
Optional convertible bonds		691
Line of credit		251
Other notes payable		69
Total liabilities	**Rs.**	**2,445**
Commitments and contingencies		
Minority interest		–
Stockholders' equity:		
Common stock, Rs.10 par value		
80,000,000 shares authorized; 45,100,851		
issued and outstanding at March 31, 2006,		451
Additional paid in capital		1,288
Retained earnings		369
Total stockholders' equity		2,108
Total liabilities, minority interest and stockholders' equity	**Rs**	**4,553**

See accompanying notes to consolidated financial statements

CONSOLIDATED US GAAP FINANCIAL STATEMENTS

Consolidated Statement of Financial Operations

(In Indian Rupees millions, except per share data)
For the year ended March, 2006

REVENUE		
Brokerage and related income	Rs.	1,699
Life insurance commission		216
Online and other media income		201
Loss on investments		3
Other income		112
Total revenue		**2,231**
EXPENSES		
Exchange fees and other direct trading costs		256
Employee cost		361
Administration and other expenses		780
Interest		43
Depreciation and amortization		85
Total expenses		**1,525**
Income before income tax expense		706
Income tax expense		230
Net income	**Rs.**	**476**
Earnings per share of commons stock:		
Basic	Rs.	11.20
Diluted	**Rs.**	**10.87**
Weighted average common shares outstanding:		
Basic		42,510,382
Diluted		**43,805,552**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(In Indian Rupees millions, except for share amounts)
For the year ended March 31, 2006

	Common Shares	Common Stock	Additional Paid in Capital	Retained Earnings (Deficit)	Total
Balance at March 31, 2005	31,621,862	Rs. 316	206	(9)	Rs. 514
Issuance of common stock from option exercise	423,410	4	–	–	4
Issuance of common stock	13,055,579	131	918	–	1,048
Issuance of Optional Convertible Bonds	–	–	120	–	120
Sale of equity warrants	–	–	44	–	44
Dividends paid	–	–	–	(98)	(98)
Net income	–	–	–	476	476
Balance at March 31, 2006	**45,100,851**	**Rs. 451**	**1,288**	**369**	**Rs. 2,108**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(In Indian Rupees millions)
For the year ended March 31, 2006

Cash flows from operating activities		
Net income	Rs.	476
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred tax expense		(7)
Depreciation and amortization		85
Non-cash interest expense		11
Changes in operating assets and liabilities		
Accounts receivable, net of allowance		(1,774)
Income taxes refunds receivable and advance payments of taxes		(205)
Securities owned, at market value		(242)
Prepaid expenses and other assets		(336)
Accounts payable, accrued expenses and other liabilities		442
Accounts payable, customers		51
Bank overdrafts		180
Income tax payable		56
Net cash used in operating activities		**(1,263)**
Cash flows from investing activities:		
Purchase of property and equipment		(239)
Net cash used in investing activities		**(239)**
Cash flows from financing activities:		
Issuance of Optional Convertible Bonds, net		800
Dividends paid		(98)
Proceeds from line of credit, net of repayments		251
Repayments of other notes payable		(29)
Proceeds from sale of common stock, net		1,048
Proceeds from exercise of stock options		4
Proceeds from issuance of common stock/warrants		44
Net cash provided by financing activities		**2,021**
Net change in cash and cash equivalents		519
Cash and cash equivalents at beginning of year		159
Cash and cash equivalents at end of year	**Rs.**	**678**
Supplemental disclosures:		
Interest paid (Millions)	Rs.	67
Taxes paid (Millions)	Rs.	237

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statement

March 31, 2006

(1) Organization and Basis of Presentation

India Infoline Limited, a Public Limited Company registered under the Companies Act, 1956 (IIL), is a financial services holding company whose primary operating subsidiaries are India Infoline Securites Private Limited (IISPL), India Infoline Distribution Company Limited (IIDCL), India Infoline Insurance Services Limited (IIISL), India Infoline Commodities Private Limited (IICPL), India Infoline Investment Services Private Limited (IIISPL), India Infoline Insurance Brokers Limited (IIIBL). IISPL is engaged in the business of providing equity brokerage services primarily to retail customers in India. IIDCL distributes mutual funds products and some other fixed income products through a nationwide distribution network of branches in India. IIISL is a corporate agent for life insurance products. IICPL is engaged in commodities brokerage services to retail customers nationwide. IIISPL provides financing to the Company's customers. IIIBL proposes to act as a broker for various insurance products

IIL was incorporated in Mumbai, India on October 18, 1995 and made an initial public offering in May, 2005.

In October 2005, IIDCL purchased 75% of Moneytree Consultancy Services Private Limited (Money Tree) through a direct investment of Rs 1.5 million. Money Tree is engaged in the mortgage business in India. To date, the operations of Money Tree have not been significant.

During the fiscal year ended March 31, 2006, the Company formed a new subsidiary: India Infoline Insurance Brokers Ltd. However, this subsidiary has not commenced operations.

IIL is registered as a broker and dealer in securities with the securities and Exchange Board of India.

References to the Company within the accompanying notes to the consolidated financial statements are to IIL and subsidiaries.

(2) Summary of Significant Accounting Policies

(a) Basis of Preparation

These financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America whereby revenues are recognized in the period earned and expenses when incurred. The accompanying consolidated financial statements include the accounts of IIL and its wholly owned subsidiaries described in Note 1. Intercompany transactions and balances have been eliminated in consolidation. Minority interest has been recorded related to the 25% portion of Money Tree that is not owned by IIDCL.

The financial statements are presented in the Company's functional currency which is the Indian Rupee (Rs).

(b) Revenue Recognition

Agency commission revenue and related expense from customer security transactions is recorded on a trade date basis. Customer security transactions that are executed through the Company's proprietary trading account are recorded on a trade date basis as principal commission revenue. The related expense is also recorded on a trade date basis.

Net dealer inventory and investment income (loss) results from securities transactions entered into for the account of the Company. Net dealer inventory and investment income (loss) includes both realized and unrealized gains and losses, which are recorded on a trade date basis.

Revenue from online media (which generally consists of internet advertising and related income) is recognized pro-rata, over the contract or subscription period.

Commission income on insurance policies sold is recorded when the insurance policy is accepted by the principal insurance company. Commission on policies renewed is accounted on receipt basis.

Revenues related to commissions from the sale of non-exchange traded investments are recognized upon submission of completed purchase documents and funding of the investment by the customer.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with a maturity at date of purchase of ninety days or less.

(d) Securities Owned

Long and short positions in securities are classified as trading investments and are reported at fair value. The fair value of securities with readily determinable market values are based on quoted market prices. The fair value of securities with limited market activity for which quoted market values are not readily determinable are based on management's best estimate which may include dealer price quotations and price quotations for similar instruments traded. Securities transactions are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses are determined on a specific identification basis of the securities sold. Unrealized gains and losses resulting from the appreciation and depreciation of securities carrying values are included in the statements of operations.

Investment securities are subject to the risk of failure of the issuer and the risk of changes in market value based on the ability to trade such securities on the open market.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives for equipment range from approximately 3 to 5 years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that

Notes to Consolidated Financial Statement

March 31, 2006

the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statements of financial condition and reported at the lower of the carrying amount or fair value less costs to sell, and would be no longer depreciated.

(f) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(g) Estimate

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Goodwill and Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets determined to have finite lives are amortized over their expected lives. Goodwill and intangible assets arising from acquisitions are recorded on the balance sheet on the purchase date. Goodwill is recorded at cost and its value is assessed periodically by management to determine whether impairment has occurred. To date, there has been no impairment of goodwill recorded. Other intangibles are recorded are amortized over their estimable useful lives.

As of March 31, 2006, goodwill and other intangible assets totaled Rs 11 million and Rs 13 million, respectively. There were no intangible assets that were considered to be indefinite-lived at March 31, 2006. Goodwill and other intangibles primarily includes the impact of the acquisitions in prior periods, as well as goodwill and other intangibles from other immaterial acquisitions during the current year.

(i) Foreign Exchange Transactions

Transactions in foreign currencies are recorded at the prevailing rates at the time transactions are effected. Foreign currency assets and liabilities outstanding at the year-end are translated at the rates of exchange ruling on that day. Any gain or loss on transactions are accounted in the Statement of Operations, or adjusted in the value of Fixed Assets, as applicable.

(j) Defined Benefit Plans

The Company's contributions to defined benefit plans are expensed annually when funded and are determined based upon actuarial valuation of the obligations incurred.

(k) Stock-Based Compensation

The Company accounts for stock-based compensation to employees using the intrinsic value method. Accordingly, compensation costs for employee stock options is measured as the excess, if any, of the fair value of the Company's common stock at date of grant over the exercise price. The Company accounts for stock-based compensation to non-employees at fair value.

Accordingly, the expense related to stock option compensation included in the determination of net income for the year ended March 31, 2006 is less than that which would have been recognized if the fair value method had been applied. The Company's net income and earnings per share of common stock would have been adjusted to the proforma amounts indicated below.

		(Indian Rupees Millions)
Net income as reported for basic and fully diluted	Rs	476
Deduct stock-based compensation determined under the fair value based method		(82)
Pro forma net income available to common stockholders for basic	Rs	394
Earnings per share of common stock as reported:		
Basic	Rs	11.20
Diluted	Rs	10.87
Pro Forma earnings per share of common stock:		
Basic	Rs	9.27
Diluted	Rs	8.99

The Company had no stock option expense calculated under the provisions of APB. No. 25 for the years ended March 31, 2006.

The Company will implement FASB Statement No. 123R, Share-Based Payment, beginning on April 1, 2006. Statement 123R requires entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide

Notes to Consolidated Financial Statement

March 31, 2006

service in exchange for the award - the requisite service period (usually the vesting period). 123R applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The impact that this statement will have on the consolidated financial statements is dependent upon the levels of share based payments granted in the future.

(l) New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement will be effective for the Company beginning April 1, 2007. Earlier adoption is permitted. The statement permits interests in hybrid financial assets that contain an embedded derivative that would require bifurcation to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. The Company is currently assessing the impact and timing of adoption of the proposed guidance.

In December 2005, the FASB issued FASB Staff Position ("FSP") SOP 94-6-1, Terms of Loan Products That May Give Rise to a Concentration of Credit Risk. The guidance requires the disclosure of concentrations of loans with certain features that may increase the creditor's exposure to risk of nonpayment or realization. These loans are often referred to as "non-traditional" loans and include features such as high loan-to-value ("LTV") ratios, terms that permit payments smaller than the interest accruals and loans where the borrower is subject to significant payment increases over the life of the loan. The Company adopted the provisions of this guidance in the fourth quarter of 2005. Adoption of this guidance had no material affect on the consolidated financial statements.

In September 2005, the EITF reached consensus on Issue No. 05-8, Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature ("EITF 05-8"). EITF 05-8 concludes that (i)the issuance of convertible debt with a beneficial conversion feature results in a basis difference that should be accounted for as a temporary difference and (ii) the establishment of the deferred tax liability for the basis difference should result in an adjustment to additional paid in capital. EITF 05-8 will be applied retrospectively for all instruments with a beneficial conversion feature accounted for in accordance with EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, and EITF Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, and is effective for periods beginning after December 15, 2005. EITF 05-8 is not expected to have a material impact on the Company's consolidated financial statements.

Effective July 1, 2005, the Company adopted SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of Accounting Principles Board ("APB") Opinion No. 29 ("SFAS 153"). SFAS 153 amended prior guidance to eliminate the exception for nonmonetary exchanges of similar productive assets and replaced it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS 153 were required to be applied prospectively. SFAS 153 did not have a material impact on the Company's consolidated financial statements.

Effective July 1, 2005, the Company adopted EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ("EITF 05-6"). EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. As required by EITF 05-6, the Company adopted this guidance on a prospective basis which had no material impact on the Company's consolidated financial statements.

In June 2005, the Financial Accounting Standards Board ("FASB") completed its review of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments ("EITF 03-1"). EITF 03-1 provides accounting guidance regarding the determination of when an impairment of debt and marketable equity securities and investments accounted for under the cost method should be considered other-than-temporary and recognized in income. EITF 03-1 also requires certain quantitative and qualitative disclosures for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment but has issued FASB Staff Position ("FSP") 115-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments ("FSP 115-1"), which nullifies the accounting guidance on the determination of whether an investment is other-than-temporarily impaired as set forth in EITF 03-1. FSP 115-1 is effective on a prospective basis for other-than-temporary impairments on certain investments in periods beginning after December 15, 2005. The Company has complied with the disclosure requirements of EITF 03-1, which was effective December 31, 2003 and will remain in effect until the adoption of FSP 115-1. The Company does not anticipate that the adoption will have a material impact on its consolidated financial statements.

In June 2005, the EITF reached consensus on Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights ("EITF 04-5"). EITF 04-5 provides a framework for determining whether a general partner controls and should consolidate a limited partnership or a similar entity in light of certain rights held by the limited partners. The consensus also provides additional guidance on substantive rights. EITF 04-5 was effective after June 29, 2005 for all newly formed partnerships and for any pre-existing limited partnerships that modified their partnership agreements after that date. The adoption of this provision of EITF 04-5 did not have a material impact on the Company's unaudited interim condensed consolidated financial statements. EITF 04-5 must be adopted by January 1, 2006 for all other limited partnerships through a cumulative effect of a change in accounting principle recorded in opening equity or it may be applied retrospectively by adjusting prior period financial statements. The adoption of this provision of EITF 04-5 is not expected to have a material impact on the Company's consolidated financial statements.

Notes to Consolidated Financial Statement

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At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share. This Issue addresses when the dilutive effect of contingently convertible debt (Co-Cos) with a market price trigger should be included in diluted earnings per share (EPS). The adoption of Issue No. 04-8 did not have a material effect on the Company's diluted EPS.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 ("SFAS 154"). The statement requires retrospective application to prior periods' financial statements for a voluntary change in accounting principle unless it is deemed impracticable. It also requires that a change in the method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate rather than a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 is not expected to have a material impact on the Company's consolidated financial statements.

(3) Property and Equipment

Property and equipment consists of the following at March 31, 2006:

	(Indian Rupees Millions)
Furniture, fixtures and equipment	Rs 315
Software	24
	339
Accumulated depreciation and amortization	141
	Rs 198

(4) Borrowings

Optional Convertible Bonds

On February 7, 2006, the Company issued Rs 800,000,000 in aggregate principal amount of 1% coupon, 9% yield, Optional Convertible Bonds (OCB), due August 7, 2007 to a single purchaser. The coupon rate is the rate of interest payable semi-annually or convertible into common stock. The yield rate is the rate of interest on the OCB if there is no conversion. The Company accrues interest expense at the yield rate of 9% per annum.

The OCBs are convertible, at the option of the holder, into shares of our common stock at a conversion price of 85% of the average trading price on the most frequently traded exchange for the previous fourteen consecutive trading days. However, the OCB will convert at no less than Rs 140.4 per share and at no more than Rs 170 per share. Additionally, the Company has the right of first refusal should the holders of the OCB sell all or part of their holdings.

The Company may redeem all or a portion of the OCB after August 7, 2006 at a redemption price equaling the face value of the bonds plus accrued and unpaid interest at the yield rate, if the trading price of the Company's common stock is Rs 220 or higher. Upon a change in control event, material notice of default by lenders or sale of a material portion of any business each holder of the OCB may require the Company to repurchase some or all of its OCB at a purchase price equal to the face value of the OCB plus accrued and unpaid interest at the yield rate.

The OCB is a hybrid instrument which contains more than one embedded derivative feature which would individually warrant separate accounting as derivative instruments under SFAS 133. The various embedded derivative features have been bundled together as a single, compound embedded derivative instrument that has been bifurcated from the debt host contract, referred to as the "Single Compound Embedded Derivatives". The single compound embedded derivative features include the conversion feature, the early redemption options and the right of first refusal. The fair value of the single compound embedded derivative liability was bifurcated from the debt host contract and recorded as a component of stockholders' equity, which resulted in a reduction of the initial carrying amount (as unamortized discount) of the OCB of approximately Rs 120 million. The unamortized discount will be amortized to interest expense using the effective interest method over the life of the OCBs, or 18 months. The RS 120 million has been recorded as additional paid in capital.

The Company also incurred direct closing costs of Rs 3.5 million which primarily consisted of professional fees and printing costs. These amounts have been recorded as debt issuance costs and are amortized to interest expense over the term of the OCBs.

OCBs at issuance date and March31, 2006

	Issuance Date (Indian Rupees Millions)	March 31, 2006 (Indian Rupees Millions)
Notional balance	Rs 800	Rs 80
Adjustments		
Unamortized discount	(120)	(109)
Convertible notes balance, net of unamortized discount	**Rs 680**	**Rs 691**

Line of Credit

The Company has a line of credit with DSP Merrill Lynch Ltd. with a balance of Rs 251 million at March 31, 2006. This line of credit bears interest of 11% and is due on demand. The Company repaid Rs 220 million on this line of credit after March 31, 2006.

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Bank Overdrafts

The Company has agreements with various banks to provide overdraft facilities. These overdraft facilities total Rs. 870 million and are unsecured. At March 31, 2006, overdraft balances totaled Rs 610 million. Overdraft balances bear interest at a weighted average rate of 10%. The bank overdrafts are collateralized by customer securities that have been purchased on their account, but which have not yet been settled by the customers.

Other Notes Payable

The Company has additional secured and unsecured notes payable that are individually immaterial and which aggregate Rs 69 million at an average rate of 10%. The principal on these notes payable is due in one year or less.

(5) Fair Value of Financial Instruments

Substantially all of the Company's financial assets and liabilities are carried at market value or at amounts which, because of their short-term nature or because they carry market rates of interest, approximate current fair value. The Company's notes payable, if recalculated based on current interest rates, would not significantly differ from the amounts recorded at March 31, 2006. The fair value of the optional convertible bonds approximates Rs 800 million which approximates the amount the bonds could be repaid for at March 31, 2006.

(6) Income Taxes

The following is a reconciliation between the income tax reported and that which would be expected based upon the Indian tax rate on limited companies:

		(Indian Rupees MIllions)
Expected income tax at 33.67%	Rs	238
Temporary differences		(7)
Non deductible expenses and other items		(1)
Total	**Rs**	**230**

Each of the group companies file a separate tax return as per the Indian tax laws. Deferred income tax assets consist of the following at March 31, 2006:

		(Indian Rupees Millions)
Deferred Tax Assets		
Allowance for doubtful accounts	Rs	2
Accrued leave and benefits		2
Depreciation		6
		10
Deferred Tax Liabilities		
Unrealized gain on securites owned		(1)
Total	**Rs**	**9**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences net of the existing valuation allowances.

(7) Stock Option Plans

During the fiscal year ending March 31, 2000, the Company created an employee stock option plan (ESOP 2000), which provided for grant of share options to employees of the Company. The Company had reserved a total of 2,445,000 shares for issuance under ESOP 2000. Through March 31, 2006 the Company has granted the options in three lots: 1,137,000 options on March 1, 2000; 979,250 options on April 1, 2003; and 694,200 options on October 1, 2004. The shares granted on October 1, 2004 include the grant of lapsed options from the earlier offerings. At March 31, 2006, 1,004,710 options are in force and 245,330 options have lapsed. No further options shall be granted from ESOP 2000 per terms of the disclosures made in the prospectus dated April 11, 2005 issued by the Company.

During the fiscal year ending March 31, 2006, the Company approved a new employee stock option plan (ESOP 2005) at the Extraordinary General Meeting of the shareholders of the Company held on January 25, 2006 providing for issue of 25,000,000 options to the employees of the Company and its subsidiaries including directors of the Company (except an employee or director who is a promoter or belongs to the promoter group or a director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the Company at any time) whether in India or at overseas location. The Company has not granted any options under this plan during the year ended March 31, 2006.

From time to time, the Company may grant warrants to purchase common stock to officers and directors who do not qualify for inclusion in the employee stock option plans under Indian law. These warrants are issued at or above the fair market value of the common stock. During

Notes to Consolidated Financial Statement

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the year ended March 31, 2006, warrants to purchase a total of 2.6 million shares were issued at a strike price of Rs 170 per share. These warrants were fully vested upon issuance and had a fair value of Rs 80 million.

	Options/Warrants	Exercise Pric
Outstanding - March 31, 2005	1,673,450	Rs 10
Granted	2,600,000	170
Exercised	(423,410)	10
Cancelled	(245,330)	10
Outstanding - March 31, 2006	**3,604,710**	**Rs 125**

The fair value of the options used to compute the pro forma amounts (Note 2) is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	6%
Expected holding period (years)	2.3
Expected volatility	64%
Expected dividend yield	0%

The following table summarizes the Company's options and warrants outstanding and exercisable at March 31, 2006:

	Stock Options Outstanding			Stock Options Exercisable	
Exercise Price	Shares	Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Rs 10	1,004,710	9.7	Rs 10	602,182	Rs 10
Rs 170	2,600,000	1.4	170	2,600,000	170
	3,604,710		**Rs 125**	**3,202,182**	**Rs 140**

(8) Earnings Per Share of Common Stock

Basic earnings per share of common stock are based on the weighted average common shares outstanding without any dilutive effects considered. Diluted earnings per share of common stock reflect dilution from all contingently issuable common shares, including options and convertible notes issued. Contingently issuable common shares are not included in the weighted average number of common shares when the inclusion would increase earnings per share of common stock or decrease the net loss per share of common stock.

Earnings per share of common stock for the fiscal year ended March 31, 2006 is calculated as follows:

Basic earnings per share of common stock	
Net income available to common stockholders (Indian Rupees Millions)	Rs 476
Weighted average common shares outstanding	42,510,382
Basic earnings per share of common stock (Indian Rupees Millions)	**Rs 11.20**
Diluted earnings per share of common stock	
Net income available to common stockholders (Indian Rupees Millions)	Rs 476
Weighted average common shares outstanding	42,510,382
Effect of dilutive securities	
Options / Warrants	1,375,121
Weighted average common shares outstanding (fully diluted)	43,805,503
Diluted earnings per share of common stock (Indian Rupees)	**Rs 10.87**

The Company has included the dilutive effect of 13,478,989 shares of the Company's common stock for the years ended March 31, 2006 in computation of diluted earnings per share. The optional convertible bonds were excluded from the diluted earnings per share because their inclusion would be anti-dilutive.

(9) Off Statement of Financial Condition Ris

The Company is exposed to risk of loss if an individual, counterparty or issuer fails to perform its obligations under contractual terms ("default risk"). The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties.

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In the normal course of business, the Company executes, settles, and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties.

The Company's exposure to credit risk (both default and credit spread) associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions. No concentration risk was identified as of March 31, 2006.

(10) Industry Segment Data

The Company has three reportable segments: brokerage, life insurance and media & content. The brokerage segment includes the business of providing equity brokerage services primarily to retail customers throughout India as well as the other operations of the consolidated companies. The life insurance segment is a corporate agent for life insurance products in India. The media & content segment operates to provide on-line advertising and related services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes.

The following table presents segment revenues, income before income tax expense, and assets for the year ended March 31, 2006.

	Brokerage		Life Insurance	Media & Content	Total	
Revenues from external customers	Rs	1,814	216	201	Rs	2,231
Interest expense	Rs	21	–	22	Rs	43
Depreciation	Rs	81	3	1	Rs	8
Income before income tax expense	Rs	469	101	136	Rs	706
Segment assets	Rs	4,498	22	23	Rs	4,553
Capital expenditures	Rs	225	13	1	Rs	239

(11) Commitments and Contingencies

Litigation

The Company has been named as a defendant in various legal actions, including arbitrations and other litigation arising in connection with its activities as diversified financial services institution. Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

The Company believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. The Company may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process. In accordance with SFAS No. 5, The Company will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including almost all of the class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict what the eventual loss or range of loss related to such matters will be. The Company continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of the Company as set forth in the Consolidated Financial Statements, but may be material to the Company's operating results or cash flows for any particular period and may impact the Company's credit ratings.

Lending Commitments

The Company primarily enters into commitments to extend credit, predominantly at variable interest rates, in connection with asset-based lending transactions. Clients may be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, the Company may require the counterparty to post collateral depending upon creditworthiness and general market conditions.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon.

At March 31, 2006, the total commitments to extend credit were not material.

Leases

The Company leases its office facilities under operating leases with terms of one year or less.

(12) Related Party Transactions

The Company regularly engages in securities trading activities on behalf of members of management and their relatives. This activity may

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result in net payable and receivable positions with these individuals. Related party transactions and balances for the year ended March 31, 2006 are as follows:

Transactions	Relatives		Key Managerial Personnel (Indian Rupees Millions)	Total	
Purchase of Securities & Commodities	Rs	144	115	Rs	259
Sale of Securities & Commodities	Rs	149	118	Rs	267
Brokerage Income	Rs	264	154	Rs	418
Payables	Rs	11	–	Rs	11
Receivables	Rs	1	–	Rs	1

(13) Employee Benefit Plans

The Company provides pension and welfare benefit plans created under Indian law. These plans include both defined benefit and defined contribution plans.

Gratuity

In accordance with the Payment of Gratuity Act, 1972, the Company provides for gratuity, a defined benefit retirement plan. The plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, an amount based on the employee's salary and tenure of employment. Vesting occurs upon completion of five years of service. The company has accrued a total of Rs 3.27 million for gratuity libility as of March 31, 2006 as actuarially determined. However, no amount is required to be funded other than benefits payments, which are funded from the general assets of the Company.

The following sets forth information regarding the plan's status at March 31, 2006:

	(Indian Rupees Millions)	
Benefit obligation	Rs	3
Fair value of plan assets		0
Funded status	**Rs**	**(3)**
	(Indian Rupees)	
Benefit cost	Rs	63,164
Benefits paid	Rs	161,068

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations was 7% and 4% respectively for the fiscal year ended March 31, 2006.

Provident Fund

Eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both employees and the Company make monthly contributions to the provident fund plan equal to the specified percentage of the covered employee's salary. Amounts collected under the plan are deposited in a Government-administered fund. The rate at which the annual interest is payable to the beneficiaries by the trust is administered by the Government. The employees have no further obligations under the plan beyond its monthly contributions. The company recognizes its contributions as expenses.

Compensated absences

The Company accounts for liability for unused paid time off at the balance sheet date based on the employee's last drawn salary and actual unused paid time off. An amount of Rs 2.68 million was accrued as of March 31, 2006.

(14) Regulatory Governance

The Company is regulated by a number of agencies and professional regulatory bodies in India. These regulations require, among other things, that a minimum net worth of Rs 5 million be maintained to engage in online trading activity, which is the principle activity of the Company. Other regulations may from time to time restrict the distributions made by the Company to its shareholders and require the retention of a portion of profits from each year. Management of the Company is acutely aware of the Company's regulatory requirements and believes that all requirements have been met within reason.

Additionally, the Company is subject to the Companies Act of 1956 which prescribes certain requirements regarding its operations that are common to Indian companies.

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(15) Reconciliation of US GAAP to Indian GAAP

The following schedule reconciles these financial statements, prepared under generally accepted accounting principles in the United States of America, and generally accepted accounting principles in India:

(Indian Rupees Millions)

	Indian GAAP		Note	Adjustments	USA GAAP	
Cash and cash equivalents	Rs	701	(A)	(23)	Rs	678
Accounts receivable, net		3,094	(A) (B)	(389)		2,705
Securities owned		240	(C)	3		243
Deferred tax asset		10	(C)	(1)		9
Goodwill		3	(D)	8		11
Prepaid expenses and other assets		458	(E)	4		462
Other unaffected asset groups		445				445
Total assets	**Rs**	**4,951**		**(398)**	**Rs**	**4,553**
Accounts payable, accrued expenses and other liabilities	Rs	1,104	(B) (F)	(402)	Rs	702
Optional convertible bonds		800	(G)	(109)		691
Other unaffected liabilities groups		1,052		–		1,052
Total liabilities		2,956		(511)		2,445
Equity		1,995	(D)(G)	113		2,108
Total liabilities and equity	**Rs**	**4,951**		**(398)**	**Rs**	**4,553**
Revenues	Rs	2,227	(C)	4	Rs	2,231
			(D) (E)			
Expenses		1,507	(F) (G)	18		1,525
Net income before taxes		720		(14)		706
Tax expense		229	(C)	1		230
Net income	Rs	491		(15)	Rs	476

(A) Adjustment of Rs 23 million to reclassify certain uncleared deposits as areceivables from customers.

(B) Adjustment of Rs 411 million to gross down the total receivables from clients that related directly to payables recorded on un-settled transactions during the period between trade date and settlement date.

(C) Adjustment to record the unrealized gain on securities held of Rs 3 million and to record the deferred tax liability of Rs 1 million associated with this transaction.

(D) Adjustment to reverse Rs 1 million and Rs 7 million, respectively, of current year and prior year amortization of goodwill.

(E) Adjustment to capitalize Rs 4 million as the direct cost of issuing the OCBs and to amortize a portion of this amount to interest expense in the current period.

(F) Adjustment to record an interest accrual of Rs 9 million related to the OCBs. Accrual calculated at the 9% yield rate rather than the 1% coupon rate.

(G) Adjustment to reclassify the Rs 120 million intrinsic value of the beneficial conversion feature related to the OCBs to additional paid in capital, to record a discount to the OCBs in the same amount and to amortize Rs 11 million of that discount in the current period.

(16) Subsequent Events

The following significant subsequent events have occurred since March 31, 2006:

The board approved grant of 1.5 million stock options to employees.

Contracts relating to Moneytree have been transferred to India Infoline Distribution.

The Company cancelled a sub-letting arrangement for one of the properties taken on lease and received an amount of Rs 10 million for the same.

DSP Merrill Lynch Ltd gave an additional line of credit of Rs250 million to our Investment subsidiary at an interest rate of 11%.

Corporate information

Board of Directors

Mr Nirmal Jain
Chairman and Managing Director

Mr R. Venkataraman
Executive Director

Mr Sat Pal Khattar
Non Executive Director

Mr Sanjiv Ahuja
Independent Director

Mr Nilesh Vikamsey
Independent Director

Mr Kranti Sinha
Independent Director

Committee of Board

Audit Committee

Mr Nilesh Vikamsey, *Chairman*
Mr Sat Pal Khattar
Mr Sanjiv Ahuja
Mr Kranti Sinha

Compensation/ Remuneration Committee

Mr Sanjiv Ahuja, *Chairman*
Mr Nilesh Vikamsey
Mr Kranti Sinha

Share Transfer and Investor Grievance Committee

Mr Kranti Sinha, *Chairman*
Mr R. Venkataraman
Mr Sanjiv Ahuja

Chief Financial Officer

Mr Kapil Krishan

Auditors

M/s. Sharp & Tannan Associates
Chartered Accountants

Internal Auditors

M/s. Kalyaniwalla & Mistry
Chartered Accountants

Chief Compliance Officer

Mr R Mohan

Chief Technology Officer

Mr S Sriram

Registrar and Share Transfer Agents

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L. B. S. Marg, Bhandup (West),
Mumbai – 400 078.

Bankers

UTI Bank Limited
Citibank
HDFC Bank Limited
ICICI Bank Limited

Company Secretary

Mr Nimish Mehta

Registered Office

Building No. 75, Nirlon Complex,
Off. Western Express Highway,
Goregaon (East), Mumbai – 400 063

Subsidiary Companies

India Infoline Securities Private Limited
India Infoline Commodities Private Limited
India Infoline Distribution Company Limited
India Infoline Insurance Services Limited
India Infoline Investment Services Private Limited
India Infoline Insurance Brokers Limited
Moneytree Consultancy Services Private Limited

"A great leader's courage to fulfill his vision comes from passion, not position."

– John Maxwell

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