



Essar Teleholdings Ltd.



Eighteenth Annual Report 1998-99

Essar Teleholdings Ltd.

BOARD OF DIRECTORS

SHRI S.V. VENKATESAN
SHRI ANAND SONTALIA
SHRI C. SIVASANKARAN
SHRI JOHN MICHAEL LIND

COMPANY SECRETARY

SHRI G.K. SATHE

BANKERS

AMERICAN EXPRESS
INDIAN BANK
DEUTSCHE BANK
UNION BANK OF INDIA

AUDITORS

LOVELOCK & LEWES
CHARTERED ACCOUNTANTS,
1104, RAHEJA CHAMBERS,
NARIMAN POINT,
MUMBAI - 400 021.

REGISTERED OFFICE

ESSAR HOUSE,
14, HADDOWS ROAD,
NUNGAMBAKKAM,
CHENNAI-600 006.

CORPORATE OFFICE

ESSAR HOUSE,
11, K.K. MARG,
MAHALAXMI,
MUMBAI-400 034.

**REGISTRAR & SHARE TRANSFER
AGENTS**

MCS LIMITED,
35, ARMENIAN STREET,
CHENNAI-600 001.

NOTICE

Notice is hereby given that the Eighteenth Annual General Meeting of the Members of Essar Teleholdings Ltd., will be held at Hotel Srilakha Intercontinental, 564, Anna Salai, Chennai 600 018 on Saturday, the 18th March, 2000 at 11.00 A.M. to transact the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 30th September, 1999 and Profit and Loss Account for the period ended on 30th September, 1999 together with the Directors and Auditors Report thereon.
2. To appoint a Director in place of Shri S.V. Venkatesan, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Auditors of the Company and fix their remuneration.

SPECIAL BUSINESS

As Ordinary Resolution,

4. To appoint Shri Anand Sonthalia as a Director of the Company.
5. To rescind earlier resolution passed in 16th Annual General Meeting held on 30.09.1997 for increase in Authorised Capital of the company from Rs.50 crores to Rs.180 crores.
6. To consider and thought fit, pass with or without modifications, the following resolution as Ordinary Resolution.

RESOLVED THAT in supersession of the earlier resolution passed in this behalf and pursuant to the provisions of section 293(1)(d) of the Companies Act, 1956 and other applicable provisions, if any, the Company hereby accords its consent to the Board of Directors to borrow any sums of money by issue of debentures or otherwise; in rupee terms or otherwise; from any person or persons; by hypothecation of or charge on assets of the company or otherwise, over and above its paidup capital plus free reserves. However the money so borrowed together with existing borrowings shall not exceed an aggregate sum equivalent to Rs.2,000 crores at any point of time. And for that purpose the Board of Directors are hereby authorised to execute documents and do such acts and deeds as may be required in this behalf.

NOTES

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE ON POLL INSTEAD OF HIMSELF AND SUCH A PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES IN ORDER TO BE EFFECTIVE MUST BE FILED WITH THE COMPANY AT ITS REGISTERED OFFICE NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE MEETING.**
2. **THE REGISTER OF MEMBERS OF THE COMPANY WILL REMAIN CLOSED FROM 24TH FEBRUARY, 2000 TO 29TH FEBRUARY, 2000. (BOTH DAYS INCLUSIVE).**
3. **EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956 RELATING TO THE SPECIAL BUSINESS STATED IN ITEM NOS. 4 TO 6 IS ANNEXED HERewith.**

Registered Office:

Essar House, 14, Haddows Road,
Nungambakkam, Chennai-600 006.

By Order of the Board

G.K. SATHE
Company Secretary

Place : Mumbai

Date : 21.02.2000

Essar Teleholdings Ltd.**EXPLANATORY STATEMENT**

Pursuant to Section 173 of the Companies Act, 1956, the following Explanatory Statement sets out the material facts relating to Item No. 4 to 6 mentioned under the heading as Special Business.

Item No. 4:

Shri Anand Sonthalia was appointed by the Board as an Additional Director of the Company on 30th December, 1999. He holds the office of Director only upto the date of ensuing Annual General Meeting pursuant to Section 260 of the Companies Act, 1956. The Company has received notice in writing from a member proposing the candidature of Shri Anand Sonthalia for the office of Director. The Board is of the opinion that his appointment as a Director would be advantageous to your company.

The Board recommends passing of this resolution. No Director other than Shri Anand Sonthalia is concerned or interested in this item.

Item No.5:

At the Annual General Meeting of the Company held on 30th September, 1997, the Authorised Capital of the Company was increased from Rs.50 crores to Rs.180 crores by creation of 13 crores Equity Shares of Rs.10/- each. As the same is not required due to change in business conditions, it is proposed to rescind the earlier resolution passed for increase and to cancel the creation of the aforesaid shares pursuant to Section 94(1)(e) of the Companies Act, 1956.

The Board recommends passing of this resolution. None of the Directors is concerned or interested in this item.

Item No.6:

The Board is of the view that the Company may have to borrow over and above the present borrowing limits of Rs.1,000 crores for meeting the business requirements. The resolution for increase in the borrowing limits to Rs.2,000 crores is therefore placed before the members.

The Board recommends passing of this resolution. None of the Directors is concerned or interested in this item.

Registered Office:

Essar House, 14, Haddows Road,
Nungambakkam, Chennai-600 006.

Place : Mumbai
Date : 21.02.2000

By Order of the Board

G.K. SATHE
Company Secretary

DIRECTORS' REPORT

TO THE MEMBERS

The Directors hereby present the Eighteenth Annual Report together with the audited statement of accounts of the Company for 18 months period ended 30th September, 1999.

1. FINANCIAL RESULTS

(Rs. in '000)

PARTICULARS	For the period ended 30 th September, 1999	For the year ended 31st March, 1998
Service and other Income	72,834	7,227
Gross Profit/(Loss) before Depreciation, Interest & Finance Charges	30,711	(57,622)
Depreciation	217	182
Interest and finance charges	945,356	343,865
Profit /(Loss) before Taxation	(914,862)	(401,669)
Less: Provision for Income Tax	-	-
Profit /(Loss) after Taxation	(914,862)	(401,669)
Add : Balance brought forward from the Previous year	(418,393)	(16,724)
Balance in Profit & Loss Account carried to Balance Sheet	(1,333,255)	(418,393)

2. DIVIDEND

In view of the losses, the Directors do not recommend any dividend for the period under review.

3. DIRECTORS

Under the Articles of the Company and in accordance with the Provisions of the Companies Act, 1956, Shri S.V. Venkatesan retires from the Board of Directors by rotation and being eligible for re-appointment, offers himself for re-appointment to the Board.

At the Board Meeting held on 30th December, 1999, Shri Anand Sonthalia was appointed as an Additional Director of the Company. Shri Anand Sonthalia has wide knowledge and experience and your company will benefit considerably from its association with him. Shri Anand Sonthalia holds office upto the date of ensuing Annual General Meeting and is eligible for re-appointment.

The Company has received a notice from a member under Section 257 of the Companies Act, 1956, signifying its intention to propose Shri Anand Sonthalia for appointment as Director of the Company at the forthcoming Annual General Meeting.

During the period, Shri. Mahesh Chand was appointed as an additional Director on 14.01.1999 and has resigned on 30.12.1999.

Shri V. Srinivasan, Director, resigned from the Board during the period.

Essar Teleholdings Ltd.**4. SUBSIDIARIES**

M/s. Sterling Cellular Limited (SCEL) continues to be subsidiary of your company.

SCEL has increased its subscriber base and scale of operations. The Department of Telecommunications has offered migration from Fixed Licence Fees to Revenue Sharing under the provisions of New Telecom Policy 1999 which has been accepted by SCEL.

Hutchison Telecommunications International Ltd., a part of Hutchison Whampoa Group of Hong Kong has acquired 49% equity stake in SCEL from Swisscom A.G. and others. SCEL is now well positioned to take advantage of the improved market conditions in the ensuing years.

M/s. Karthik Financial Services Ltd., which is the subsidiary of Sterling Cellular Limited and M/s. Aircel Digilink (India) Ltd., (ADIL) the subsidiary of Karthik Financial Services Ltd., in turn also continue to be the subsidiaries of your company by virtue of Section 4(1)(c) of the Companies Act, 1956.

Aircel Digilink (India) Ltd. is the licensee for the Cellular Mobile Telephone Services in Rajasthan, Haryana and UP (east) circles. The company was issued termination orders for the Haryana and Rajasthan circles on account of non-payment of licence fees dues. ADIL is confident of obtaining reinstatement of the relevant licences and migration from Fixed Licence Fees to Revenue Sharing under the provisions of New Telecom Policy 1999.

A statement under Section 212 of the Companies Act, 1956 and a copy of the audited accounts in respect of the aforesaid subsidiaries are attached herewith and form part of this Report.

5. AUDITORS

M/s. Lovelock & Lewes, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. M/s. Lovelock & Lewes, Chartered Accountants, have informed the Company that, if appointed, their appointment will be within the prescribed limits under Section 224(1B) of the Companies Act, 1956. Accordingly, the members' approval is being sought to their appointment as the Auditor of the Company at the ensuing Annual General Meeting.

6. PARTICULARS OF EMPLOYEES

There are no employees covered under the Section 217(2A) of the Companies Act, 1956.

7. DISCLOSURE AS PER COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988.

- (i) Part A pertaining to Conservation of Energy is not applicable to the Company, since no manufacturing activity is carried on by the Company.
- (ii) Part B pertaining to the particulars about Technology absorption and Research & Development is not applicable to the Company since no import of technology is envisaged by the Company. Expenditure on Research and Development is Nil.
- (iii) Part C pertaining to Foreign Exchange Earnings and outflows are furnished under Note No.3 in Schedule 17 - Notes Forming Part of Accounts.

8. ACKNOWLEDGEMENT

The Board wishes to express its appreciation and place on record their gratitude for the confidence reposed and co-operation extended to the Company by the Government of India, State Governments, Financial Institutions, Banks, Lenders and Members of the Company.

For and on behalf of the Board.

Place : Mumbai
Date : 21.02.2000

DIRECTORS

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

(Rupees in Thousands)

S.No.	PARTICULARS	STERLING CELLULAR LTD.	AIRCELL DIGILINK (INDIA) LTD.	KARTHIK FINANCIAL SERVICES LTD.
1	The relevant financial year of the subsidiary company ended on 31.03.1999	31.03.1999	31.03.1999	31.03.1999
2	No. of Shares in the subsidiary companies held by Essar Teleholdings Limited as on 30.09.1999	88,398,277 Equity Shares of Rs. 10/- each	0	0
3	Extent of holding by Essar Teleholdings Limited as at the end of the financial year	51%	0%	0%
4	The net aggregate of profits or losses of the subsidiary for the above financial year so far as they concern the members of Essar Teleholdings Limited (a) Dealt with in the account of Essar Teleholdings Limited, for the period 01.04.1998 to 30.09.1999	None	None	None
	(b) Not Dealt with in the account of Essar Teleholdings Limited, for the period 01.04.1998 to 30.09.1999	(209,113)	(460,506)	(11)
5	The net aggregate of profits or losses of the subsidiary for the previous financial year so far as they concern the members of Essar Teleholdings Limited (a) Dealt with in the account of Essar Teleholdings Limited, for the period 01.04.1998 to 30.09.1999	None	None	None
	(b) Not Dealt with in the account of Essar Teleholdings Limited, for the period 01.04.1998 to 30.09.1999	(488,027)	(338,474)	(6)
6	Change of Interest of Essar Teleholdings Limited in the subsidiary between the end of the financial year of the subsidiary and that of Essar Teleholdings Limited	None	None	None
7	Material changes between the end of the financial year of the subsidiary at the end of the financial year of Essar Teleholdings Limited, in respect of subsidiary's Fixed assets, investments, monies lent and borrowed (a) Fixed Assets (b) Investments (c) Money lent by the subsidiary (d) Money borrowed by the subsidiary company other than for settling current liabilities	N.A. N.A. N.A.	N.A. N.A. N.A.	N.A. N.A. N.A.

For Essar Teleholdings Limited

Anand Sonthalia
DirectorS.V.Venkatesan
DirectorPlace : Mumbai.
Dated : 21.02.2000

Essar Teleholdings Ltd.**AUDITORS' REPORT TO THE MEMBERS OF ESSAR TELEHOLDINGS LIMITED**

1. We have examined the attached Balance Sheet of Essar Teleholdings Limited as at 30th September, 1999 and the annexed Profit and Loss Account for the period 1st April, 1998 to 30th September, 1999 which are in agreement with the books of account.
2. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956 of India (the Act) and on the basis of such checks of the books and records of the Company as we considered appropriate and the information and explanations given to us during the course of our audit, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to in paragraph 2 above, we report that:
 - (a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) in our opinion, the Profit and Loss Account and Balance Sheet comply with the Accounting Standards specified by the Institute of Chartered Accountants of India, referred to in sub-section (3C) of Section 211 of the Act;
 - (d) in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with Schedules 1 to 17 attached, give the information required by the Act in the manner so required and give a true and fair view:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 30th September, 1999 and
 - (ii) in the case of the Profit and Loss Account, of the loss for the period ended on that date.

For Lovelock & Lewes
Chartered Accountants

Sharmila A. Karve
Partner

Mumbai, 21st February, 2000

**Annexure referred to in paragraph 2 of Auditors' Report of even date to the members of
Essar Teleholdings Limited on the accounts for the period ended 30th September, 1999**

(A)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. The fixed assets of the Company have been physically verified by the management during the period and no material discrepancies were noticed between book records and physical inventory.
2. The fixed assets of the Company have not been revalued during the period.
3. The Company has taken unsecured loans / advances from companies listed in the register maintained under Section 301 of the Act. The rate of interest and other terms and conditions of such loans / advances are not prima facie prejudicial to the interest of the Company. We are informed that there are no companies under the same management within the meaning of sub-section (1B) of Section 370 of the Act.
4. The Company has granted unsecured loans / advances to companies listed in the register maintained under Section 301 of the Act. Subject to Note 7 of Schedule 17, the rate of interest and other terms and conditions of such loans / advances are not prima facie prejudicial to the interest of the Company. We are informed that there are no companies under the same management within the meaning of sub-section (1B) of Section 370 of the Act.
5. The parties to whom loans or advances in the nature of loans have been given by the Company are generally repaying the principal amounts as stipulated and are also generally regular in payment of interest, where applicable.
6. In our opinion, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of other assets. There are no purchases of stores, raw materials including components, plant and machinery and equipment and there is no sale of goods.
7. There are no transactions of purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act and aggregating during the period to Rs. 50,000 or more in respect of each party.
8. In our opinion, the Company has complied with the provisions of Section 58A of the Act and the rules framed thereunder with regard to deposits accepted from the public except for non submission of annual return of deposits as at 31st March, 1998 and 31st March, 1999 in respect of deposits aggregating to Rs. 92(000) and Rs. 48(000) respectively.
9. The Company did not have an internal audit system during the period.
10. The Company did not have Provident Fund and Employees State Insurance dues during the period.
11. The undisputed amounts payable in respect of income-tax aggregating to Rs. 162(000) were outstanding as at 30th September, 1999, for a period of more than six months from the date they became payable. There were no undisputed amounts payable in respect of wealth tax, sales tax, customs duty and excise duty which were outstanding as at 30th September 1999, for a period of more than six months from the date they became payable.
12. During the course of our examination of the books of account carried out in accordance with the generally accepted auditing principles followed in India, we have not come across any personal expenses of employees or directors which have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
13. The provisions of Sick Industrial Companies (Special Provisions) Act, 1985 are not applicable to the Company.
14. The matters specified in clauses (iii) to (vi), (xii), (xiv) and (xvi) of sub-paragraph (A) of paragraph 4 of the Manufacturing and Other Companies (Auditor's Report) Order, 1988 are not applicable to the Company.

(B) In respect of investment activities of the Company

1. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
2. According to the information and explanations given to us, the provisions of special statutes applicable to chit fund, nidhi or mutual benefit society are not applicable to the Company.
3. On the basis of our examination of the books and records, the Company has maintained proper records of the transactions and contracts in respect of shares, securities, debentures and other investments. The shares, securities, debentures and other investments have been held by the Company in its own name except to the extent of exemption granted under Section 49 of the Act.

For Lovelock & Lewes
Chartered Accountants

Sharmila A. Karve
Partner

Mumbai, 21st February, 2000

Essar Teleholdings Ltd.**Balance Sheet as at 30th September, 1999**

		As at 30th September, 1999		As at 31st March, 1998	
	Schedule	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sources of Funds					
Shareholders' Funds					
Capital	1	49,996		49,996	
Share Application Money		-		900,000	
Reserves and Surplus	2	116,802		116,802	
			166,798		1,066,798
Capital Suspense Account (Refer Note 5 of Schedule 17)			2,258,602		-
Loan Funds					
Secured Loans	3	2,128,702		1,700,000	
Unsecured Loans	4	18,438		1,907,547	
			2,147,140		3,607,547
Total			4,572,540		4,674,345
Application of Funds					
Fixed Assets					
Gross Block	5	740		740	
Less: Depreciation		415		198	
Net Block			325		542
Investments	6		3,202,269		1,096,813
Current Assets, Loans and Advances					
Sundry Debtors	7	3,052		2,000	
Cash and Bank Balances	8	103		2,515	
Loans and Advances	9	230,581		3,296,150	
		233,736		3,300,665	
Less: Current Liabilities and Provisions					
Share Application Money Refundable		58,441		-	
Liabilities	10	36,289		54,069	
Provisions	11	315		10,560	
		95,045		64,629	
Net Current Assets			138,691		3,236,036
Miscellaneous Expenditure (to the extent not written off or adjusted)	12		-		24,561
Profit and Loss Account	13		1,231,255		316,393
Total			4,572,540		4,674,345
Notes to the Accounts	17				

Schedules 1 to 13 and 17 referred to above
form an integral part of the Balance Sheet.

In terms of our report of even date

For Lovelock & Lewes

Chartered Accountants

Sharmila A. Karve
Partner

Mumbai, 21st February, 2000

Girish K. Sathe
Secretary

Mumbai, 21st February, 2000

Anand Sonthalia
Director

S. V. Venkatesan
Director