



THIRD
ANNUAL REPORT
2005-2006

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FACOR

FACOR ALLOYS LIMITED

Board of Directors

Umashankar Agrawal
Chairman

R.K. Saraf
Vice-Chairman &
Managing Director

M.D. Saraf
Vice Chairman &
Wholetime Director

Yogesh Saraf
Joint Managing Director

Ashim Saraf
Joint Managing Director

D.V.S.K. Murthy
Nominee of Bank of India

C.N. Harman
Director (Technical)

K Jayabharath Reddy
IAS (Retd.)

P.V.R.K. Prasad
IAS (Retd.)

Dr. Suresh Surana

Arye Berest

Keshaorao Pardhey

S S Sharma
Secretary

Executive

M. S. S Sarma
General Manager

Bankers

Bank of India

Central Bank of India

State Bank of India

Syndicate Bank

State Bank of Bikaner & Jaipur

Solicitors

Mulla & Mulla and
Craigie Blunt & Caroe

Auditors

Salve And Co.,
Chartered Accountants

Internal Auditors

D. C. Dhupia & Co.
Chartered Accountants

**Registrar & ShareTransfer
Agents (for Both Physical &
Electronic)**

MCS Ltd.

'Harmony', 1st Floor,
Sector 1, Khanda,
NEW PANVEL 410 206 (W)
Dist.: Raigad (Maharashtra)
Phone No. 91-22-27492003-10
Fax No. 91-22-2749 2005
E-mail: mcsnum@vsnl.com

FACOR ALLOYS LIMITED
Notice to Members**FACOR****3****THIRD
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Notice is hereby given that the THIRD ANNUAL GENERAL MEETING of the Members of the Company will be held at the Registered Office of the Company at New Administrative Building, Shreeramnagar-535 101, Garividi, Dist, Vizianagaram, Andhra Pradesh on Tuesday, the 26th September, 2006 at 4.30 p.m to transact with or without modifications as may be permissible, the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and the Auditors thereon.
2. To appoint a Director in the place of Mr. C.N.Harman, who retires from office by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr K. Jayabharath Reddy, who retires from office by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Mr P.V.R.K. Prasad, who retires from office by rotation and, being eligible, offers himself for re-appointment.
5. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution.

"RESOLVED that pursuant to the provisions of section 224A and other applicable provisions, if any, of the Companies Act, 1956, Messrs Salve And Company, Chartered Accountants, the retiring Auditors of the Company, be and they are hereby re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration plus service tax as applicable and reimbursement of expenses incurred by them incidental to their functions as the Board of Directors may fix in that behalf in consultation with the said Auditors."

AS SPECIAL BUSINESS:

6. To appoint Mr M.D.Saraf (who was appointed as an Additional Director by the Board of Directors of the Company under Article 107 of the Articles of Association of the Company and who holds office under the said Article and Section 260 of the Companies Act, 1956 upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing pursuant to the provisions of Section 257 of the Companies Act, 1956 alongwith a deposit of Rs 500/- from a member signifying his intention to propose Mr M.D.Saraf as a candidate for the office of Director) as a Director of the Company and in that behalf to consider and, if thought fit, to pass the following resolution: which will be proposed as an Ordinary Resolution:

"RESOLVED THAT pursuant to the relevant provisions of the Companies Act 1956 including Section 257, Mr M.D.Saraf be and is hereby elected and appointed as a Director of the Company liable to retire by rotation."

7. To appoint Mr Yogesh Saraf (who was appointed as an Additional Director by the Board of Directors of the Company under Article 107 of the Articles of Association of the Company and who holds office under the said Article and Section 260 of the Companies Act, 1956 upto the date of this Annual General Meeting and in respect of whom the Company has received a notice in writing pursuant to the provisions of Section 257 of the Companies Act, 1956 alongwith a deposit of Rs 500/- from a member signifying his intention to propose Mr Yogesh Saraf as a candidate for the office of Director) as a Director of the Company and in that behalf to consider and, if thought fit, to pass the following resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT pursuant to the relevant provisions of the Companies Act 1956 including Section 257, Mr Yogesh Saraf be and is hereby elected and appointed as a Director of the Company liable to retire by rotation."

8. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED that pursuant to the provisions of Sections 198, 269, 309, 314 and all other applicable provisions, if any, of the Companies Act, 1956 (the Act) read with Schedule XIII thereto as amended upto date and all guidelines for managerial remuneration issued by the Central Government from time to time, and subject to such further approvals, if any, as may be necessary, the Company hereby approves of the appointment of Mr. M.D. Saraf as Wholtime Director of the Company for a period of 3 years w.e.f 28th July 2006 upon the terms and conditions as to remuneration and otherwise as set out in the draft agreement prepared in that behalf and submitted to this meeting and initialed by the Secretary for the purpose of identification and which draft agreement, the broad details of which are given in the Explanatory Statement in respect of this item of the Notice, is hereby specifically approved with liberty to the Board to vary the terms and conditions of the remuneration and appointment and/or the Agreement in such manner as may be agreed to between the Board and Mr. M.D.Saraf in the best interest of the Company within the limitations in that behalf as contained in Schedule XIII to the Act or any amendments thereof or otherwise as may be permissible at law and that the Agreement, when finalized, be executed by the Company by affixing its Common Seal thereon in accordance with the relevant provisions contained in the Articles of Association of the Company."

9. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 (the Act) read with Schedule XIII thereto as amended upto date and all guidelines for managerial remuneration issued by the Central Government from time to time, and subject to such further approvals, if any, as may be necessary, the Company hereby approves of the appointment of Mr. Yogesh Saraf as Joint Managing Director of the Company for a period of 3 years with effect from 1st May 2006 upon the terms and conditions as to remuneration and otherwise as set out in the draft agreement prepared in that behalf and submitted to this meeting and initialed by the Secretary for the purpose of identification and which draft agreement, the broad details of which are given in the Explanatory Statement in respect of this item of the Notice, is hereby specifically approved with liberty to the Board to vary the terms and conditions of the remuneration and appointment and /or the agreement in such manner as may be agreed to between the Board and Mr. Yogesh Saraf in the best interest of the Company, within the limitations in that behalf as contained in the Schedule XIII to the Act or any amendments thereof or otherwise as may be permissible at law and that the agreement, when finalized, be executed by the Company by affixing its Common Seal thereon in accordance with the relevant provisions contained in the Articles of Association of the Company."

10. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED THAT in partial modification of the resolution approved earlier on 19th September 2005, pursuant to sections 198, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereof as amended upto date and all guidelines for managerial remuneration issued by the Central Government from time to time, and subject to such other approvals, if any, as may be necessary, the consent of the members of the Company be and is hereby accorded to the revision in the remuneration of the Managing Director Mr R.K.Saraf with effect from 01st April 2006 for the remaining period of his office, which is hereby restricted upto 31st March, 2009 instead of 31st July, 2009, as set out in the draft supplemental agreement prepared in that behalf and submitted to this meeting and initialed by the Secretary for the purpose of identification and which draft supplemental agreement, the broad details of which are given in the Explanatory Statement in respect of this item of the Notice, is hereby specifically approved with liberty to the Board to vary the terms and conditions of the remuneration and appointment and / or the agreement in such manner as may be agreed to between the Board and Mr R.K.Saraf in the best interest of the Company, within the limitations in that behalf as contained in the Schedule XIII to the Act or any amendments thereof or otherwise as may be permissible at law and that the draft supplemental agreement, when finalized, be executed by the Company by affixing its Common Seal thereon in accordance with the relevant provisions contained in the Articles of Association of the Company."

11. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

"RESOLVED THAT in partial modification of the resolution approved earlier on 19th September 2005, pursuant to sections 198, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereof as amended upto date and all guidelines for managerial remuneration issued by the Central Government from time to time, and subject to such other approvals, if any, as may be necessary, the consent of the members of the Company be and is hereby accorded to the revision in the remuneration of the Joint Managing Director Mr Ashim Saraf with effect from 01st April 2006 for the remaining period of his office, which is hereby restricted upto 31st March, 2009 instead of 31st July, 2009, as set out in the draft supplemental agreement prepared in that behalf and submitted to this meeting and initialed by the Secretary for the purpose of identification and which draft supplemental agreement, the broad details of which are given in the Explanatory Statement in respect of this item of the Notice, is hereby specifically approved with liberty to the Board to vary the terms and conditions of the remuneration and appointment and / or the agreement in such manner as may be agreed to between the Board and Mr Ashim Saraf in the best interest of the Company, within the limitations in that behalf as contained in the Schedule XIII to the Act or any amendments thereof or otherwise as may be permissible at law and that the draft supplemental agreement, when finalized, be executed by the Company by affixing its Common Seal thereon in accordance with the relevant provisions contained in the Articles of Association of the Company."

NOTES:

1. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item Nos. 5 to 11 of the notice set out above is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Monday, 11th September 2006 to Tuesday, 26th September 2006 both days inclusive.
4. Members are requested to send all correspondence relating to the Company's shares including share transfer documents, change of address etc. to the Company's Registrar & Transfer Agents M/s MCS Ltd., "Harmony", 1st Floor, Sector 1, Khanda, NEW PANVEL 410 206 Dist: Raigad [Maharashtra]. Requests for change of address will be entertained only when shareholders' signatures on the letter intimating change of address tally with the specimen signatures recorded with the Company. While notifying change in address please ensure that the address is complete and the pin code number is clearly mentioned. Incorrect/incomplete address may lead to non-delivery of documents/communications sent by the Company/Registrar.
5. Shareholders intending to require information about accounts to be explained at the meeting are requested to furnish the queries to the Company at least 10 (ten) days in advance of the Annual General Meeting.
6. Members holding shares in physical form and desirous of making a nomination in respect of their shareholding in the Company are requested to submit to the above Registrar & Transfer Agents, Form No.2B duly filled in and signed. The Form can be had from the Share Department at the Registered Office of the Company at Garividi [Vizianagaram].
7. The Company's securities are admitted in the National Securities Depository Ltd. and Central Depository Services (India) Ltd. and the ISIN No. allotted to the Company by them in respect of Equity Shares is INE 828G01013 and in respect of Preference Shares is INE 828G04017.

Registered Office:
Shreeramnagar, Garividi,
VIZIANAGARAM 535 101
Andhra Pradesh

By Order of the Board,

S.S. SHARMA
SECRETARY

Dated: 28th July 2006

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Explanatory Statement as required by Section 173 of the Companies Act, 1956:

ITEM NO.5

In terms of Section 224A of the Companies Act, 1956, if not less than 25% of the Subscribed Capital of the Company, is held either singly or in combination by public financial institutions, Government Companies, Central or State Governments, Nationalized Banks or Insurance Companies carrying on general insurance business, then the appointment or re-appointment of an Auditor of the Company has to be made by a Special Resolution.

In the case of your Company, the aforesaid categories of shareholders together at present hold and are likely to continue to hold more than 25% of the subscribed capital at the date of ensuing Annual General Meeting of the Company. Hence, it is necessary to pass a Special Resolution to re-appoint M/s Salve And Company as Auditors of the Company. Messrs Salve And Company have furnished a Certificate to the Company to the effect that their re-appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956.

ITEM NOS.6 & 8

Shri M.D.Saraf was appointed as an Additional Director by the Board of Directors of the Company. Pursuant to the Section 260 of the Companies Act, 1956, read with Article 107 of Articles of Association of the Company, he holds office as a Director only until the forthcoming Annual General Meeting of the Company. A notice has been received from a member pursuant to the Section 257 of the Companies Act, 1956 signifying his intention to propose Shri M.D. Saraf for the office of Director.

Shri M.D.Saraf aged around 58 years, is a Commerce Graduate with a Bachelors' Degree in Law. He is having more than 3 decades of rich experience, particularly in the Steel Industry which is closely connected with Ferro Alloys Industry. It is, therefore, advantageous to the Company that it should avail the benefit of his vast and varied experience and able guidance.

The Board of Directors of the Company at its meeting held on 28.7.2006 has appointed Shri M.D.Saraf as Wholtime Director of the Company for a period of 3 years w.e.f 28th July 2006 although subject to retirement by rotation. The material terms and conditions of his appointment and remuneration, which are in conformity with the Schedule XIII to the Act, are as contained in the draft agreement and as given in the attached ANNEXURE "A" forming part of the Explanatory Statement.

Accordingly, the resolutions in item nos.6 & 8 of the accompanying Notice are commended for your approval.

Shri M.D.Saraf is evidently interested in these resolutions concerning him. Shri Umashankar Agrawal and Shri R.K.Saraf, Directors of the Company, are related to Shri M.D. Saraf and hence they are also interested in these resolutions.

The agreement between the Company and Shri M.D.Saraf, Wholtime Director, providing the terms and conditions of his appointment and remuneration is available for inspection by the members of the Company at the Registered Office between 11 a.m to 2 p.m on any working day of the Company upto and inclusive of the date of the ensuing Annual General Meeting.

This may also be treated as an abstract of the draft agreement between the Company and Shri M.D.Saraf, Wholtime Director, pursuant to the Section 302 of the Companies Act, 1956.

ITEM NOS.7 & 9

Shri Yogesh Saraf was appointed as an Additional Director by the Board of Directors of the Company. Pursuant to the Section 260 of the Companies Act, 1956, read with Article 107 of Articles of Association of the Company, he holds office as a Director only until the forthcoming Annual General Meeting of the Company. A notice has been received from a member pursuant to the Section 257 of the Companies Act, 1956 signifying his intention to propose Shri Yogesh Saraf for the office of Director.

Shri Yogesh Saraf aged around 48 years, is an Engineer and is also an MBA. Shri Yogesh Saraf also has several years of rich and vast executive experience in business administration and management. It is, therefore, in the interest of the Company that it should avail the benefit of his vast and varied experience and able guidance.

The Board of Directors of the Company at its meeting held on 28th April, 2006 appointed Shri Yogesh Saraf as Joint Managing Director of the Company for a period of 5 years w.e.f 1st May, 2006 although subject to retirement by rotation. The material terms and conditions of his appointment and remuneration, which are in conformity with the Schedule XIII to the Act and as contained in the draft agreement approved by the Board at the aforesaid meeting have now been revised by the Board at its meeting held on 28.7.2006 and the revised terms and conditions of his appointment, which is now effective for a period of 3 years from 1st May,2006 instead of 5 years from 1st May,2006, and remuneration which are also in conformity with Schedule XIII to the Act are as contained in the draft agreement and as given in the attached ANNEXURE-A forming part of this Explanatory Statement.

Accordingly, the resolutions in item nos.7 and 9 of the accompanying Notice are commended for your approval.

Shri Yogesh Saraf is interested in these resolutions relating to him. Shri Umashankar Agrawal, Director of the Company, is related to Shri Yogesh Saraf and hence Shri Agrawal is also interested in these resolutions.

The agreement between the Company and Shri Yogesh Saraf, Joint Managing Director, providing the terms and conditions of his appointment and remuneration is available for inspection by the members of the Company at the Registered Office between 11 a.m to 2 p.m on any working day of the Company upto and inclusive of the date of the ensuing Annual General Meeting.

This may be treated as an abstract of the draft agreement between the Company and Shri Yogesh Saraf, Joint Managing Director, pursuant to the Section 302 of the Companies Act, 1956.

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At the Second Annual General Meeting held on 19th September, 2005, the shareholders had approved the revised terms of remuneration of Shri R.K.Saraf, Managing Director and Shri Ashim Saraf, Joint Managing Director, of the Company w.e.f 1st April, 2005, as contained in the Explanatory Statement forming part of the Notice of the said Annual General Meeting.

As per para 1[B] of Section II of Part II of Schedule XIII of the Companies Act, 1956, Companies having no profits or in-adequate profits can pay remuneration not exceeding the limits prescribed in the said Schedule on the basis of effective capital of the Company and subject to fulfillment of certain conditions including approval of such remuneration by a Remuneration Committee as also of the shareholders by way of a Special Resolution, for a period not exceeding 3 years.

Taking into consideration the experience of the managerial personnel and other relevant factors including the trend followed by similar large companies in remunerating their managerial personnel as also the improving performance of the Company, it is proposed to further revise their salary scale from Rs 40000-50000-65000 per month for Managing Director & Rs. 25000-30000-40000 per month for Joint Managing Director to Rs 75000-50000-100000 per month for each of them effective 1st April, 2006. The broad details of the revised terms of appointment and remuneration as contained in the draft supplemental agreements are as under:

- Term of office of Managing Director & Joint Managing Director 3 years w.e.f. 1st April, 2006 i.e. upto 31.3.2009
- Basic Salary Rs 75,000/- per month in the scale of Rs 75,000-5,000-1,00,000/- for each of the Managing Director / Joint Managing Director.
- Perquisites and Allowances:

In addition to the aforesaid salary, each of the Managing Director / Joint Managing Director shall also be eligible to the perquisites and allowances as given hereunder; the monetary value of such perquisites and allowances being restricted in the aggregate to Rs 9,00,000/- per annum in each case.

The perquisites payable to Shri R.K.Saraf and Shri Ashim Saraf include dearness and other allowances, accommodation [furnished or otherwise] or House Rent Allowance in lieu thereof, reimbursement of expenses for utilization of gas, electricity, water, furnishing, medical reimbursement at actuals for self and his family, leave travel concession at actuals for self and his family, club fees, medical insurance and such other perquisites within the amount specified above. The said perquisites and allowances shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 or any Rules thereunder [including any statutory modification[s] or re-enactment thereof, for the time being in force]. In the absence of any such Rules, the same shall be evaluated at actual cost. However, the Company's contribution to Provident fund, Superannuation or Annuity Fund, to the extent these singly or together are not taxable under the Income Tax Act, and Gratuity payable and encashment of leave at the end of tenure, as per the Rules of the Company, shall not be included in the computation of the limits for the remuneration. Further, the Company shall provide car for use on Company's business and telephone at residence for official purpose. Provision of a car for use on Company's business and telephone at residence for official purpose are not to be considered as perquisites.

The Managing Director / Joint Managing Director shall not be paid any sitting fees for attending the meetings of the Board of Directors or Committee thereof.

The term "Family" means spouse, dependent children and dependent parents of the Managing Director / Joint Managing Director.

The remuneration payable to each of the Managing Director / Joint Managing Director by way of salary, dearness allowance, perquisites and any other allowances shall not, however, exceed the ceiling limit of Rs 18,00,000/- per annum for each of them.

The Board of Directors or any Committee thereof is entitled to determine and revise the salary, perquisites and other allowances payable to the Managing Director / Joint Managing Director of the Company at any time, such that the overall remuneration payable shall not exceed the aggregate limit of Rs 18,00,000/- for each of them as specified above.

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of the Managing Director / Joint Managing Director, the company has no profits or its profits are inadequate, then also they shall be paid salary, allowances and perquisites as specified above in accordance with the applicable provisions of Schedule XIII of the Companies Act, 1956 and subject to the approval of the Central Government, if any, required.

The Remuneration Committee of the Directors as well as the Board of Directors have at their meetings held on 28th July, 2006, approved the revised terms of appointment and remuneration of Shri R.K.Saraf and Shri Ashim Saraf as aforesaid. All other terms and conditions of their appointment as contained in the respective agreements earlier entered into between the Company and Shri R.K.Saraf, Managing Director and Shri Ashim Saraf, Joint Managing Director remain unchanged:

The Directors, accordingly, commend the special resolutions at item nos. 10 and 11 of the accompanying Notice for acceptance by the members.

The agreements between the Company and Shri R.K.Saraf, Managing Director and Shri Ashim Saraf, Joint Managing Director providing the terms and conditions of their appointment and remuneration and also the draft supplemental agreements are available for inspection by the members of the Company at the Registered Office between 11 a.m to 2 p.m on any working day of the Company upto and inclusive of the date of the ensuing Annual General Meeting.

Shri R.K.Saraf and Shri Ashim Saraf are interested in the respective resolutions relating to them. One is also interested in the resolution relating to the other being relatives. Shri Umashankar Agrawal is related to Shri R.K.Saraf and hence Shri Agrawal is interested in the resolution under item no.10 of the accompanying Notice.

This may be treated as an abstract of the respective draft supplemental agreements between the Company and Shri R.K.Saraf, Managing Director and

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Shri Ashim Saraf, Joint Managing Director, pursuant to the Section 302 of the Companies Act, 1956.

Additional information for the shareholders, as required under Para 1[B] of Section II of Part II of Schedule XIII to the Companies Act, 1956, and to the extent applicable to the Company / appointees is given below:

I. General Information:

- a) Nature of Industry: The Company is in the manufacturing of Ferro Alloys.
- b) Date or expected date of commencement of commercial production:
The Company was incorporated on 14th May, 2004 and the Certificate for Commencement of Business was issued on 17th June, 2004.
- c) Financial performance based on given indicators as per published audited financial results for the year ended 31st March, 2006

<u>Particulars</u>	<u>Rs in lacs</u>
Sale of Products and other income	12716.45
Profit before taxes	782.01
Provision for tax including for FBT and deferred tax	[12.77]
Profit after tax	794.78
Loss as computed under Section 309 [5] read with Section 198.	38447.12

- d) Export performance and foreign exchange earned for the financial year ended 31st March 2006.

<u>Particulars</u>	<u>Rs in lacs</u>
FOB value of exports.	3445.24

- e) Foreign investments or collaborators, if any

Out of the total promoters' contribution amounting to Rs 17.90 Crores brought in as per Rehabilitation Scheme sanctioned by Hon'ble BIFR, the foreign Joint Venture partners' share was Rs 9.80 Crores.

II Information about the appointees:

- a) Background details:

- i) Shri M.D.Saraf aged around 58 years, is a Commerce Graduate with Bachelors' Degree in Law. He is having more than 3 decades rich experience particularly in Steel Industry to his credit.
- ii) Shri Yogesh Saraf aged around 48 years, is an Engineer and is also MBA. Shri Yogesh Saraf is also having several years of rich and vast executive experience in business administration and management.
- iii) Shri R.K.Saraf aged around 62 years studied upto B.Sc, is the promoter director of Ferro Alloys Corporation Limited [FACOR]. He has been associated with the said Company since its inception and as Executive Director from April 1975 and as Joint Managing Director from December 1986. Due to trifurcation of FACOR under a Rehabilitation Scheme sanctioned to it by Hon'ble BIFR in 2004, the Ferro Alloys Unit of FACOR was transferred to this new Company and he joined this Company as Vice Chairman & Managing Director w.e.f 01/08/2004. He, however, continues to be a Director of FACOR.
- iv) Shri Ashim Saraf aged around 39 years is M.Sc [Tech] S.T.D from the Birla Institute of Technology and Science. He has more than 14 years experience in Business and Administration to his credit.

- b) Past remuneration drawn:

Year	Shri M.D.Saraf	Shri Yogesh Saraf	Shri R.K.Saraf	Shri Ashim Saraf
2004-05	NIL	Rs 101995/-*	Rs 160312/-	Rs 135994/-
2005-06	NIL	NIL	Rs 701383/-	Rs 486594/-

*for part of the year upto 27th January, 2005.

- c) Job profile and suitability:

- i) Shri R.K.Saraf
He is looking after and supervising and controlling the entire operations and affairs of the Company.
- ii) Shri M.D.Saraf
He is looking after the entire commercial operations as well as corporate and legal matters of the company including liaisoning etc.

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iii] Shri Yogesh Saraf

He is looking after the expansion and diversification activities and also extends technical support.

iv] Shri Ashim Saraf

He is having supervision and control of the plant at Garividi in Andhra Pradesh and looking after all marketing and purchase functions.

d] Remuneration proposed for each:

Salary	:	Rs 75,000/- p.m. in the scale of 75,000- 5,000-1,00,000/-
Perquisites & Allowances	:	Upto 100% of salary
Minimum Remuneration in case of inadequacy of profits during any Financial Year	:	Salary, perquisites and allowances as mentioned above

The above remuneration by way of salary, perquisites and allowances shall not, however, exceed the ceiling limit of Rs. 18,00,000/- per annum for each of them.

e] Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person

Taking into consideration the size of the Company, the profile of Shri M.D. Saraf, Shri R.K. Saraf, Shri Ashim Saraf and Shri Yogesh Saraf, the responsibilities shouldered by them and the industry benchmarks, the aforesaid remuneration is commensurate with the remuneration package paid to similar senior level positions in other Companies.

f] Pecuniary relationship directly or indirectly with the Company or relationship with the Managerial personnel, if any:

Besides the remuneration proposed, the Managing Director / Wholtime Director / Joint Managing Director do not have any other pecuniary relationship with the Company. Shri M.D. Saraf and Shri R.K. Saraf are brothers of Shri Umashankar Agrawal, Chairman of the Company. Shri Yogesh Saraf is son of Shri Umashankar Agrawal and Shri Ashim Saraf is son of Shri R.K. Saraf.

III Other information:

a] Reasons for loss or inadequate profits

Ferro Alloys industry is of cyclical nature. It is closely linked to the Stainless Steel industry. It is a power intensive industry and the power constitutes major portion of cost of production. Due to unfavourable market conditions, coupled with high cost of production on account of, inter alia, rising cost of inputs, particularly power, the operations of the Company are adversely affected. Further, Ferro Alloys industry continues to face the problems of surplus capacity, high power tariff, as compared to other competing countries, affecting its competitiveness in the international markets.

b] Steps taken by the Company to improve performance:

As a part of the restructuring exercise initiated by the Company including streamlining the manpower, the Company had introduced Voluntary Retirement Scheme [VRS]. Concerted and systematic efforts such as restructuring and reorganization, upgradation of technology, enhancement of operational efficiency, improvement in quality, benchmarking of quality and process, right-sizing the work force, cost reduction measures, quality product development, customer relationship management etc are being made.

c] Expected increase in productivity and profits in measurable terms:

The measures outlined in [b] above are expected to improve productivity. As mentioned in point no.[a] above, Ferro Alloys industry is of cyclical nature. There was a strong growth in stainless steel production accounting for about 80% of global Ferro Chrome consumption in the first half of year 2005. However, the second half of year 2005 witnessed a slow down in global stainless steel production due to heavy stocks and increase in cost of production. As a result, Company had to resort to cutback in the production. Owing to unfavourable market conditions, the production and sale of Ferro Chrome were lower as compared to the previous year 2004-05. The overall turnover of the Company declined from Rs 158.44 Crores in 2004-05 to Rs 115.80 Crores in 2005-06. Exports were Rs 35.86 Crores as against Rs 50.43 Crores in the previous year. However, the profit before tax was at Rs 7.82 Crores as against Rs 7.54 Crores in the previous year. From April 2006 quarter there has been substantial improvement in the market conditions, which may improve the bottom lines of the Company during the year 2006-07.

Registered Office:

Shreeramnagar, Garividi,
VIZIANAGARAM 535 101
Andhra Pradesh

Dated : 31st July 2006

By Order of the Board,

S.S. SHARMA
SECRETARY

Annexure A forming part of Explanatory Statement annexed to the Notice**Material terms and conditions of the appointment of Wholetime Director and Joint Managing Director**

The material terms and conditions of the appointment of Wholetime Director and Joint Managing Director and their remuneration by way of salary, dearness allowance, perquisites and benefits [which are in conformity with the Schedule XIII to the Companies Act, 1956] and as contained in the draft agreement, are as under:

1 Term of Office:

- | | | |
|----|--|--------------------------------|
| a] | Shri M.D.Saraf, Wholetime Director | 3 years w.e.f. 28th July, 2006 |
| b] | Shri Yogesh Saraf, Joint Managing Director | 3 years w.e.f. 1st May, 2006 |

2 Remuneration for each of them:

- a. Basic Salary Rs 75,000/- per month in the scale of Rs 75,000-5,000-1,00,000/-
- b. Perquisites and allowances:

In addition to the aforesaid salary, each of the Wholetime Director / Joint Managing Director shall also be eligible to the perquisites and allowances as given hereunder; the monetary value of such perquisites and allowances being restricted in the aggregate to Rs 9,00,000/- per annum in each case.

The perquisites and allowances payable to Shri M.D.Saraf and Shri Yogesh Saraf will include dearness and other allowances, accommodation [furnished or otherwise] or House Rent Allowance in lieu thereof: reimbursement of expenses for utilization of gas, electricity, water, furnishing, medical reimbursement at actuals for self and his family, leave travel concession at actuals for self and his family, club fees, medical insurance and such other perquisites within the amount specified above. The said perquisites shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 or any Rules thereunder [including any statutory modification[s] or re-enactment thereof, for the time being in force]. In the absence of any such Rules, the same shall be evaluated at actual cost. However, the Company's contribution to Provident fund, Superannuation or Annuity Fund, to the extent these singly or together are not taxable under the Income Tax Act, and Gratuity payable and encashment of leave at the end of tenure, as per the Rules of the Company, shall not be included in the computation of limits for the remuneration. Further, the Company shall provide car for use on Company's business and telephone at residence for official purpose. Provision of a car for use on Company's business and telephone at residence for official purpose are not to be considered as perquisites.

The Wholetime Director / Joint Managing Director shall not be paid any sitting fees for attending the meetings of the Board of Directors or Committee thereof.

The term "Family" means spouse, dependent children and dependent parents of the Wholetime Director / Joint Managing Director.

The remuneration payable to each of the Wholetime Director / Joint Managing Director by way of salary, dearness allowance, perquisites and any other allowances shall not however exceed the ceiling limit of Rs 18,00,000/- per annum for each of them.

The Board of Directors or any Committee thereof is entitled to determine and revise the salary and perquisites payable to the Wholetime Director / Joint Managing Director of the Company at any time, such that the overall remuneration payable shall not exceed the aggregate limit of Rs 18,00,000/- for each of them as specified above.

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of the tenure of the Wholetime Director / Joint Managing Director, the company has no profits or its profits are inadequate, then also they shall be paid salary allowances and perquisites as specified above in accordance with the applicable provisions of Schedule XIII of the Companies Act, 1956 and subject to the approval of the Central Government, if any, required.

FACOR ALLOYS LIMITED**FACOR****3****THIRD
ANNUAL REPORT
2005-2006****DIRECTORS' REPORT TO THE MEMBERS**

The Directors submit the THIRD ANNUAL REPORT on the business and operations of the Company and the Audited Statements of Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS:

	For the year ended 31-3-2006 (Rs. In Lacs)	For the previous Year ended 31-3-2005 (Rs. In lacs)
Gross Profit/(Loss)	1118.57	1703.31
Depreciation/Impairment	336.56	948.92
Provision for taxation (Fringe Benefit/Wealth Tax)	17.25	2.50
Deferred Tax	(30.02)	(117.50)
Profit/(Loss) for the year	794.78	869.39
Provision for taxation for earlier years written back	0.43	—
Provision for bad and doubtful debts and advances written back	8.70	1.99
Net Profit/(Loss) for the year	<u>803.91</u>	<u>871.38</u>

OVERALL PERFORMANCE:

The Company produces mainly ferro chrome which is one of the raw materials used in the production of stainless steel. The demand and prices of ferro chrome, inter alia depend largely on the production and consumption of stainless steel in the global market. There was a strong growth in stainless steel production accounting for about 80% of global ferro chrome consumption in the first half of year 2005. This resulted in increase in demand for ferro chrome leading to price hike. The second half of 2005, however, witnessed a slow down in global stainless steel production due to heavy stocks and increase in cost of production. To overcome this situation, several stainless steel manufacturers resorted to considerable cutback in their production. Due inter-alia, to this there was successive reduction aggregating to around 15 US Cents per lb. of chrome content in prices of ferro chrome in the international market for the three quarters starting from July-September 2005. On account of this, the demand and prices of chrome products in the domestic market too were adversely affected.

During the year under consideration the production and sale of ferro chrome were lower as compared to the previous year 2004-2005. Owing to unfavourable market conditions, the overall turnover of the Company declined from Rs.158.44 crores in 2004-2005 to Rs.115.80 crores in 2005-2006. Exports were Rs.35.86 crores as against Rs.50.43 crores in the previous year. However, the profit before tax was at Rs. 7.82 crores as against Rs. 7.54 crores in the previous year.

The Captive Power Plant remained idle throughout the year as generation of power was not viable due to high cost of fuel. However, regular maintenance is being carried out to keep the power plant in running condition.

IMPLEMENTATION OF REHABILITATION SCHEME:

Implementation of most of the provisions of the sanctioned Rehabilitation Scheme including restructuring of bank borrowings and induction of promoters' contribution of Rs. 5462 lacs in the trifurcated companies including your Company has been completed. Sale of 3 DG sets of 10 MW each has still to be completed. Efforts are continuing to find a prospective buyer for the same. Reliefs and concessions from State Government and Income Tax Authorities are still awaited.

DIVIDEND:

In view of the accumulated losses, the Directors regret their inability to recommend any dividend for the financial year ended 31st March, 2006.

PROSPECTS:

According to analysts, the world production of stainless steel which was around 24 million tons in the year 2005 is expected to increase further around 7% in 2006. Accordingly, demand for chrome product, which is a crucial raw material for making stainless steel, is also, barring unforeseen circumstances, expected to improve correspondingly. Prices have also started moving upwards from April-June 2006 quarter owing, inter alia, to strengthened exchange rate of South African currency Rand against US Dollar, tightened supply situation of chrome product and increasing stainless steel production. These should give fillip to export of ferro chrome from India.

The domestic market scenario for chrome products also appears to be encouraging on account of increasing production of stainless steel in the country. However, the industry still continues to face the problems of surplus capacity, higher power tariff, dependence on costly imported LAM coke, and cheaper imports due to further reduction in import duty on ferro alloys from 10% to 7.5%. The Indian Ferro Alloys Industry has been requesting Central Government through various representations to provide a level playing field by supplying all inputs at internationally competitive prices/tariffs, especially power, to enable the producers to compete in domestic and international markets.

FINANCE:

- During the year 8,08,98,694 equity shares of Re.1/- each fully paid up have been allotted by the Company to the promoters and their associates in terms of the Rehabilitation Scheme sanctioned by Hon'ble BIFR.
- Out of 3,820,101 - 0.01% Redeemable Preference Shares of Rs.100/- each allotted to Financial Institutions/Debtentureholders,