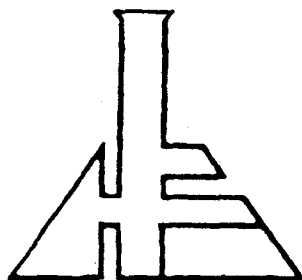


23rd Annual Report 2005-2006



HINDUSTAN FLUOROCARBONS LIMITED



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HINDUSTAN FLUOROCARBONS LIMITED**BOARD OF DIRECTORS**

Shri A S Didolkar	From 20.5.2002 (HOCL Nominee)	Chairman
Shri R N Madangeri	(From 12.11.2003)	Managing Director
Shri U Sarkar	HOCL Nominee (From 1.10.2004)	Director
Shri D P Tripathi	BIFR Nominee (From 24.11.2005)	Director
Shri Ramesh Chandra Jha	Govt. of India Nominee (From 10.4.2006)	Director
Shri Gopal Krishan	Govt. of India Nominee (upto 10.4.2006)	Director
Shri J Gopal	HOCL Nominee (From 24.6.2005)	Director

AUDITORS

M/s R B KABRA & CO
Chartered Accountants
4-1-917, Parsi Lane,
Tilak Road,
Hyderabad – 500 001.

BANKERS

State Bank of Hyderabad,
Gunfoundry, Hyderabad

REGISTRARS & SHARE TRANSFER AGENTS

Share pro services (India) Pvt.Ltd.,
Satam Estate, IIIrd Floor, Chakala, Andheri (E)
Mumbai – 400 099.

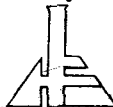
REGISTERED OFFICE

1402, Babukhan Estate,
Basheerbagh, Hyderabad – 500 001

WORKS

Rudraram P O
Sangareddy Tq.
Medak Dist – 502 329
Andhra Pradesh

HINDUSTAN FLUOROCARBONS LIMITED



NOTICE

NOTICE is hereby given that the 23rd Annual General Meeting of the Members of Hindustan Fluorocarbons Limited will be held on Friday the 22nd September 2006 at 12.00 Noon at Press Club, Deshodharaka Bhavan, Bashirbagh, Hyderabad-500 001 to transact the following business.

Ordinary Business

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31st March, 2006 and Balance Sheet as on that date together with reports of the Directors' and the Auditors' thereon.
2. To appoint a director in place of Shri Ramesh Chandra Jha who retires at this AGM and being eligible offers himself for re-appointment.
3. To appoint a director in place of Shri U Sarkar, who retires at this AGM and being eligible offers himself for re-appointment.

PLACE : HYDERABAD

DATE : 24.7.2006

Regd.Office

1402, Babukhan Estate,

Basheerbagh, Hyderabad – 500 001.

By order of the Board of Directors
of Hindustan Fluorocarbons Ltd.,

Sd/-

(R.N.MADANGERI)

MANAGING DIRECTOR

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company. The proxy in order to be effective must be lodged at the Registered Office of the Company not less than 48 hrs. before the meeting.
2. The Register of Members and Shares Transfer Books of the company will remain closed from Saturday 16th September, 2006 to Friday the 22nd September, 2006 (both days inclusive).
3. Members are requested to bring their copy of Annual Report at the meeting, as the same will not be distributed again as a measure of economy.

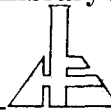
PLACE : HYDERABAD

DATE : 24.7.2006

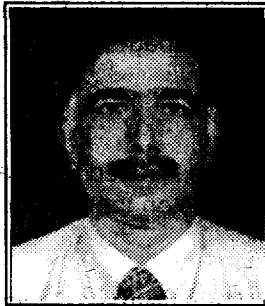
Regd.Office

1402, Babukhan Estate,

Basheerbagh, Hyderabad – 500 001.



CHAIRMAN'S SPEECH



Dear Shareholders,

I consider it my privilege to welcome you all to the 23rd Annual General Meeting of your company. The Directors' Report and Audited accounts for the year ended 31st March, 2006 have been circulated to you all. At the outset, I am glad to inform you that HFL has added few more grades in filled grades of PTFE and increased its market share in the filler grades. The domestic market continues to be sluggish in spite of imposition of antidumping duty in Oct, 2005. Still PTFE is being dumped at cheaper rate as compensation is not adequate.

I now proceed to share with you briefly the performance of the company and our activities in other areas.

1. OPERATIONS AND OVERALL PERFORMANCE:

In spite of several odds, during the year under report, your Company registered a sales turnover of Rs.1804 lacs as against Rs.1757 lacs of previous year. The production of PTFE and CFM-22 were lower as compared to that of the previous year. The production has added few more grades of fillers in their

range and was marketed aggressively increasing the market shares and more customers to its fold.

The quality of our products is continued to be well accepted by Domestic processors. Cash management, continued to be satisfactory and hence your company operated well within the limited cash credit of SBH.

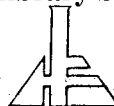
2. CONCERN FOR ENVIRONMENT :

The safety of the Environment and Health aspects continue to be of great emphasize for your Company.

The company ensured maintenance of rigorous safety standards and periodic review of safety measures have enabled the company once again to maintain safe operations during the year.

3. POLICY IMPLICATIONS AND RECESSIONARY TREND :

Consistent reduction in the Customs Tariff and the cheaper imports into India affected the overall realization and your company had to take recourse to anti-dumping measures on PTFE through the Government.



HINDUSTAN FLUOROCARBONS LIMITED

I am glad to mention that, due to its vigorous efforts with the Govt. your Company was successful in anti-dumping duty imposed on imports from Russia and China.

Although the element of anti dumping is highly inadequate it will provide your company atleast a marginal relief on the domestic front. This is expected to further improve the realization for certain grades of your company's products.

4. FUTURE OUTLOOK :

The company is optimistic that the economy will improve during the coming years thereby the demands for the company's products will substantially increase.

In-regard to the BIFR status of your company, the Company still remains under BIFR. HOCL is greatly concerned about its investment loan and protection of Government funds. HOCL has therefore submitted an alternative viable proposal for revival of HFL and awaiting response from BIFR.

The company is proposing to take up CDM Project through holding company HOCL as a part of its rehabilitation package. This project is under PDD preparation stage and registration is likely to materialize within 6 months.

Further the company allowed M/s Advanced Flowring Technologies Pvt. Ltd. to carryout Pilot Plant Research work with TFE as its raw material which is an intermediate product produced in the company. Once the said research work is successful, M/s Advanced Fluorine Technologies Private Limited will go for setting up of commercial plant sourcing TFE from HFL. This will provide HFL greater

financial and commercial stability and operational flexibility.

5. ACKNOWLEDGEMENTS :

I would like to convey my sincere appreciation for the constant support received from our customers, suppliers, HOCL, Central Govt., Govt. of Andhra Pradesh, our employees and all Statutory Bodies, investors, Banks & FIs etc.

In conclusion I am fully confident that with the continued support from all of you my urge to place your company in the pedestal of success will not be unrealistic.

Thank you all once again.

Sd/-
(A.S.DIDOLKAR)

Chairman

HINDUSTAN FLUOROCARBONS LIMITED**DIRECTORS' REPORT**

Your Directors hereby present the 23rd Annual Report of the company together with Audited Annual Accounts for the year ended 31st March, 2006.

1. FINANCIAL RESULTS.

(Rs. in lacs)

	Financial Year 2005-06	Financial Year 2004-05
Sales Turnover(Net)	1804	1757
Gross Profit	(397)	(206)
Interest	393	392
Cash Profit(Loss)	(790)	(598)
Less: Depreciation	209	214
DRE	0	0
Profit(loss) for the year	(999)	(812)
Prior period Adjustments	3	6
Net Profit/(Loss)	(987)	(762)

Even though the revival of the Indian Economy showed improvements in Financial Year 2005 – 2006, the domestic PTFE market was sluggish and dumping of imported material, particularly from China, continued to rise as a result your company posted a Gross Loss for the year. We have increased our market share in the filled grades of PTFE. We reintroduced few grades and made in roads in the market. Although the company was able to get anti-dumping duty imposed on Russian & Chinese material, in anticipation of anti dumping duty more quantity of cheaper PTFE was imported, adversely affecting the sales and contribution. Added to this the raw material price has gone up drastically and the company added a gross loss of Rs.397 lacs during the current year 2005-06 as against gross loss of Rs.206 lacs during year previous year (2004-05).

In regard to the BIFR status of your company, the Company still remain under BIFR. HOCL is greatly concerned about its investment loan and protection of Government funds. HOCL has therefore submitted an alternative viable proposal for revival of HFL and awaiting response from BIFR.

In view of the continued losses incurred by the company, your Directors do not recommend any dividend on Equity Shares for the year ended 31.3.2006.

2. OPERATION AND OVERALL PRODUCTION AND MARKETING PERFORMANCE:

During the year sales turnover was of Rs. 1804 lacs as compared to the sales of Rs.1757 lacs in the

previous year. The increase in sales turnover was due to efforts put in by marketing, ADCS and production departments of the company even though the stiff international competition for PTFE and CFM-22.

During the year under report production of PTFE was 228.440 MT as against 350.719 MTs in the previous year. The production of CFM-22 was 828.00 MTs as against 1017.95 MTs in the previous year. Quality of all companies products continued to be well accepted by Domestic processors.

3. FUTURE OUTLOOK.

The company is optimistic that the economy will improve during the coming years thereby the demands of the company's products will substantially increase. The company was successful in imposing anti-dumping duty on imports from Russia and China which will make company to attain better financial results.

The company is proposing to set up Clean Development Mechanism (CDM) Project which is approved by HFL and HOC Board and the project is at the registration stage. This project would contribute revenue for its revival.

HFL is also planning to provide research facilities to M/s Advanced Fluorine Technologies Private Limited (AFTPL) for development of Telomer through monomer (TFE) at HFL site which will be helpful to HFL in case the research work comes out successfully.

4. SAFETY AND ENVIRONMENT

The company continued to emphasize the safety consciousness among the employees and periodic review of safety measures have enabled the company once again to maintain safe operations during the year.

5. BOARD OF DIRECTORS

The following changes have taken place among the Directors of the Company:

HOCL Nominee Shri J Gopal (Officiating ED Phenol Unit HOCL) ceased to be Director on the Board of HFL w.e.f. 24.6.2005.

Shri D P Tripathi, is appointed as Special Director, BIFR w.e.f.24.11.2005.

Shri Ramesh Chandra Jha, Dy.Secretary to Govt. of India from the Department of Chemicals and Petrochemicals is appointed as a Govt. Nominee Director w.e.f.10.4.2006.

Shri Gopal Krishan, Dy.Secretary to Govt. of India from the Department of Chemicals and Petrochemicals ceased be Govt. Nominee Director w.e.f.10.4.2006.

Government Nominee director Shri Ramesh Chandra Jha, Dy.Secretary to Govt. of India from the

HINDUSTAN FLUOROCARBONS LIMITED

Department of Chemicals and Petrochemicals and Shri U Sarkar, Director(Finance), HOCL will retire at this AGM and being eligible offered themselves for reappointment.

6. INDUSTRIAL RELATIONS

Employee relation continued to be cordial through out the year. The whole-hearted support extended by the employees in augmenting production, improving operational efficiencies etc., amply demonstrated the mutual trust and cooperation between the employees and the management.

Company continued to follow Govt. policy of reservation in recruitment of SC/ST/OBC. Analysis relating to SC/ST/OBC/WOMEN personnel in the company is given at Annexure-II.

7. PARTICULARS OF EMPLOYEES:

None of the employee of the company is drawing remuneration requiring disclosure pursuant to Section 217(2A) of Companies Act, 1956 read with Companies(Particulars of Employees) Rules, 1975.

8. DISCLOSURES-CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION FOREIGN EXCHANGE EARNINGS AND OUTGO.

Particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange earning and outgo as required under Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 in so far as they relate to the company are furnished in the annexure.

9. VIGILANCE

With the approval of the Ministry an Officer of the company has been nominated as "Vigilance Officer" (Part time) from amongst the Officers of the Company to take care of Vigilance functions. Vigilance activities have mainly been directed to check the lacunae in the existing systems and procedures through period checks. The instructions of the Central Vigilance Commission received from time to time have been implemented to strengthen the vigilance machinery in the company.

10. AUDITORS

Company continues to attract the provisions of Section 619(2) of the Companies Act, 1956. The comptroller and Auditor General of India has appointed M/s. R.B. Kabra and Co., Chartered Accountants, Hyderabad as Auditors of the Company to Audit the accounts for the year ended 31st March, 2006. M/s. Venugopal & Chennoy, Chartered Accountants, Hyderabad are appointed by Comptroller & Auditor general of India as Statutory auditors for the year 2006-2007.

The comments of the Comptroller and Auditor General of India u/s 619(4) of the Companies Act, 1956 on the

Accounts of the company for 2005-2006 has been annexed to the Annual Report for the period 2005-06.

11. CORPORATE GOVERNANCE

All the members are aware; the company shares are listed at Stock Exchanges of Hyderabad, Mumbai as per Clause 49 of the listing agreement. Corporate Governance report is annexed hereto and forms part of the Director Report.

12. RESPONSIBILITY STATEMENT

The Directors confirm:

- That in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same.
- That they have selected such accounting policies and applied them consistently and made judgments and estimates that are responsible and prudent so as to give a true and fair view of the state of affairs of the company for the period
- That they have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of the companies Act, 1956 for safe guarding the assets of the company and for preventing and detecting fraud and other irregularities.
- That they have prepared the annual accounts on a going concern basis.

13. ACKNOWLEDGEMENTS

Your directors wish to acknowledge the sustained efforts and dedications of the company's employees who have contributed to a large extent against odds towards including the company's operations during the year.

The substantial and timely assistance from the holding company, viz. Hindustan Organic Chemicals Limited in all respects is gratefully acknowledged. Your Directors also wish to thank State Bank of Hyderabad, the company's bankers and the financial institutions for their valuable support. We also wish to place on record our gratitude for the assistance received from Govt. of India, Govt. of Andhra Pradesh, APIDC, Raw Materials suppliers and our valued customers.

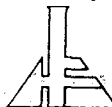
For and on behalf of the Board of Directors

Place: Hyderabad

Date: 24-7-2006

(A S DIDOLKAR)

CHAIRMAN

HINDUSTAN FLUOROCARBONS LIMITED**ANNEXURE-I****(FORM A)****FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY****A. POWER AND FUEL CONSUMPTION****CURRENT YEAR****PREVIOUS YEAR****1. ELECTRICITY**

a)	PURCHASED UNITS	69,35,549 KWH	81,80,235 KWH
	TOTAL AMOUNT	Rs.2,46,75,406	Rs.2,82,71,153
	RATE/UNIT	Rs.3.56	Rs.3.46
b)	OWN GENERATION		
i)	THROUGH DIESEL GENERATOR	18490 KWH	29,060 KWH
	UNITS PER LITER OF DIESEL OIL	3.19 KWH	3.77 KWH
	COST PER UNIT	Rs.9.79	Rs.5.63
ii)	THROUGH STEAM TURBINE		
	GENERATOR UNITS	-	-

3. FURNACE OIL

QUANTITY	452.30 KL	548.10 KL
TOTAL AMOUNT	Rs.68,65,519.00	Rs.70,90,062.00
AVERAGE RATE PER KL	Rs.15,179.13	Rs.12,935.71

B. CONSUMPTION PER UNIT OF PRODUCTION**PRODUCT: PTFE (MT)**

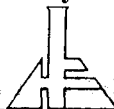
ELECTRICITY PER MT OF PTFE	30,360 KWH	23,324 KWH
FURNACE OIL PER MT OF PTFE	1.96 KL	1.56 KL
HSD RATE PER KL	Rs.34,553.37	Rs.21,281.00

ANNEXURE-II

Consolidated report as on 31-03-2006 (SC/ST/OBC/WOMEN)

Group	Total Strength	SC	ST	OBC	WOMEN
A	35	2	1	10	-
B	-	-	-	-	-
C	139	22	7	34	6
D	33	9	14	8	1
TOTAL	207	33	22	52	7

HINDUSTAN FLUOROCARBONS LIMITED


CORPORATE GOVERNANCE REPORT
(Annexure to Directors' Report)

The Company is committed to sound corporate governance practices. The Management believes that strong and sound corporate governance is an important instrument of protection of stake holders, through transparency, professionalism, accountability and adequate disclosures. The company continuously endeavors to improve on these aspects on an on going basis.

The key to good Corporate Governance is well functioning Board of Directors. Board is responsible to shareholders for performance of the Company. Company cannot prosper without the trust and support of its shareholders.

Given below is the Report of Directors on Corporate Governance in accordance with the provisions of Listing Agreement.

BOARD OF DIRECTORS - COMPOSITION

Your company feels that Board of Directors must be an optimum combination of executive and non-executive directors representing the different fields. The present strength of Board of Directors is five. It has a mix of executive and non-executive directors. The Board comprises of two directors nominated by HOCL of which one Director is Chairman of the Board. The other non-executive directors are representing the Department of Chemicals & Fertilizers and BIFR.

Sl. No.	Director S/Shri	Catogory of Director (ED, NED, NEID)	Date of Appointment	Date of Ceasure	No.of Other Director-ships	Membership in other Board Committees	Chairman-ship in other Board Committees
1	A.S. Didolkar	Chairman NED	19.1.2001	-	2	3	3
2	Ravi Madangeri	ED	12.11.2003	-	-	-	-
3	Gopal Krishnan	NED	24.9.2004	10.4.2006	-	-	1
4	U Sarkar	NED	24.9.2004	-	-	1	-
5.	D.P.Tripathi	NED	24.11.2005	-	2	1	-
6.	Ramesh Chandra Jha	NED	10.4.2006	-	-	-	-

CHANGES IN THE BOARD OF DIRECTORS:

The following changes have taken place among the Directors of the Company:

Shri D P Tripathi, is appointed as Special Director, BIFR w.e.f.24.11.2005. He has been retired (former) Dy.Secretary to the Govt.of India. Presently, Sr.Corporate Advisor to M/s Aseptic Food Processing & Packaging Association of India and also part time Independent Director of Rail Vikas Nigam.

Shri Ramesh Chandra Jha, is appointed as a Govt. Nominee Director w.e.f.10.4.2006. He is Dy.Secretary to the Govt. of India from the Ministry of Chemicals & Fertilizers, Deptt. of Chemicals & Petrochemicals, Govt.of India.

Shri Gopal Krishan ceased to be Director w.e.f.10.4.2006. He was Dy.Secretary to the Govt. of India from the Ministry of Chemicals & Fertilizers, Deptt.of Chemicals & Petrochemicals.

HOCL Nominee Shri J Gopal (Officiating ED Phenol Unit HOCL) ceased to be Director on the Board of HFL w.e.f. 24.6.2005.

Shri Ramesh Chandra Jha, Dy.Secretary in the Department of Chemicals and Petrochemicals and Shri U Sarkar, Director(Finance), HOCL will retire at this AGM and being eligible now offered themselves for reappointment.

RESPONSIBILITIES :

The Board has a formal schedule of matters reserved for its consideration and decision which including review of corporate performance, financial resources, strategy formulation, policy and control, organizational