# BOARD OF DIRECTORS

| | |
|---|---|
| Dr. I. G. Patel | *Chairman* |
| Mr. B. R. Sule | |
| Mr. C. K. Mehta | |
| Mr. Deepak S. Parekh | |
| Mr. Hasmukh Shah | |
| Mr. Manu R. Shroff | |
| Mr. R. Vasudevan | |
| Mr. Rasesh N. Mafatlal | |
| Mr. Ronald S. Somers | |
| Mr. Steve Green | *(upto 22nd January 2003)* |
| Mr. Andrew Fawthrop | *(from 22nd January 2003)* |
| Mr. Vimal Bhandari | |
| Mr. Ajit C. Kapadia | *Managing Director (upto 31st July 2003)* |
| Mr. Rakesh Jain | *Managing Director (from 1st August 2003)* |

## AUDITORS

M/s. S. B. Billimoria & Co., Chartered Accountants, Mumbai

## PRINCIPAL BANKERS

ABN AMRO Bank
Corporation Bank
HDFC Bank Limited

## REGISTERED OFFICE

'HOEC House', Tandalja Road, Off Old Padra Road, Vadodara-390 020 (India)
Visit us at: www.hoec.com • E-mail: contact@hoec.com

## MUMBAI OFFICE

Anand House, Khatwari Darbar Road, Off Linking Road, Khar (West), Mumbai-400 052 (India)

Mr. Ketan Thaker
**Assistant Company Secretary**

## REGISTRARS AND SHARE TRANSFER AGENT

Intime Spectrum Registry Limited
201, Sidcup Towers, Race Course
Vadodara-390 007 (India) • Tele-Fax: 0265-2332474

## MANAGEMENT TEAM

| | | |
|---|---|---|
| Mr. Vipul Bhatt | General Manager | (Engg. & Production) |
| Dr. Vipul Desai | General Manager | (Corporate Services) |
| Dr. Udayan Das Gupta | General Manager | (Exploration) |
| Mr. Amit Shah | Dy. General Manager | (Finance & Accounts) |

# DIRECTORS' REPORT

## TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 19th Annual Report and Audited Statement of Accounts for the year ended 31st March 2003.

## FINANCIAL HIGHLIGHTS

(Rs. in Lac)

| | **2002-2003** | 2001-2002 |
|---|---|---|
| Sales | **4,832.68** | 4,268.29 |
| Other Income | **950.33** | 1,250.19 |
| Gross Profit before Depreciation/ Depletion/Write offs/Taxation | **3,610.56** | 3,600.58 |
| **Less:** Depreciation/Depletion | **1,441.98** | 1,281.51 |
| **Less:** Provisions & Write offs | **1,654.46** | 156.72 |
| **Profit before Tax** | **514.12** | 2,162.35 |
| **Less:** Provision for: | | |
| Current Tax | **190.00** | 168.22 |
| **Less/(Add):** Deferred Tax | **(836.67)** | 446.72 |
| **Profit for the Year** | **1,160.79** | 1,547.41 |
| Profit/(Loss) brought forward | **1,746.40** | 337.92 |
| **Add:** Deferred Tax Asset | **—** | 604.81 |
| **Profit available for Appropriation** | **2,907.19** | 2,490.14 |
| **Less:** Dividend paid and tax thereon | **—** | 0.10 |
| **Less:** Proposed Dividend on Equity Shares | **469.96** | 704.94 |
| **Less:** Dividend Tax | **60.21** | — |
| **Less:** Transfer to General Reserve | **—** | 38.70 |
| Balance carried to the Balance Sheet | **2,377.02** | 1,746.40 |

The year under review showed higher sales of Rs. 4,832.68 lac as compared to Rs. 4,268.29 lac (net of profit petroleum to Govt.) mainly due to higher crude oil prices. Profit after tax is lower at Rs. 1,160.79 lac as compared to Rs. 1,547.41 lac for the previous year on account of exploration write off of Rs. 1,622.24 lac partly compensated by deferred tax of Rs. 836.67 lac. After considering brought forward profit of Rs. 1,746.40 lac and the profit available for appropriation is Rs. 2,907.19 lac.

## DIVIDEND

Considering the performance during the year under review, your Directors recommend dividend @ 8% on the equity shares of the Company for the year ended 31st March 2003. The proposed dividend will absorb Rs. 530.17 lac.

## PRODUCTION

### PY-3 (CY-OS/90-1)

During the year under review, the Consortium has produced 1.69 Million Barrels Oil (the Company's share being about 0.36 Million Barrels) from PY-3 field in the Cauvery Offshore area. The daily average production from the field was around 4600 barrels. Till 31st March 2003 cumulative production from the field has been about 12.47 Million Barrels of Crude Oil.

While the rig was working over well PY-3-D3, the incident of violent movement of rig caused serious damage to the well. This required the well to be suspended. Insurers are processing the potential claim arising out of loss of PY-3-D3 well. Consortium is evaluating various options to compensate for the loss of PY-3-D3 well.

## ASJOL

Your Company is the Operator in Asjol oil field located in Gujarat. During the year under review, the field has produced around 20,000 barrels of oil (the Company's share being about 10,000 barrels), with a daily average production of 55 barrels from three wells. Till 31st March 2003, the Consortium has produced around 0.14 Million Barrels of Crude Oil. The Company continues its efforts to improve production from the field.

## DEVELOPMENT

### PY-1

The negotiations on Gas Sales agreement with Tamil Nadu Electricity Board had to be called off due to concerns pertaining to payment security. The PY-1 Consortium opened dialogue with GAIL (India) Ltd. for sale of gas and on 1st July 2003 the Gas Sale and Transportation Agreement (GSTA) has been executed successfully. The first gas sale is expected after two to three years, subject to necessary statutory environmental clearances and Government approvals. The GSTA will be for a primary term of fifteen years from the commencement date with one year renewal thereafter. The daily contract quantity during the plateau period is 1.26 Million Cubic Meters per day (MMSCMD) on a mutually agreed price structure.

On the matter of default of one of the Consortium partners on account of non-payment of operating funds, the arbitration proceedings are ongoing in London Court of International Arbitration (LCIA), London. The Arbitration Tribunal has given partial award.

## SIX SMALL SIZE FIELDS

Subsequent to the grant of Mining Lease from the Government of Gujarat for North Balol field, where your Company is the Operator, various project activities for the field development were undertaken as per commitments to Government of India (GoI).

The Government of Gujarat granted Mining Lease for Dholasan & Kanawara fields on 27th February 2003. For remaining three fields viz. Unawa, North Kathana and Allora, Mining Lease is awaited.

## EXPLORATION

The year witnessed additional activities in exploration blocks besides completion of minimum work programme commitments made to GoI.

In Block CB-ON/7, Gujarat, where your Company is the Operator, after completing reprocessing of 2-D seismic data and interpretation of the block, existing well Palej-4 was tested and the well was declared having potential commercial flow rates. Subsequently Pramoda-1 a step out well to Palej-4 was spud on 31st January 2003 and drilled down to 1954m on 23rd February 2003. Drilling encountered oil bearing sands. Testing of one of these sands in the interval at 1815m-1818m resulted in flow of crude oil at rate of 48 cubic meters per day through a 5mm bean. Currently your Company is preparing the Plan of Development to be submitted to Management Committee to take up development and production from Pramoda prospect while Phase-II activities of exploration continues in the Block to discover and prove additional hydrocarbon resources. Government and partners have appreciated the good work put up by the Company.

In Block CB-OS-1, Gulf of Cambay, Gujarat, 3rd well of balance minimum work programme commitment was spud on 5th June 2002. Oil and gas shows were recorded in expected zone however testing result has indicated that zone is devoid of hydrocarbon and well was abandoned on 7th August 2002. Phase-I of the Exploration period expired on 18th November 2002. The Consortium has exercised the option of retaining the discovery areas and relinquishing the balance of the Contract area. BGEPIL [Operator] has informed the partners that it will not be participating in the appraisal programme of South Harinagar prospect. Your Company is in discussion with BGEPIL to take over its participating interest and Operatorship on mutually agreeable terms.

In Block AAP-ON-94/1, North-East India, work has progressed at a good pace. Work programme of reprocessing of seismic data and geochemical survey are completed. The Consortium has identified interesting play types. It was decided to conduct seismic survey in Phase-I to locate drillable prospect. An application has been submitted to GoI seeking for 1 year extension to Phase-I deadline. During the year Government approval was received to changes in participating interest and Operatorship. HOEC handed over Operatorship to Premier Oil North East India BV [a wholly owned subsidiary of Premier Oil Plc., U.K.] on 14th January 2003. Seismic survey of 120 line km. is nearing completion. If analysis of the data is encouraging, the Consortium plans to drill a well in the 1st quarter of 2004.

Your Company has decided not to proceed to Phase-II of Exploration in Block CB-ON-2 [Tarapur], Gujarat, after reviewing the results of Phase-I work.

In Cauvery offshore Block CY-OSN-97/1 [NELP-I], Operator Mosbacher India L.L.C. has carried out preliminary interpretation and a few interesting leads have been outlined. Based on this result 3-D seismic survey will be carried out.

Your Company is evaluating recently announced NELP-IV round blocks on offer and would suitably bid as part of a Consortium if blocks are prospective.

## HEALTH, SAFETY AND ENVIRONMENTAL PRACTICES (HSE)

Both at the sites where the Company operates and where the Company is joint venture partner, the management assures that HSE practices are consistent with national and international standards.

## HOEC BARDAHL INDIA LIMITED [HBIL] (WHOLLY OWNED SUBSIDIARY OF HOEC)

On account of effective marketing and distribution strategy, the Company could earn a profit of Rs. 34 lac for the second consecutive year as against Rs. 8 lac for the financial year 2001-02.

## AUDITORS' REPORT

With reference to the observation made in Auditors' Report regarding unaudited joint ventures' accounts, we have to state that as per PSCs signed with GoI, the Operators have been allowed time up to 30th September to submit audited accounts. Considering this, some of the Operators have not submitted audited accounts till the Company's accounts are audited. Hence, the statements of expenditure/unaudited accounts submitted by those Operators have been incorporated.

Regarding non-disclosure of outstanding payment to Small Scale Industries with respect to joint ventures, we have to state that the requirements of the said disclosure is not applicable to joint ventures and hence the required information is not available.

## DIRECTORS

In accordance with the provisions of Articles of Association of the Company and Provisions of the Companies Act, 1956, Mr. Hasmukh Shah and Mr. Vimal Bhandari will retire by rotation at the ensuing Annual General Meeting and they, being eligible offer themselves for re-appointment. Mr. B. R. Sule will also retire by rotation at the ensuing Annual General Meeting but on account of health reasons he has expressed his unwillingness to continue on the Board of the Company. The Board places on record its appreciation for Mr. Sule's association with the Company since inception and for the guidance and valued contribution during his tenure.

The Board of Directors has at their meeting held on 22nd January 2003 and on 29th July 2003 appointed Mr. Andrew Fawthrop and Mr. Rakesh Jain respectively as an Additional Director. The Board welcomes them and looks forward to their valued contribution and guidance.

During the year, Mr. Steve Green, Nominee Director of Unocal Corporation has resigned. The Board places on record its appreciation for the guidance and valued contribution during his tenure.

## CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EARNINGS AND OUTGO.

The Company is engaged in the business of exploration and extraction of crude oil and does not carry out any manufacturing activity. Hence the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are not applicable. Particulars regarding foreign exchange appear in Schedule 13 of the Accounts.

## PARTICULARS OF EMPLOYEES

There is no employee covered under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

## AUDITORS

The Auditors M/s. S.B. Billimoria & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting. As recommended by the Audit Committee, the Board at its Meeting held on 19th June 2003 proposed their appointment as Statutory Auditors to audit the accounts of the Company for the financial year 2003-2004. You are requested to consider their appointment.

## DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

(i) that in the preparation of the annual accounts for the financial year ended 31st March 2003, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(ii) that the directors had selected such accounting policies and applied them consistently unless otherwise stated and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

(iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) that the directors had prepared the accounts for the financial year ended 31st March 2003 on a 'going concern' basis.

## CONCLUSION AND ACKNOWLEDGEMENT

Your Directors place on record their gratitude for the support and co-operation received from Government of India's agencies namely, Ministry of Petroleum & Natural Gas, Government of Gujarat, Consortium Partners and Bankers. We express our sincere appreciation to our dedicated and committed team of employees who have contributed in the growth of the organization.

**For and on behalf of the Board**

Place : Mumbai
Date : July 29, 2003

**Dr. I. G. Patel**
**Chairman**

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY STRUCTURE & DEVELOPMENTS

The petroleum industry in India is one of the oldest in the world. The exploration, production and refining were initially confined to the North-east.

The policies legislated after the independence led to progressive nationalization of Foreign Companies operating in India, setting up of National Oil Companies to explore and produce oil and gas as well as refine the crude oil and market its products. Till the mid 1980's, the work of exploration & production of oil & natural gas was largely confined to the Public Sector Oil Undertakings, but galloping demand, declining indigenous oil production led Government of India to consider the opening up of exploration in identified blocks as well as development of some small and medium sized fields to private and joint sector, both Foreign and Indian.

The efforts for Indian private sector participation were intensified after opening up of the economy from 1991 onwards. HOEC was incorporated to contribute to this effort. Presently HOEC is working with both nationally and internationally recognized oil exploration and production companies and has both Exploration and Production assets. The Company is also constantly on the look out for acquisition of oil and gas properties.

### RISK & CONCERNS

The Exploration & Production (E&P) Business is of capital intensive nature.

The initial, exploration phase has generally the highest risk. Once hydrocarbons are discovered, and sufficient resources established, risks would relate to design and implementation of schemes to extract the hydrocarbons, the production behaviour of the reservoir vis-à-vis predictions and the ability to take corrective actions as soon as identified. In remote areas, market and transport could also become impediments.

The ability to innovate and leverage knowledge becomes an important factor to succeed in the business. To cope with complicated concepts, the industry needs to improve performance by mastering technology and business risks in a coordinated manner. As part of new strategy during the petroleum activity exploration phase, the right combination of extensive knowledge, technical and business risk consulting, coupled with technology services satisfying compliance requirements, is important, to be able to shape the service content and also the method of delivery to meet new challenges. This is a balancing act to safely improve business performance.

Most of the HOEC onshore projects are in Gujarat State, which has been endowed by nature with mineral reserves of oil & gas, both onshore and offshore. Considering the nature of the industry, it would be worthwhile for HOEC to stress on earnings through developing potential oil & gas discoveries in Palej block [Pramoda-1], in CB-OS-1 block [South Harinagar], North Balol, Unawa and PY-1 blocks, maintain the production from existing Asjol & PY-3 blocks and bringing the Assam block on early production. Opportunities should be explored in acquiring the producing assets through farm-in and forming an alliance with other players.

### OPPORTUNITIES & THREATS

The two blocks [Asjol, PY-3] under production, two blocks [PY-1 & North Balol] have proved reserves, while two blocks [CB-ON-7 & CB-OS-1] have reported potential commercial discovery.

E&P activities always have a threat associated to Exploration risks in Frontier Basins blocks, developing an un-exploited domestic reserves and establishing an incremental recovery from producing assets and pilferage from the producing blocks. There are good opportunities for joint ventures with Indian & International Companies for incremental productivity, profitability and recovery from producing assets. By forming an alliance, the risk of investments by HOEC in such activities would thus get diversified. Also, HOEC will consolidate its presence in E&P activities by having a stake in assets of greater value. The additional resources generated can then be utilized for galvanizing future investments in acquiring additional acreage.

The ownership of physical assets in E&P sector would get transformed into ownership of financial assets. As the size of the Company will increase, the corresponding returns will improve. The exercise will also bring in global expertise and experience through the private sector alliance partner, which would be beneficial to the region's development.

### OUTLOOK

Considering the targets in hydrocarbon production in India, to feed the ever-increasing demand of the country and also the rate at which the consumption of petroleum product is growing, there is ample scope for the growth of E&P industry. For the Company in particular, no problems are envisaged for sale of oil and natural gas. The Company is well placed in case of hydrocarbon exploration and production. The Company has decided to stick to its core competencies, and is implementing a corporate plan, which includes projects of exploration and developments.

## INTERNAL CONTROL SYSTEMS

Internal Audit is an important aid to effective corporate governance practices. Internal control includes, management development and implementation of risk management systems and processes, internal control and governance, reporting to the Board that business operations are well controlled and managed, compliance of business activities with policies and procedures, and laws and regulations. The Company undergoes an Internal Audit at regular intervals being conducted by an Independent firm of Chartered Accountants, for obtaining an objective check on financial reporting process, and the transactions (both operational and financial) are carried out in a transparent manner and an independent appraisal on the effectiveness of the management. The internal control systems are formulated with the co-operation of the Audit Committee and the Management. The Managing Director on behalf of the Management informs the Board at each Board Meeting about the compliance of various laws, rules and regulations, reasons for non-compliance, if any, and the status of litigation.

## REVIEW OF FINANCIAL PERFORMANCE

The Company has registered Turnover of Rs. 4,833 lac for the current year as against the previous year Turnover of Rs. 4,268 lac recording a growth of 13% mainly due to higher crude oil prices.

The Company's Other Income for the current year mainly consists of income from Investment of surplus funds. Other Income for the current year has reduced to Rs. 950 lac against the previous year of Rs. 1,250 lac, a fall of 24% due to lower dividend earned on Mutual Fund Investments and their disposals.

Field Operating Expenses for the current year is Rs. 1,774 lac as against the previous year of Rs. 1,716 lac an increase of 3% due to increase in hire charges of the production rig and insurance cost.

Corporate expenses for the year is Rs. 398 lac as against Rs. 192 lac for the previous year. The rise is mainly due to legal expenses at joint ventures level, recruitment expenses, foreign exchange fluctuations and staff expenses.

There is a marginal increase in Profit Before Tax, provisions, depreciation and depletion for the current year, which is Rs. 3,611 lac, as against Rs. 3,601 lac for previous year.

Provision and Write Offs for the current year is Rs. 1,654 lac as against Rs. 157 lac for the previous year as during the year the Company has written off unsuccessful exploration expenses in CB-OS-1 block and the Tarapur block was relinquished.

Depreciation and Depletion for the current year is Rs. 1,442 lac as against Rs. 1,282 lac for the previous year, an increase of 12% mainly due to capital expenditure on drilling of well in PY-3 block.

Profit After Tax for the current year is Rs. 1,161 lac as against Rs. 1,547 lac for the previous year, a reduction of 25% mainly due to provision for write offs, higher corporate expenses, hire charges, depletion and depreciation charge. The reduction in other income has also contributed to the reduction in Profits. However, after considering profit brought forward, the profit available for appropriation for the current year is Rs. 2,907 lac as against Rs. 2,490 lac for the previous year.

## HUMAN RESOURCES

The Company has well defined and laid out Human Resource Policies. The Company believes in focusing on the development needs of the employees and deputes employees to various conferences, seminars and training programmes. The Company has young dedicated and motivated team of professional with a zeal to grow.

The number of employees as at 31st March 2003 is 56.

## AUDITORS' REPORT

### TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

1. We have audited the attached Balance Sheet of **HINDUSTAN OIL EXPLORATION COMPANY LIMITED** as at March 31, 2003, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order, to the extent applicable to the Company. Our comments exclude matters relating to the Company's joint ventures, which are not subject to audit under the Companies Act, 1956.

4. (a) The Accounts have been drawn up in accordance with the statement of Significant Accounting Policies (Schedule 12). Accounting Policy 2 relating to the "Successful Efforts Method" and treatment of exploration and development costs are significant to the oil and gas exploration and production industry.

   (b) Categorisation of wells as exploratory and producing and the depletion of producing wells on the basis of proved developed hydrocarbon reserves are made according to technical evaluation by the Management, on which we have placed reliance.

5. (a) The accounts include assets aggregating Rs. 170,580,182, liabilities aggregating Rs. 48,349,865, income aggregating Rs. 21,317 and expenditure aggregating Rs. 316,626,462 relating to the Company's share in five Production Sharing joint ventures, which have been incorporated on the basis of accounts audited by other auditors.

   (b) *In respect of four Production Sharing joint ventures, exploration expenditure aggregating Rs. 5,898,086, development expenditure aggregating Rs. 193,331,140, other assets aggregating Rs. 20,815,514 and liabilities aggregating Rs. 6,527,055 have been incorporated on the basis of the information available, in the absence of audited accounts.*

6. Further to our comments in the Annexure referred to in paragraph 3 above:

   (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, *except to the extent of the amounts relating to four Production Sharing joint ventures referred to in paragraph 5(b) above in respect of which audited accounts for the year ended March 31, 2003 have not been received;*

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

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

   (d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;

   (e) in our opinion and to the best of our information and according to the explanations given to us, the said accounts, subject to non-disclosure of the amounts payable to Small Scale Industrial undertakings as stated in Note 5 and particulars of stores consumption as stated in Note 14(b), give the information required by the Companies Act, 1956, in the manner so required and, *subject to our comments in paragraph 5(b) to the extent of the unaudited amounts relating to the four joint ventures referred to therein,* give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2003;

(ii) in the case of the Profit and Loss Account, of the Profit of the Company for the year ended on that date; and

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

7. According to the information and explanations given to us and on the basis of the written representations from the directors, taken on record by the Board of Directors, none of the directors is disqualified as at March 31, 2003 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : June 19, 2003

Nalin M. Shah
Partner

# ANNEXURE TO THE AUDITORS' REPORT

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

1. The Company has maintained proper records showing full particulars, including quantitative details and location of fixed assets. Fixed assets have not been physically verified during the year. However, there is a regular periodic programme of verification, the frequency of which is reasonable.
2. The fixed assets of the Company have not been revalued during the year.
3. The Company carries out its business activity through Production Sharing joint ventures, whose accounts are not subject to audit under the Companies Act, 1956. Under the circumstances, we are unable to comment on the procedures relating to physical verification of stock. However, in our opinion, the valuation of stock of stores and crude oil is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
4. The Company has not taken any loan from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956. We are informed that there are no companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.
5. The terms and conditions of loans given to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 are not *prima facie* prejudicial to the interests of the Company. We are informed that there are no companies under the same management within the meaning of Section 370(1B) of the Companies Act, 1956.
6. In respect of loans given by the Company, parties have been regular in payment of interest, where due, and have also been regular in repayment of principal amounts *except in respect of loans to the subsidiary where the principal amounts have not been received as stipulated.* We are informed that the Management is taking appropriate steps to recover the amounts due.
7. The Company has a reasonable internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of fixed assets and sale of crude oil.
8. According to the register of contracts maintained under Section 301 of the Companies Act, 1956 examined by us, there were no purchases of goods and material or sales of goods, materials and services made in pursuance of contracts or arrangements entered therein and aggregating during the year to Rs. 50,000/- or more in respect of each party.
9. The Company has not accepted any deposit from the public.
10. The internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and the nature of its business.
11. According to the records of the Company, provident and pension funds dues have been regularly deposited with the appropriate authorities. We are informed that the Employees' State Insurance Scheme is not applicable to the Company.
12. According to the records of the Company examined by us, there were no undisputed amounts payable in respect of income-tax, sales tax, wealth tax and custom duty outstanding as at March 31, 2003 for a period of more than six months from the date they became payable.
13. According to the information and explanations given to us and the records of the Company examined by us, no personal expenses have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
14. In respect of the services rendered by the Company, there is an adequate system of allocation of man-hours to relative jobs.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : June 19, 2003

Nalin M. Shah
Partner

## SCHEDULES ANNEXED TO AND FORMING PART OF THE ACCOUNTS

| | Rupees | As at March 31, 2003 Rupees | As at March 31, 2002 Rupees |
|---|---|---|---|
| **SCHEDULE 1** | | | |
| **SHARE CAPITAL** | | | |
| **AUTHORISED** | | | |
| 100,000,000 Equity Shares of Rs. 10 each | | **1,000,000,000** | 1,000,000,000 |
| **ISSUED** | | | |
| 58,777,910 Equity Shares of Rs. 10 each | | **587,779,100** | 587,779,100 |
| **SUBSCRIBED AND PAID-UP** | | | |
| 58,744,935 Equity Shares of Rs. 10 each fully paid | | **587,449,350** | 587,449,350 |
| Add : Amount paid-up on shares forfeited | | **160,115** | 160,115 |
| | | **587,609,465** | 587,609,465 |



| | Rupees | As at March 31, 2003 Rupees | As at March 31, 2002 Rupees |
|---|---|---|---|
| **SCHEDULE 2** | | | |
| **RESERVES AND SURPLUS** | | | |
| Share Premium | | **1,001,765,038** | 1,001,765,038 |
| General Reserve | | | |
| Opening Balance | **3,870,000** | | 0 |
| Transferred from Profit and Loss Account | **0** | | 3,870,000 |
| | | **3,870,000** | 3,870,000 |
| Balance in Profit and Loss Account | | **237,701,665** | 174,640,468 |
| | | **1,243,336,703** | 1,180,275,506 |