MAX

Annual Report 1998-99

MAX INDIA LIMITED

DIRECTORS	Dr. Bhai Mohan Singh - Chairman Emeritus
	Dr. S. S. Baijal - Chairman
	Mr. Analjit Singh - Vice Chairman
	Mr. Jagdish Anand
	Dr. D. V. Kapur
	Dr. R. P. Soonawala
	Mr. Ashwani Windlass
	Mr. Ajay Bahl
	Mr. K. K. Mathur
	Mr. N. C. Singhal
	Mr. Vivek Jetley - Managing Director
	Mr. Surendra Kaul - Whole-time Director
COMPANY SECRETARY	Mr. Ajay K. Jain
AUDITORS	Mohinder Puri & Co. Chartered Accountants
BANKERS	The Hongkong and Shanghai Banking Corporation Ltd. Canara Bank
MAJOR INTERNATIONAL AFFILIATES	Gist Brocades International B.V., The Netherlands Comsat Investment Inc., USA Atotech Deutschland, GMBH, Germany Avnet Inc., USA Harvard Medical International Inc., USA Hutchison Telecommunications Ltd., Hong Kong
WORKS	*Max Speciality Products* Bhai Mohan Singh Nagar, Railmajra, Tehsil Balachaur, District Nawanshahr, Punjab - 144533 *Max Pharma* No. 18, 56 - 58, KIADB Industrial Area, Nanjangud, Mysore - 570023
CORPORATE OFFICE	20-A, Ring Road, Lajpat Nagar - IV, New Delhi - 110024
REGISTERED OFFICE	Bhai Mohan Singh Nagar, Railmajra, Tehsil Balachaur, District Nawanshahr, Punjab - 144533
SHARE TRANSFER AGENT	Mas Services Private Limited AB-4, Safdarjung Enclave, New Delhi - 110 029
WEBSITE	www.maxindia.com

DIRECTORS' REPORT

Your Directors are pleased to present their Eleventh Annual Report and Audited Accounts for the accounting period ended June 30, 1999.

CHANGE OF ACCOUNTING YEAR

The Company changed its accounting year to July-June cycle. Accordingly, the accounting year 1998-99 ended on June 30, 1999 and comprised fourteen months.

FINANCIAL RESULTS

The sales and other income for the financial period under review were Rs. 288.05 crores (including a special interim dividend of Rs.165 crores received from Max Telecom Ventures Ltd.) (MTVL) as against Rs.119.42 crores for the previous financial period. Profit before tax was Rs. 178.94 crores and profit after tax was Rs.176.47 crores as against Rs. 10.60 crores and Rs.8.57 crores, respectively for the previous financial period.

Key highlights of the financial results for the period under review are as below:

(Rs. Crores)

	FINANCIAL YEAR ENDED	
	June 30, 1999 (14 months)	**April 30, 1998 (13 months)**
Gross Revenue		
Max Pharma	**37.75**	12.45
Max Speciality Products	**46.85**	43.13
Commission & Service Income	**16.52**	26.60
Other Revenue	**21.93**	37.24
Special Interim Dividend from MTVL	**165.00**	–
Total	**288.05**	**119.42**
Operating Profit before interest, depreciation and tax	**196.99**	37.01
Interest	**10.24**	18.92
Depreciation	**7.81**	7.49
Profit Before Tax	**178.94**	10.60
Profit After Tax	**176.47**	8.57
Total Dividend (interim and final)	**117.49**	1.98
Dividend Tax	**11.80**	0.20
Profit brought forward	**9.11**	11.36
Transfer to General Reserve	**17.90**	0.86
Transfer to Investment Allowance Reserve	–	2.86
Transfer to Debenture Redemption Reserve	**3.51**	4.92
Balance carried forward	**34.88**	9.11

DIVIDEND

In August 1998, your Directors paid out a Special Interim Dividend of Rs.100/- per Equity Share of Rs. 10/- each on 98,84,640 Equity Shares for the full year and on 16,47,440 Equity Shares from the date of allotment, on pro-rata basis.

Your Directors are now pleased to recommend a Final Dividend of Rs. 4.50 per Equity Share of Rs. 10/- each, on the aforesaid shares, on pro-rata basis.

BUSINESS OPERATIONS

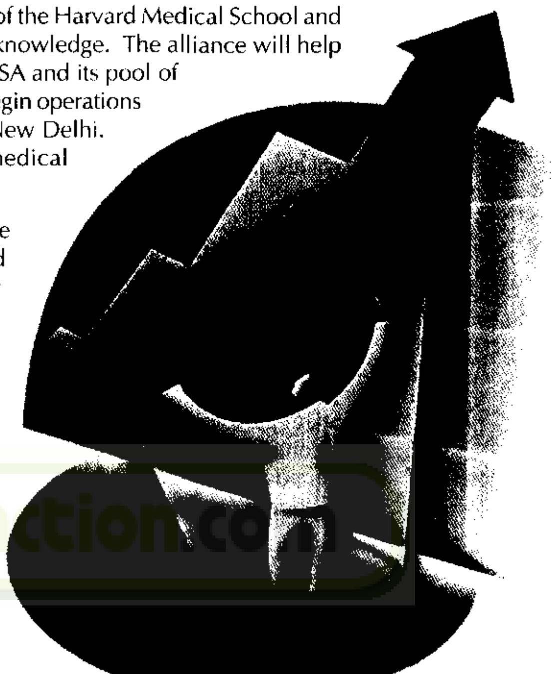
Max Pharma, the Company's Bulk Pharmaceutical business unit and Max Speciality Products, the Company's BOPP Film and Leather Finishing Foils business unit, performed well with increased sales and improved profits. A detailed review of the performance of these businesses, including those of Company's joint ventures and subsidiaries, is included under a new section on Management Discussion and Analysis.

GROWTH PLANS FOR THE FUTURE

Your Company has been actively engaged in a search for business opportunities that would become growth engines for the future. The Company's management worked closely with McKinsey & Company to examine various business opportunities aimed at building sustainable shareholder value. Your Directors are pleased to state that the Company has identified for further evaluation, the areas of health care, life insurance and information technology for future growth and investment.

Your Company is in the final stages of formulating its strategy for entering the Health Care sector. We believe that there is a need to provide a highly professionalised level of health care in order to serve a deeply felt need while doing it profitably. Undoubtedly, it offers a tremendous opportunity for corporate enterprise to participate in this area. It is our vision to be able to deliver world class health care committed to the highest standards of excellence, science, knowledge and medical education.

Your Directors are pleased to inform the formation of an alliance with Harvard Medical International, Inc., (HMI) USA to address these opportunities in India. HMI is part of the Harvard Medical School and Harvard University and is the repository of great wealth of medical knowledge. The alliance will help the Company access HMI's 17 affiliated teaching hospitals in the USA and its pool of over 7000 clinicians. As its first endeavour, your Company plans to begin operations by providing a broad range of health care services in and around New Delhi. Opportunities in managed health care, clinical research and medical education would also be addressed in the near future.



Your Company is in active dialogue with various companies in the life insurance business for the formation of a partnership that could address the life insurance opportunity in India. The entry strategy shall however be dependent on the enactment of a legislation allowing private sector participation in life insurance.

Your Directors feel that the emerging areas of Information Technology, Software Development, Back Office Services and Web Enabled Services offer exciting investment opportunities for an in-depth study.

DIRECTORS

In accordance with the provisions of the Companies Act 1956 and the Company's Articles of Association, Mr. Ashwani Windlass, Mr. Jagdish Anand, Dr. D.V. Kapur and Mr. Ajay Bahl are due to retire by rotation and are eligible for re-appointment.

During the period under review, Mr. N. C. Singhal has been appointed as an Additional Director to hold office upto the ensuing Annual General Meeting. The Company has received notice under Section 257 of the Companies Act, 1956, from a member proposing candidature of Mr. N. C. Singhal for being appointed as a Director of the Company.

Mr. Surendra Kaul has been appointed as a Whole-time Director of the Company, functionally *designated as Director (Legal & Corporate Affairs) for a period of 4 years effective February 8,1999.* Requisite approval of shareholders for his appointment and payment of remuneration is being sought at the ensuing Annual General Meeting.

During the year under review, Mr. Rajender Nakra resigned from the Board of the Company. Your Directors place on record their deep appreciation for the valuable contribution made by Mr. Rajender Nakra during his association with the Company.

FIXED DEPOSITS

The outstanding deposits as at the end of the year under review, amounted to Rs. 2.56 crores. There were 92 unclaimed deposits amounting to Rs.0.12 crore due for payment as on June 30,1999 out of which 23 deposits aggregating Rs. 0.04 crore have subsequently been paid. The Company has not accepted or renewed any fixed deposit since May 1998.

SUBSIDIARY COMPANIES

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Company's Subsidiaries is annexed to this report.

INFORMATION TECHNOLOGY, YEAR 2000 COMPLIANCE (Y2K)

Major initiatives to achieve connectivity across the Company were completed during the year. Separately, fully integrated systems are being implemented at Max Pharma and Max Speciality Products.

Your Company is taking appropriate and effective steps to be Y2K Compliant by October 1999. The expenditure to ensure Y2K Compliance is not expected to have any material financial impact.

AUDITORS

M/s Mohinder Puri & Co. Statutory Auditors of the Company retire and offer themselves for reappointment. The Company has obtained a Certificate as required under Section 224 (1-B) of the Companies Act, 1956 to the effect that their reappointment, if made, would be in conformity with the limits specified in that Section.

INTERNATIONAL ALLIANCES

Over the last few years, your Company has grown essentially through alliances. Your Company values and cherishes these relationships. In addition to making contribution in the business content of each of the Joint Ventures (JVs), our partners have helped us refine, develop and grow the said joint ventures, as independent organisations. Relationships with each of our partners continue to be excellent and your Directors take this opportunity to thank Gist Brocades, Comsat Corporation, elf Atochem, Avnet Inc., Harvard Medical International, Hutchison Telecom and AIG Indian Sectoral Equity Trust for all their support and the tremendous contribution that each one of them has made in their respective JVs.

COMMUNITY DEVELOPMENT

Starting this year, your Company has initiated a process of bonding with the community and making a contribution to social and spiritual causes. Your company made a modest contribution to the Nischal Foundation, which runs a school for under-privileged children in Gurgaon, Haryana, apart from supporting in a small measure, some of the activities of the Chinmaya Mission.

EMPLOYEES

Your Company's employees have contributed most significantly to its growth and development and have been the cornerstone of its success. Equally, your Company has striven hard to remain an employer of choice, characterised by a progressive management style with fully empowered local teams across its various business units and JVs. Your Directors are pleased to state that this has resulted in a large portion of managerial talent being bred in-house.

Your Directors would like to thank all employees of the Company for the valuable contribution made during the year.

A Statement giving particulars under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 for the period ended June 30,1999 is annexed to the report.

ADDITIONAL INFORMATION

Information in accordance with the provisions of Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 are given in the prescribed format annexed to the report.

ACKNOWLEDGEMENTS

Your Directors place on record their appreciation of the valuable co-operation and support extended to the Company by its customers, vendors, associates, shareholders and various government agencies.

For and on behalf of the Board of Directors

New Delhi
August 16, 1999

Dr. S.S. Baijal
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

AN INTEGRATED GROWTH STRATEGY

We are at the threshold of the new millennium and at the early stages of formulating our vision for a 'new' Max. We remain committed to formulate an integrated growth strategy that will create sustainable shareholder value. The year gone by has been a truly remarkable year in this direction and our financial position stands substantially improved compared to any earlier period.

The Company continued to strengthen its existing business and investment portfolio while simultaneously identifying new business opportunities. Max Pharma and Max Speciality Products, the Company's Business Units reported improved performance. Investments into the Company's strategic joint ventures i.e. Max GB Ltd., Hutchison Max Telecom Ltd., Comsat Max Ltd., Max Atotech Ltd. and Avnet Max Ltd. continued to grow. The Company continued with its commitment to constantly review its business and investment portfolios and made strategic decisions with regard to Max Electronics (the Company's Electronics Components Division) and its investment in Max-GB Limited.

As you are aware, Max Telecom Ventures Ltd., the Company's subsidiary had divested 40% out of the 50% equity stake it held in Hutchison Max Telecom Ltd. Simultaneously, an organisational and supervisory structure essential to handle investments of the substantially large cash surpluses arising out of this divestment was put in place.

The Company is actively engaged in a search for new business opportunities that could become growth engines aimed at building sustainable shareholder value. Being consciously proactive and with a demonstrated capability to recognise opportunities ahead of their time, your Company's growth in recent years has been increasingly aligned with the emergence of service industries. In yet another refinement of this proactive and conscious understanding of the new India that is emerging, your Company has decided to focus on knowledge based areas for attaining its future growth.

In an enriching experience, the Company's management team worked closely with McKinsey & Co. to develop the framework for matching the Company's inherent strengths with the country's competitive advantages in the context of emerging global opportunities. We are pleased to state that the management team has nearly finalised the blue print for a 'new' Max and has identified for further evaluation health care, life insurance and information technology as the new areas of growth. Each of these areas is being examined thoroughly by conducting in depth researches and detailed feasibility studies, before making any investment recommendations. Additionally, benchmark criteria for minimum return on investment, alogwith other financial and non-financial criteria have been set up which all new investment proposals will necessarily have to meet before actual investments are made.

We continue to be guided by our overall commitment to transparency, highest standards of corporate governance and business ethics. In order to reinforce your relationship with the Company, your Directors are desirous that you know more about the Company, its financial results and most importantly, our plans for the future. We do realise that due to the inherent nature of the Company's businesses, we are organized through more than one corporate entity.

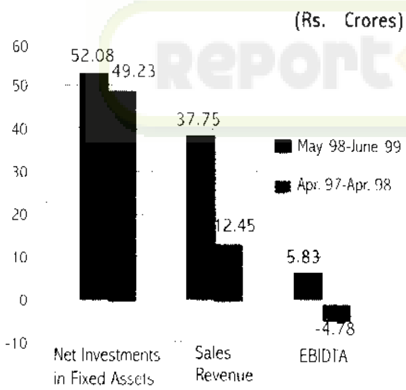
REVIEW OF OPERATIONS

PERFORMANCE OF COMPANY'S BUSINESS UNITS

MAX PHARMA

We are pleased to inform you that Max Pharma, the Company's Bulk Pharmaceuticals unit at Nanjangud, has now stabilized and reported an EBIDTA of Rs. 5.83 crores against a negative EBIDTA of Rs. 4.78 crores during the previous year.

During the year, production of Carbamazepine, Azithromycin and Roxithromycin increased substantially over the previous year resulting in a sales turnover of Rs. 37.75 crores against Rs. 12.45 crores in the previous year.



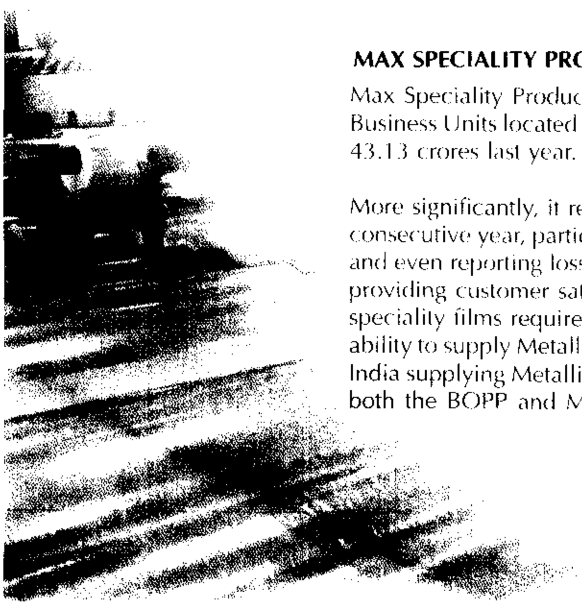
The Company has established itself as a major and reliable supplier of Carbamazepine in the domestic market and achieved close to full capacity-utilisation for a major portion of the year. Encouraged by the product acceptance and volume offtake, Max Pharma is undertaking a major expansion of its Carbamazepine capacity which will make it one of the largest producers of Carbamazepine in the world. This capacity expansion is expected to be completed by last quarter '99. Exports, particularly to Europe, offer a huge potential and Max Pharma is now ready to address this market in the coming months, supported by a new process developed at its R&D Centre.

Safety has been one of our key concerns and in this direction, the Company has taken proactive steps which have ensured greater safety at the plant.

We are confident about the business potential of this unit and are keen to explore other opportunities in the areas of customs synthesis, contract manufacturing and new product development.

MAX SPECIALITY PRODUCTS

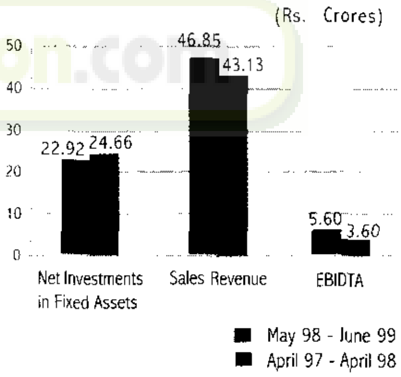
Max Speciality Products (MSP), the Company's BOPP, Metallised Film and Leather Finishing Foils Business Units located at Ropar, Punjab achieved a turnover of Rs 46.85 crores against a turnover of Rs. 43.13 crores last year.



More significantly, it reported EBIDTA of Rs. 5.60 crores, thereby being EBIDTA positive for the sixth consecutive year, particularly remarkable at a time when most of the competitors have been struggling and even reporting losses. MSP's unique position has been the result of a strategy that has focused on providing customer satisfaction and application support by constantly developing newer varieties of speciality films required by our customers. A major contributor to this performance has been MSP's ability to supply Metallised BOPP Film to customers, making it perhaps the only BOPP manufacturer in India supplying Metallised BOPP Film out of its own facilities. The almost 100% capacity utilisation of both the BOPP and Metallisation plants has often stirred up an internal debate on the addition of

new capacity or growth through acquisitions. Your Directors have not taken a final decision on addition of new capacity and would like to explore other avenues of growth before committing further resources to the addition of fresh capacity.

Max Foil, the unique Leather Finishing concept introduced last year, gained widespread acceptance and contributed a higher sales of Rs.5.62 crores and resultant EBIDTA of Rs.1.06 crores. Encouraged by the improved performance and acceptance of the product range in the domestic markets, Max Foil is now being launched in the European markets at the Leather Garments Fair to be held at Bologna, Italy during November '99. Initial discussions seem to suggest a tremendous potential for this unique leather finishing product that has been completely developed within the Company.



MAX ELECTRONICS

The transfer of Max Electronics, the Company's electronic components business to Avnet Max was completed during the year. Simultaneously, the Company's subsidiaries – Max Asia-Pac, Hongkong and Max Visions Inc. USA also transferred their respective businesses to Avnet. Your Company received an amount of US$ 0.75 million on the sale of its business, whereas, Max Asia-Pac and Max Visions Inc. realised amounts of US$ 2 million *and US$ 0.25 million, respectively. We would like to complement the team which built up this value* for the Company. We are also pleased to state that Avnet/Avnet Max have requisitioned the services of all personnel from the erstwhile management team of Max Electronics. A brief on the performance of Avnet Max appears elsewhere in this management analysis.

INVESTMENTS INTO COMPANY'S JOINT VENTURES

The inherent value of your Company lies in the investments it has made in its Joint Ventures which has enabled it to diversify and participate in a variety of opportunities during the past few years. Over the years, the Company has grown organically and has built exciting businesses that have accorded an opportunity to our shareholders to participate in the diverse areas of Cellular Mobile Telephony, Radio Paging Services, VSAT Services, Penicillin Fermentation, Intermediates and Bulk Drugs, Electronic components distribution and Plating Chemicals, the rewards of which have been gratifying.

While being a listed company, Max has used an innovative investment strategy– much like a private venture capital company to create value for its shareholders. Our investment and subsequent divestment in the Hutchison Max Telecom is a good example of how this strategy has contributed to the creation of shareholder value.

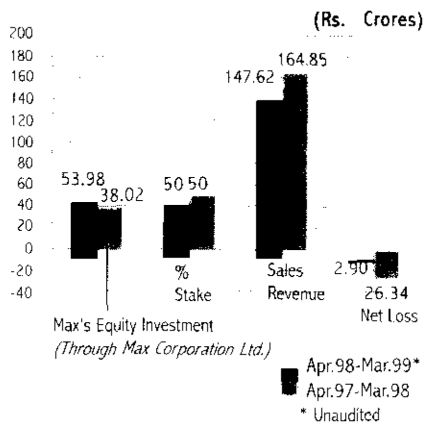
Your Company remains committed to enhance and grow the value of its investments and realise gains on behalf of its shareholders even through selective divestment from existing businesses, if opportunities so arise. We intend to relentlessly carry on with the process of constant evaluation of each of these investments, to determine their inherent worth and continue to review our portfolio based on financial and strategic considerations or for realising better synergies. We strongly feel that each of our investments is fundamentally sound and in areas of businesses, which have inherent growth potential.

In order to make way for a higher degree of transparency, we are in the process of engaging an eminent firm of Accountants/Investment Bankers to give an independent view on the fair valuation of these investments. We hope to be able to present the first report alongwith our Annual Accounts for 1999-2000. However, pending this independent valuation, we feel confident to state that the value of these investments represents a substantial upside potential over existing investments. An update on the present status of the Company's investments into its Joint Ventures, ranked in order of investments, is as follows:

MAX-GB LIMITED

Max-GB, your Company's Joint Venture with Gist Brocades, manufacturing penicillin derivatives continued to be under pricing pressure for most of the year. The over supply in Penicillin continues to effect the market for Semi-synthetic Penicillins. However, Max-GB reaffirmed its commitment to this sector by commissioning its 1000 TPA facility for Amoxycillin which is without doubt, one of the largest facilities in the world. Sales Revenue during April 98 to March 99 was Rs. 147.62 crores against a previous year turnover of Rs 164.85 crores.

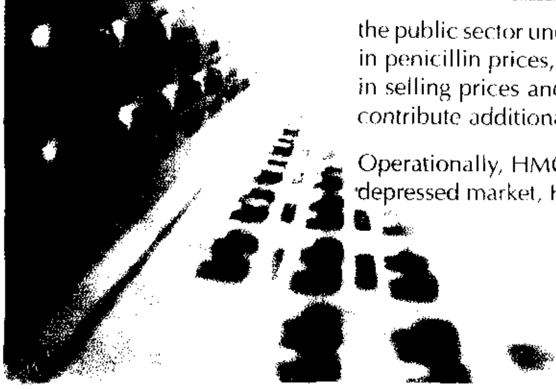
We believe that Penicillin and its intermediates/bulk derivatives will continue to face pressure during the next couple of years before making a recovery. In view of the strategic nature of Gist Brocades' involvement and commitment to this business and their eagerness to grow it, your Company has reached an agreement with them, whereby they have subscribed to Fully Convertible Debentures aggregating to Dutch Guilders 40 million (Rs. 88.92 crores) issued by Max-GB. Upon the conversion of these Debentures, which shall take place any time between two to seven years of the date of allotment, your Company's stake in Max-GB shall come down from 50% to 24.9%. However, your Company has reserved the right to acquire fresh shares of Max-GB, at par, so as to take its shareholding back to 50%, thus regaining the existing parity in shareholding with GB. This right can be exercised by your Company at any time upto a period of 7 years from the date of allotment of the said Convertible Debentures. Thus, we have been able to protect against any downside from any erosion in the value of our investment, without foregoing the right to participate in any upside that this business may offer, within the aforesaid period.



We would also like to inform you that Gist-Brocades has now become a part of the Dutch giant DSM, which will further strengthen their enormous market standing.

Hindustan Max GB Ltd. (HMGB) the joint venture between Max GB and the public sector undertaking Hindustan Antibiotics Ltd. (HAL), continued to be affected by the downturn in penicillin prices, arising from tremendous over capacity in the market. There has been no recovery in selling prices and despite best efforts no fresh equity could be infused due to HAL's inability to contribute additional capital.

Operationally, HMGB performed well and continued to improve in efficiencies and yields. Even in a depressed market, HMGB is the clear market leader with a market share in excess of 40%.



While your Company has no direct equity stake in HMGB, it's Joint Venture Company, Max-GB owns a 50% stake in HMGB amounting to Rs.5 crores. Sales revenue of HMGB during the year 1998-99 was Rs.121.19 crores (unaudited) as against Rs.122.91 crores in the previous year.

HUTCHISON MAX TELECOM LIMITED

The Company has a 10% stake in Hutchison Max Telecom Ltd (HMTL), through its subsidiary Max Telecom Ventures Ltd, in which AIG Indian Sectoral Equity Trust has a 39.2% equity stake. Thus, the Company has an effective stake of 6.08% in HMTL.

Subscribers' growth has been sluggish and HMTL continues to report losses. The recent steps announced by the government in restructuring of license fees and extending the license period are definitely positive indicators that should increase the long term value of your Company's investment in this Venture. Even as we have reason to be satisfied with the divestment of our 40% stake in HMTL last year, we would like to mention that the residual 6.08% stake is also of considerable value to your Company.

HMTL achieved sales and operational income of Rs.230.76 crores during the year 1998 as against Rs.176.93 crores over the previous year, an increase of 30.42%.

COMSAT MAX LIMITED

Comsat Max, the Company's JV with Comsat Corporation, achieved a major turnaround and reported a profit of Rs. 4.17 crores for the year against a previous year loss of Rs. 5.85 crores. Gross Revenue grew from Rs. 17.41 crores in 1997-98 to Rs.33.65 crores in 1998-99. The Company has further strengthened its reputation as a quality provider of VSAT solutions and has increasingly been recognized as a preferred service provider in the Industry. Comsat Max increased its installed base to 467 VSATs and now has installations at companies such as Citibank, UTI Bank, Castrol, IndusInd Bank, Parke Davis, IPCL, Punj Lloyd, Mastercard, Visa International, Eicher, BASF, L&T and the Delhi Stock Exchange, amongst others.