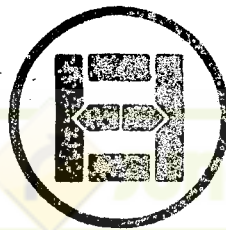


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11TH ANNUAL REPORT 1997-98



HERDILLIA OXIDES
AND
ELECTRONICS LIMITED

DUNCAN GOENKA



HERDILLIA OXIDES AND ELECTRONICS LIMITED

BOARD OF DIRECTORS

N. S. PARULEKAR

S. K. DIWANJI

K. S. B. SANYAL

A. K. GOENKA

K. M. BHOLE

R. M. PANDIA

A. DEB

Managing Director

B. M. RAUL

*Deputy General Manager -
Corporate Affairs & Secreterial*

BANKERS

State Bank of India

Janata Sahakari Bank Limited, Pune

AUDITORS

Lodha & Company

REGISTERED OFFICE & WORKS

F-1, MIDC, Lote Parshuram
Tal. Khed,
Dist. Ratnagiri (Mah.) - 415 722

HEAD OFFICE

Earnest House, 13th Floor
Nariman Point
Mumbai - 400 021.

AR 21/4/97

REGISTRAR & TRANSFER AGENTS

PCS Industries Limited
Hyfa Building No. 2, 1st floor,
Near Johnson & Johnson,
Kurla Andheri Road,
Safed Pool,
Mumbai - 400 072

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HERDILLIA OXIDES AND ELECTRONICS LIMITED

NOTICE

NOTICE is hereby given that the Eleventh Annual General Meeting of the members of the Company will be held at the Registered Office of the Company at F/1, MIDC, Lote - Parshuram, Tal. Khed, Dist. Ratnagiri (Mah.) - 415 722 on Tuesday, the 8th December, 1998 at 1.30 p.m. to transact the following business :

ORDINARY BUSINESS

1. To consider, receive and adopt the Audited Accounts for the year ended 30th June, 1998 together with Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Mr. S.K. Diwanji, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. A.K. Goenka, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass, with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT subject to the approval of the Financial Institutions, the Central Government, if necessary under Section 198, 269 and 309 of the Companies Act, 1956 and other applicable provisions, if any, and pursuant to Article 185 of the Company's Articles of Association, Mr. A. Deb be and is hereby reappointed as the Managing Director of the Company for a further term of Two Years with effect from 24th August 1998, with such powers and functions as may be delegated to him by the Board of Directors from time to time and subject to the following terms and conditions as to remuneration and perquisites viz.

(a) Salary :

Rs. 35,000/- (Rupees Thirty Five Thousand only) per month with such Annual increments as may be decided by the Board of Directors.

(b) Commission :

@ 1% of the Net Profits of the Company for every financial year subject to overall ceiling laid down under Section 198 and 309 of the Companies Act, 1956 or such amount as may be decided by the Board of Directors.

(c) Perquisites and Allowances :

In addition to the salary and commission payable, the Managing Director shall also be entitled to perquisites and allowances comprising inter - alia furnished / partially furnished residential accommodation (or house rent allowance in lieu thereof), together with reimbursement of expenses or allowances for gas, electricity, water, house upkeep and repairs, house furnishing reimbursement / allowance, special allowance, reimbursement of medical expenses incurred for self and family, leave travel assistance / allowance for self and family, club fees, premium on medical and personal accident insurance and such other benefits and allowances as per the rules of the Company or as may be agreed between the Board of Directors and the Managing Director. The perquisite value of these will be determined according to Income-Tax Rules, 1962. The annual value of all these perquisites evaluated as per Income Tax rules shall not exceed Rs. 2,25,000/- (Rupees Two lacs twenty five thousand only) or such enhanced amount as may be approved by the Board of Directors from time to time.

Provision and use of Company car with driver for official use and telephone, fax at residence shall not be included in the computation of perquisites for the purpose of the above ceiling.

Note : For the purpose of the above terms and conditions, 'Family' means the spouse, and dependent children of the Managing Director.

In addition, the following benefits will also be extended as per the rules of the Company applicable to the senior staff, which shall not be included in the computation of the ceiling on perquisites specified above :

- (i) Contribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961
- (ii) Gratuity.
- (iii) Leave with full salary and allowances, including the right to accumulate it to encash it.
- (iv) Housing and other loan facilities.

"RESOLVED FURTHER THAT subject to the provisions of Section 309 read with section 198 and other applicable provisions of the Companies Act, 1956 and subject to the approval of the Central Government, if required, where in any financial year during the currency of tenure of the Managing Director, the Company has no profit or its profit is inadequate, remuneration be paid by way of salary and perquisites as stated above but, not exceeding the limit specified in Schedule XIII of the Companies Act, 1956 as amended by relevant Notifications from time to time."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised further to increase, enlarge, vary and/or modify the remuneration payable to the Managing Director including the monetary value thereof upto the limits prescribed in this behalf under Schedule XIII of the Companies Act, 1956 as amended from time to time or any further statutory revision, modification, clarifications or re-enactment thereof from time to time in force and/or the guidelines for managerial remuneration issued by the Central Government from time to time and from the date of the statutory provisions and/or the guidelines coming into force."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds, matters and things as may be considered necessary, desirable or expedient to give effect to this Resolution."

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as a Special Resolution.

"RESOLVED THAT in accordance with the provisions of Section 81 (1-A) and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approvals of the Securities and Exchange Board of India (SEBI), Financial Institutions, International Finance Corporation (Washington) and such other authorities whose permissions and sanctions as may be necessary and subject also to such terms and conditions, alterations and modifications as may be prescribed and specified by any of them while granting such approvals, permissions and sanctions which may be agreed to by the Board of Directors of the Company (hereinafter referred as "the Board"), the consent of the Company be and is hereby given to the Board to issue for cash cumulative Preference shares of the aggregate amount not exceeding Rs. 8,00,00,000/- (Rupees Eight Crores only) on private placement basis to the Employees of the Company (including Indian working Directors) to the Shareholders and Employees of the Promoter Group and Associate Companies and to such other persons as



HERDILLIA OXIDES AND ELECTRONICS LIMITED

the Board may think fit in its absolute discretion at such time and on such terms and conditions, including the number of shares to be issued, the proportion and entitlement, rate of dividend and premium, if any, on such cumulative preference shares as the Board may in its absolute discretion deem fit in the best interest of the Company."

"RESOLVED FURTHER THAT the Board be and is hereby authorised to deal with the unsubscribed portion, if any, out of the proposed issue of shares as may be deemed fit in the best interest of the Company."

"RESOLVED FURTHER THAT for the purpose of giving effect to the issue of cumulative preference shares, the Board be and is hereby authorised to make necessary applications from time to time to various authorities as may be necessary and accept on behalf of the Company such modifications and alterations to the terms and conditions of the issue as may be considered necessary or desirable to effect such modifications and alterations, to settle all questions that may arise with regard to the issue of Cumulative Preference shares and do all matters connected therewith or incidental thereto as may be necessary, proper or expedient."

By Order of the Board
B. M. RAUL
Dy. General Manager
Corporate Affairs & Secretarial

Dated : 28th August, 1998

Registered Office:

F-1, MIDC Area, Lote Parshuram,
Tal. Khed, Dist. Ratnagiri
MAHARASHTRA 415 722

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself and the proxy need not be a member of the Company.
2. The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of the businesses under item No. 5 and 6 is annexed hereto.
3. The proxy form duly completed and signed should be deposited at the Registered Office of the Company not later than 48 hours before the meeting.
4. All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection at the Registered Office of the Company between 10.30 a.m. and 12.30 p.m. on all working days except Saturday and holidays upto the date of the Annual General Meeting.
5. The Register of Members and Share Transfer Book of the Company will remain closed from 16th October, 1998 to 28th October, 1998 (both days inclusive).
6. Members who attend the meeting are requested to complete the enclosed attendance slip and deliver the same at the entrance of the meeting hall.
7. Members are requested to bring their copies of Annual Report at the time of attending the Meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956.

ITEM NO. 5

Mr. A. Deb was appointed as Managing Director of the Company for a period of five years with effect from August 24, 1993, at the Sixth Annual General Meeting held on 29th September, 1993. His term expired on 23rd August, 1998. The Board of Directors has reappointed Mr. A. Deb as Managing Director for a further term of Two years on the existing terms and conditions as set out in the Special Resolution recommended for shareholders' approval under Item No.5.

The draft agreement to be entered into between the Company and Mr. A. Deb is available for inspection at the Registered Office of the Company on any working day excluding Saturdays upto the date of the eleventh Annual General Meeting between 10.30 a.m. and 12.30 p.m.

The terms and conditions stipulated in the said special resolution may be treated as an abstract of the variations of the terms of contract / appointment between the Company and Mr. A. Deb, pursuant to Section 302 of the Companies Act, 1956, when executed.

Mr. A. Deb may be deemed to be concerned or interested in the resolution.

None of the other Directors of the Company, is in any way, concerned or interested in the resolution.

ITEM NO. 6

With a view to part Finance the Capital expenditure and also to reduce a portion of high interest bearing loans to be substituted by a low interest bearing instrument, it is proposed to make issue of cumulative preference shares on private placement basis subject to fulfilment of all statutory requirements for an amount not exceeding Rs. 8 Crores. The rate of dividend and term of the cumulative preference shares will be decided by the Board of Directors in due course as the Board may think fit in its absolute discretion in the interest of the Company subject to necessary approvals. As per the Provisions of Section 81(1-A) of the Companies Act, 1956, the Special Resolution as set out in item no.6 of the Notice is recommended for your approval.

The Directors may be deemed to be Concerned or interested in the Resolution to the extent to which they will be entitled to subscribe to the shares that may be offered to them.

By Order of the Board
B. M. RAUL
Dy. General Manager
Corporate Affairs & Secretarial

Dated : 28th August, 1998

Registered Office:

F-1, MIDC Area, Lote Parshuram,
Tal. Khed, Dist. Ratnagiri
MAHARASHTRA 415 722

ANNUAL REPORT 1997-98

REPORT OF THE DIRECTORS

The Directors present herewith their Eleventh Annual Report together with the Audited Accounts of the Company for the year ended 30th June, 1998.

1. FINANCIAL RESULTS

	(Rs. in lacs)	
	1997-98	1996-97
Sales	1298.17	1226.36
Other Income	10.63	5.35
	<u>1308.80</u>	<u>1231.71</u>
Profit/(Loss) before depreciation	(76.07)	(130.93)
Depreciation	174.99	171.71
Less : Transferred from Revaluation Reserve	33.95	77.78
	<u>141.04</u>	<u>93.93</u>
Amortisation of Miscellaneous Expenditure	2.93	2.93
Profit/(Loss) for the year	<u>(220.04)</u>	<u>(227.79)</u>
Prior period adjustments (net)	2.28	--
Income tax provision for earlier year	--	(0.46)
Balance of (loss) brought forward from previous year	--	(569.96)
Balance transferred from Revaluation Reserve	--	798.21
Balance Carried to Balance Sheet	<u>(217.76)</u>	<u>Nil</u>

2. OPERATIONS

During the year the sales turnover was marginally higher at Rs. 1298 lacs as against Rs. 1226 lacs for the previous year.

The newly introduced Synthetic Yellow Iron Oxide Pigment (IOP) and Ferrous Fumerate (FF) were well accepted. Business could be expected to increase as customers built up their reliability on our supply, quality and services.

Though the sales volumes of Magnetic Iron Oxides (MIO) for audio tapes in India has improved, due to lower realisation on account of severe international competition the average realisation on sales was low. Direct exports for MIO under the Company's brand commenced during the year but due to delay in approvals, volumes for exports were limited.

However, the efforts on market seeding and quality improvements made during the year will have favourable impact during the coming years, specially for securing new export business.

During 1997-98, the Company was recognised by BVQI for ISO 9002 certification for its MIO facilities. The new product, Ferrous Fumerate was also registered with US FDA.

The production from the plant at Lote, Dist. Ratnagiri, showed an increase of 28% with output figures being 968 Ts (905 Ts) for MIO, 46Ts, (14Ts) for IOP and 176Ts (14Ts) for FF. The loss during the year of Rs. 220 lacs (previous year Rs. 228 lacs) evidences the need for operating at even higher volumes and better margins. While market and product development is being pursued, stringent measures of efficiency improvement and energy conservation are being implemented to achieve better performance in the future.

3. PARTICULARS OF EMPLOYEES

As required by Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, a statement of information relating to the employees is given in Annexure to the Directors' Report.

4. THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988.

Particulars under Section 217(1) (e) of the Companies Act, 1956 relating to the conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure to the Directors' Report.

5. DIRECTORS

Mr. S.K. Diwanji and Mr. A.K. Goenka, Directors, retire by rotation at the Annual General Meeting and being eligible, offer themselves for re-appointment.

Mr. A. Deb, Managing Director, whose term expired on 23rd August, 1998 has been reappointed as Managing Director for a further term of Two years subject to the approval of members, Central Government and Financial Institutions, if necessary, as per the resolution recommended for the approval of the members at the ensuing Annual General Meeting.

6. FIXED DEPOSITS

During the year under review, the Company has not accepted any deposits from the public pursuant to Section 58-A of the Companies Act, 1956.

7. AUDITORS' REPORT

The notes referred to in Auditors' Report are self explanatory and do not require any further elaboration.

10. AUDITORS

The Auditors, M/s. Lodha & Company, Chartered Accountants, Mumbai, retire at the ensuing Annual General Meeting and are eligible for re-appointment. The members are requested to appoint Auditors for the current year and fix their remuneration.

11. ACKNOWLEDGEMENTS

The Directors acknowledge with gratitude and place on record their appreciation of the support and co-operation received by the Company from Financial Institutions, Banks, Promoters and other companies in Duncan-Goenka Group.

The Directors also wish to place on record their appreciation of the contribution made by employees at all levels for the operation of the Company during the year and look forward to their continued support.

By Order of the Board

N. S. PARULEKAR
DIRECTOR

A. DEB
MANAGING DIRECTOR

Dated : 28th August, 1998



HERDILLIA OXIDES AND ELECTRONICS LIMITED

ANNEXURE TO THE DIRECTORS' REPORT

INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988, AND FORMING PART OF THE DIRECTORS' REPORT.

A. CONSERVATION OF ENERGY:

(a) Energy Conservation Measures taken :

The plant is so designed as to conserve energy at optimum level of operation. Energy losses were kept at minimum level and Maximum Demand for power withdrawal surrendered due to improvements made.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

During the year steps such as reducing contract demand had been taken for conservation of energy, benefits of which have started accruing. The Company is also examining proposal for self generation of power by diesel generator sets to save on increase in electricity tariffs.

(c) Impact of energy conservation measures :

The energy conservation measures have resulted in restricting consumption of electricity and saving in expenditure inspite of higher production and increased tariff.

(d) Total energy consumption and energy consumption per unit of production :

Form 'A' of the Annexure to the Rules is not applicable as the Company is not covered under the list of specified industries.

B. TECHNOLOGY ABSORPTION :

I. Research and Development (R & D)

1. Specific areas in which R & D carried out by the company :

Product upgradation and magnetic particles studies. Development of pigments for colouring and surface coatings. Also developed Ferrous Salt mainly for export market.

2. Benefit derived as a result of the above R & D:

Wider range of Magnetic Iron Oxides for audio tapes have been introduced. Developed High Grade Toner Oxide and product seeded in market.

3. Future plan of action:

Proposal to put a bench scale facility and testing equipment for process optimisation and developmental work on other applications of iron oxides and chemicals.

4. Expenditure on R & D : —

II. Technology absorption, adaptation and innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation:

The technology received from collaborator has been fully absorbed and adapted to Indian conditions.

2. Benefits derived as a result of the above efforts :

Complete range of Magnetic Iron Oxide produced for audio, video, computer tapes and floppies.

3. Information in case of technology imported during the last 5 years reckoned from the beginning of the financial year:

(a) Technology	N. A.
(b) Year of import	N. A.
(c) Has technology been fully absorbed ?	N. A.
(d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.	N. A.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

1. Earnings	Rs. 163.10 lakhs
2. Outgo	Rs. 10.71 lakhs

Particulars of Employees in terms of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 for the year ended 30th June, 1998.

Name	Age	Designation/ Nature of duties	Remuneration Rupees	Qualification	Date of Joining	Exp. in yrs.	Details of last employment Name of previous Employer	Position held
Mr. A. Deb	53	Managing Director	6,06,832	B. Tech, Hons., (Chem.Eng)	24.08.93	31	Rallis India Limited	Gen. Manager (Commercial) Pharmaceutical Division

NOTES:

- The employment of Managing Director is contractual.
- Remuneration includes salary, contribution to Provident Fund, Superannuation Fund, Medical Reimbursement and other perquisites in accordance with the provisions of the Income -Tax Act, 1961 and rules made thereunder.