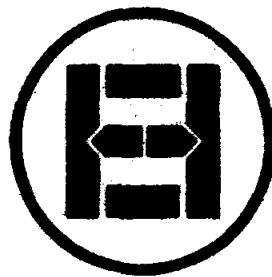


15TH ANNUAL REPORT 2001-2002



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OXIDES AND SPECIALITIES LIMITED
(Formerly Herdillia Oxides and Electronics Limited)

DUNCAN GOENKA



OXIDES AND SPECIALITIES LIMITED

BOARD OF DIRECTORS

N. S. PARULEKAR

A. K. GOENKA

J. S. NEERAV

V. B. DALAL

G. G. GOGATE *Managing Director*

B. M. RAUL *General Manager -
Corporate Affairs & Secretarial*

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

CORPORATE OFFICE

2/2, TTC Industrial Area, (D Block)
M.I.D.C. Thane-Belapur Road,
Turbhe, Navi Mumbai - 400 705.

REGISTRAR & TRANSFER AGENTS

Bigshare Services Pvt. Ltd.
E-2, Ansa Industrial Estate,
Sakivihar Road,
Saki Naka, Andheri (E),
Mumbai - 400 072.

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OXIDES AND SPECIALITIES LIMITED

NOTICE

NOTICE is hereby given that the Fifteenth 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 Friday, August 23, 2002 at 2:00 p.m. to transact the following business :

ORDINARY BUSINESS

1. To consider, receive and adopt the Audited Accounts for the year ended March 31, 2002 together with Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Mr. N.S. Parulekar, who retires by rotation and being eligible, offers himself for re-appointment.
3. 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

4. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution :

"RESOLVED THAT Mr. V.B. Dalal, who was appointed as an Additional Director of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting of the Company pursuant to the provisions of Section 260 of the Companies Act, 1956 and Article 159 of the Articles of Association of the Company, and in respect of whom the Company has received notice in writing from a member of the Company expressing his intention of proposing his candidature for the office of Director be and is hereby appointed as a Director of the Company."

By Order of the Board

B. M. RAUL

General Manager

Corporate Affairs & Secretarial

Date : May 28, 2002.

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 TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The relevant explanatory statement pursuant to Section 173 of the Companies Act, 1956 in respect of the business under item No. 4 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 Saturdays and holidays upto the date of the Annual General Meeting.
5. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, August 14, 2002 to Friday, August 23, 2002 (both days inclusive).
6. Members/Proxies who attend the Meeting are requested to bring the enclosed attendance slip duly filled in and deliver the same at the entrance of the Meeting Hall.
7. Members are requested to bring their copies of the Annual Report at the time of attending the Meeting.

ANNEXURE TO NOTICE

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

ITEM NO. 4

The Board of Directors of the Company has appointed Mr. V.B. Dalal as an additional Director in its Meeting held on October 30, 2002. In accordance with Section 260 of the Companies Act, 1956 and the Article 159 of the Articles of Association of the Company, he holds office upto the date of this Annual General Meeting. Mr. V.B. Dalal, is a practicing Chartered Accountant with varied experience. Mr. V. B. Dalal is a Member of the Audit Committee and Share Transfer Committee of the Directors of the Company. He is a Director only on the Board of Directors of your Company. The Company has received a notice from a member under Section 257 of the Companies Act, 1956 signifying his intention to propose Mr. V.B. Dalal as a candidate for the office of Director together with requisite deposit as required by law.

None of the Directors other than Mr. V.B. Dalal is in any way interested or concerned in this resolution.

By Order of the Board

B. M. RAUL

General Manager

Corporate Affairs & Secretarial

Date : May 28, 2002.

Registered Office :

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

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REPORT OF THE DIRECTORS

The Directors present herewith their Fifteenth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2002.

1. FINANCIAL RESULTS

	(Rs. in lacs)	
	2001 - 02	2000 - 01
Sales	801.24	610.55
Other Income	70.95	20.94
	<u>872.19</u>	<u>631.49</u>
Profit/(Loss) before depreciation	(115.14)	(245.08)
Depreciation	176.08	176.63
Profit/(Loss) before exceptional items	(291.22)	(421.71)
Interest expenses of earlier years written back	196.85	—
Prior period adjustments (net)	—	(1.97)
Profit/(Loss) for the year	(94.37)	(423.68)
Balance of (loss) brought forward from previous year	(746.17)	(322.49)
PROFIT/(LOSS) CARRIED TO BALANCE SHEET	<u>(840.54)</u>	<u>(746.17)</u>

2. OPERATIONS

Sales quantities of Magnetic Iron Oxide registered a 50% increase over the previous year. The increase was primarily in Exports where the Company achieved significant success. The domestic market for MIO, suffering from poor performance of film music and imports of coated tape at low prices, showed a decline of more than 30%. However, the Company was able to increase its market share substantially. Sales of Ferrous Salts declined in the face of recessionary trends in S. E. Asian markets.

Due to continuing adverse business conditions, capacity utilisation of MIO plant continues to be at sub-optimal level, though there has been an improvement in the year.

During the year under review, the Company made special efforts to control its receivables with a substantial reduction in Sundry Debtors.

The Company intends to continue its thrust on exports to partially insulate its operations from the volatility of the domestic market.

3. DIVIDEND

In view of the continuing losses your Directors regret that they can not declare Dividend for the year.

4. PROSPECTS

Your Directors foresee an improvement in the operation of the Company in view of imposition of safeguard duty, the proposed change of product mix including introduction of new products, export potential thereof, better realisation and restructuring of the borrowings.

5. REPAYMENT OF TERM LOANS

During the year, the Company through a 'one time settlement' with UTI and LIC has cleared their outstanding

Term Loans & interest.

On settlement of these dues of the financial institutions, the secured term loan outstanding as on date has become 'nil'.

6. PARTICULARS OF EMPLOYEES

The provision of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended are not applicable to the Company as none of the employees throughout the year or employed for part of the year has received remuneration equal to or exceeding the limits prescribed in the said section.

7. 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.

8. DIRECTORS

During the year under review, Mr. R.M. Pandia resigned from the Board in September, 2001 prior to the Annual General Meeting.

The Board places on record its sincere appreciation of the valuable guidance and contribution made by Mr. R. M. Pandia during his tenure as Director of the Company.

Mr. V.B. Dalal was appointed as an additional Director of the Company.

The Company has received notice in writing from a member pursuant to Section 257 of the Companies Act, 1956 signifying intention to propose Mr. V.B. Dalal as Director of the Company at the forthcoming Annual General Meeting.

Mr. N.S. Parulekar, Director, retires by rotation at the Annual General Meeting and being eligible, offers himself for re-appointment.

9. 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.

10. AUDITORS' REPORT

The notes referred to in Auditors' Report are dealt with herein below.

As disclosed in the Accounting Policies and notes to the Accounts, the long term prospects appear conducive in view of the projected improvement in the operations of the Company post imposition of safeguard duty on MIO, implementation of the marketing policy for effecting change in product mix as per customer preference, and the resurgence of export potential leading to improved realisation, the accounts of the Company have been prepared on the basis of a "going concern".

The accumulated losses were adjusted against the revaluation reserve in accordance with legal advice.

The interest of Rs. 242.43 lacs for the year on unsecured loans/debentures will be accounted on cash basis, hence no provision for accrued liability of interest has been made in the accounts.



OXIDES AND SPECIALITIES LIMITED

11. CORPORATE GOVERNANCE

The Securities & Exchange Board of India had introduced a code of Corporate Governance for implementation by the listed companies by an amendment to the Listing Agreement. The same has been implemented by your Company during the year. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a compliance report on Corporate Governance is annexed as part of the Annual Report.

12. DEMATERIALISATION OF SHARES

In terms of the notification issued by the Securities and Exchange Board of India (SEBI) the Company has completed the process for facilitating dematerialisation of its shares.

13. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to sub-section (2AA) of Section 217 of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that :

- i) in the preparation of the Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- ii) the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are 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/loss of the Company for that period.
- iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv) the Directors had prepared the annual accounts on a going concern basis.

14. 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.

15. ACKNOWLEDGEMENTS

The Directors thankfully acknowledge and place on record their appreciation of the support and co-operation received by the Company from Financial Institutions, Banks, Customers, Suppliers and Promoters.

The Directors also wish to place on record their special appreciation of the contribution made by employees at all levels during the year and for having stood by the Company in these testing times. The Directors look forward to their continued support.

By Order of the Board

N. S. PARULEKAR
DIRECTOR

G. G. GOGATE
MANAGING DIRECTOR

Dated : May 28, 2002.

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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.

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

The Company is monitoring the power factor to maximise rebates on power bills.

(c) Impact of energy conservation measures :

The energy conservation measures have resulted in restricting consumption of electricity and saving in expenditure inspite of sub optimal 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 new grade of MIO and further improvement in pigment to suit requirements of customers.

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

Improved quality of Magnetic Iron Oxides for audio tapes are being produced. Developed Synthetic Yellow Iron Oxide Pigment and Ferrous Fumarate and products commercialised.

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 for development of new 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 collaborators 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. 161.30 lakhs

2. Outgo : Rs. 4.12 lakhs

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OXIDES AND SPECIALITIES LIMITED

Management Discussion and Analysis

a) Industry Structure and Development :

The main product of the Company is Magnetic Iron Oxide (MIO) also known as Gamma Ferric Oxide (GFO) used for coating polyester films to make Magnetic Tapes for use in audio, video, data and computer applications including for swipe cards or toners.

The technology is from Magnox Inc., Pulaski, Virginia, U.S.A.

The Company has diversified into the manufacture of Ferrous salts to US Pharmacopeal standards and Iron Oxide colour pigments as an import substitution for international pigments.

b) Opportunities and Threats :

The Company has major market share in the domestic MIO business and is currently exporting its products to various countries such as Korea, Turkey, Malaysia and Spain.

The Company enjoys good reputation amongst its clients for quality of products and services.

Imposition of Safeguard duty in January - 2000 on MIO has helped to improve the domestic market share and realisation.

Globally, magnetic tapes usage is declining with the advent of alternate formats like CD's, CD-R, DVD and online availability of music through cable and internet.

Product like Ferrous Fumerate is getting replaced by cheaper ferrous sulphate globally (except USA) as iron supplement leading to erosion in growth of ferrous fumerate business.

Iron Oxide Pigment manufactured by the Company is a high end product with limited high cost paint application.

c) Segmentwise or productwise performance :

The domestic market for MIO is largely influenced by the performance of films and film music and import of coated tapes. Due to the unpredictable and wide fluctuation of success of films, and imports of cheap coated tapes, the domestic market volume has been declining. Thus, capacity utilisation of MIO plant is at

sub-optimal level due to lack of adequate domestic demand and the time taken for fully developing the export market potential.

Sales of ferrous fumerate have started declining due to recessionary trends in international markets. Iron Oxide Pigment has a very limited niche market in India.

d) Outlook, risks and concern :

Due to technological and environmental changes, mainly the replacement of Analog with Digital Formats, magnetic storage by optical storage and online connectivity, the use of magnetic tapes worldwide has reduced in the last few years creating a surplus supply capacity without matching demand for consumption. It is only in a few countries like India, China and Middle East that demand for magnetic tapes, specially in the form of audio cassettes is still growing albeit at low rates. Hence there has been a tendency of international producers and exporters to target the Indian market for larger imports into India at gradually diminishing rates.

e) Internal control systems and their adequacy :

There is adequate internal control system in the Company through Internal Audit and regular operations reviews.

f) Financial performance with respect to operational performance :

The overall performance of the Company over the previous year was encouraging. As compared to the previous year, sales of MIO had registered a 50% growth, Production of MIO had increased by 91% and sales realisation was higher by 31%.

g) Developments in Human Resources / Industrial Relations Front :

The industrial relations are cordial. The number of employees are at the optimum level.

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CORPORATE GOVERNANCE REPORT

The detailed report on Corporate Governance as per the format prescribed by SEBI and incorporated in Clause 49 of the Listing Agreement is set out below :

A. MANDATORY REQUIREMENTS

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE :

The Company's Philosophy on Corporate Governance envisages the attainment of the high level of transparency and accountability in the functioning of the Company and the conduct of its business internally and externally, including its inter-action with employees, shareholders, creditors, consumers and institutional and other lenders and places due emphasis on regulatory compliance.

The Company will Continue its efforts in raising the standards in Corporate Governance and will also review its systems and procedures constantly to keep pace with the changing economic environment.

2. BOARD OF DIRECTORS :

COMPOSITION AND CATEGORY

The present strength of the Board of Directors is five, whose composition is given below :

- 1 Non-promoter , Executive Director
- 4 Independent, Non-Executive Directors

The composition of the Board of Directors and also the number of other Board of Directors or Board Committees of which he is a Member/Chairman are as under :

Name of Director	Category	No. of other Public Directorship (*)	No. of membership of other Board Committees	No. of other Board Committees for which Chairman
Shri N. S. Parulekar	Independent, Non-Executive	9	6	4
Shri Ashok K. Goenka	Independent, Non-Executive	2	—	—
Shri J. S. Neerav	Independent, Non-Executive	—	—	—
Shri V. B. Dalal	Independent, Non-Executive	—	—	—
Shri G. G. Gogate Managing Director	Non-Promoter, Executive	1	1	—

(*) - excludes Directorships in Indian Private Limited Companies, membership of Managing Committees of various Chambers/bodies.

ATTENDANCE OF EACH DIRECTOR AT THE BOARD MEETINGS AND THE LAST ANNUAL GENERAL MEETING

During the financial year ended March 31, 2002, six Board Meetings were held on April 24, 2001, July 30, 2001(two meetings), October 30, October 31, 2001 and January 30, 2002 and the gap between two meetings did not exceed four months. The attendance of each Director at Board Meetings and the last Annual General Meeting (AGM) is as under :

Name of the Director	No. of Board Meetings attended	Attendance at last AGM held on 17-09-2001
Shri N. S. Parulekar	6	Present
Shri S. K. Diwanji (Ceased to be Director w.e.f. 30-07-2001)	—	N. A.
Shri K. S. B. Sanyal (Ceased to be Director w.e.f. 30-07-2001)	—	N. A.
Shri R. M. Pandia (Resigned w.e.f. 10-09-2001)	3	N. A.
Shri A. K. Goenka	3	Absent
Shri N. D. Gupte (Ceased to be Director w.e.f. 30-07-2001)	1	N. A.
Shri J. S. Neerav (Appointed w.e.f. 30-07-2001)	1	N. A.
Shri G. G. Gogate (Appointed w.e.f. 30-07-2001)	5	Present
Shri V. B. Dalal (Appointed w.e.f. 30-10-2001)	2	N. A.

All significant information had been placed before the Board. Henceforth, the required information as listed in Annexure - I of Clause 49 will be made available to the Board.