

ANNUAL REPORT



H. K. FINECHEM LIMITED

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REGISTERED OFFICE :

201, Aniket, C. G. Road,
Navrangpura,
AHMEDABAD - 380 009.

Phone : (079) 2646 8752, 2640 2429

Fax : (079) 2646 0910

Website : www.hkfinechem.com

WORKS :

253/P, Chekhala,
Sanand-Kadi Highway,
Ta. Sanand,
Dist. AHMEDABAD - 382 145.

Phone : (02717) 222617-18-19

Fax : (02717) 222616

BOARD OF DIRECTORS

SHRI RAJAN R. HARIVALLABHDAS

Chairman & Managing Director

SHRI SHYAM B. GHIA

SHRI CHINUBHAI R. SHAH

SHRI NAHOOSH J. JARIWALA

Executive Director

SHRI PRAFULL ANUBHAI

SHRI JANAK G. NANAVATY

SHRI VISHNU VARSHNEY

(Nominee of GVFL Ltd.)
(upto December 17, 2004)

DR. HIMANSHU C. PATEL

AUDITORS :

M/S. C. C. CHOKSHI & CO.,

Chartered Accountants,
Ahmedabad.

BANKERS :

State Bank of India

General Manager (Finance)
& Company Secretary :

RAJEN N. JHAVERI

SHARE REGISTRARS :

Pinnacle Shares Registry Pvt. Ltd.
Near Ashoka Mills,
Naroda Road,
Ahmedabad - 380 025.



NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the Members of **H. K. FINECHEM LIMITED** will be held at Ahmedabad Textile Mills' Association's Hall, Ashram Road, Navrangpura, Ahmedabad - 380 009 on Thursday, September 15, 2005 at 4.00 p.m. to transact the following business:

Ordinary Business :

1. To receive, consider and adopt the Profit & Loss account for the year ended 31st March, 2005, the Balance Sheet as at that date and the Reports of the Board of Directors and the Auditors thereon.
2. To note the payment of interim dividend on Cumulative Redeemable Preference Shares on pro-rata basis.
3. To declare dividend on Equity Shares.
4. To appoint a Director in place of Shri Chinubhai R. Shah who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Shri Prafull Anubhai who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Auditors of the Company for the period commencing from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business

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

"RESOLVED THAT in partial modification of Resolution No. 6 passed at the 18th Annual General Meeting of the Members of the Company held on 19th September, 2003 for the re-appointment and terms of remuneration of Shri Rajan R. Harivallabhdas, Managing Director of the Company and in accordance with the provisions of Sections 198, 269, 309, 311, Schedule XIII and other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force and / or any notification which the Central Government may issue from time to time), consent of the Company be and is hereby accorded for increase in the monthly salary payable to Shri Rajan R. Harivallabhdas, Managing Director of the Company, with effect from 1st April, 2005 for the remainder of the tenure of his term of the office of the Managing Director from Rs. 46,000/- p.m. to Rs. 60,000/- p.m., with proportionate increase in those items of perquisites which are related to the quantum of salary as set out in the Draft Supplemental Agreement to be entered into between the Company and Shri Rajan R. Harivallabhdas as submitted to this Meeting and initialled by a Director for the purpose of identification which Supplemental Agreement is hereby specifically sanctioned."

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

"RESOLVED THAT in partial modification of Resolution No. 7 passed at the 18th Annual General Meeting of the Members of the Company held on 19th September, 2003 for the re-appointment and terms of remuneration of Shri Nahoosh J. Jariwala, Executive Director of the Company and in accordance with the provisions of Sections 198, 269, 309, 311, Schedule XIII and other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force and / or any notification which the Central Government may issue from time to time), consent of the Company be and is hereby accorded for increase in the monthly salary payable to Shri Nahoosh J. Jariwala, Executive Director of the Company, with effect from 1st April, 2005 for the remainder of the tenure of his term of the office of the Executive Director from Rs. 32,000/- p.m. to Rs. 40,000/- p.m., with proportionate increase in those items of perquisites which are related to the quantum of salary as set out in the Draft Supplemental Agreement to be entered into between the Company and Shri Nahoosh J. Jariwala as submitted to this Meeting and initialled by a Director for the purpose of identification which Supplemental Agreement is hereby specifically sanctioned."

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 A PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. The Register of Members and Share Transfer Books of the Company will remain closed from Monday, the 1st August, 2005 to Monday, 8th August, 2005, both days inclusive.
3. The document / paper referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.

Ahmedabad
June 04, 2005

Registered Office :
201, Aniket, C. G. Road,
Navrangpura,
Ahmedabad - 380 009.

By Order of the Board
Rajen N. Jhaveri
General Manager (Finance)
& Company Secretary

ANNEXURE TO THE NOTICE

(Explanatory Statement pursuant to Section 173 of the Companies Act, 1956).

ITEM Nos. 7 & 8 :

At the 18th Annual General Meeting of the Members of the Company held on 19th September, 2003, Shri Rajan R. Harivallabhdas and Shri Nahoosh J. Jariwala were re-appointed respectively as Managing Director and Executive Director for a further period of 3 years from August 27, 2003 on the terms and conditions as per the draft Agreements according to which Managing Director was entitled to a monthly salary in the scale of Rs. 42,000 and Rs. 50,000 (with annual increment of Rs. 4,000 p.m.) and other benefits and Executive Director was entitled to a monthly salary in the scale of Rs. 31,000 and Rs. 33,000 (with annual increment of Rs. 1,000 p.m.) and other benefits. The performance of the Company during the last two financial years has substantially improved due to sustained efforts on the part of both of them. Therefore, the Board of Directors at its Meeting held on 4th June, 2005 have revised the monthly salaries of Shri Rajan R. Harivallabhdas, Managing Director and Shri Nahoosh J. Jariwala, Executive Director (with proportionate increases in the values of the perquisites related to salary) for the remainder of the tenure of their terms.

All other terms and conditions of appointment of Shri Rajan R. Harivallabhdas and Shri Nahoosh J. Jariwala, as approved by the Members, will remain unchanged. The Board commends both the resolutions for your approval.

Shri Rajan R. Harivallabhdas is concerned or interested in the Resolution set out at item No. 7 as it pertains to increase in his salary and perquisites. Shri Nahoosh J. Jariwala is concerned or interested in the Resolution set out at item No. 8 as it pertains to increase in his salary and perquisites. None of the other Directors of the Company is, in any way, concerned or interested in the said resolutions.

This may also be treated as an abstract of the variations of the terms of appointment of Shri Rajan R. Harivallabhdas, Managing Director and Shri Nahoosh J. Jariwala, Executive Director of the Company pursuant to Section 302 of the Companies Act, 1956.

**DIRECTORS' REPORT**

To,
The Members,

Your Directors present the Twentieth Annual Report together with the audited accounts for the year ended March 31, 2005.

FINANCIAL RESULTS :

	(Rupees in Lakhs)	
	Year ended on 31-03-2005	Year ended on 31-03-2004
Income	2258.38	1974.55
Profit before Interest, Depreciation & Taxation	479.65	372.60
Less : Interest	66.30	75.69
Profit before Depreciation & Taxation	413.35	296.91
Less : Depreciation	116.24	112.31
Profit before tax	297.11	184.60
Less : Provision for taxation		
- Current Tax	24.00	14.50
- Deferred Tax	<u>159.80</u>	<u>65.63</u>
	183.80	80.13
Net Profit after Tax	113.31	104.47

DIVIDEND :

Your Directors are pleased to recommend, for your approval, first ever Equity dividend @ 8.00% on 95,00,000 Equity Shares of Rs. 10 each.

OPERATIONS :**(A) Sales and Profit :**

The sales and other income of the Company during 2004-05 were higher at Rs. 2258.38 lacs compared to Rs. 1974.55 lacs of previous year. This was mainly due to increase in the quantity of sales.

Better utilisation of plant coupled with relatively soft raw material prices helped the Company improve its top and bottom lines.

(B) Technical Achievement :

During the year, the Company enhanced its annual raw material throughput capacity to 6,000 M.Tons. It continued its research and development efforts to establish processing know-how to further concentrate Tocopherols and Sterols.

(C) Raw Material :

Both the raw materials are now available in adequate quantities from within India only.

(D) Export :

The Company has now 2 export streams viz. Tocopherol and Sterols which it exports to Japan and U.S. based Companies.

DIRECTORS :

Shri Chinubhai R. Shah and Shri Prafull Anubhai retire by rotation and being eligible offer themselves for re-appointment. The relevant resolutions relating to these appointments forming part of the Notice of the Annual General Meeting are placed for your approval.

During the year, Shri Vishnu Varshney ceased to be a Director of the Company. The Board takes this opportunity to place on record that the Company has benefitted by the presence of Shri Vishnu Varshney on the Board/Committees of the Company.

PERSONNEL :

All the employees have worked with zeal and enthusiasm and your Directors wish to express their sincere appreciation to all the employees for their support, co-operation and dedicated services.

PARTICULARS OF EMPLOYEES :

There was no employee drawing an annual salary of Rs. 24.00 lacs or more where employed for full year or monthly salary of Rs. 2,00,000/- or more where employed for part of the year and therefore, no information pursuant to the provisions of sub-section (2A) of Section 217 of The Companies Act, 1956 read with The Companies (Particulars of Employees) Rules, 1975 is required to be given.

Information as per Section 217(1)(e) read with Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 :**A. Conservation of Energy**

- (a) Energy Conservation measures taken :

During the year, the Company switched over to Lignite fired Thermic Fluid Heating system from Furnace Oil fired system.

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

The Company is looking for various alternatives to conserve its energy costs.

- (c) Impact of measures listed in (a) and (b) for reduction of energy consumption and consequent impact on the cost of production of goods :

The measures mentioned in (a) and (b) above would result in the savings in the consumption of fuel and power.

- (d) Total energy consumption per unit of production as per prescribed Form 'A' :

As per annexure attached.

B. Technology Absorption

The Company continued to experiment with process route and resultant finished products for use in hitherto untapped market and overall maximisation of profit.

C. Foreign Exchange Earnings and Outgo

Foreign Exchange Earnings Rs. 8,50,01,160/-

Foreign exchange utilised Rs. 3,39,65,133/-

**DIRECTORS' RESPONSIBILITY STATEMENT :**

Pursuant to the requirement of Section 217 (2AA) of the Companies Act with respect to Directors' Responsibility Statement, the Directors hereby confirm :

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (ii) that the Directors have 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 viz. March 31, 2005 and of the profit of the Company for that period;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

AUDIT COMMITTEE :

The Audit Committee constituted by the Board of Directors pursuant to the requirement under section 292A of the Companies Act, 1956 consists of following three independent Directors. During the year, Shri Vishnu Varshney ceased to be Member of the Audit Committee and in his place, Shri Janak G. Nanavaty was appointed as the Member of the Audit Committee.

- (1) Shri Prafull Anubhai Chairman
- (2) Shri Chinubhai R. Shah Member
- (3) Shri Janak G. Nanavaty Member

CORPORATE GOVERNANCE :

A Report on the Corporate Governance Code alongwith a certificate from the Auditors of the Company regarding the compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreements as also the Management Discussion and Analysis Report are annexed to this Report.

FIXED DEPOSITS :

The Company continued to accept the deposits. As on March 31, 2005, public deposits stood at Rs. 93.09 lacs. There were no overdue or unclaimed deposits as at March 31, 2005.

AUDITORS :

The term of M/s. C. C. Chokshi & Co., Chartered Accountants, Ahmedabad as Auditors, expires at the conclusion of this Annual General Meeting and they are eligible for re-appointment. The Auditors have given a certificate to the effect that the re-appointment, if made, will be within the prescribed limits specified under Section 224 (1-B) of the Companies Act, 1956.

ACKNOWLEDGMENTS :

The Directors place on record their sincere appreciation for the co-operation and assistance received from State Bank of India.

Ahmedabad
June 04, 2005

For and on behalf of the Board,
Rajan R. Harivallabhdas
Chairman & Managing Director

ANNEXURE

Disclosure of Particulars with respect to Conservation of Energy.

A. Power & Fuel Consumption :		2004-05	Previous Year
1. ELECTRICITY			
A. Purchased :			
Units		28,64,556	25,40,418
Total Amount (Rs.)		1,30,14,629	1,12,62,294
Rate / Unit (Rs.)		4.54	4.43
B. Own Generation :			
Units		2,50,583	3,19,064
Unit per Ltr. of Diesel		3.20	3.31
Average Cost / Unit (Rs.)		8.42	7.11
2. FURNACE OIL			
Quantity (in KL)		839.365	867.902
Total Cost (Rs.)		94,85,983	94,86,168
Average Rate per Litre (Rs.)		11.30	10.93
3. LIGNITE / COAL			
Quantity (in MT)		6,086.793	4,649.126
Total Cost (Rs.)		91,32,200	57,18,421
Average Rate per Kg. (Rs.)		1.50	1.23
4. OTHERS (IF ANY)		----	----
B. Consumption per unit of Production :			
	Production (M. Tons)	Standards if any	Per M. Ton
1. ELECTRICITY			
Deodorizer Distillate (Mixed Tocopherols)	420.025 (300.000)	-----	KWH 1218.49 (1205.27)
Linoleic Acid / Oleic Acid	902.778 (1158.033)	-----	919.09 (828.00)
Dimer Acid	633.703 (543.226)	-----	583.57 (539.91)
2. FURNACE OIL			
Deodorizer Distillate (Mixed Tocopherols)	420.025 (300.000)	-----	LTRS. 213.81 (237.39)
Linoleic Acid / Oleic Acid	902.778 (1158.033)	-----	230.48 (239.15)
Dimer Acid	633.703 (543.226)	-----	214.74 (227.22)
3. LIGNITE / COAL			
Deodorizer Distillate (Mixed Tocopherols)	420.025 (300.000)	-----	KGS. 1561.10 (1308.92)
Linoleic Acid / Oleic Acid	902.778 (1158.033)	-----	1691.66 (1320.13)
Dimer Acid	633.703 (543.226)	-----	1588.78 (1237.39)

Note : Figures in brackets are in respect of previous year.



Annexure to the Directors' Report

Report on Corporate Governance

(Pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges)

1. Company's Philosophy on the Code of Governance

The principles of Corporate Governance are being followed by the Company. Corporate Governance as a whole entails the conduct and the manner in which the Company deals with its stakeholders i.e employees, shareholders, consumers and society and is guided by a strong emphasis on transparency, accountability and integrity.

2. Board of Directors

● Composition of the Board of Directors (Board)

The Company has an optimum mix of Executive and Non-executive Directors to bring independent judgement in the Board's deliberations and decisions. At present, the Board consists of seven Directors, two of whom are Executive Directors and five are Non-executive Independent Directors.

Attendance of each Director at the Board Meetings and last Annual General Meeting (AGM) and the number of companies and committees where he is Chairman / Member :

Directors	Category	Attendance Particulars		Directorships in other Public Ltd. Companies Incorporated in India	Committee Memberships**	
		Board Meetings	Last AGM		Member	Chairman
Shri Rajan R. Harivallabhdas (Chairman & M.D.)	Promoter, Executive	6	Yes	-	-	-
Shri Shyam B. Ghia	Independent, Non-Executive	1	No	7	5	5
Shri Chinubhai R. Shah	Independent, Non-Executive	5	No	8	4	4
Shri Nahoosh J. Jariwala (Executive Director)	Promoter, Executive	6	Yes	-	-	-
Shri Prafull Anubhai	Independent, Non-Executive	6	Yes	5	5	2
Shri Janak G. Nanavaty	Independent, Non-Executive	5	No	2	2	1
Shri Vishnu Varshney#	Independent, Non-Executive	3	No	8	4	4
Dr. Himanshu C. Patel	Independent, Non-Executive	4	No	3	-	-

* * Includes only Audit, Shareholders' / Investors' Grievance and Remuneration Committee in other Public Limited Companies.

Nominee Director of GVFL Limited, vacated office on December 17, 2004.

During the year, there have been no materially significant related party transactions, pecuniary relationships or transactions between the company and its non-executive Directors that may have potential conflict with the interests of the Company at large.

- Board meetings and attendance

Six Board meetings were held in the year 2004-05 and the gap between two Board meetings has not exceeded four months.

The dates on which meetings were held are as follows :

Date of Meeting	No. of Directors Present	Date of Meeting	No. of Directors Present
May 5, 2004	6	September 25, 2004	3
June 26, 2004	8	October 29, 2004	6
July 29, 2004	7	January 31, 2005	6

- Details of Directors proposed to be appointed / re-appointed at the next Annual General Meeting :

Name of the Director	Brief Particulars	Details of Directorships in Public Ltd. Companies in India	Chairman or Member in Committees
Shri Chinubhai R. Shah	He holds Masters Degree in Arts and Law besides holding qualifications of DTP & DLP. He is also a practising Company Secretary. He had been Managing Director of GITCO and Ahmedabad Electricity Company Limited (now known as Torrent Power AEC Ltd.) and Director in Torrent Group of Companies. Currently, he is advising many companies on management & corporate affairs.	(1) Adani Exports Limited	Chairman of Audit Committee & Shareholders' / Investors' Grievance Committee
		(2) Arman Lease & Finance Ltd.	Chairman of Shareholders' / Investors' Grievance Committee & Member of Audit Committee
		(3) Cadila Pharmaceuticals Ltd.	Chairman of Audit Committee
		(4) Gujarat NRE Coke Ltd.	-
		(5) H. K. Finechem Ltd.	Member of Audit Committee
		(6) Meghmani Organics Ltd.	Member of Audit Committee
		(7) Nirma Ltd.	-
		(8) Tinsplate Co. of India Ltd.	Member of Audit Committee & Shareholders'/Investors' Grievance Committee
Shri Prafull Anubhai	He is a graduate from The School of Economics, London, U.K. He is a well-known person among the business community and is having very rich experience of managing an industrial undertaking. He is a visiting faculty at the IIM-Ahmedabad.	(1) Gruh Finance Ltd.	Member of Audit Committee & Shareholders'/Investors' Grievance Committee
		(2) Mahavir Spinning Mills Ltd.	-
		(3) H. K. Finechem Ltd.	Chairman of Audit Committee & Remuneration Committee
		(4) Soma Textile & Industries Ltd.	Chairman of Audit Committee
		(5) Torrent Cables Ltd.	Member of Audit Committee & Shareholders'/Investors' Grievance Committee
		(6) Unichem Laboratories Ltd.	Chairman of Audit Committee & Member of Remuneration Committee