

**NOTICE**

NOTICE is hereby given that the 28<sup>th</sup> Annual General Meeting of the Members of Hindustan Fluorocarbons Limited will be held on Friday, the 12.08.2011 at 3.00 P.M. at Press Club, Deshodharaka Bhavan, Bashirbagh, Hyderabad-500 001 to transact the following business.

**Ordinary Business**

1. To receive, consider and adopt the Audited Profit and Loss Account for the year ended 31<sup>st</sup> March, 2011 and Balance Sheet as on that date together with reports of the Directors' and the Auditors' thereon.
2. To appoint a Director in place of **Shri Sanjay Bansal**, who retires at this Annual General Meeting of the company and eligible for re-appointment.
3. To appoint a Director in place of **Shri M.K.Mittal**, who retires at this Annual General Meeting of the company and eligible for re-appointment.
4. To fix the remuneration of statutory Auditors.

**Special Business**

5. To consider and if thought fit to pass the following resolution as ordinary resolution with or without modifications:

**“RESOLVED THAT Shri S V Kanaka Seshu, Director who was appointed as APIDC Nominee Director under Article 77 of the Article of Association on 18<sup>th</sup> October, 2010 and who holds office up to the date of this Annual General Meeting be and is hereby appointed as Director of the Company.**

By order of the Board of Directors  
of Hindustan Fluorocarbons Ltd.,

Sd/-  
(RAJANI .K)  
COMPANY SECRETARY

PLACE : HYDERABAD

DATE : 21.05.2011

**Regd.Office**

1402, Babukhan Estate,  
Basheerbagh, Hyderabad – 500 001.

**NOTES :**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote instead of himself on a poll and that a proxy need not be a member of the company. Proxies, in order to be effective must be lodged at the registered office of the company not less than 48 hrs. before the meeting.
2. Members/Proxies should bring their attendance slip, duly filled in at the meeting.
3. The Register of Members and Share Transfer Books of the company will remain closed from Thursday the 4<sup>th</sup> August, 2011 to Friday the 12<sup>th</sup> August, 2011 (both days inclusive).
4. Members are requested to intimate immediately any change in their addresses registered with the company to the R&T Agents at their office address.
5. Members, who hold shares in the dematerialized form, are requested to bring their depository account number for identification.
6. Members are requested to bring their copy of Annual Report at the meeting, as the same will not be distributed again as a measure of economy.
7. An Explanatory statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Resolution set out against item No. 5 of the notice is enclosed.
8. The Ministry of Corporate Affairs has taken a “Green Initiative in Corporate Governance” by allowing paperless



compliances by the Companies and issued a circular on 21<sup>st</sup> April, 2011.

Section 53 of the Companies Act, 1956 provides service of documents under “Certificate of Posting” as one of the accepted mode of services where as the Department of Posts has recently discontinued the postal facility under “Certificate of Posting” vide Letter Dated 23.02.2011, the Information Technology Act, 2000 also permits service of documents etc., in electronic mode.

Hence ,the service of documents of a company can be made through Electronic mode. So, we request all the members to register their email ID’s by sending email along with names, DP ID’s & Folio Number to the following Mail ID:

**hflshareholders@gmail.com**

**By order of the Board of Directors  
of Hindustan Fluorocarbons Ltd.,**

**Sd/-  
(RAJANI .K)  
COMPANY SECRETARY**

PLACE : HYDERABAD

DATE : 21.05.2011

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**EXPLANATORY STATEMENT PURSUANT TO  
SECTION 173(2) OF THE COMPANIES ACT,  
1956.**

**Item No.5**

**Shri S V Kanaka Seshu, Chief General  
Manager of M/s. Andhra Pradesh Industrial  
Development Corporation (APIDC) was  
appointed by APIDC in terms of Article 77 of  
the Articles of Association of the Company as  
its Nominee on the Board of Directors of the  
Company.**

The Company has received a proposal from a member proposing the appointment of Shri S V Kanaka Seshu, as Director on the Board of HFL pursuant to Section 257 of Companies Act, 1956. Shri S V Kanaka Seshu, has given his consent to act as Director. Hence, the proposal is placed before the share holders for approval and appointment of Shri S V Kanaka Seshu, on the Board of HFL.

None of the Directors except Shri S V Kanaka Seshu, is interested in the above resolution.

**By order of the Board of Directors  
of Hindustan Fluorocarbons Ltd.,**

**Sd/-  
(RAJANI .K)  
COMPANY SECRETARY**

PLACE : HYDERABAD

DATE : 21.05.2011

**Regd.Office**

1402, Babukhan Estate,  
Basheerbagh, Hyderabad – 500 001.



## Chairman's Speech



Dear Shareholders,

I extend my hearty welcome to you to this 28<sup>th</sup> Annual General Meeting of your Company. I am sure, you must have received The Directors' Report and Audited Annual Accounts of the Company for the year ended 31<sup>st</sup> March, 2011 and with your permission I take them as read.

I now proceed to share with you briefly the performance of the company and our activities.

### 1. OPERATIONS AND OVERALL PERFORMANCE

Your Company has made Net Profit of Rs.223.47 lacs from operations as against the net profit of Rs. 306.27 lacs of the previous year. The quality of your Company's products is continued to be well accepted in the market and resulted in increase in sales turnover (by 74%) to Rs.3352.42 lacs as against Rs.1927.06 lacs in the previous year. With this improved sales performance Working Capital position has been improved during financial year. During the year under report production of PTFE was 124.58 Metric Tones as against 85.88 Metric Tones in the previous year.

Company has achieved 100% capacity utilization of CFM-22 plant and produced 1265 Metric Tones as against 940.5 Metric Tones in the previous year. 100% operation of CFM Plant will significantly improve the revenue from CDM

### CLEAN DEVELOPMENT MECHANISM (CDM) PROJECT:

CDM Project got registered on 14.11.2008 by the United Nations Framework Convention on Climate Change (UNFCCC) Executive Board and it is commissioned in January, 2010 and thermal oxidation of 42.5 Metric Tones of CFM-23 was done. UNFCCC had advised HFL to revise the monitoring plan.

Accordingly, revised monitoring plan was submitted to validation agency i.e., SGS, Germany. The CERs were awarded by UNFCCC on 11.03.2011. The company has sold all CERs to the highest bidder M/s Mercuria Energy Trading, S.A., Switzerland through Global Tendering process on 26.04.2011. Validation of second lot is in progress and it is expected issuance for this lot will happen in FY.2011-2012.

**2. FUTURE OUTLOOK.**

**DIVERSIFICATION:** PTFE industry is dominated by large integrated players consisting of both Indian and multi nationals. Compared to global scenario, the capacity is very small and operating with old technology. Hence, the traditional product mix is not competitive. In view of this it is difficult to make any sustainable business only on PTFE. To overcome this, company is focusing on the niche area of Fluoro Speciality Chemicals. Continuous efforts are being made for development of these chemicals. Accordingly, one such product namely TFE-ETHER is already commercialized. Efforts are also being undertaken to increase the capacity of the existing monomer plant by debottlenecking and improving the conversion factors. This would help to increase the revenue from CDM for the year 2011-12.

With this initiative management is confident about the sustainable growth of the company.

**3. SAFETY, ENVIRONMENT & ISO CERTIFICATION**

The company continued to lay emphasis on the consciousness about safety among the employees and periodic reviews of safety measures have enabled the company once again to maintain safe operations during the year.

Management is maintaining strictly all the required environmental norms and quality systems as per ISO 9001:2008

**4. INDUSTRIAL RELATIONS**

Employee relations continued to be cordial through out the year. Company continued to follow Govt. policy of reservation in recruitment of SC/ST/OBC. During the year there were no strikes or lock outs affecting the production/profitability.

**5. CORPORATE GOVERNANCE**

Your Company lays emphasis in conducting its affairs within the frame work of policies and guidelines set by the Government in a transparent manner. It is the endavour of the Company to build trust between Share Holders, Employees and Customers based on the basic principles of Corporate Governance. The detailed Report on the Corporate Governance as well as Management Discussion Analysis Report is enclosed as a part of the Directors' Report. This Report analyses in brief the potentialities of the Company as well as the focus of the Company's business.

**6. ACKNOWLEDGEMENTS :**

I place on record my appreciation and gratitude to all the employees and others who had extended their support and co-operation during the year to achieve the targeted goals of the Company. In particular I am grateful to various officials of the Govt. especially from the Govt. of India, the Ministry of Chemicals & Fertilizers, Finance Ministry, Ministry of Environment & Forests, Promoter Company i.e.HOCL and Board Members. I would like to convey my sincere appreciation to our valued Customers, Suppliers, Statutory Bodies, Investors, Banks & FIs etc for the continued support. In conclusion I am fully confident that with the continued support from all of you my urge to place your Company in the pedestal of success will not be unrealistic.

**Thank you all once again.**

**Sd/-  
(R.N.MADANGERI)  
Chairman**



## DIRECTORS' REPORT

Your Directors are glad to present the 28<sup>th</sup> Annual Report of the company together with Audited Annual Accounts for the year ended 31<sup>st</sup> March, 2011.

### FINANCIAL RESULTS [Sec.217(1)(a)] :

The financial performance of the Company for the year ended 31<sup>st</sup> March, 2011 is summarized below:

	(Rs. in lacs)	
	Financial Year	Financial Year
	2010-11	2009-10
Sales Turnover (Gross)	3352.42	1927.06
Gross Profit / Loss for the year	658.62	666.36
Less: Interest & Financing Charges	282.66	270.09
Cash Profit (Loss)	375.96	396.27
Less: Depreciation	155.65	88.95
Profit / (Loss) for the year	220.31	307.32
Add: Prior period Adjustments	3.16	(1.06)
Net Profit/(Loss)	223.47	306.26

### RESERVES [Sec.217(1)(b)] : NIL

### DIVIDEND [Sec.217(1)(c)] :

In view of the accumulated losses at the end of the financial year 2010-11 are carried forward, your Directors do not recommend any dividend on equity shares for the year ended 31.03.2011.

### OPERATION AND OVERALL PRODUCTION AND MARKETING PERFORMANCE:

During the year, the sales turnover was Rs.3352.42 lacs as against Rs.1927.06 lacs in the previous year. During the year under report production of PTFE was 124.58 Metric Tones as against 85.88 Metric Tones in the previous year. During the year, 405.49 Metric Tones of CFM-22 was sold in the market and balance quantity was used as feed stock to manufacture various products including Fluoro Specialty Chemicals. Accordingly, during the year 255 Metric Tones of Tetra Fluoro Etylene (TFE) was used to manufacture TFE-ETHER. Quality of all company's products continued to be well accepted by our customers. Company has achieved 100% capacity utilization of CFM-22 plant and produced 1265 Metric Tones as against 940.5 Metric Tones in the previous year. This will significantly improve the revenue from CDM.

### CLEAN DEVELOPMENT MECHANISM(CDM) :

CDM Project got registered on 14.11.2008 by the United Nations Framework Convention on Climate Change (UNFCCC) Executive Board and it is commissioned in January, 2010 and thermal oxidation of 42.5 Metric Tones of CFM-23 was done. UNFCCC had advised HFL to revise the monitoring plan. Accordingly, revised monitoring plan was submitted to validation agency i.e., SGS, Germany. The CERs were awarded by UNFCCC on 11.03.2011. The company has sold all CERs to the highest bidder M/s Mercuria Energy Trading, S.A., Switzerland through Global Tendering process on 26.04.2011. Validation of second lot is in progress and it is expected issuance for this lot will happen in FY.2011-2012.

### CORPORATE SOCIAL RESPONSIBILITY:

Recognizing the obligation to the society both in the areas of environment protection and social development, company has taken initiatives towards implementing welfare schemes for uplifting the quality of living of the community surrounding the factory area. Company is providing water and first aid facilities in near by villages.

### DIVERSIFICATION INTO FLUORO SPECIALITY CHEMICALS:

In accordance with long term strategy of diversifying into Fluoro Speciality Chemicals, the company has successfully commercialized TFE-ETHER. We are the only manufacturers for the product in India. This has helped the company to give competitive edge by entering in the Niche Market. This has also resulted in 100% capacity utilization during FY 2010-2011.

Encouraged by the success of the first product, the company has undertaken development of other products. One such product is in the final stage of acceptance by M/s.Vikram Sarabhai Space Centre(VSSC), Thiruvananthapuram.

### HEALTH AND ENVIRONMENT (HE)

The management has taken the great responsibilities for continuous monitoring and protecting the health and environment as per statutory compliance. The environment is maintained clean as per standard emissions norms and with respect to noise pollution norms prescribed by central pollution control Board and



under guidelines of Ministry of Environment and Forests, Govt of India.

The health record of employees working in Production Division is maintained in the Health Register in Form 7 and these employees are certified for the fitness to work in hazardous process by the certifying Surgeon for the year 2011 as per statutory requirement of Director of Industries Health and Safety, Govt. of Andhra Pradesh.

**FIRE & SAFETY PERFORMANCE:**

The Company pays special attention to ensure safety of the factory and workers employed therein.

The Company accords the same priority attention to safety aspects as it does to production and productivity, be it in a personal safety, process safety, environment safety or product stewardship and allocated adequate resources of men, machine, money, time, energy to maintain the standards thus performance during the year is very good.

The Company continued to maintain good safety record without any major accident / fire. The financial year 2010-11 was a zero accident year.

**BOARD OF DIRECTORS**

Chairman Shri A S Didolkar, CMD, HOCL Superannuated on 31.08.2010 and in his place Shri R N Madangeri, Chairman and Managing Director, HOCL has taken charge as Chairman of the Board.

Shri. S.W.Oak, BIFR Special Director Ceased to be Director of the Company with effect from 21.09.2010

Shri S V Kanaka Seshu, Director, APIDC was appointed as Nominee Director with effect from 18.10.2010

Shri P S Singh, Director, Dept. of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers has been appointed as a Govt. of India Nominee Director with effect from 18.10.2010 to 31.05.2011 and in his place Shri Sanjay Bansal, Director, Ministry of Chemicals & Fertilizers has been appointed as a Govt. of India Nominee Director with effect from 31.05.2011.

Two Directors viz. Shri Sanjay Bansal, Govt Nominee Director and Shri Mahesh Kumar Mittal,

HOCL Nominee Director are due for retirement by rotation at the ensuing 28<sup>th</sup> Annual General Meeting of the Company and eligible for re-appointment.

**ISO CERTIFICATION:**

Company quality management system is accredited as an ISO 9001:2008.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO :**

Information in accordance with the provisions required to be disclosed under 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 regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earning and outgo are given at Annexure-I, Form A to this Report.

**RESERCH & DEVOLOPMENT:**

The Company is continuously conducting the Research and Development to deliver goods through innovative development; it is actively involved in collaborative Research Program with Vikram Sarabhai Space Centre (VSSC) are given in Annexure-I, Form B to this Report.

**INDUSTRIAL RELATIONS**

Employee relations continued to be cordial throughout the year. Company continued to follow Govt. policy of reservation in recruitment of SC/ST/OBC. Analysis relating to SC/ST/OBC/WOMEN personnel in the company is given at Annexure-II.

**PARTICULARS OF EMPLOYEES:**

None of the employees of the company is drawing remuneration requiring disclosure pursuant to Section 217(2A) of Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

**VIGILANCE:**

With the approval of the Ministry, an Officer of the company has been nominated as "Vigilance Officer" (Part time) from amongst the Officers of the Company to take care of Vigilance functions. Vigilance activities have mainly been directed to



check the lacunae in the existing systems and procedures through periodic checks. The instructions of the Central Vigilance Commission received from time to time have been implemented to strengthen the vigilance machinery in the company.

**AUDITORS**

In pursuance of Section 619(2) of the Companies Act, 1956, the Comptroller and Auditor General of India has appointed M/s. Siva Krishna & Narayan, Chartered Accountants, Hyderabad as Auditors of the Company to Audit the accounts for the year ended 31<sup>st</sup> March, 2011.

The Replies of the Management / Board of Directors on the Auditors qualifications in their report are furnished in Annexure - III.

The comments of the Comptroller and Auditor General of India u/s 619(4) of the Companies Act, 1956 on the Accounts of the company for the year 2010-11 has been annexed to the Annual Report for the period 2010-11 and forms part of the Annual Report.

**INSURANCE:**

All properties and insurable interest of the company including building, plant and machinery and goods are adequately insured. As required under Public Liability Insurance Act, 1991, the company has taken necessary insurance cover.

**TRADING AND DEMAT FACILITIES FOR SHARES:**

The company shares are listed in Bombay Stock Exchange (BSE). Company got ISIN No.INE 806J01013 and demat facilities with Central Depository Services (India) Limited, (CDSL) and with National Securities Depository Limited (NSDL) for the equity shares of the company

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT:**

In accordance with the Listing Agreement, the Management discussion and analysis report is annexed hereto in Annexure – IV and forms part of the Directors' Report.

**CORPORATE GOVERNANCE**

The Company has complied with the various requirements of Corporate Governance. The details in this regard form part of this report in Annexure – V.

**RESPONSIBILITY STATEMENT**

The Directors confirm:

- a. That in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same.
- b. That they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company for the period.
- c. That they have taken proper and sufficient care of the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safe guarding the assets of the company and for preventing and detecting fraud and other irregularities.
- d. That they have prepared the annual accounts on a going concern basis.

**ACKNOWLEDGEMENTS**

I place on record my appreciation and gratitude to all the employees and others who had extended their support and co-operation during the year to achieve the targeted goals of the Company. In particular I am grateful to various officials of the Govt. especially from the Govt. of India, the Ministry of Chemicals & Fertilizers, Finance Ministry, Ministry of Environment & Forests, Promoter Company i.e. HOCL and Board Members. I would like to convey my sincere appreciation to our valued Customers, Suppliers, Statutory Bodies, Investors, Banks & FIs etc for the continued support. In conclusion I am fully confident that with the continued support from all of you my urge to place your Company in the pedestal of success will not be unrealistic.

**For and on behalf of the Board of Directors**

Sd/-

**(R.N.MADANGERI)**  
CHAIRMAN

Place: Hyderabad  
Date: 20.6.2011



## ANNEXURE-I TO DIRECTORS' REPORT

### ENERGY CONSERVATION

After study of Energy conservation, replacing new chilled water system, minor modifications and rearrangements of equipment running in utilities department, saved 2,71,200 units per annum. (cost : Rs.9,89,880/-)

**FUTURE PLANS:** Improvement of power factor from 0.95 to 0 .99

#### (FORM A)

#### FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT GO:

A. POWER AND FUEL CONSUMPTION	CURRENT YEAR	PREVIOUS YEAR
1. Electricity		
a) Purchased units	81,91,659 KWH	66,40,115 KWH
TOTAL AMOUNT	Rs.3,18,02,967	Rs.2,33,82,438
Rate/Unit	Rs.3.88	Rs.3.52
b) Own Generation		
i) Through Diesel Generator	40380 KWH	85,580 KWH
Units per Liter of Diesel Oil	2.62 KWH	2.68 KWH
Cost per unit	Rs.11.55	Rs.10.17
ii) Through Steam Turbine	-	-
Generator Units	-	-
2. FURNACE OIL		
Quantity	549	483
Total Amount	1,80,07,512	1,25,60,302
Average rate per KL	Rs.32,800.57	Rs.26,004.76
B. CONSUMPTION PER UNIT OF PRODUCTION		
PRODUCT: <b>PTFE (MT)</b>	124.583	85.88
Electricity per MT of PTFE	Rs.14,039	Rs.14,849.56
(Since PTFE Prodn. is very low, consumption figures are not comparable)		
Furnace oil per MT of PTFE	4.40 KL	5.58 KL
HSD rate per KL	Rs.30,292.46	Rs.28,028.38
C. TECHNOLOGY ABSORPTION	Nil	Nil
D. FOREIGN EXCHANGE EARNINGS AND OUTGO	Nil	Nil





## FORM B

### 1. SPECIFIC AREAS IN WHICH R&D WORK CARRIED OUT BY THE COMPANY

Vikram Sarabhai Space Centre (VSSC) Project, Thiruvananthapuram:

Co-polymerisation of HFP & TFE were carried out in laboratory scale reactor and evaluated samples at Indian Institute of Chemical Technology (IICT). Sample submitted to VSSC.

### 2. BENEFIT DERIVED AS A RESULT OF THE ABOVE R&D

- a) Sample of co-polymer was found equivalent with VSSC sample.
- b) Based on progress of VSSC work, IICT proposed another project for bench scale study of Fluoro Elastomer product for Terminal Ballistics Research Laboratory (TBRL), Chandigarh

### 3. FUTURE PLANS

- a) VSSC Project: Bench Scale studies will be made and 2 kg material supplied to VSSC as per MOU. After successful Bench Scale studies detailed proposal will be submitted for pilot scale.
- b) Modification studies to be done in TFE plant to reduce the raw material consumption.
- c) Project proposal to be submitted to TBRL for bench scale studies of FluoroElastomer.

## ANNEXURE-II TO DIRECTORS' REPORT

Consolidated report as on 31-03-2010 (SC/ST/OBC/WOMEN)

Group	Total Strength	SC	ST	OBC	WOMEN
A	75	09	01	17	03
B	-	-	-	-	-
C	53	09	05	13	01
D	26	06	13	07	-
TOTAL	154	24	19	37	04



### ANNEXURE-III TO DIRECTORS' REPORT

#### Reply of the Management on the Auditors' Report to the Members for the Financial Year 2010-11:

Sl. No.	Auditor's Report Para No.	Audit Observation	Management Reply
1	i	<p><b>Regarding Sundry Debtors / Sundry Creditors:</b> Sundry Debtors /Sundry Creditors are subject to confirmation by the parties.</p>	<p>We had sent letters for seeking confirmation of balances to customers and replies were not received. However in future we will ensure to obtain confirmation of balances from customers in time.</p> <p>We have obtained the confirmation of balances from the Creditors which are having major balance amounts and in respect of the small creditors necessary follow up action is being taken to obtain the confirmation of balances.</p>
2	ii	<p><b>Regarding Valuation of CERs as Closing Stock</b> With regard to CERs (Carbon Emission Reductions), they are the Credits issued by UNFCCC(United Nations Framework Convention on Climate Change) to the company for successful reduction /incineration of R-23 gas. R-23 gas falls in the list of gases having potential of global warming and is eligible category of Carbon Credits as per the KYOTO Protocol. Hence the company is eligible for claiming Carbon Credits after the incineration of the R-23 gas. This asset is of Intangible in nature but is treated as current asset (Closing Stock) in the financial statements which is against the accepted accounting practice.</p> <p>During the current financial year 2010-11, UNFCCC confirmed 420793 CERs to the company in its site (<a href="http://www.unfccc.int">www.unfccc.int</a>) after deducting 2% i.e., 8587.62 CERs as adaptation fund deduction. Of the above CERs received, the company had transferred 210652 CERs as instalments payment to SRF Ltd (BOT contractor) for the Plant and Machinery (CDM Project) as per the agreement entered 14<sup>th</sup>, August, 2007. After the above outflows of CERs, the company is left with 210142 CERs treated as</p>	<p>The sale transaction was made after the issuance/ award of CERs by UNFCCC and sale was approved by the Board in its 149<sup>th</sup> meeting held on 11<sup>th</sup> March, 2011. Accordingly the income for CERs was considered in the accounts for the year 2010-11.</p>



Sl. No.	Auditor's Report Para No.	Audit Observation	Management Reply
		<p>closing stock. The value of the CERs is taken at Rs.16,97,06,945/- adopting the value of 1 CER in the International Exchange as on 31-03-2011 at 13.07 Euros and taking the Euro value at Rs. 63.05 in terms of INR valued @98% of total value</p> <p>As per the Accounting Standard No.2 issued by the Institute of Chartered Accountants of India, the value of stock should be taken at cost or net realizable value whichever is less. In the instant case, the cost of the CERs in books is Rs.94.32 lacs, however the cost of CERs is taken as nil as the entire cost of Rs.94.32 is absorbed into normal production cost and General expenditure.</p> <p>In view of the above, we are of the opinion that PAT (before Prior period adjustment) Rs.2,20,31,555.38 reported in profit and loss account is over stated to the extent of Rs.2,99,87,120.00 (closing stock of CERs Rs. 16,97,06,945.00 less Opening WIP of CERs Rs.13,97,19,825.00) had the company not valued the CERs as WIP or Stock. The current years PAT would have resulted in a loss of Rs.79,55,564.62. It is pertinent to report that the company is following the same policy of valuing CERs as WIP or Stock since financial year 2008-09. The total affect to the profit &amp; loss account for the past three years 2008-09 to 2010-2011 is Rs.16,97,06,945.00 (Rs.7,72,04,112.00 in F.Y 2008-09, Rs.625,15,713.00 in F.Y2009-10 and Rs.2,99,87,120.00 in F.Y 2010-11). All the past years audit reports are qualified in this matter.</p> <p>Also due to the policy of valuation of closing stock of CERs, followed by company in the year Net Current Assets in balance sheet Rs.4,19,21,328.54 would have resulted in a negative amount of Rs.12,77,85,616.46 and the Profit and Loss figure in the balance sheet under Head Miscellaneous Assets would be Rs.63,73,87,840.32 had this policy not be followed for CERs in the past years also.</p> <p>However, it is evident as events occurring after the balance sheet that the balance CERs with the company realized an amount of Rs.17,46,75,544/- to the company on 06-05-2011 in the SBH A/c No.52117754462 vide sale transaction to a party in Europe vide agreement dated 07.04.11 for sale of CERs and the expenditure pertaining to the sale amounted to Rs.87.33 lacs.</p>	



Sl. No.	Auditor's Report Para No.	Audit Observation	Management Reply
3	iii	<p><b>Regarding Refurbishment Expenditure:</b>            The Company has incurred Rs.284.14 lakhs as refurbishment expenditure on Plant &amp; Machinery during the Financial Year 2008-09. As per the guidelines laid down in BIFR, Modified Draft Rehabilitation Scheme (MDRS) The amount shall be written off in 5 equal annual instalments as per the BIFR Scheme. Now, in the current financial year, the Company has written off Rs.61.49 lakhs during. This accounting treatment is a deviation from Accounting Standard (AS- 6) issued by The Institute of Chartered Accountants of India (ICAI) and incorporated as a mandatory accounting standard in Section 211(3c) of the Companies Act. As per AS-6 as any expenditure incurred for improvement in performance of the Plant &amp; Machinery should be capitalized and depreciated accordingly as per Schedule – XIV applicable to the Company. However the Company is following the guide lines contained in the BIFR's MDRS in this matter deviating from mandatory AS-6 issued by ICAI.</p>	<p>As per BIFR's MDRS, the company is following the accounting treatment of refurbishment expenditure deviating from AS-6 issued by ICAI.</p>
4	iv	<p><b>Regarding VRS Expenditure :</b>            An amount of Rs.223.57 lacs had incurred towards VRS payment for 31 employees in accordance with BIFR's Modified Draft Rehabilitation Scheme (MDRS) in Jan 2009. This amount is amortized and taken to P &amp; L Account over a period of 3 years (Rs.37.26 lacs in 2008-09, Rs.74.52 lacs in 2009-2010, Rs.74.52 Lacs in 2010-11 included in Schedule-15) the balance of Rs.37.27 Lacs will be amortised in the next financial year 2011-12. This is in accordance with BIFR's Modified Draft Rehabilitation Scheme (MDRS).The above accounting treatment is a deviation from the Accounting Standard (AS-15) issued by The Institute of Chartered Accountants of India (ICAI) and incorporated as a mandatory accounting standard in Section 211(3c) of the Companies Act. As per AS-15 VRS expenditure is to be written off over the pay back period only and cannot be amortised. However the company is following the BIFR Scheme. Hence the system followed for VRS accounting is not in line with the mandatory AS-15 issued by ICAI.</p>	<p>As per BIFR-MDRS the company is following the accounting treatment of VRS expenditure deviating from AS-15 issued by ICAI.</p>



Sl. No.	Auditor's Report Para No.	Audit Observation	Management Reply
5	v	<p><b>Wage Revision : Non provision of the expenses in Profit and Loss Account</b></p> <p>The pay scales of the Board Level and below Board level executives have been revised by the Board w.e.f 01.01.1997. In exercise of the powers conferred under Articles of Association of the company, the president had approved the pay revision and directed the company to implement the pay revision w.e.f 01.01.1997 vide wage revision settlement as per DPE guidelines. As per the presidential directive, fitment benefit shall be payable @ 15% in the first stage and the balance fitment shall be paid when the losses are fully recouped and to come into profits and the company is able to absorb the financial burden consequent to revision. As per the orders issued by the Board in pursuant to the presidential directive, the actual payment of the pay revision shall be made subject to availability of funds in the company. No provision for the above wage revision is made by the company in the books of accounts. The quanti-fication was estimated by the company and shown as contingent liability in the notes to accounts.</p>	<p>As per BIFR-MDRS the company has implemented the wage revision for officers and non officers w.e.f. December 2010 and arrears to this effect could not be charged to profit and loss account since BIFR categorically mentioned that arrears should be released subject to availability of funds. Accordingly, the liability was shown under contingent liability.</p>
6	vi	<p><b>Contribution to PF:</b></p> <p>The management and the employees are contributing 10% each to the PF trust instead of 12% each. The effect of difference of the same is Rs.4.90 lacs</p>	<p>The company is still under BIFR and the requirement of minimum contribution is 10% under Section 6 of EPF act read with sub-section (1) of Section 3 of Sick Industrial Companies (special provisions) Act, 1985. Hence there is no difference in the amount of EPF Contributions. Audit observation is not correct.</p>
7	vii	<p><b>Regarding Payment of Interest to HOCL</b></p> <p>The Company has debited an amount of Rs.135.99 lacs as payment of Interest on Loans taken out of which the payment towards Interest on Loan taken from HOCL the (Holding Company) pursuant to BIFR Scheme is Rs.13.43 lacs. As per BIFR's MDRS the Company is not liable to pay any interest on the loan amount received from the Holding Company M/s HOCL pursuant to BIFR Scheme. Hence we are of the opinion that the company has no obligation to pass the interest entry amounting to Rs.13.43 lakhs in its Profit and Loss Account</p>	<p>As per loan agreement entered with HOCL interest @ 10% p.a. is payable on the loan amount of Rs.134.30 lacs. Hence the interest has been provided in the accounts for the F Y 2010-11 as per the Loan Agreement.</p>



Sl. No.	Auditor's Report Para No.	Audit Observation	Management Reply
		and the amount payable to HOCL shall be reduced to that extent.	
8	viii	<p><b>Retirement Benefits:</b> The company had provided Gratuity benefits and other retirement benefits in the books of accounts and stated as point no. 8 in notes to accounts for the current Financial year. However, no approved actuarial valuation was done by the company for the Gratuity and other retirement benefits as required by AS-15 issued by ICAI. The Company calculated the provision on Actual basis.</p>	The Company will go for actuarial valuation for retirement benefits i.e. Gratuity and Leave Encashment in the next F Y 2011-12.
9	ix	<p><b>Change in Accounting Policy –VSSC Research &amp; Development:</b> The company recognized amount received from VSSC Rs.20 lacs amount as prior period income and Rs.15.00 lacs as Miscellaneous Income during the year. The company entered into a MOU with Vikram Sarabhai Space Center(VSSC) in Financial Year 2009-10 for research and development of certain chemical compounds. As per the MOU it is a tripartite MOU with each party having its own milestones and responsibilities. The company income amounted to Rs.40.00 lacs in the MOU. The company raised invoice of Rs.20.00 lacs from VSSC in Financial Year 2009-10 and received the same in the current financial year 2010-11, the second invoice was raised for Rs.15.00 lacs during the Financial Year 2010-11. The company treated the amount received in Financial year 2009-10 amounting to Rs.20.00 lacs as Prior period Income and Rs.15.00 lacs received in the Year 2010-11 as "Miscellaneous Income". The above treatment of income tantamount to a change in the accounting policy as indicated in Policy no.6.1 in the Significant Accounting Policies of the company vis-à-vis the policy followed in the previous year. Had there been no change in the policy the Profit of the company for the year would have been reduced by Rs.35.00 lacs and the "Current Liabilities" of the company would have been increased by Rs.35.00 lacs as the same amount should have been treated as "Advance from customers".</p> <p>i) In the case of Balance Sheet of the state of affairs of the company as at 31<sup>st</sup> March,2011. ii) In the case of the Profit and Loss Account of the Profit for the year ended on that date and iii) In the case of Cash Flow statement of the cash flows for the year ended on that date.</p>	The Company has accounted for the income received from VSSC in line with Accounting Policy No.6.1 shown in notes to Accounts under Schedule No.20. Hence there is no deviation from Accounting policy and income has been accounted for correctly in the accounts for the F Y 2010-11.



## **ANNEXURE-IV TO DIRECTORS' REPORT**

### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

The Financial year of the company consists of 12 months ended as on 31<sup>st</sup> March, 2011.

**INDUSTRY STRUCTURE & FUTURE OUTLOOK:** PTFE industry is dominated by large integrated players consisting of both Indian and multi nationals. As compared to their capacity, our plant capacity is very small and operating with old technology. Hence, the traditional product mix is not competitive. In view of this it is very difficult to make any sustainable business only on PTFE. To overcome this weakness, company is focusing on the niche area of Fluoro Speciality Chemicals. Continuous efforts are being made for development of these chemicals. Accordingly, one such product namely TFE-ETHER is already commercialized and development for other product is completed. Very soon it will also be commercialized. The efforts are being made to increase the revenue from CDM for the year 2011-12.

With this initiative management is confident about the sustainable growth of the company.

#### **KEY OPPORTUNITIES:**

Development of Fluoro Speciality Chemicals.

#### **KEY THREATS INCLUDE:**

Increase input prices i.e., AHF, Chloroform, Furnace Oil.

#### **SEGMENT WISE PERFORMANCE:**

The company is primarily having one segment i.e., PTFE

	Year ended 31/03/2011	Year ended 31/03/2010
<b>Production (MT)</b>	<b>124.58</b>	<b>85.88</b>

#### **OUTLOOK & INITIATIVE FOR CURRENT YEAR**

Company is in discussions with customers for development of new products. The results are encouraging and along with above developments, efforts are also being taken to increase the capacity of the existing monomer plant by debottlenecking and improving the conversion factors.

#### **INTERNAL CONTROL SYSTEM AND ADEQUACY**

Internal controls are supported by Internal Audit and Management reviews. Company ensures existence of adequate internal control through documented policy and procedures to be followed by the executives at various levels.

As part of good Corporate Governance the Audit Committee constituted by the Board periodically reviews the internal controls, Audit Programmes, Financial Results, Recommendations of the Auditors and Management replies to the Auditors qualifications, etc.

**REVIEW OF FINANCIAL PERFORMANCE**

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956 and generally accepted accounting principles.

The financial performance highlights are as follows:

The sales turnover was Rs.3352.42 lacs against Rs.1927.06 lacs for the previous year showing an increase of 74% and operating profit for the year Rs.223.47 lacs against Rs.306.26 lacs for the previous year.

**CAUTIONERY STATEMENT:**

Statement in this Management Discussion Analysis describing the Company's objectives, Projections, estimates and expectations may be forward looking statements within the meaning of applicable laws and regulations.





## **ANNEXURE V TO DIRECTORS' REPORT**

### **CORPORATE GOVERNANCE REPORT AS ON 31.3.2011**

#### **1. The Directors present the Company's Report on Corporate Governance:**

As per the Code of Governance propounded by the Government, Corporate Governance involves a set of relationships between a Company's management, its Board, its shareholders and other stakeholders. Corporate Governance provides a principled process and structure through which the objectives of the Company, the means of attaining the objectives and systems of monitoring performance are also set. The Management believes that strong and sound corporate governance is an important instrument of protection of stake holders, through transparency, professionalism, accountability and adequate disclosures. The company continuously endeavours to improve on these aspects on an on-going basis.

The key to good Corporate Governance is well functioning Board of Directors. Board is responsible to shareholders for performance of the Company. Company cannot prosper without the trust and support of its shareholders.

Given below is the Report of Directors on Corporate Governance in accordance with the provisions of Listing Agreement.

#### **2. BOARD OF DIRECTORS:**

The Board of Directors oversees all major actions proposed to be taken by the Company. The Board also reviews and approves the strategic and business plans including monitoring corporate performance.

##### **a) Composition of the Board:**

In accordance with the provisions of the Articles of Association of the Company (as amended from time to time) the number of Directors of the Company shall neither be less than three nor more than twelve. The Directors shall not require to hold any qualification shares.

As on 31<sup>st</sup> March, 2011, the Board of Directors must be an optimum combination of executive and non-executive directors representing the different fields. The strength of Board of Directors as on 31.03.2011 is Six. The Board comprises of one Executive Director, three Non Executive directors nominated by HOCL of which one Director is Chairman of the Board, One Non-Executive Director Nominated by APIDC, and One Non-Executive Director Nominated by Govt of India, Department of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers.



Sl. No.	Directors /Shri	Category of Director (ED,NED,NEID)	Date of appointment	Date of Ceasure	No.of other Directorships	Membership in Other Board Committees	Chairmanship in Other Board Committees
1	AS Didolkar	Chairman HOCL Nominee NED	19.01.2001	31.08.2010	2	2	5
2.	R N Madangeri	Chairman, HOCL Nominee NED	01.02.2008 01.09.2010	-	2	5	5
3.	T S Gaikwad	MD, ED	01.1.2008	-	-	3	-
4.	S.W.Oak	BIFR Special Director NED	26.07.2007	21.09.2010	-	-	-
5.	Dr.B.D. Kulkarni	HOCL Nominee, NEID	31.01.2009	-	1	2	-
6.	P S Singh	Govt. Nominee NED	18.10.2010	-	-	1	-
7.	Sanjay Bansal	Govt. Nominee NED	19.11.2009	18.10.2010	-	-	-
8.	Mahesh Kumar Mittal	HOCL Nominee NED	05.05.2010	-	2	6	-
9.	S.V. Kanaka Seshu	APIDC Nominee NED	25.09.2010	-	7	2	-

**ED:** Executive Director

**NED:** Non-Executive Director

**NEID:** Non-Executive Independent Director

The non-executive independent Directors are independent of management and free from any business or other relationship that could materially influence their judgment. All the independent directors satisfy the criteria of independence as defined under listing agreement with Indian Stock Exchanges' Corporate Governance standards.

#### **CHANGES IN THE BOARD OF DIRECTORS:**

The following changes have taken place among the Directors of the Company:

(i) Chairman Shri A S Didolkar, CMD, HOCL Superannuated on 31.08.2010 and in his place Shri R N Madangeri, Chairman and Managing Director, HOCL has taken charge as Chairman of the Board.

(ii) Shri. S.W.Oak, BIFR Special Director Ceased to be Director of the Company with effect from 21.09.2010.

(iii) Shri S V Kanaka Seshu, Director, APIDC was appointed as Nominee Director with effect from 18.10.2010.



(iv) Shri P S Singh, Director, Dept. of Chemicals & Petrochemicals, Ministry of Chemicals & Fertilizers has been appointed as a Govt. of India Nominee Director with effect from 18.10.2010 to 31.05.2011 and in his place Shri Sanjay Bansal Appointed as Director, Ministry of Chemicals & Fertilizers has been appointed as a Govt. of India Nominee Director.

**b) PROFILE OF DIRECTORS:**

**Shri S V Kanakasheshu:** (From 18.10.2010)

Qualification: B.com (Hons), MBA

Business/Occupation: Chief General Manager of APIDC.

Experience: He has been working in APIDC for over 29 years and presently a CGM in the corporation.

**Shri P S Singh** (up to 31.05.2011)

Official Govt. Nominee Director

Qualification: Government Service

Director to the Govt .of India, Ministry of Chemicals & Fertilizers, Dept of Chemicals & Petrochemicals. He was appointed as Director on the HFL Board on 18.10.2010

**Shri.Sanjay Bansal:** (From 31.05.2011)

Official Govt. Nominee Director

Qualification: M.E (Production &Industrial System), B.Tech (Mechanical), Government Service

Director to the Govt .of India, Ministry of Chemicals & Fertilizers, Dept of Chemicals & Petrochemicals. He was appointed as Director on the HFL Board on 31.05.2011.

**c) RESPONSIBILITIES :**

The Board has a formal schedule of matters reserved for its consideration and decision which includes review of corporate performance, financial resources, strategy formulation, policy and control, organizational structure and reporting to shareholders. The combined wisdom and experience of the Board has brought a wide range of skills and professionalism to the functioning of the organization.

**d) ROLE OF INDEPENDENT DIRECTORS :**

The independent directors including the nominee directors play an important role in the deliberations at the Board Meetings and bring to the Company their wide-ranging experience in the fields of finance, audit, marketing, technical, engineering and public policy. All independent directors were members of the Audit Committee.


**e) BOARD MEETINGS**

The meetings of the Board of Directors are generally scheduled well in advance and are generally held either at Hyderabad where Regd. Office of the company is located or at Holding Company, HOCL Corporate Office at Mumbai. The members of the Board have access to all information of the company and are free to recommend inclusion of any matter in the agenda for discussion. Senior management personnel are invited to attend the board meeting for clarifications as and when required.

During the year under review, Board Meetings were held on 05.05.2010, 25.06.2010, 12.08.2010, 18.10.2010, 31.01.2011, 11.03.2011

The attendance of the Directors at Board Meeting is as follows:

Sl. No.	Directors	Board Meetings Held	Board Meetings Attend	Attendance At the Last AGM
1.	Shri A S Didolkar, Chairman (upto 31.08.2010)	06	03	YES
2.	Shri R N Madangeri, Director	06	06	YES
3.	Shri S W Oak, BIFR Spl. Director (upto 21.09.2010)	06	02	NO
4.	Dr. B.D. Kulkarni, Independent Director	06	05	NO
5.	Shri T S Gaikwad, Managing Director	06	06	YES
6.	Shri P.S. Singh, Govt. Nominee Director (upto 18.10.2010)	06	00	N.A.
7.	Shri Sanjay Bansal (upto 18.10.2010)	06	01	NO
8.	Shri M.K. Mittal HOCL Nominee Director	06	06	YES
9.	Shri S.V. Kanaka Seshu APIDC Nominee Director (from 18.10.2010)	06	02	N.A.

**NOTES:**

1. Shri Sanjay Bansal ceased to be Govt. Nominee Director w.e.f. 18.10.2010.
2. Shri .P.S.Singh appointed as Govt. Nominee Director on 18.10.2010 up to 31.05.2011
3. Shri S V Kanaka Seshu Director (APIDC company) was appointed as Nominee Director with effect from 18.10.2010.
4. Shri Sanjay Bansal appointed as Govt. Nominee Director w.e.f. 31.05.2011.

**3. COMMITTEES OF THE BOARD**

To enable better and more focused attention on the efforts of the company, the Board delegates particular matters to the Committees of the Board set up for the purpose with adequate delegation of powers and to discharge urgent business of the company. These Committees are (a) Audit Committee (b) Share Transfer and Shareholders'/Investors' Grievance Committee (c) Remuneration Committee (d) Management Committee (e) Receivable Committee .

The details of the Audit Committee, Share Transfer/Shareholders' /Investors' Grievance Committee, Remuneration Committee, Management Committee and Receivable Committee:



#### a. AUDIT COMMITTEE OF THE DIRECTORS:

##### (i) Terms of Reference:

Apart from all the matters provided in Clause 49 of the Listing Agreement and Section 292(A) of the Companies (Amendment) Act, 2002, the Committee reviews reports of the Internal Auditors, meets Internal Auditors periodically and discusses their findings, suggestions, internal control systems, compliance with the accounting standard, scope of audit, observations of the Auditors and other related matters. The committee also reviews the major accounting policies followed by the company. The committee invites senior executives as it considers appropriate at its meetings. MD & Chairman of HFL Board and Head of Internal Audit (on invitation) attend the meetings of Audit Committee as special invitees.

The representatives of the Statutory Auditors are also invited to attend the meetings. The Company Secretary of HOCL acted as Secretary to the Committee upto 19.05.2011.

##### (ii) Composition:

The Committee as on 31<sup>st</sup> March, 2011 comprised of three non Executive Directors. The Committee met four times during the year 2010-11 i.e., 05.05.2010, 25.06.2010, 8.10.2010 and 31.01.2011,

Further, in compliance of Clause 49( II) of the Listing Agreement with Stock Exchange, the Audit Committee was reconstituted at the Board Meeting held on 18.10.2010 comprising of Shri.S.V.Kanaka Seshu, Director as Chairman of the Committee, Dr.B.D.Kulkarni, Independent Director as Member, Shri.P.S.Singh, as Member and Sri.M.K Mittal as member of the Committee.

##### (iii) The attendance of the members at the meetings was as follows:

Name of the Member	Status	No. of Meetings attended
1. Shri S W Oak (up to 21.09.2010)	Chairman	02
2. Shri P S Singh	Member	00
3. Shri Sanjay Bansal	Member	00
4. Shri M K Mittal	Member	04
5. Dr. B D Kulkarni	Chairman	01
	Member	03
6. Shri S V Kanaka Seshu	Invitee	01
	Chairman	01

#### b. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE:

As required under the Companies Act, 1956, the company already has a Share Transfer and Share Holders/Investors' Grievance Committee comprising of Shri.R.N Madangeri, Chairman, Shri.M.K Mittal, Director as Member. The quorum of the Committee is two.

##### SHARE TRANSFER SYSTEM:

The company has a Share Transfer Committee which is authorized to transfer securities as and when they are received both under physical and electronic mode. Company shares can be dematerialized with CDSL and NSDL under ISIN No.INE 806J01013.

The Company Secretary of HOCL acted as Secretary to the Committee upto 19.05.2011.



The share transfer committee meets regularly and approves all matters related to shares vis-à-vis transfers, deletions, transmissions, dematerialization and re-materialization of shares. There were no pending complaints and requests for demat. This committee is vested with requisite powers and authorities to specifically look into the redressal of grievances of shareholders and investors.

The letters received from the investors were attended/resolved to the satisfaction of investors. The transfers of shares were affected within the stipulated time.

The Committee met 24 times and the details are as under: 01.04.2010, 19.04.2010, 05.05.2010, 18.05.2010, 31.05.2010, 19.06.2010, 02.07.2010, 16.07.2010, 03.08.2010, 12.08.2010, 27.08.2010, 15.09.2010, 4.10.2010, 20.10.2010, 02.11.2010, 19.11.2010, 01.12.2010, 15.12.2010, 06.01.2011, 18.01.2011, 03.02.2011, 21.02.2011, 03.03.2011, and 30.03.2011

**Summarized information on complaints received and resolved during 1<sup>st</sup> April,2010 to 31<sup>st</sup> March, 2011:**

Sl. No.	Nature of Complaint	Received	Redressed	Pending as on 31.3.2011
1.	Non-receipt of Dividend	NIL	NIL	NIL
2.	Non-receipt of shares lodged for transfer	NIL	NIL	NIL
3.	Others (N/R of Annual Report, etc).	NIL	NIL	NIL

Please note that the grievances, if any, have been redressed within 30 days of the receipt thereof.

**c. REMUNERATION COMMITTEE:**

**Terms of Reference:**

The Terms of Reference of the Remuneration Committee among other things include issues relating to the fixing of Remuneration of the Employees, Wage related negotiations with the Employee Unions and Fixation of Remuneration of the Employees as per Govt./ DPE Guidelines, Orders, etc. among other terms of references and to put up the same to the Board for its consideration.”

**Composition:**

The Committee as on 31<sup>st</sup> March, 2011 comprised of Three Non Executive Directors, the committee was constituted at the Board Meeting held on 18<sup>th</sup> October, 2010 comprising of Shri S.V.Kanaka Seshu as Chairman of the Committee, Directors Dr.B.D.Kulkarni and Shri M.K.Mittal as its Members. The Company Secretary of HOCL acted as Secretary to the Committee upto 19.05.2011.

**d. MANAGEMENT COMMITTEE:**

**Terms of Reference:**

The Management Committee formed to review the operations of the Company and to monitor the implementation of the Modified Draft Rehabilitation Scheme (MDRS) sanctioned by BIFR/ AAIFR, for implementation in the Company.

**Composition:**

The Committee as on 31<sup>st</sup> March, 2011 comprised of Three Directors, the committee was constituted at the Board Meeting held on 25<sup>th</sup> June, 2010 comprising of Shri S W Oak (upto 21.09.2010) as



Chairman Shri R N Madangeri Shri.T.S.Gaikwad and Shri Sanjay Bansal as Members and CS, HOCL acted as Secretary to the Committee upto 19.05.2011. The Committee met one time during the year 2010-11 i.e.25.06.2010

**The attendance of the members at the meetings was as follows:**

Name of the Member	Status	No. of Meetings attended
1. Shri S W Oak (up to 21.09.2010)	Chairman	01
2.Shri R N Madangeri	Member	01
3. Shri.T.S.Gaikwad	Member	01
4. Shri Sanjay Bansal	Member	00

**e. RECEIVABLE COMMITTEE:**

**Terms of Reference:**

The terms of reference of the Board Committee on Receivables include to expedite and to recover the old dues wherever feasible and to pursue the legal cases on various recoveries among other terms of references and to put up the same to the Audit Committee for its consideration.

**Composition:**

The Committee as on 31<sup>st</sup> March, 2011 comprised of Three Directors, the committee was constituted at the Board Meeting held on 18<sup>th</sup> October, 2010 comprising of Shri R N Madangeri Shri.T.S.Gaikwad and Shri M.K.Mittal as Members and CS, HOCL acted as Secretary to the Committee upto 19.05.2011. The Committee met one time during the year 2010-11 i.e.14.02.2011

**The attendance of the members at the meetings was as follows:**

Name of the Member	Status	No. of Meetings attended
Shri M.K.Mittal	Member	01
Shri R N Madangeri	Member	00
Shri.T.S.Gaikwad	Member	01

**4. DETAILS OF REMUNERATION PAID TO THE DIRECTORS FOR THE YEAR 2010-2011: (Rs.in Lacs)**

Name	Salary including perks	Arrears	Retirement benefits	Total
1. Shri T S Gaikwad	11.11	0.00	0.00	11.11

The Executive Directors have been appointed by the President of India for a period of 5 years or till attaining the age of superannuation, whichever is earlier. The appointment may be terminated even during this period either side on three months notice or on payment of three months salary in lieu thereof.

The company has not given any stock options.

**Non-executive Directors:** The Company does not pay any remuneration to non-executive Directors for attending the meetings of the Board of Directors thereof. The company pays Sitting Fees and out of pocket expenses at the rate of Rs.1000/- per meeting each Non Executive Director for attending



each meeting of the Board of Directors and also Rs.1000/- for attending each meeting of Committee of the Directors. The details of sitting fees paid during the year 2010-11 are as follows:

Sl.No.	Name of the Director	Sitting fees (including out of pocket expenses) Amount(Rs.)
1.	Shri S W Oak	Rs.13000.00
2.	Dr B.D.Kulkarni	Rs.38000.00
3.	Shri. S.V. Kanaka Shesu(APIDC)	Rs.4000.00

Non Executive Directors does not hold any shares in the Company.

### **ANNUAL GENERAL MEETINGS**

The last three Annual General Meetings of the company were held as under :

Particulars	FY-2007-08	FY-2008-09	FY-2009-2010
DATE	24.9.2008	25.9.2009	12.08.2010
TIME	3.00 P.M	3.00 P.M	3.00 P.M.
VENUE	11-6-841, P B No.14, Red Hills, Hyderabad.	Deshodharaka Bhavan Basherbagh, Hyderabad-500 001	Deshodharaka Bhavan Basherbagh, Hyderabad-500 001

No special resolutions were passed in previous three General Meetings.

No special resolutions were passed through postal ballot at the last Annual General Meeting (AGM).

No special resolutions are proposed through postal ballot at the forthcoming Annual General Meeting.

### **3. DISCLOSURES:**

- i. There was no materially significant related party transaction with its Directors/or the Management of Subsidiary or relatives that may have potential conflict with the interests of Company at large.
- ii. There was no case of Non-compliance by the Company of Statutory Provisions of the Companies Act, 1956 or SEBI regulation or provisions of listing Agreement or any other Statutory Authority. Further, these authorities have never passed any strcture of imposed any penalties on the Company on any matter related to capital markets, during the last three years.
- iii. It is affirmed that no personnel has been denied access to the audit committee.
- iv. Details of compliance with mandatory requirements and adoption of the non mandatory requirements of this clause are provided in this report.

### **4. MEANS OF COMMUNICATION:**

The Board Meeting Notices are given before 7 days and General Meeting Notices before 21 clear days from the date of meeting are published in the Financial Express (English) and Andhra Prabha (Telugu) Daily News Papers.

As required under Clause 41, Company issues a notice of at least 7 days in advance to the Stock Exchange of the Board Meetings in which the unaudited/ audited Financial Results are due for consideration. Further the said results are intimated immediately after they are taken on record/ approved to the Stock Exchange. These Financial results are normally published in the Financial Express (English) and Andhra Prabha (Telugu) with in 48 hours of the conclusion of the said meeting.

Management Discussion and Analysis report forms part of this Annual report

When ever a Director is appointed or reappointed Stock Exchanges are intimated through Fax / Speed Post / Courier Service.




**5. GENERAL SHAREHOLDER INFORMATION:**
**COMPLIANCE OFFICER:**

Shri E.Surya Rao, Dy.General Manager (Finance) was Compliance Officer up to 19<sup>th</sup> May, 2011 and Mrs.Rajani.K, who has been appointed (with effect from 19<sup>th</sup> May, 2011) Company Secretary of the Company is the Compliance Officer of the Company under Clause 47 of the Listing Agreement.

Registered Office	1402, Babukhan Estate, Bashirbagh, Hyderabad – 500 001.
Annual General Meeting	Date & Time : 12 <sup>th</sup> August, 2011 at 3.00 p.m Venue : at Press Club, Deshodharaka Bhavan, Bashirbagh, Hyderabad-500 001
Tentative Financial Calendar	1 <sup>st</sup> unaudited Quarter Results on or before 14 <sup>th</sup> August of the year. 2 <sup>nd</sup> unaudited Quarter Results on or before 15 <sup>th</sup> November, of the year. 3 <sup>rd</sup> unaudited Quarter Results on or before 15 <sup>th</sup> Feb, of the following year. 4 <sup>th</sup> unaudited Quarter Results on or before 15 <sup>th</sup> May, of the following year or Annual Audited Results on or before 30 <sup>th</sup> May of the following year.
Date of book closure	(For the purpose of Annual General Meeting) 04.08.2011 to 12.08.2011 (both days inclusive)
Dividend payment date (tentative)	N.A
Listing on Stock Exchanges	The shares of the Company are listed on - The Stock Exchange, Mumbai Stock Code at BSE - 524013
Registrar & Transfer Agents	M/s Sharepro Services (India ) Pvt.Ltd., 13AB, Samhita Warehousing Complex, 2 <sup>nd</sup> Floor, Sakinaka Telephone Exchange Lane, Off.Andheri-Kurla Road, Sakinaka, Mumbai – 400 072. Tel:67720300/351/352, 67720400/211872, Fax : 28591568 E-mail: sharepro@shareproservices.com.


**MARKET PRICE DATA**

Scrip Code : 524013

Scrip Id : HINFLUR

The high/low prices of Equity shares traded month wise as available at BSE site are stated hereunder.  
(All Rupees)

Month	Open Price	High Price	Low Price	Close Price
Apr -10	19.30	23.45	19.00	20.10
May -10	20.50	23.10	17.30	18.70
Jun -10	18.00	20.90	17.40	18.75
Jul -10	18.10	19.75	17.25	18.00
Aug -10	17.55	20.90	17.15	20.00
Sep -10	19.10	19.95	17.10	17.55
Oct -10	18.00	19.10	15.65	18.95
Nov -10	19.25	19.25	15.65	16.70
Dec -10	16.15	17.35	13.90	15.50
Jan -11	15.50	15.50	11.20	11.50
Feb -11	11.25	19.34	11.15	18.50
Mar -11	19.40	19.40	14.90	15.00

**DISTRIBUTION OF SHAREHOLDING**

 The Distribution of holdings as on 31<sup>st</sup> March, 2011 was as follows:

Description	Holders(s)		Holdings(s)	
	Folios	%	Shares	%
Less than 500	14746	92.89	2548350	13.00
501-1000	740	4.66	620900	3.17
1001-2000	232	1.46	352900	1.80
2001-3000	53	0.33	135800	0.69
3001-4000	18	0.11	64300	0.33
4001-5000	31	0.20	147050	0.75
5001-10000	23	0.15	148800	0.76
Above 10000	32	0.20	1558100	79.50
<b>TOTAL</b>	<b>15875</b>	<b>100</b>	<b>19599100</b>	<b>100.00</b>



Share Holding Pattern as on 31st March 2011 was as under:

Category	No.of shares held	Percentage of Shareholding
<b>I. <u>CONTROLLING/STRATEGIC HOLDINGS:</u></b>		
1. Hindustan Organic Chemicals Limited	11065200	56.46
2. A.P.Industrial Development Corpn.Ltd.,	870000	4.44
<b>SUB TOTAL</b>	<b>11935200</b>	<b>60.90</b>
<b>II. <u>FREE FLOAT:</u></b>		
<b>A. <u>BASED IN INDIA</u></b>		
1. Indian Individuals/HUFs	4651750	23.73
2. Indian Corp.Bodies/Trustees/Partnership	95605	4.88
3. Independent Directors & Relatives	0.00	0.00
4. Present employees	63200	0.32
5. Banks/Financial Institutions	1267300	6.47
6. Insurance companies	470000	2.39
7. Mutual funds	102400	0.52
<b>SUB-TOTAL</b>	<b>7509500</b>	<b>38.31</b>
<b>B <u>BASED OVERSEAS:</u></b>		
1. Non-resident Indians	<b>154400</b>	<b>0.79</b>
<b>GRAND TOTAL</b>	<b>19599100</b>	<b>100.00</b>

#### **DEMATERIALISATION OF SHARES & LIQUIDITY:**

The shares of the Company are compulsorily traded in Dematerialized mode. To facilitate the shareholders to Dematerialize the shares, the Company has signed the agreement with both i.e National Securities depositories Limited (NSDL) and Central Depositories Services (India) Ltd., (CDSL) under ISIN No. INE806J01013.

26.23% of the Share Capital of the Company has been Dematerialized the shares, the Company has been Dematerialized as on 31<sup>st</sup> March, 2011- total accounts Dematerialized is 1135 involving 5139845 shares (which constitutes 26.23% of the share capital).

82.84% of the Share Capital of the Company has been Dematerialized the shares, the Company has been Dematerialized as on 30<sup>th</sup> June, 2011- total accounts Dematerialized is 1223 involving 16235646 shares (which constitutes 82.84% of the share capital).

#### **CFO CERTIFICATION**

Shri E Surya Rao, Dy.General Manager (Finance), CFO of the company hereby certify that:

- a) We have reviewed financial statements and the cash flow statement for the year 2010-11 and that to the best of our knowledge and belief:
  - i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.



- ii) These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b) There are, to the best of our knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or in violation of the company's code of conduct.
- c) We accept responsibility for establishing and maintaining internal controls and that they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the Audit Committee, deficiencies in the design of operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- d) We have indicated to the auditors and the Audit Committee :
  - i) significant changes in internal control during the year;
  - ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  - iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system.

**SD/-**  
**(E SURYA RAO)**  
**DY.GENERAL MANAGER (FIN.)**

Place: Hyderabad

Date: 20.06.2011

**COMPLIANCE OFFICER'S RESPONSIBILITY STATEMENT:**

The Compliance Officer (Mrs. K. Rajani), confirms as on 31<sup>st</sup> March, 2011, that the Company has:

- Maintained all the Statutory Registers required to be maintained under the Companies Act, 1956 ("the Act") and rules made hereunder.
- Filed all forms and returns and furnished necessary particulars in time to Registrar of Companies (ROC) and/or Authorities as required under the Act.
- Issued all notices as required to be given for convening the meeting of the Board of Directors and General Meetings of the shareholders within the time limits prescribed by the law.
- Conducted the meetings of the Board of Directors and Annual General Meeting as per the provisions of the Act.
- Complied with all the requirements relating to the minutes of the proceedings of the meeting of the Directors and the shareholders.
- Made due disclosures under the requirements of the Act including the requirements in pursuance to the disclosures made by the directors.
- Obtained necessary approvals of the directors, shareholders, Central Government and other authorities as per the statutory requirements.
- Given loans and made investments in accordance with the requirements of the Act.
- Not exceeded the borrowing powers of the company.
- Registered all the particulars relating to the creation, modification and satisfaction of the charges with the ROC.
- Effectuated share transfers and dispatched the certificates within the time limit prescribed under the Act and rules made there under.
- Complied with all the requirements of the Listing Agreement entered into with the Stock Exchanges.

The company has also complied with the requirements prescribed by Securities and Exchange Board of India (SEBI) and other statutory authorities and also the requirements under the Act and related statutes in force.

**NON-MANDATORY REQUIREMENTS****RE-APPOINTMENT OF DIRECTORS**

Two Directors viz. Shri Sanjay Bansal, Govt Nominee Director and Shri Mahesh Kumar Mittal, HOCL Nominee Director are due for retirement by rotation at the ensuing 28<sup>th</sup> Annual General Meeting of the Company and eligible for re-appointment.

**Sd/-  
(RAJANI.K)  
COMPANY SECRETARY &  
COMPLIANCE OFFICER**

**PLACE: HYDERABAD**

**DATE : 20.06.2011**



## **CERTIFICATE ON CORPORATE GOVERNANCE**

The Members  
Hindustan Fluorocarbons Limited  
Hyderabad

We have examined the compliance of conditions of Corporate Governance by Hindustan Fluorocarbons Limited, Hyderabad, for the year ended March 31, 2011, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company, for ensuring the compliance of conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the Management, we certify that the Company has partially complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

The report of non compliance has been submitted to the management to comply and to disclose the same to the shareholders.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For **Ahalada Rao. V & Associates**  
Company Secretaries,

Date: 14.06.2011  
Place: Hyderabad

Sd/-  
Srivani Chada  
Company Secretary in Practice  
CP No. 8181

**AUDITORS' REPORT (Revised)**

To

The Members,  
Hindustan Fluorocarbons Ltd.,  
Hyderabad.

We have audited the attached Balance Sheet of Hindustan Fluorocarbons Ltd., Hyderabad, as at March 31, 2011, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Financial Statements based on our audit.

We conducted our audit in accordance with Audit Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. 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 Statements presentation. We believe that our audit provides a reasonable basis for our opinion.

- I As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of subsection (4A) of section 227 of the Companies Act, 1956, we enclose in the Annexure here to a statement of the matters specified in paragraphs 4 & 5 of the said Order.
- II Further to our comments in the Annexure referred to in paragraph I above, we report that:
  - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
  - (b) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of the books and proper returns adequate for the purposes of our audit have been received from the branches not visited by us.
  - (c) In our opinion, proper books of account, as required by law, have been kept by

the Company, so far as appears from our examination of those books.

- (d) The Balance Sheet, Profit and Loss Account and the Cash Flow Statements dealt with by this report are in agreement with the books of accounts.
- (e) In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with this report comply with the Mandatory Accounting Standards referred to in subsection (3c) of Section 211 of the Companies Act, 1956.
- (f) As per the Notification No. GSR. 829 (e) dated 21.10.2003 issued by the Central Government clause(G) of sub-section(1) of Section 274 of the Companies Act, 1956, is not applicable to the Government Company and hence we offer no comment as to whether any of the Directors are disqualified from being appointed as the Directors in terms of the said section.
- (g) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Accounts Policies and Notes to Accounts annexed to this report, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the Accounting Principles generally accepted in India subject to the following qualifications.
  - i. **Regarding Sundry Debtors / Sundry Creditors.**  
Sundry Debtors /Sundry Creditors are subject to confirmation by the parties.
  - ii. **Regarding Valuation of CERs as Closing Stock**  
With regard to CERs (Carbon Emission Reductions), they are the Credits issued by UNFCCC (United Nations Framework Convention on Climate Change) to the company for successful reduction /incineration of R-23 gas.R-23 gas falls in the list of gases having potential of global warming and is eligible category of Carbon Credits as per the KYOTO Protocol. Hence the company is eligible for claiming Carbon Credits after the incineration of the R-23 gas. This asset is of Intangible in nature but is treated as current asset



(Closing Stock) in the financial statements which is against the accepted accounting practice.

During the current financial year 2010-11, UNFCCC confirmed 420793 CERs to the company in its site ([www.unfccc.int](http://www.unfccc.int)) after deducting 2% i.e., 8587.62 CERs as adaptation fund deduction. Of the above CERs received, the company had transferred 210652 CERs as instalments payment to SRF Ltd (BOT contractor) for the Plant and Machinery (CDM Project) as per the agreement entered 14<sup>th</sup>, August, 2007. After the above outflows of CERs, the company is left with 210142 CERs treated as closing stock. The value of the CERs is taken at Rs.169706945/- adopting the value of 1 CER in the International Exchange as on 31-03-2011 at 13.07 Euros and taking the Euro value at Rs. 63.05 in terms of INR valued @98% of total value.

As per the Accounting Standard No.2 issued by the Institute of Chartered Accountants of India, the value of stock should be taken at cost or net realizable value whichever is less. In the instant case, the cost of the CERs in books is Rs.94.32 lacs, however the cost of CERs is taken as nil as the entire cost of Rs.94.32 lacs is absorbed into normal production cost and General expenditure. In view of the above, we are of the opinion that PAT (before Prior period adjustment) Rs.2,20,31,555.38 reported in profit and loss account is over stated to the extent of Rs.2,99,87,120.00 (closing stock of CERs Rs. 16,97,06,945.00 less Opening WIP of CERs Rs.13,97,19,825.00) had the company not valued the CERs as WIP or Stock. The current years PAT would have resulted in a loss of Rs.79,55,564.62. It is pertinent to report that the company is following the same policy of valuing CERs as WIP or Stock since financial year 2008-09. The total affect to the profit & loss account for the past three years 2008-09 to 2010-2011 is Rs.16,97,06,945.00 (Rs.7,72,04,112.00 in F.Y 2008-09 , Rs.625,15,713.00 in F.Y2009-10 and Rs.2,99,87,120.00 in F.Y 2010-11).All the past years audit reports are qualified in this matter.

Also due to the policy of valuation of closing stock of CERs, followed by company in the year Net Current Assets in balance sheet Rs.4,19,21,328.54 would have resulted in a negative amount of Rs.12,77,85,616.46 and the Profit and Loss figure in the balance sheet under Head Miscellaneous Assets would be Rs.63,73,87,840.32 had this policy not been followed for CERs in the past years also.

However, it is evident as events occurring after the balance sheet that the balance CERs with the company realized an amount of Rs. 17,46,75,544/- to the company on 06-05-2011 in the SBH A/c No.52117754462 vide sale transaction to a party in Europe vide agreement dated 07.04.11 for sale of CERs and the expenditure pertaining to the sale amounted to Rs.87.33 lacs.

### iii. Regarding Refurbishment Expenditure:

The Company has incurred Rs.284.14 lakhs as refurbishment expenditure on Plant & Machinery during the Financial Year 2008-09. As per the guidelines laid down in BIFR, Modified Draft Rehabilitation Scheme (MDRS) The amount shall be written off in 5 equal annual instalments as per the BIFR Scheme. Now, in the current financial year, the Company has written off Rs.61.49 lakhs during. This accounting treatment is a deviation from Accounting Standard (AS-6) issued by The Institute of Chartered Accountants of India (ICAI) and incorporated as a mandatory accounting standard in Section 211(3c) of the Companies Act. As per AS-6 as any expenditure incurred for improvement in performance of the Plant & Machinery should be capitalized and depreciated accordingly as per Schedule – XIV applicable to the Company. However the Company is following the guide lines contained in the BIFR's MDRS in this matter deviating from mandatory AS-6 issued by ICAI.

### iv. Regarding VRS Expenditure :

An amount of Rs.223.57 lacs had incurred towards VRS payment for 31 employees in accordance with BIFR's Modified Draft Rehabilitation Scheme(MDRS) in Jan 2009. This amount is amortized and taken to P & L Account over a period of 3 years (Rs.37.26 lacs in 2008-09, Rs. 74.52 lacs in 2009-2010, Rs.74.52 Lacs in 2010-11 included in Schedule-15 ) the balance of Rs.37.27 Lacs will be amortised in the next financial year 2011-12. This is in accordance with BIFR's Modified Draft Rehabilitation Scheme (MDRS).The above accounting treatment is a deviation from the Accounting Standard (AS-15) issued by The Institute of Chartered Accountants of India (ICAI) and incorporated as a mandatory accounting standard in Section 211(3c) of the Companies Act . As per AS-15 VRS expenditure is to be written off over the pay back period only and cannot be amortised. However the company is following the BIFR Scheme. Hence the system





followed for VRS accounting is not in line with the mandatory AS-15 issued by ICAI.

**v. Wage Revision : Non provision of the expenses in Profit and Loss Account**

The pay scales of the Board Level and below Board level executives have been revised by the Board w.e.f 01.01.1997. In exercise of the powers conferred under Articles of Association of the company, the president had approved the pay revision and directed the company to implement the pay revision w.e.f 01.01.1997 vide wage revision settlement as per DPE guidelines. As per the presidential directive, fitment benefit shall be payable @ 15% in the first stage and the balance fitment shall be paid when the losses are fully recouped and to come into profits and the company is able to absorb the financial burden consequent to revision. As per the orders issued by the Board in pursuant to the presidential directive, the actual payment of the pay revision shall be made subject to availability of funds in the company. No provision for the above wage revision is made by the company in the books of accounts. The quantification was estimated by the company and shown as contingent liability in the notes to accounts.

**vi. Contribution to PF:**

The management and the employees are contributing 10% each to the PF trust instead of 12% each. The effect of difference of the same is Rs.4.90 lacs.

**vii. Regarding Payment of Interest to HOCL**

The Company has debited an amount of Rs.135.99 lacs as payment of Interest on Loans taken out of which the payment towards Interest on Loan taken from HOCL the (Holding Company) pursuant to BIFR Scheme is Rs.13.43 lacs. As per BIFR's MDRS the Company is not liable to pay any interest on the loan amount received from the Holding Company M/s HOCL pursuant to BIFR Scheme. Hence we are of the opinion that the company has no obligation to pass the interest entry amounting to Rs.13.43 lakhs in its Profit and Loss Account and the amount payable to HOCL shall be reduced to that extent.

**viii. Retirement Benefits:**

The company had provided Gratuity benefits and other retirement benefits in the books of accounts and stated as point no. 8 in notes to accounts for the current Financial year. However, no approved

actural valuation was done by the company for the Gratuity and other retirement benefits as required by AS-15 issued by ICAI. The Company calculated the provision on Actual basis.

**ix. Change in Accounting Policy –VSSC Research & Development**

The company recognized amount received from VSSC Rs.20 lacs amount as prior period income and Rs.15.00 lacs as Miscellaneous Income during the year. The company entered into a MOU with Vikram Sarabhai Space Center(VSSC) in Financial Year 2009-10 for research and development of certain chemical compounds. As per the MOU it is a tripartite MOU with each party having its own milestones and responsibilities. The company income amounted to Rs.40.00 lacs in the MOU. The company raised invoice of Rs.20.00 lacs from VSSC in Financial Year 2009-10 and received the same in the current financial year 2010-11. The second invoice was raised for Rs.15.00 lacs during the Financial Year 2010-11. The company treated the amount received in Financial year 2009-10 amounting to Rs.20.00 lacs as Prior period Income and Rs.15.00 lacs received in the Year 2010-11 as "Miscellaneous Income". The above treatment of income tantamount to a change in the accounting policy as indicated in Policy no.6.1 in the Significant Accounting Policies of the company vis-à-vis the policy followed in the previous year. Had there been no change in the policy the Profit of the company for the year would have been reduced by Rs.35.00 lacs and the "Current Liabilities" of the company would have been increased by Rs.35.00 lacs as the same amount should have been treated as "Advance from customers".

- i) In the case of Balance Sheet of the state of affairs of the company as at 31<sup>st</sup> March,2011.
- ii) In the case of the Profit and Loss Account of the Profit for the year ended on that date and
- iii) In the case of Cash Flow statement of the cash flows for the year ended on that date.

For Siva Krishna & Narayan  
Chartered Accountants

Sd/-

(R.V.N. Sastry)

Partner

M.No.206635

Place: Hyderabad  
Date : 30.06.2011

**Annexure to Auditors' Report**

(Referred to in Paragraph 1 of our report of even date)

1. In respect of its fixed assets:
  - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
  - b. All the fixed assets have been physically verified by management during the year and there is regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed no major material discrepancies were noticed on such verification.
  - c. During the year, the Company has not disposed off substantial part of its fixed assets.
2. In respect of its inventories:
  - a. As explained to us, the stocks of finished products, stock-in-process and raw materials have been physically verified by the management during the year. Stock of stores and spare parts are reported to be physically verified in accordance with the procedure followed by the management. In our opinion, the frequency of such physical verification of stocks is reasonable.
  - b. In our opinion, the procedure of physical verification of stocks followed by the management is reasonable and adequate in relation to the size of the Company and the nature of its business.
  - c. The Company is maintaining proper records of inventory and no material discrepancies have been noticed on physical verification of stocks compared to the books/records.
  - d. There is no specific methodology of accounting for CER credits in the stock records of the company as the items are shown as closing stock.
3. The company has not granted/taken any loans secured or unsecured to/from Companies, Firms or other parties covered in the registers maintained u/s 301 of the Companies Act, 1956 except for an additional loan taken from its holding company, HOCL, of Rs. 130.00 lacs and the total amount outstanding as on 31.03.2011 is Rs. 4019.15 lacs including the loans taken in earlier years. In our opinion the rate of interest and other conditions governing the loan are prima facie not prejudicial to the interest of the Company.
4. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures, commensurate with the size of the Company and the nature of its business with regard to the purchase of inventory, fixed assets and with regard to the sale of goods.
5. In our opinion and according to the information and explanations given to us, there are no transactions in pursuance of contracts or arrangements entered in the register maintained u/s 301 of the Companies Act, 1956, aggregating during the year to Rs. 500000/- (Rupees Five Lacs only) or more in respect of any party.
6. The Company has not accepted any deposits from the public.
7. The Company has been getting the internal audit of its accounts by appointing a firm of Chartered Accountants as Internal Auditors. The Internal Auditor Report was considered. During the financial year under audit the company had got a special report of verification of fixed assets from an independent chartered accountant firm which was also considered for audit.
8. We have broadly reviewed the books of accounts maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records u/s 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have not however made a detailed examination



- of the records with a view to determine whether they are accurate or complete.
9. As per the records of the Company, the Company is generally regular in depositing with the appropriate authorities undisputed statutory dues such as , Income Tax(TDS), Wealth Tax, Customs Duty, Income Tax, Excise Duty, Cess and other statutory dues applicable to it, but not regular in depositing periodical payments like Provident Fund, Central Sales Tax /VAT and there are arrears of provident Fund ,VAT and CST for more than 6 months. CST and VAT outstanding for a period more than 6 months amounts to Rs.45.74 lacs and Rs.17.12 lacs.PF arrears (company contribution) amounted to Rs.52.77 lacs for more than 6 months due. According to the information and explanation given to us, there are no dues of PF, IE, & PF, ESI, VAT/Sales Tax, Income Tax, Customs Duty, Wealth Tax, Excise Duty and Cess etc., which have not been deposited on account of any dispute.
10. The accumulated losses of the company as at the end of the year are more than fifty percent of its net worth. In our opinion the company has incurred cash losses during the current financial year had the CERs amounting to Rs.1697.07 lacs are not taken as Closing stock. We have qualified in our audit report for inclusion of CERs as Closing Stock which is not as per the AS-2 issued by ICAI (refer the qualification in our main report).The company is under the Scheme of BIFR and hence considered as a Sick Company as per Sick Industries Companies (Special Provisions) Act 1985. Sec 441A of companies Act is not applicable.
11. The Company has not defaulted in repayment of dues to financial institutions during the current financial year. There are no over dues as on 31<sup>st</sup> March, 2011.
12. The Company has not granted any loans and advances on the basis of shares, debentures and other securities of a similar nature and hence maintenance of documents and records relating to such items are not applicable.
13. In our opinion the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, clause-4 (iii) of the Companies (Auditor's Report) Order, 2003, is not applicable to the Company.
14. The Company has not dealt in or traded in shares, securities, debentures and other investments.
15. The Company has not given any guarantee for loans taken by others from banks and financial institutions.
16. The Company has taken unsecured loan during the year covered by our audit from HOCL(Parent company) to the tune of Rs. 130.00 lacs in accordance with BIFR's MDRS. The secured loans are from SBH, Gunfoundry, Hyderabad and Holding Company HOCL . We have not come across any instances where such loans were applied for the purpose other than the purpose for which the loans were obtained.
17. In our opinion and as per the explanations given to us no funds raised on short term basis have not been used for long term purposes and vice-versa.
18. The Company has not made any preferential allotment of the shares during the year.
19. The Company has not issued any debentures during the year.
20. The Company has not raised any money by public issues during the year.
21. Based upon the audit procedures performed and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **Siva Krishna & Narayan**  
**Chartered Accountants**

Sd/-

**(R.V.N. Sastry)**

Partner

M.No.206635

Place: Hyderabad

Date : 30.06.2011

**COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF HINDUSTAN FLUOROCARBONS LIMITED HYDERABAD FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011.**

The preparation of financial Statements of Hindustan Fluorocarbons Limited, Hyderabad for the year ended on 31<sup>st</sup> March, 2011 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the Company. The Statutory Auditor appointed by the Comptroller and Auditor General of India Under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on the independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accounts of India. This is stated to have been done by them vide their Audit Report dated 30<sup>th</sup> June, 2011

I on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619(3) (b) of the Companies Act, 1956 of the Financial statements of Hindustan Fluorocarbons Limited, Hyderabad for the year ended on 31<sup>st</sup> March, 2011. This supplementary audit has been carried out independently with out access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant as come to my knowledge, which would give raise to any comment up on supplement to statutory auditor report under section 619(4) of the Companies Act, 1956

Place : Hyderabad

Date : 5<sup>th</sup> July, 2011.

For and on the behalf of the  
Comptroller and Auditor General of India

**Sd/-**

**(Y.N. THAKARE)**

Principal Director of Commercial Audit &  
Ex-officio Member, Audit Board,  
Hyderabad,


**BALANCE SHEET AS AT 31<sup>st</sup> MARCH 2011**

	SCH	As at 31-03-2011		As at 31-03-2010	
		Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
<b>SOURCES OF FUNDS</b>					
1	Share Holders Funds				
	a. Share Capital	1	<b>1961.46</b>	<b>1961.46</b>	
	b. Reserves and Surplus	2	<u>0.00</u>	<u>0.00</u>	1961.46
2	Loan Funds				
	a. Secured Loans	3	<b>4760.02</b>	<b>4803.30</b>	
	b. Unsecured Loans	4	<u>144.93</u>	<u>0.00</u>	<u>4803.30</u>
	<b>TOTAL</b>		<b><u>6866.41</u></b>	<b><u>4803.30</u></b>	<b><u>6764.76</u></b>
<b>APPLICATION OF FUNDS</b>					
1	Fixed Assets				
	a. Gross block	5	<b>6672.64</b>	<b>5380.51</b>	
	Less: Depreciation		<u>5062.49</u>	<u>4968.33</u>	
	Net block		<u>1610.15</u>	<u>412.18</u>	
	b. Capital Work in Progress		<u>0.00</u>	<u>0.00</u>	412.18
2	<b>Investments</b>				0.00
3	<b>Current Assets, Loans &amp; Advances</b>				
	a. Inventories	6	<b>2081.07</b>	<b>1844.63</b>	
	b. Sundry Debtors	7	<b>284.17</b>	<b>196.22</b>	
	c. Cash & Bank Balances	8	<b>6.04</b>	<b>8.17</b>	
	d. Other Current Assets		<b>0.00</b>	<b>0.00</b>	
	e. Loans and Advances	9	<u>273.40</u>	<u>248.53</u>	
			<u>2644.68</u>	<u>2297.55</u>	
	<b>Less: Current Liabilities &amp; Provisions</b>	10			
	a. Liabilities		<b>1794.78</b>	<b>914.62</b>	
	b. Provisions		<u>430.68</u>	<u>226.88</u>	
			<u>2225.46</u>	<u>1141.51</u>	
	<b>Net Current Assets</b>			<b>419.22</b>	<b>1156.04</b>
4	<b>Misc. Expenditure</b>				
	<b>(To the extent not Written off or Adjusted)</b>				
	Refurbishment expenditure		<b>122.97</b>	<b>184.47</b>	
	VRS Expenditure		<u>37.26</u>	<u>111.79</u>	296.26
5	Profit and Loss Account		<b>4676.81</b>	<b>4900.28</b>	
	<b>TOTAL</b>		<b><u>6866.41</u></b>	<b><u>6764.76</u></b>	
	<b>Significant Accounting Policies and Notes on Accounts</b>	20			

 As per our report of even date  
 for **SIVA KRISHNA & NARAYAN**  
**Chartered Accountants**

 Sd/-  
**(R.V.N. SASTRY)**  
 Partner  
 M.No.206635

 PLACE: MUMBAI  
 DATE : 21-5-2011

For and on behalf of the Board of Directors of HFC Ltd.,

 Sd/-  
**(R N MADANGERI)**  
 Chairman

 Sd/-  
**(M K MITTAL)**  
 Director

 Sd/-  
**(T S GAIKWAD)**  
 Managing Director

 Sd/-  
**(E SURYA RAO)**  
 DY.General Manager (Finance)

 Sd/-  
**(K. RAJANI)**  
 Company Secretary


**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> MARCH 2011**

	SCH	As at 31-03-2011		As at 31-03-2010	
		Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
<b>INCOME</b>					
Sales (Gross)	11	<b>3352.42</b>		<b>1927.06</b>	
Less: Excise Duty		<b>313.04</b>		<b>146.45</b>	
Net Sales			<b>3039.38</b>		<b>1780.61</b>
Other Income	12	<b>554.78</b>		<b>129.89</b>	
Profit on Sale of Assets		<b>0.00</b>		<b>0.00</b>	
Accretion/(Decretion) in stocks	13	<b>180.01</b>	<b>734.79</b>	<b>749.93</b>	<b>879.82</b>
<b>TOTAL</b>			<b>3774.17</b>		<b>2660.43</b>
<b>EXPENDITURE</b>					
Materials Consumed	14	<b>1542.15</b>		<b>941.94</b>	
Excise Duty		<b>0.00</b>		<b>0.00</b>	
Employees Remuneration and Benefits	15	<b>808.56</b>		<b>525.37</b>	
Manufacturing, Admn. and Selling Exp.	16	<b>764.84</b>		<b>526.76</b>	
Interest and Financial charges	17	<b>282.66</b>		<b>270.09</b>	
Depreciation	5	<b>94.16</b>	<b>3492.37</b>	<b>27.46</b>	<b>2291.62</b>
Provisions			<b>0.00</b>		<b>0.00</b>
Loss on Impairment of Assets			<b>0.00</b>		<b>0.00</b>
Loss on Discarded / Deleted Assets			<b>0.00</b>		<b>0.00</b>
Refurbishment expenses written off			<b>61.49</b>		<b>61.49</b>
Total			<b>3553.86</b>		<b>2353.10</b>
Profit/(Loss) for the year before taxes			<b>220.31</b>		<b>307.32</b>
Less: Provision for taxation			<b>0.00</b>		<b>0.00</b>
Less: Provision for Fringe Benefit Tax			<b>0.00</b>		<b>0.00</b>
Less: Fringe Benefit Tax for previous year			<b>0.00</b>		<b>0.00</b>
Profit/(Loss) after taxes			<b>220.31</b>		<b>307.32</b>
Less: Reserves/Provisions no longer reqd.			<b>0.00</b>		<b>0.00</b>
Prior Period & extra ordinary items	19		<b>(3.16)</b>		<b>1.06</b>
Profit / (Loss) after tax and adjustments			<b>223.47</b>		<b>306.26</b>
Add: Opening balance of Profit & Loss a/c			<b>(4900.28)</b>		<b>(5206.55)</b>
Add : Trasferred from General Reserve			<b>0.00</b>		<b>0.00</b>
Add : Trasferred from Bond Redemption Reserve no longer required.			<b>0.00</b>		<b>0.00</b>
Balance carried to Balance Sheet			<b>(4676.81)</b>		<b>(4900.29)</b>
<b>Earnings per share</b>			<b>1.14</b>		<b>1.56</b>
Notes to the Accounts	20				

As per our report of even date  
for **SIVA KRISHNA & NARAYAN**  
**Chartered Accountants**

Sd/-  
**(R.V.N. SASTRY)**  
Partner  
M.No.206635

PLACE: MUMBAI  
DATE : 21-5-2011

For and on behalf of the Board of Directors of HFC Ltd.,

Sd/-  
**(R N MADANGERI)**  
Chairman

Sd/-  
**(M K MITTAL)**  
Director

Sd/-  
**(T S GAIKWAD)**  
Managing Director

Sd/-  
**(E SURYA RAO)**  
DY.General Manager (Finance)

Sd/-  
**(K. RAJANI)**  
Company Secretary



## HINDUSTAN FLUOROCARBONS LIMITED

	<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
<b>SCHEDULE - 1</b>				
<b>SHARE CAPITAL</b>				
<b>Authorised</b>				
2,10,00,000 Equity shares of Rs.10/- each		<b>2100.00</b>		<b>2100.00</b>
(Previous year 2,10,00,000 Shares of Rs.10/- each)				
<b>Issued</b>				
1,96,30,000 Equity shares of Rs.10/- each		<b>1963.00</b>		<b>1963.00</b>
(Previous year 1,96,30,000 Shares of Rs.10/- each)				
<b>Subscribed</b>				
1,95,99,100 of Rs.10/- each fully paid		<b>1959.91</b>		<b>1959.91</b>
(Previous year 1,95,99,100 Shares of Rs.10/- each)				
Shares forfeited (amount originally paid)		<b>1.55</b>		<b>1.55</b>
(Number of Shares 30900)		<b>1961.46</b>		<b>1961.46</b>
Note: Of the above 1,10,65,200				
Equity shares are held by				
M/s Hindustan Organic Chemicals Ltd. The Holding Company.				
<b>SCHEDULE - 2</b>				
<b>RESERVES AND SURPLUS</b>				
Investment Allowance Reserve		<b>0.00</b>		<b>0.00</b>
Less: Transferred to Profit & Loss Account		<b>0.00</b>		<b>0.00</b>
		<b>0.00</b>		<b>0.00</b>
<b>SCHEDULE -3</b>				
<b>SECURED LOANS</b>				
From State Bank of Hyderabad :				
Cash Credit		<b>406.52</b>		<b>420.64</b>
Clean Credit		<b>101.02</b>		<b>100.97</b>
Short Term Corp.Loan		<b>131.74</b>		<b>271.48</b>
Term Loan (5 Years)		<b>246.52</b>		<b>257.04</b>
From Other Financial Institutions:				
Term Loan's		<b>3874.22</b>		<b>3753.17</b>
Hindustan Organic Chemicals Ltd.,(Holding Company)		<b>4760.02</b>		<b>4803.30</b>
1. Loan from State Bank of Hyderabad on cash credit account, term loans are secured by Hypothecation of the company's entire stock of raw materials, finished goods, stock in process, consumables, stores and spares and book debts, plant and machinery and part of the land to the extent of 64 acres in favour of the bank to the extent of Rs12.53 crores.				
2. Loan from HOCL is secured by part of the land to the extent of 82 acres.				
<b>SCHEDULE -4</b>				
<b>UNSECURED LOANS</b>				
Hindustan Organic Chemicals Ltd		<b>144.93</b>		<b>0.00</b>
		<b>144.93</b>		<b>0.00</b>



<b>HINDUSTAN FLUOROCARBONS LIMITED</b>										
<b>FIXED ASSETS AND CAPITAL WORK IN PROGRESS</b>										
<b>Rs. in Lacs</b>										
PARTICULARS	GROSS BLOCK (AT COST)			DEPRECIATION			NET BLOCK			
	AS AT 1-4-2010 Rs.	ADDI- TIONS Rs.	DELE- TIONS Rs.	AS AT 31-3-2011 Rs.	UPTO 31-3-2010 Rs.	FOR THE YEAR Rs.	ADJUST- MENTS Rs.	UPTO 31-3-2011 Rs.	AS AT 31-3-2011 Rs.	AS AT 31-3-2010 Rs.
<b>A) FIXED ASSETS</b>										
Land	68.42	0.00	0.00	68.42	0.00	0.00	0.00	0.00	68.42	68.42
Factory Buildings	79.49	0.00	0.00	79.49	58.13	2.66	0.00	60.79	18.70	21.35
Non-Factory Buildings	68.49	0.00	0.00	68.49	24.97	1.12	0.00	26.09	42.40	43.52
Fencing and compound wall	11.09	0.00	0.00	11.09	11.09	0.00	0.00	11.09	0.00	0.00
Plant and Machinery	4,704.30	26.07	0.00	4,730.37	4,490.63	20.40	0.00	4,511.03	219.35	213.67
Electrical Installations & equipments	303.16	0.00	0.00	303.16	300.33	0.14	0.00	300.48	2.69	2.83
Furniture & Fixtures & other equipments	64.18	1.92	0.00	66.10	62.15	0.78	0.00	62.93	3.17	2.03
Computers	18.35	14.15	0.00	32.50	18.35	0.07	0.00	18.42	14.07	0.00
CDM Plant	63.03	1,250.00		1,313.03	2.67	68.99	0.00	71.67	1,241.37	60.36
<b>TOTAL</b>	5,380.51	1,292.14	0.00	6,672.64	4,968.33	94.16	0.00	5,062.49	1,610.15	412.18
B) Capital WIP \$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>GRAND TOTAL (A+B)</b>	5,380.51	1,292.14	0.00	6,672.64	4,968.33	94.16	0.00	5,062.49	1,610.15	412.18
Previous Year Figures	5,515.76	135.12	57.41	5,593.47	5,153.836	27.46	0.00	5,181.29	412.18	361.93

\$ Represents cost of Equipment held in stores at factory.




**SCHEDULE - 6**
**INVENTORIES (AS TAKEN, VALUED AND CERTIFIED BY THE MANAGEMENT)**

	As at 31-03-2011		As at 31-03-2010	
	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
1) Stores and Spares	149.44		144.35	
Packing Material	2.00		5.18	
Fuel	5.14	156.58	10.85	160.38
2) Raw Materials		89.08		30.60
3) Materials in Transit		15.30		13.42
4) Stock -in-Process		65.86		1581.61
5) Closing CERs Stock		1697.07		0.00
6) Finished Products		57.18		58.62
		<u>2081.07</u>		<u>1844.63</u>

**SCHEDULE - 7**
**SUNDRY DEBTORS (Unsecured)**

1) Exceeding Six months				
- Considered good	284.17		132.39	
- Considered doubtful	309.64	593.81	309.64	442.03
Others-considered good		0.00		63.83
	593.81	593.81		505.86
Less: Provision for doubtful debts		309.64		309.64
		<u>284.17</u>		<u>196.22</u>

**SCHEDULE - 8**
**CASH AND BANK BALANCES**

1) Cash on hand		0.02		0.06
2) Margin Money Deposits		5.72		7.72
Bank Balances with Scheduled Banks				
3) At SBH, Hyderabad - Current Account	0.13		0.00	
4) At SBH, Mumbai	0.00		0.11	
5) At SBH, Ahmedabad	0.10		0.10	
6) At SBH, New Delhi	0.00		0.10	
7) At SBH, Ismailkhan pet	0.07	0.30	0.07	0.39
		<u>6.04</u>		<u>8.17</u>

**SCHEDULE - 9**
**LOANS AND ADVANCES (Unsecured)**

1) Advances recoverable in cash or in kind or for value to be received				
- Coin adjustment		0.01		0.01
- Advance to Employees		0.14		82.17
- Telephone Deposits		0.57		0.57
- Festival Advance		0.00		0.00
- Spl. Adv. to Employees		134.17		10.12
- Accrued Income		2.72		3.30
- Advance to Suppliers	49.87		35.23	
Less: Considered doubtful advance	0.91	48.96	0.91	34.33
2) Excise duty on -PTFE	0.00		0.00	
Excise duty on - Others	0.02		10.35	
Excise duty on - Capital	0.01		0.00	
	0.00	0.03	0.00	10.35
3) Income Tax refundable		10.78		6.56
4) Prepaid Expenses		10.30		4.71
5) E S I Deposit		8.00		8.00
6) Deposits		43.26		80.83
7) VAT Credit Receivable		3.23		7.09
8) Service Tax receivable		11.24		0.51
9) Directors		0.00		0.00
		<u>273.40</u>		<u>248.53</u>



<b>As at 31-03-2011</b>	<b>As at 31-03-2010</b>
Rs. in Lacs	Rs. in Lacs

**SCHEDULE -10**
**CURRENT LIABILITIES & PROVISIONS**
**A. CURRENT LIABILITIES**

1.	Sundry Creditors			
	Dues to Micro and SSI units	2.23	0.00	
	Capital Goods	874.73	12.49	
	Other Creditors	537.15	374.27	
		1414.11		386.76
	For expenses			
	Electricity Charges	98.10	136.46	
	Electricity Charges of 1987-88	27.84	27.84	
	Nala Tax	2.66	2.66	
	O S L Other payments	13.68	29.39	
	Job Work expenses	0.06	0.19	
	Repairs & Maintenance and Others	1.91	2.60	
	Property Tax	13.61	13.61	
	Water Charges	4.17	4.40	
	Children Education Reimbursement	3.60	0.00	
	Interest subsidy on house building loan	0.50	0.00	
	Hospitalisation	3.96	0.00	
	Bonus	1.06	0.00	
	Professional charges	3.21	5.07	
	Canteen Expenses	1.27	4.36	
	Company contribution for ESI	8.26	8.20	
	Co.Contribution PF	52.77	31.21	
		236.67		265.99
	<b>AUDITORS</b>			
	Internal	0.15	0.50	
	Statutory	0.60	0.84	
	Cost Audit	0.84	0.84	
	P F Trust	0.37	0.14	
	Tax consultants (IT & ST&Fixed assets)	0.46	0.30	
		2.42		2.62



	<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
<b>B. CURRENT LIABILITIES &amp; PROVISIONS</b>				
2 Other Liabilities				
TDS payable - contractors	1.96		2.23	
Salary Payable	0.69		57.35	
EPF Payable	11.33		35.29	
EPF Loan recovery payable	9.65		4.84	
TDS payable on Salaries	2.03		0.32	
LIC Premium payable	0.00		5.24	
Stale cheques	0.00		0.00	
VAT Payable	17.12		0.00	
CST Payable	45.74		33.77	
Professional Tax	0.06		0.93	
SBH Loan Recovery	0.00		0.49	
Union Recovery	0.00		0.20	
CCS Deposit & Loan	0.00		2.71	
SC:ST Association Fee	0.00		0.09	
O B C Association Fee	0.00		0.04	
		<b>88.58</b>		<b>143.49</b>
3 Service Tax Payable		2.22		0.00
4 Advances from Customers		26.13		97.60
5 Officers Salary arrears		2.68		2.78
6 Deposits from Contractors & others		8.19		9.05
7 Excise Duty		13.67		5.47
8 Freight on Sales		0.10		0.88
		<b>1794.78</b>		<b>914.65</b>
<b>PROVISIONS</b>				
1 Earned leave		147.98		86.10
2 LTA & other provisions		4.05		12.80
3 Gratuity		278.65		127.99
		<b>430.68</b>		<b>226.89</b>


**SCHEDULE -11**
**SALES**

		<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
		Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
1	<b>Sale of PTFE</b>	<b>1004.21</b>		<b>459.31</b>	
	Less:Excise Duty	<b>84.79</b>		<b>30.08</b>	
	Less:Sales Tax	<b>22.18</b>		<b>8.78</b>	
	Less:Trade Discount	<b>74.04</b>	<b>823.19</b>	<b>67.18</b>	<b>353.27</b>
2	<b>Sale of ADCS</b>	<b>18.37</b>		<b>21.24</b>	
	Less:Excise Duty	<b>1.37</b>		<b>1.57</b>	
	Less:Sales Tax	<b>0.69</b>		<b>0.67</b>	
	Less:Trade Discount	<b>0.00</b>	<b>16.31</b>	<b>0.00</b>	<b>19.01</b>
3	<b>Sale of CFM</b>	<b>1092.36</b>		<b>723.09</b>	
	Less:Excise Duty	<b>93.84</b>		<b>55.04</b>	
	Less:Sales Tax	<b>20.73</b>		<b>14.19</b>	
	Less:Trade Discount	<b>67.56</b>	<b>910.22</b>	<b>0.00</b>	<b>653.86</b>
4	<b>Sale of TFE</b>	<b>1358.43</b>		<b>800.67</b>	
	Less:Excise Duty	<b>123.49</b>		<b>59.76</b>	
	Less:Sales Tax	<b>27.46</b>		<b>15.70</b>	
	Less:Trade Discount	<b>0.00</b>	<b>1207.48</b>	<b>0.00</b>	<b>725.21</b>
5	<b>Sale of Hydrochloric Acid</b>	<b>106.24</b>		<b>32.92</b>	
	Less:Excise Duty	<b>9.54</b>		<b>3.39</b>	
	Less:Sales Tax	<b>4.09</b>		<b>0.27</b>	
	Less:Trade Discount	<b>10.44</b>	<b>82.17</b>	<b>0.00</b>	<b>29.26</b>
			<b>3039.38</b>		<b>1780.61</b>

**SCHEDULE -12**
**OTHER INCOME**

1	Interest received from others(Gross TDS Deducted Rs.0.30 lacs previous year Rs.1.32 lacs)		<b>3.40</b>		<b>4.55</b>
2	Sale of Scrap		<b>3.33</b>		<b>0.00</b>
3	Sale of CERs		<b>463.00</b>		<b>0.00</b>
4	Miscellaneous Income		<b>85.05</b>		<b>125.33</b>
			<b>554.78</b>		<b>129.89</b>

**SCHEDULE -13**
**1 ACCRETION/(DECRETION) IN STOCKS**

	Closing stock				
	Stock-in-process	<b>65.85</b>			
	CERs stock	<b>1697.07</b>		<b>1581.61</b>	
	Finished products	<b>57.18</b>	<b>1820.11</b>	<b>58.62</b>	<b>1640.23</b>
	Less:Opening Stock				
	Stock-in-process	<b>1581.61</b>		<b>863.12</b>	
	Finished products	<b>58.62</b>	<b>1640.23</b>	<b>23.50</b>	<b>886.62</b>
			<b>179.88</b>		<b>753.61</b>
	Add: Increase/(Decrease) in Excise duty on Finished products		<b>0.13</b>		<b>-3.69</b>
			<b>180.01</b>		<b>749.93</b>


**SCHEDULE -14**
**MATERIAL CONSUMED**

## CONSUMPTION OF

	<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
1) Raw material	<b>1472.81</b>		<b>897.92</b>	
Stores Over Head	<b>3.84</b>	<b>1476.65</b>	<b>4.20</b>	<b>902.12</b>
2) Stores & Spares				
Stores & Spares	<b>51.65</b>		<b>33.40</b>	
Consumables	<b>0.28</b>		<b>0.00</b>	
Stores over head S.S	<b>0.37</b>		<b>0.32</b>	
Consumption of Packing Material	<b>13.21</b>		<b>6.10</b>	
		<b>65.50</b>		<b>941.94</b>
		<b>1542.14</b>		<b>941.94</b>

**SCHEDULE-15**
**EMPLOYEES REMUNERATION & BENEFITS**

1) Salaries,Wages,Bonus,Gratuity, incentives & other allowances includes Rs.7452364.00( previous year 7452360.48) being amortization of VRS expenses	<b>494.76</b>		<b>400.11</b>	
2) Company Contribution to Provident Fund	<b>24.53</b>		<b>16.30</b>	
3) Family Pension Fund & other funds	<b>10.52</b>		<b>11.45</b>	
4) Gratuity payments including premium for	<b>0.00</b>		<b>0.00</b>	
5) Group Gratuity cum Life Assurance Scheme	<b>153.26</b>		<b>34.22</b>	
6) Provision of Leave Encashment	<b>72.08</b>		<b>25.44</b>	
7) Company Contribution to ESI	<b>0.99</b>		<b>0.61</b>	
8) <b>Employees welfare expenses</b>	<b>0.00</b>		<b>0.00</b>	
- Medical amenities	<b>18.87</b>		<b>6.79</b>	
- Educational amenities	<b>2.53</b>		<b>2.83</b>	
- Canteen aminites	<b>15.12</b>		<b>16.15</b>	
- Other welfare expenses	<b>4.80</b>		<b>4.57</b>	
9) <b>Director's Remuneration</b>	<b>0.00</b>		<b>0.00</b>	
Salary and allowances(including Leave Travel	<b>10.26</b>		<b>6.42</b>	
Allownace, Leave Encashment and Medical Exp.	<b>0.00</b>		<b>0.00</b>	
Company's contribution to Provident Fund	<b>0.85</b>		<b>0.48</b>	
		<b>808.56</b>		<b>525.37</b>


**SCHEDULE -16**

<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs

**MANUFACTURING, ADMN, & SELLING EXPENSES**

1) Power	318.03		233.82	
2) Fuel	184.74		125.60	
3) Water Charges	53.66		43.85	
4) Rent	4.79		3.24	
5) Rates & Taxes	5.20		4.22	
6) Repairs and Maintenance				
To Building	0.00		0.00	
To Machinery	2.20		0.14	
To Other Assets	8.39	10.59	5.07	5.21
7) Insurance		7.95		20.47
8) Travelling Expenses	3.42		4.11	
9) Tours and travels	0.58	4.00	1.29	5.40
10) Conveyance	4.81		7.01	
11) Transport	44.23	49.04	38.60	45.61
12) Auditors Remuneration				
- Audit Fee	0.60		1.30	
- Tax Audit Fee	0.25		0.25	
- Other Fees	0.24	1.09	0.24	1.79
13) Professional charges		80.20		6.23
14) Printing & Stationery		1.99		3.23
15) Postage & Telephone				
Postage	0.75		3.98	
Telephones	4.91	5.66	4.42	8.40
16) Security Service Charges		13.38		7.22
17) Job work expenditure		8.88		3.93
18) Other Misc.Expenses				
Misc.Expenses	1.20		0.17	
Books & Periodicals	0.00		0.01	
Board Meeting Expenses	2.29		2.91	
Training & seminar	0.04		0.00	
Freight	1.39		1.02	
Membership & Subscription	0.16		0.16	
Office Electricity	0.93		0.90	
19) PF Admn. / Inspection charges	0.59	6.60	0.51	5.68
20) Advertisement & Publicity		4.24		0.59
21) Reserch Development		1.40		0.00
22) Entertainment Expenses		1.21		0.99
23) Office Maintance		2.19		1.29
<b>Total</b>		<b>764.84</b>		<b>526.76</b>



	<b>As at 31-03-2011</b>		<b>As at 31-03-2010</b>	
	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs	Rs. in Lacs
<b><u>SCHEDULE -17</u></b>				
<b>INTEREST AND FINANCING CHARGES</b>				
1) Interest - SBH		<b>70.93</b>		<b>73.99</b>
2) Interest on Working Capital		<b>51.81</b>		<b>45.48</b>
3) Interest on secured loan-HOC		<b>135.99</b>		<b>128.97</b>
4) Interest on Others		<b>20.01</b>		<b>12.96</b>
5) Bank Charges		<b>3.92</b>		<b>8.68</b>
		<u><b>282.66</b></u>		<u><b>270.09</b></u>
<b><u>SCHEDULE -18</u></b>				
<b>LOSS ON DELETED / DISCARDED ASSETS</b>				
		<u><b>0.00</b></u>		<u><b>0.00</b></u>
		<u><b>0.00</b></u>		<u><b>0.00</b></u>
<b><u>SCHEDULE -19</u></b>				
<b>A) PRIOR PERIOD EXPENSES</b>				
1) Rates & Taxes		<b>0.00</b>		<b>0.05</b>
2) Transport		<b>0.45</b>		<b>0.00</b>
3) VAT		<b>13.54</b>		<b>0.00</b>
4) Office Maintenance		<b>0.48</b>		<b>0.00</b>
5) Sharepro Service		<b>0.00</b>		<b>1.01</b>
6) AP Pollution		<b>0.20</b>		<b>0.00</b>
7) Water cess		<b>0.10</b>		<b>0.00</b>
8) Professional tax		<b>0.15</b>		<b>0.00</b>
9) Security Services		<b>0.44</b>		<b>0.00</b>
10) Stores Overhead		<b>4.71</b>		<b>0.00</b>
Total		<u><b>20.08</b></u>		<u><b>1.06</b></u>
<b>B) PRIOR PERIOD INCOME</b>				
1) Sundry Debtors & Creditors		<u><b>23.24</b></u>		<u><b>0.00</b></u>
		<u><b>23.24</b></u>		<u><b>0.00</b></u>
		<u><b>(3.16)</b></u>		<u><b>1.06</b></u>

**SCHEDULE 20****NOTES ON ACCOUNTS:****PART A: SIGNIFICANT ACCOUNTING POLICIES:****1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS:**

The Accounts have been prepared on accrual basis unless stated otherwise under historical cost convention and in accordance with the accounting standards issued by ICAI and provisions of Companies Act. The deviations from the above are stated in the notes.

**2. FIXED ASSETS:**

- 2.1. Fixed assets (including capital work-in-progress) are accounted at cost, net of modvat credit.
- 2.2. Machinery spares procured for maintenance of machinery are taken as Stock of spares and are valued as closing stock at cost.
- 2.3. In respect of Plant and machinery, the routine expenditure for repairs of the plant and machinery are charged to P & L Account. Only significant items of separate identity capable of enhancing Life and capacity of the machinery are capitalized at cost inclusive of installation cost.
- 2.4. Constructed and fabricated capital assets are capitalized as and when the plant is put into commercial production.
- 2.5. Expenditure during construction period including interest on loans borrowed is included in the Capital cost.
- 2.6. Machinery, Spares relating to a particular Machinery are capitalized to fixed assets and those of general in nature are taken to closing stock.

**3. DEPRECIATION**

- 3.1. Depreciation is provided on Straight-Line Method in accordance with Schedule XIV of the Companies Act, 1956, as amended, treating plant and machinery as continuous process plant.
- 3.2. Depreciation on assets costing less than Rs.5000/- is provided at 100%.

**4. VOLUNTARY RETIREMENT SCHEME (VRS)**

- 4.1. The Company has introduced Voluntary Retirement Scheme in accordance with BIFR Modified Draft Rehabilitation Scheme. The Company followed the policy guidelines issued by BIFR by amortizing the VRS payment over a period of 3 years.

**5. REFURBISHMENT EXPENDITURE**

The company has followed the policy of amortizing refurbishment expenditure met on Plant and Machinery over a period of five years from the year of expenditure. This is in accordance with the BIFR Modified Draft Rehabilitation Scheme.

**6. REVENUE RECOGNITION**

- 6.1. Sales are recognized when all significant risks and rewards of ownership have been transferred to the buyer. Gross value of sale is recognized and the Excise Duty is later on shown as deduction. In case of development projects / research income, revenue is recognised on achieving the set of milestone or targets.
- 6.2. Export incentives under various schemes are recognized as Income on certainty of realization.
- 6.3. Sale of realizable scrap is accounted on receipt basis.
- 6.4. Insurance claims are accounted on accrual basis on admission of claims.

**7. INVENTORIES**

- 7.1 The closing stock of raw materials, stores and spares are valued at cost by adopting weighted average method after giving due credit for VAT or net realizable value which ever is less. Stock-





in-process (intermediate products) and finished goods are valued at cost or net realizable value whichever is lower after giving due credit for VAT. However, the CERs confirmed by UNFCCC are valued as finished goods at market price of CERs in the international Stock Exchange of CERs at the year end date after considering some margin.

7.2. Excise duty payable on finished goods manufactured but not removed is included in the Valuation of such stocks.

7.3. By-products are valued at NIL value.

#### **8. RETIREMENT BENEFITS**

8.1. In respect of gratuity the company has taken an Insurance Policy with Life Insurance Corporation of India to cover the gratuity that may be payable to employees on retirement. The premium on the policy is being charged to Profit and Loss account.

8.2. Leave encashment, gratuity and other retirement benefits are accounted on accrual basis and provided in books of accounts on the basis of actuarial valuation.

8.3. Contributions to Provident Fund are charged to P& L A/c on accrual basis.

8.4. Bonus is provided as per Payment of Bonus Act 1965.

#### **9. FOREIGN CURRENCY TRANSACTIONS:**

9.1. Foreign currency transactions are accounted for at the exchange rates prevailing on the date of transaction.

9.2. Fixed assets are translated at the exchange rates on the date of transaction. The exchange difference in each financial year, up to the period of settlement is taken to profit and loss account.

9.3. The monetary items in foreign currencies are translated at the closing exchange rate on the date of balance sheet and gains/losses thereon adjusted in the profit and loss account

#### **10. SUNDRY DEBTORS:**

10.1. Provision for doubtful debts/loans/advances : Full provision for the doubtful debts is made in the books in respect of debtors outstanding for more than 3 years except Govt. Debts. In respect of cases under Civil suits/tribunals for recovery of dues which are yet to be decided, Provisions are made to the extent considered necessary by the Management.

#### **11. CONTINGENT LIABILITIES**

11.1. Claims against the company not acknowledged as debts relating to normal business transactions and show cause notices/demands raised by authorities disputed by the company are treated as Contingent Liabilities and necessary disclosures are made as per AS-4. Wage revision amount due to employees quantified on estimated basis is treated on contingent liability.

#### **12. PRIOR PERIOD/PRE-PAID EXPENSES**

12.1 Prior period and prepaid expenses are recognized taking the cut off date as 31<sup>st</sup> March of the financial year.

#### **PART B:**

##### **NOTES ON ACCOUNTS:**

1. The Company entered into a lease-cum-sale agreement with Andhra Pradesh Industrial Infrastructure Company (APIIC) in April 1986 for the land acquired by APIIC under the Land acquisition act and allotted 146.13 acres to the company. Subsequently the title in respect of the land had been transferred in favour of the company.

##### **2. SECURED LOANS:**

2.1 Cash Credit, ILC/FLC/BG, Short Term Corporate Loan and Long Term Loan facilities from State Bank of Hyderabad is secured by hypothecation of raw materials, stock-in-process, finished



- goods, consumable stores, book debts, Buildings, Plant and Machinery and Company's Land (Ac.64.00 cents out of the total land of Ac 146.13 cents at Rudraram Village).
- 2.2 Cash Credit, ILC/FLC/BG, Short Term Corporate Loan and Long Term Loan facilities from State Bank of Hyderabad are guaranteed by the holding company, viz. Hindustan Organic Chemicals Ltd.
  - 2.3. An amount of Rs.3874.22 lacs (Previous year Rs.3753.17 lacs) is due to Hindustan Organic Chemicals Limited (HOCL) including Rs.121.06 lacs (Previous year Rs.128.97 lacs) provided during the year as interest on HOCL loan for which 1<sup>st</sup> Charge was created on Company's land (Ac. 82.00 cents of land out of the total land of Ac 146.13 cents at Rudraram Village).
  - 2.4 The company has provided an amount of Rs.135.99 lacs towards interest on HOCL Loan. However no interest was provided for loan amount of Rs.2609.72 lacs pursuant to BIFR Modified Draft Rehabilitation Scheme.
  - 2.5 During the year an amount of Rs.130.00 lacs was received from HOCL (Holding Co.) as Unsecured Loan and interest to the extent of Rs.14.93 accrued on the loan.

**3. FIXED ASSETS:**

- 3.1. The Company entered into a lease-cum-sale agreement with Andhra Pradesh Industrial Infrastructure Company (APIIC) in April 1986 for the land acquired by APIIC under the Land acquisition act and allotted to the company. Subsequently the title in respect of the land had been transferred in favour of the company in the year 1999-2000.
- 3.2. During the year the company has recognized an addition of Rs.1250.00 lacs in the head Plant and Machinery pursuant to BOT contract dated 14.8.2007 entered with M/S SRF LTD. As per the terms of the contract the CDM Project is to be implemented with terms and conditions.

The terms and conditions in brief are as under:

- a. SRF Ltd. shall procure and install the CDM Plant for a contract price of Rs.1250.00 lacs. the plant is used for incinerating R-23 gas to claim for CERs from UNFCCC.
- b. The Plant shall be handed over to the company after the Mechanical run and commissioning of the system.
- c. During the year 2010-11 the mechanical completion and commissioning of the plant was completed in April 2010 (7th April, 2010) and handed over to the company.

Pursuant to the above the company had capitalised Rs.1250.00 lacs as Plant and Machinery addition during the year. Along with the above addition the company had capitalised the below amounts as addition to the fixed assets.

Plant and Machinery	Rs.260.70 lacs
Furniture and Fixtures	Rs. 1.91 lacs
Computers along with software	Rs. 14.14. lacs

Machinery spares are accounted in closing stock as they are of general usage.

- 3.3 No impairment of assets is done during the current financial year as per AS-28.

**4. INVENTORIES:**

- 4.1 During the year the company reported the closing inventory of Rs.2081.07 lacs. Out of the total the stock-in-process amounts to Rs.65.86 lacs has detailed under and CER's stock was valued at Rs.1697.07 lacs.

The company had included the following in closing stock-in-process: (Rs. in lacs)

CFM – 22 Product	20.32
TFE	3.92
POLY-SUSPENSION	33.94
POLY-EMULSION	7.68
<b>TOTAL</b>	<b>65.86</b>



With regard to CERs (Carbon Emission Reductions), they are the Credits issued by UNFCCC (United Nations Framework Convention on Climate Change) to the company for successful reduction / incineration of R-23 gas. R-23 gas falls in the list of gases having potential of global warming and is eligible category of Carbon Credits as per the KYOTO Protocol. Hence the company is eligible for claiming Carbon Credits after the incineration of the R-23 gas. In the previous year, the company incinerated R-23 gas with technology help with BOT Contractor SRF Ltd. (vide Built-operate-transfer agreement dated (14-8-2007) and filed the data to UNFCCC for getting Carbon Credits (CERs)

During the current financial year 2010-11, UNFCCC confirmed 420793 CERs to the company in its site ([www.unfccc.int](http://www.unfccc.int)) after deducting 2% i.e., 8588 CERs as adaptation fund deduction. Of the above CERs received, the company had forgone 210652 CERs as instalments payment to SRF Ltd., for the Plant and Machinery as per the BOT agreement of Plant & Machinery entered 14<sup>th</sup> August, 2007. After the above outflow of CERs, the company is left with 210142 CERs treated as finished closing stock. The value of the CERs is taken at Rs.169706945/- adopting the value of 1 CER in the International Exchange as on 31-03-2011 at 13.07 Euros and taking the Euro value at Rs.63.05 in terms of INR and valued at 98% of the total value (considering 2% margin for valuation)

- 4.2. Excise duty on closing finishing goods in respect of goods manufactured by the company amounting to Rs.5.34 lacs (previous year 5.47 lacs) is included in the valuation of such stocks.
- 4.3. During the current year finished goods, which have not moved for more than 3 years are valued at Rs.1.00/kg and the consequential difference in value is Rs.0.00 lacs (Previous year Rs.0.00 lacs).

#### **5. SUNDRY DEBTORS:**

- 5.1. Debtors for the year amount to Rs.284.17 lacs net of provision for doubtful debts provided for Rs.309.64 lacs.

#### **6. LOANS AND ADVANCES:**

- 6.1 Telephone deposits amounting to Rs.0.57 lacs pertains to more than 3 years period. No provision is made against this as it is recoverable in nature.

#### **7. CURRENT LIABILITIES :**

- 7.1 Sundry Creditors includes Rs.2.23 lacs payable to Micro and small enterprises as against nil amount in the previous year. No interest is payable on the above amount.
- 7.2 Creditors for capital goods include an amount of Rs.862.25 lacs is payable to M/S SRF Ltd towards supply and erection of Plant and Machinery relating to CDM Project. The total outstanding amount as per contract for plant and machinery supply and mechanical completion is Rs.1250.00 lacs. As per the terms of BOT Contract dated 14-8-2007, the payment is to be made in form of CERs. The Contract equated Rs.1250.00 lacs to 6,59,500 CERs in 5 instalments of 131900 each. However, the total instalments are reduced to 4.13 and the company transferred 210652 CERs as 1.32 instalments and valued them Rs.399.26 lacs. The balance Rs.850.74 lacs is payable in balance 2.81 instalments as per revised contract terms equalant to 448848 CERs.
- 7.3 Amounts payable to PF, Property Tax, Nala Tax, AP Commercial Tax pertain to more than one year payables.
- 7.4 Wage Revision (1997) settlement arrears pertaining to employees are not provided in the books of accounts since the arrears are payable only when the company generates adequate surplus of funds. However, it is considered as Contingent liability in the Financial Statements on an estimated amount basis.

#### **8. EMPLOYEES' BENEFIT PLANS:**

- 8.1 Both employer and employees make monthly contributions of 10% each to a separately managed exempted EPF Trust.



8.2 Employees Gratuity Fund Scheme is managed a separate Trust maintained with LIC of India through annuity scheme. The present value of the obligation is determined by actuarial valuation using projected unit credit method which recognizes the period of service proportionate to unit of employee benefits.

#### PARTICULARS OF RECONCILIATION:

1. Present value of obligation at beginning of the year	Rs.143.03 lacs
2. Interest cost	Rs.13.07 lacs
3. Benefits paid	Rs.(6.75) lacs
4. Current service cost	Rs. 0.28 lacs
5. Closing Balance(fund)	Rs.149.63 lacs

During the year the company made current year provision of Rs.150.67 lacs in the books of accounts thereby the total provision accumulated to Rs.278.65 lacs at the end of the year.

#### 8.3 PROVISION FOR LEAVE ENCASHMENT:

An amount of Rs.147.98 lacs is provided as provision for the period ended 31.3.2011 (previous year Rs.86.10 lacs). This provision is made as per revised AS-15 issued by ICAI

#### 9. INCOME:

9.1. Income for the company consist of sales (taken at gross) and later net of exsice duty and other income. In accounting sales the company had deducted an amount of Rs.89059.00 as trade discount on sale of CFM which is passed by way of journal entry and not in the invoices raised.

9.2. The other income of the company includes sale of CERs, job work of Vikram Sarabhai Space Centre (VSSC) and others. The company accounted for sale of CERs during the year. During the current financial year 210652 CERs received by the company are transferred to M/S SRF Ltd against payment of instalment for CDM Plant and 9587.62 CERs are deducted while issuing by UNFCCC against adaptation fund. The transferred CERs are considered as income as the risk and reward was transferred and reported under the head other income as 'CERs Sale' valued at Rs.399.26 lacs. The CERs given to SRS Limited are valued as per the BOT Agreement, dated 14-08-2007 wherein, the company equated Rs.12,50,00,000 (total cost of Plant & Machinery and Installation / commissioning cost of the CDM Plant and Machinery) to Rs.6,59,500 CERs in the contract. The CERs given to UNFCCC are valued at the market price in Stock Exchange of CERs on the date of such deduction by UNFCCC.

9.3. The company entered into a MOU with Vikram Sarabhai Space Centre (VSSC) in Financial Year 2009-10 for research and development of certain chemical compounds. As per the MOU it is a tripartite MOU with each party having its own mile stones and responsibilities. The company income amounted to Rs.40.00 lacs in the MOU. The company raised invoice of Rs.20.00 lacs from VSSC in financial year 2009-10 and received the same in the current financial year 2010-11 and the second invoice was raised for Rs.15.00 lacs in the financial year 2010-11. The company treated the amount received in financial year 2009-10 amounting to Rs.20.00 lacs as prior paid income and Rs.15.00 lacs received in the year 2010-11 as 'miscellaneous income'. The company accounted the amount received from VSSC as income as the milestones were achieved and also as the agreement with VSSC does not contain clauses of any refund of money to VSSC.

#### 10. VRS EXPENDITURE

10.1 An amount of Rs.223.57 lacs had incurred towards VRS payments for 31 employees in accordance with BIFR's Modified Draft Rehabilitation Scheme(MDRS) in Jan 2009. This amount



is amortized and taken to P & L Account over a period of 3 years. (Rs.37.26 in 2008-09, Rs. 74.52 lacs in 2009-2010, Rs.74.52 Lacs in 2010-11 included in Schedule-15 ) the balance of Rs.37.27 Lacs will be amortised in the next financial year 2011-12. This is in accordance with BIFR's Modified Draft Rehabilitation Scheme (MDRS). As per AS-15 issued by ICAI , VRS expenditure is to be written off over the pay back period only and cannot be amortised. However the company is following the BIFR Scheme.

### 11. REFURBISHMENT EXPENDITURE:

11.1 An amount of Rs.285.14 lacs has been incurred towards Refurbishment Expenditure on Plant and Machinery. This amount is amortised over a period of 5 years. Till the financial year 2010-11 Rs.180.01 lacs was taken to P & L Account and balance will be charged to P & L Account for the next two years in accordance with BIFR's Modified Draft Rehabilitation Scheme (MDRS). As per AS-6 issued by ICAI, any expenditure incurred for improvement in performance of the Plant & Machinery, should be capitalized and depreciated accordingly as per Schedule –XIV applicable to the Company. However the Company is following the guide lines contained in the BIFR's MDRS in this matter deviating from AS-6 issued by ICAI.

### 12. CONTINGENT LIABILITIES NOT PROVIDED FOR:

	2010-11 Rs.in lacs	2009-10 Rs.in lacs
A Claims against the Company not acknowledged as debts.	12.01	12.01
B FLC/ILC Obtained as on 31-03-2010	0.00	0.00
C E S I	13.46	13.46
D Wage Revision(1997) settlement -Salary arrears for Officers on estimated basis	700.00	600.00
E Wage Revision(1997) settlement -Salary arrears for Non-officers	1100.00	1100.00
<b>TOTAL</b>	<b>1825.47</b>	<b>1725.47</b>
7 Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances).	0.00	0.00
8 Expenditure incurred in foreign currency	NIL	NIL

13. Unpaid overdue amounts due on 31<sup>st</sup> March, 2011 to Small Scale/Ancillary Industrial suppliers on account of principal amount together with interest aggregated to Rs.0.00 lacs (Previous year Rs.0.00 lacs). This disclosure is based on information available with the company with regard to the status of the suppliers as defined under interest on delayed payments to Small Scale and Ancillary Industries Undertaking Act, 1993.

14. Balance standing to the debit/credit of parties is subject to confirmation by them and reviews by the Company.

15. As required by Accounting Standard 20 issued by the Institute of Chartered Accountants of India, the reporting in respect of Earning per Share (EPS) is as follows:

	2010-11 Rs.in lacs	2009-10 Rs.in lacs
Profit / Loss available to equity shareholders	223.47	306.26
Weighted average no of equity share for basic EPS	No. 19599100	No. 19599100
Normal value of equity shares	Rs.10.00	Rs.10.00
Basic earning per equity share	Rs.1.14	Rs.1.56


**16. ACCOUNTING FOR TAXES:**

- 16.1. The company has not provided deferred tax asset/liability due to huge accumulated losses in the balance sheet and is uncertain of realizing deferred tax asset against future taxable income.
17. Statutory Auditors' remuneration for Statutory Audit is Rs.0.60 lacs and Limited review fee of Rs.0.24 lacs.

**18. Quantitative details regarding consumption of Raw Materials :**

	2010-11		2009-10	
	Qty MT.	Value Rs.in lacs.	Qty MT.	Value Rs.in lacs
a. AHF	706.380	540.04	526.69	431.83
b. Chloroform	2010.49	743.14	1487.305	373.62
c. RM-258	490.50	87.19	0.00	0.00
d. Others		171.78		136.49
<b>TOTAL</b>		<b>1542.15</b>		<b>941.94</b>

**Consumption of Raw Materials:**

	2010-11		2009-10	
	Rs.in lacs	% of Total consumption	Rs.in lacs	% of Total consumption
a. Imported	0.00	0.00	0.00	0.00
b. Indigenous	<b>1542.15</b>	<b>100.00</b>	<b>941.94</b>	<b>100.00</b>
Total	<b>1542.15</b>	<b>100.00</b>	<b>941.94</b>	<b>100.00</b>

**19. Quantitative information about capacity, production, stock and sales :**

	2010-11		2009-10	
	Qty MT.	Value Rs.in lacs.	Qty MT.	Value Rs.in lacs
<b>A. PTFE</b>				
Licensed capacity	500TPA*	—	500TPA*	—
Installed capacity	500TPA*		500TPA*	
Opening stock	14.17	58.62	4.142	21.71
Production	124.583		85.88	....
Captive Consumption	0.00		-	-
Sales	130.212	823.19	75.85	353.27
Closing Stock	8.541	57.18	14.17	58.62
<b>B.CFM-22</b>				
Licensed capacity	1265 TPA*	-	1265 TPA*	-
Installed capacity	1265 TPA*	-	1265 TPA*	-
Opening stock	56.548	71.98	64.66	83.55
Production	1265.00		940.50	-
Captive Consumption	900.01		637.11	-
Sales	405.49	910.22	311.50	653.86
Closing Stock	16.05	20.32	56.548	71.98

\* As certified by the Management and relied upon by the auditors, being a technical matter.

	2010-11 Rs.in lacs	2009-10 Rs.in lacs
20. a) CIF value of imports of Raw materials and Stores and Spares.	0.00	29.48
b) FOB Values of Exports	0.00	0.00


**21. Managerial remuneration included in employee's remuneration and benefits**

Managing Director	2010-11 Rs.in lacs	2009-2010 Rs.in lacs
Salary	8.52	4.83
Accommodation Rental	1.75	1.57
Medical reimbursement	0.04	0.04
Company Contribution to PF	0.85	0.48
Leave Travel Allowance	0.00	0.00
Total	11.16	6.92
Less: Conveyance recovery	(0.05)	(0.02)
<b>TOTAL</b>	<b>11.11</b>	<b>6.90</b>
<b>Managing Director's Remuneration for the period from 01-04-2010 to 31-03-2011</b>		

**22. RELATED PARTIES DISCLOSURE:**

The company is a subsidiary of HOCL (HINDUSTAN ORGANIC CHEMICALS LIMITED)  
 Interest payable to HOCL Rs.135.99 lacs  
 Secured Loan from HOCL (including interest) Rs.4019.15 lacs

**KEY MANAGEMENT PERSONNEL:**

SHRI T S GAIKWAD, Managing Director

**23. SEGMENT REPORTING:**

The company is in full-fledged manufacturing activity of Chemicals. There are no separate Primary and Secondary reportable segments. All the manufacturing activity is considered as Single segment.

**24. PRIOR PERIOD ITEMS:**

During the year the company had net off Rs.20.08 lacs prior period expense with Rs.23.24 lacs of prior period income and reported a net prior period income of Rs.3.16 lacs. The prior period income is the unpaid liabilities/unclaimed liabilities for more than 3 years.

**25. LITIGATIONS AT VARIOUS AUTHORITIES:**

Sl.No.	Authorities	Nature of Litigations	Quantam	Remarks
1	Hon'ble High Court of A.P	Recovery from Debtors	Rs.132.00 lacs	The company had a favorable judgment from the single bench. The deponent had approached full bench of High Court.
2	Dy.Commissioner of Appeals, VAT	Penalty u/s 53(3) of A.P.Vat Act, 2005 F.Y. 2010-11.	Rs.19.00 lacs	The case is yet to come for first hearing. Not provided in the books of accounts.

26. Previous year figures have been regrouped/reclassified/recast wherever necessary to conform to current year's classification.

As per our report of even date.

for **SIVA KRISHNA & NARAYAN**  
**Chartered Accountants**

Sd/-  
**(R.V.N. SASTRY)**  
 Partner  
 M.No.206635

PLACE: MUMBAI  
 DATE : 21-5-2011

**For and on behalf of the Board of Director of HFC Ltd.**

Sd/- Sd/- Sd/-  
**(R N MADANGERI)** **(M K MITTAL)** **(T S GAIKWAD)**  
 Chairman Director Managing Director

Sd/- Sd/-  
**(E SURYA RAO)** **(K. RAJANI)**  
 DY.General Manager (Finance) Company Secretary



27. Information as required under Part-IV of the Schedule VI to the Companies Act, 1956.

**Balance Sheet Abstract and Companies General Business Profile:**

**I. Registration Details:**

Registration No. 0111-14101317 State Code 011  
 Balance Sheet 311 03 210111  
 Date Month Year

**II. Capital Raised during the year (Amount in Rs.Thousands)**

Public Issue NITIL Rights Issue NITIL  
 Bonus Issue NITIL Private Placement NITIL

**III. Position of Mobilisation and Deployment of Funds (Amount in Rs.Thousands)**

Total Liabilities 9101911817 Total Assets 9101911817

**Sources of Funds**

Paid-up Capital 1191611416 Reserves & Surplus NITIL  
 Secured Loans 4191041915 Unsecured Loans NITIL

**Application of Funds**

Net Fixed Assets 1161110115 Investments NITIL  
 Net current Assets 0411191212 Misc.Expenditure 116101213  
 Accumulated Losses 41617161811

**IV. Performance of Company (Amount in Rs.Thousands).**

Turnover 3315121412 Total Expenditure 31515131816  
 Profit Before Tax 212101311 Profit After Tax 212101311

**V. Earning per Share in Rs.** 11.114

Dividend Rate % NITIL

**VI. Generic Names of Three Principal Products/Services of the Company (as per monetary terms)**

Item Code No (ITC Code) : 0101319101416101010  
 Product description : FLUOROPOLYMERS (PTFE etc.,)

**For and on behalf of the Board of Director of HFC Ltd.**

for **SIVA KRISHNA & NARAYAN**  
**Chartered Accountants**

Sd/-  
**(R.V.N. SASTRY)**  
 Partner  
 M.No.206635

Sd/-  
**(R N MADANGERI)**  
 Chairman

Sd/-  
**(M K MITTAL)**  
 Director

Sd/-  
**(T S GAIKWAD)**  
 Managing Director

PLACE: MUMBAI  
 DATE : 21-5-2011

Sd/-  
**(E SURYA RAO)**  
 DY.General Manager (Finance)

Sd/-  
**(K. RAJANI)**  
 Company Secretary





	<b>2010-2011</b> Rs. in Lacs	<b>2009-2010</b> Rs. in Lacs
<b><u>CASH FLOW FROM OPERATING ACTIVITIES:</u></b>		
<b>Net Profit before taxation and Extraordinary items</b>	220.31	307.32
Adjustments for :		
Depreciation	94.16	27.46
Loss on deleted / discarded assets	0.00	0.00
VRS Payment written off during the year	74.52	74.52
Refurbishment expenditure written off	61.49	61.49
<b>Operating Profit before working capital changes</b>	<u>450.48</u>	<u>470.79</u>
Adjustments for		
Increase / (Decrease ) in.Inventories	(236.43)	(759.89)
Increase /(Decrease) in Sundry Debtors	(87.95)	(187.26)
Increase/(Decrease) in Other current Assets	0.00	0.00
Increase/(Decrease) in Loans and Advances	(24.87)	(64.89)
Increase /(Decrease) in Working Capital borrowings	(14.12)	120.18
Increase/(Decrease) in Current Liabilities & provisions	<u>1083.96</u>	<u>297.42</u>
<b>Cash generated from operations</b>	1171.07	(123.65)
Direct taxes paid	<u>0.00</u>	<u>0.00</u>
Cash flow before extraordinary items	0.00	0.00
Prior Period( Income)/Expense	3.16	1.06
<b>Net Cash flow from Operating activities</b>	1174.23	(122.59)
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>		
Purchase of fixed assets	(1292.14)	(77.70)
Amount incurred for VRS PAYMENT	0.00	0.00
Amount incurred for Refurbishment Expenditure	<u>0.00</u>	<u>(17.82)</u>
VRS & Refurbishment Expenditure	117.90	(95.52)
<b><u>CASH FLOW FROM FINANCING ACTIVITIES</u></b>		
Increase Secured Loans	(29.16)	194.56
Increase in Unsecured Loans	144.93	0.00
Cash and Equivalents as Op.balance	8.17	33.84
Cash and Equivalents as Cl.Balance	6.04	8.17

Previous year figures have been regrouped / reclassified wherever necessary to conform to current year's classification.

Place : HYDERABAD	Sd/- <b>(T S GAIKWAD)</b>	Sd/- <b>(E SURYA RAO)</b>	Sd/- <b>(RAJANI .K)</b>
DATE : 21-5-2011	Managing Director	Dy.General Manager (Finance)	Company Secretary



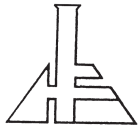
## **AUDITORS' REPORT**

We have examined the attached cash flow statement of M/s Hindustan Fluorocarbons Limited for the year ended on 31<sup>st</sup> March 2011. The statement has been prepared by the company in accordance with the requirement of clause 32 of the listing agreement with concerned stock exchange and is based on and in agreement with the corresponding Profit and Loss A/c and Balance Sheet of the company covered by our report Dt. 21-05-2011 to the members of the company.

For **SIVA KRISHNA & NARAYAN**  
**Chartered Accountants**

Place: Mumbai  
Date : 21.5.2011

Sd/-  
**(R.V.N. SASTRY)**  
Partner  
M.No.206635



**HINDUSTAN FLUOROCARBONS LIMITED**

Regd. Office: 1402, Babukhan Estate, Basheerbagh, Hyderabad - 500 001

**ATTENDANCE SLIP**

28<sup>th</sup> Annual General Meeting on Friday the 12<sup>th</sup> August, 2011.

Name of the Shareholder(s) \_\_\_\_\_

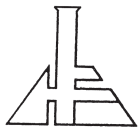
Folio No. \_\_\_\_\_

I certify that I am Registered Member/Proxy for the Registered Member of the Company. I hereby record my presence at the **28<sup>th</sup> ANNUAL GENERAL MEETING** of the company at the Press Club, Deshodharaka Bhavan, 5-9-60/B, Fateh Maidan, Hyderabad – 500 001 at 3.00 pm on Friday the 12<sup>th</sup> August, 2011.

\_\_\_\_\_  
(Member's Proxy Name)

\_\_\_\_\_  
Member's/Proxy's Signature

-----Tear Here -----



**HINDUSTAN FLUOROCARBONS LIMITED**

Regd. Office: 1402, Babukhan Estate, Basheerbagh, Hyderabad - 500 001

**FORM OF PROXY**

28<sup>th</sup> Annual General Meeting, on Friday the 12<sup>th</sup> August, 2011.

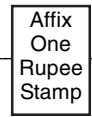
Name of Shareholder(s) \_\_\_\_\_ Folio No. \_\_\_\_\_

No. of Shares \_\_\_\_\_

I/We \_\_\_\_\_ of \_\_\_\_\_ being a Member(s) of the above vote for me/us behalf of the **28<sup>th</sup> ANNUAL GENERAL MEETING** of the company at the Press Club, Deshodharaka Bhavan, 5-9-60/B, Fateh Maidan, Hyderabad – 500 001 at 3.00 pm on Friday the 12<sup>th</sup> August, 2011.

Signed \_\_\_\_\_ day of \_\_\_\_\_ 2011

Signature \_\_\_\_\_

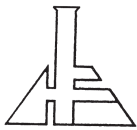


Note: This proxy form duly completed should be deposited at the Registered Office of the company mentioned above not less than 48 (Forty Eight) hours before the time of holding the meeting.

**BOOK - POST  
PRINTED MATTER**

Vimal Printers, Gandhinagar, Hyderabad. Cell: 98491 60301.

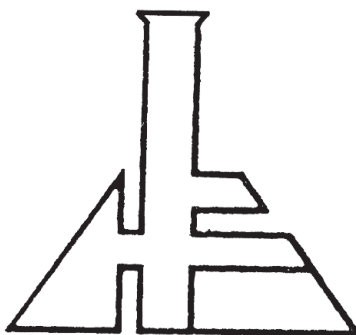
*If undelivered, Please return to*



**HINDUSTAN FLUOROCARBONS LIMITED**

1402, Babukhan Estate,  
Basheerbagh,  
Hyderabad - 500 001.

**28<sup>th</sup>**  
**ANNUAL REPORT**  
**2010 - 2011**



**HINDUSTAN FLUOROCARBONS LIMITED**

## **CONTENTS**

Notice	1
Chairman's Speech	3
Directors' Report	5
Auditors' Report	31
C&AG Comments	36
Balance Sheet	37
Profit and Loss Account	38
Schedules	39
Abstract and Business Profile	56
Cash Flow Statement	57

## **BOARD OF DIRECTORS**

<b>Shri A S Didolkar</b> Chairman	HOCL Nominee (Up to 31.08.2010)
<b>Shri R N Madangeri</b> Chairman / Director	HOCL Nominee (From 01.02.2008)
<b>Shri T S Gaikwad</b> Managing Director	From 01.01.2008
<b>Shri S W Oak</b> Director	BIFR Nominee (Upto 21.09.2010)
<b>Dr. B D Kulkarni</b> Director	HOCL Nominee
<b>Shri P S Singh</b> Director	Govt. of India Nominee (From 18.10.2010 to 31.05.2011)
<b>Shri Sanjay Bansal</b> Director	Govt. of India Nominee (Up to 13.08.2010) (From 31.05.2011)
<b>Shri M K Mittal</b> Director	HOCL Nominee (From 05.05.2010)
<b>Shri S V Kanaka Seshu</b> Director	APIDC Nominee (From 18.10.2010)
<b>Mrs. Rajani K</b>	Company Secretary (From 19.05.2011)

## **AUDITORS**

**M/s Siva Krishna & Narayan,**  
Chartered Accountants,  
H.O.102, Abhiteja Estate, 10-2-289/120/32,  
334/2RT, P S Nagar, Masab Tank  
Hyderabad – 500 028.

## **BANKERS**

State Bank of Hyderabad,  
Gunfoundry, Hyderabad.

## **REGISTRARS & SHARE TRANSFER AGENTS**

**Share pro services (India) Pvt.Ltd.,**  
13AB,Samhita Warehousing Complex,Second Floor, Sakinaka  
Telephone Exchange Lane,  
Off Andheri Kurla Road, Sakinaka, Andheri(East), MUMBAI – 400 072.

## **REGISTERED OFFICE**

1402, Babukhan Estate,  
Basheerbagh,  
Hyderabad – 500 001

## **WORKS**

Rudraram P O, Sangareddy Tq.  
Medak Dist – 502 329  
Andhra Pradesh

### **AUDIT COMMITTEE (A.C) OF THE BOARD**

Shri. S.W. OAK	Director, Chairman A.C (Up to 21.09.2010)
Shri. S.V. KANAKA SESHU	Director, Chairman A.C (From 18.10.2010)
Shri. M.K. MITTAL	Director, Member A.C
Dr. B.D. KULKARNI	Director, Member A.C
Shri. P.S. SINGH	Director, Member A.C (Up to 31.05.2011)
Mrs. RAJANI. K, CS	Secretary to the Committee (From 19.05.2011)

### **SHARE TRANSFER COMMITTEE**

Shri. A.S. DIDOLKAR	Chairman, Chairman (Up to 31.08.2010)
Shri. R.N. MADANGERI	Chairman, Chairman (From 01.09.2010)
Shri. M.K. MITTAL	Director, Member
Mrs. RAJANI. K, CS	Secretary to the Committee (From 19.05.2011)

### **MANAGEMENT COMMITTEE**

Shri. S.W. OAK	Director, Chairman (Up to 21.09.2010)
Shri. R.N. MADANGERI	Chairman, Member
Shri. SANJAY BANSAL	Director, Member
Shri. T.S. GAIKWAD	MD, Member
Mrs. RAJANI. K, CS	Secretary to the Committee (From 19.05.2011)

### **REMUNERATION COMMITTEE**

Shri. S.V. KANAKA SESHU	Director, Chairman (From 18.10.2010)
Dr. B.D. KULKARNI	Director, Member
Shri. M.K. MITTAL	Director, Member
Mrs. RAJANI. K, CS	Secretary to the Committee (From 19.05.2011)

### **RECEIVABLE COMMITTEE**

Shri. R.N. MADANGERI	Chairman, Member
Shri. M.K. MITTAL	Director, Member
Shri. T. S. GAIKWAD	MD, Member
Mrs. RAJANI. K, CS	Secretary to the Committee (From 19.05.2011)