

Only for the members of the Company  
as on the Record Date

 **SCHENECTADY HERDILLIA** LTD. (Private and Confidential)  
(Not for Circulation)

[Incorporated on July 1, 1963 under the Indian Companies Act, 1956 as Herdillia Chemicals Limited and renamed Schenectady Herdillia Limited with effect from April 8, 2002]

**Registered Office:** 13<sup>th</sup> floor, Air India Building, Nariman Point, Mumbai 400021  
**Tel.:** 91-022-22024224, **Fax:** 91-022-22880942 / 22042379  
**E-mail:** [SHL.Mumbai@siigroup.com](mailto:SHL.Mumbai@siigroup.com), **Website:** [www.herdillia.com](http://www.herdillia.com)

## LETTER OF OFFER

**OFFER OF 1,81,31,250 EQUITY SHARES OF RS. 10/- EACH FOR CASH AT A PREMIUM OF RS. 18/- PER EQUITY SHARE ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF THREE EQUITY SHARES FOR EVERY FOUR EQUITY SHARES HELD ON RECORD DATE, I.E., OCTOBER 15, 2004, AGGREGATING RS. 5,076.75 LAKHS.**

**THE OFFER PRICE IS 2.8 TIMES OF THE FACE VALUE.**

### GENERAL RISKS

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Offer unless they can afford to take the risk of losing their investment. Investors are advised to read the Risk Factors on page no. i carefully before taking an investment decision in this Offer. For taking an investment decision, investors must rely on their own examination of the Offerer and the Offer including the risks involved. The securities have not been recommended or approved by Securities and Exchange Board of India nor does Securities and Exchange Board of India guarantee the accuracy or adequacy of this document.

### OFFERER'S ABSOLUTE RESPONSIBILITY

The Offerer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Letter of Offer contains all information with regard to the Offerer and the Offer, which is material in the context of this Offer, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

### LISTING

The existing equity shares of the Company are listed on The National Stock Exchange of India Limited ("Designated Stock Exchange") and The Stock Exchange, Mumbai. The Company has received in-principle approvals from The National Stock Exchange of India Limited by letter dated August 5, 2004; and The Stock Exchange, Mumbai by letter dated August 14, 2004 listing the securities arising from this Offer.

**Note: The attention of investors is drawn to the statement of Risk Factors appearing on page no. i of the Letter of Offer.**

#### LEAD MANAGER TO THE OFFER



**Centrum Finance Limited**  
**SEBI Regn. No:** MB/INM000010445  
**UIN :** 100016915  
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198, J. Tata Road, Churchgate,  
Mumbai 400020.  
Tel: 91-022-2202 3838  
Fax: 91-022-2204 6096 Website: [www.centrum.co.in](http://www.centrum.co.in)  
Email: [schenectadyherdillia@centrum.co.in](mailto:schenectadyherdillia@centrum.co.in)

#### REGISTRAR TO THE OFFER



**Tata Consultancy Services Limited**  
**SEBI Regn. No:** INR000000205  
**UIN :** 100044917  
Park West II, Raheja Estate,  
Kulupwadi Road, Borivali (East),  
Mumbai 400 066.  
Tel: 91- 022 -5668 9898  
Fax: 91-022 -5668 9799  
Email: [tcssharc@mumbai.tcs.co.in](mailto:tcssharc@mumbai.tcs.co.in)

**OFFER OPENS ON**

**November 2, 2004**

**LAST DATE FOR RECEIVING  
REQUESTS FOR SPLIT FORMS**

**November 17, 2004**

**OFFER CLOSES ON**

**December 2, 2004**

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**GLOSSARY OF TERMS / ABBREVIATIONS**

|   |   |
|---|---|
| Act   | The Companies Act, 1956 and amendments thereto  |
| AGM   | Annual General Meeting  |
| Articles  | Articles of Association of the Company  |
| Board /SEBI                                     | The Securities and Exchange Board of India established under provisions of Section 3 of the Act.  |
| Board of Directors                              | Board of Directors of Schenectady Herdillia Limited   |
| BSE / the Exchange                              | The Stock Exchange, Mumbai  |
| CAF   | Composite Application Form  |
| CDSL  | Central Depository Services (India) Limited   |
| Committee of Directors                          | Committee of the Board of Directors of Schenectady Herdillia Limited authorised to take decisions on matters related to / incidental to this Offer  |
| Company/ Schenectady Herdillia/ Offerer/ Issuer | Schenectady Herdillia Limited   |
| CRISIL  | The Credit Rating Information Services of India Limited   |
| CY  | Calendar Year ending on December 31   |
| DP  | Depository Participant  |
| EPS   | Earnings per share  |
| Equity Shareholders                             | Equity shareholders whose names appear as <ul style="list-style-type: none"> <li>● Beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and</li> <li>● On the Register of Members of the Company in respect of the shares held in physical form at the close of business hours on the Record Date i.e., October 15, 2004 and to whom this Offer is being made.</li> </ul> |
| Equity Shares                                   | Equity shares of the face value of Rs. 10 each offered through this Letter of Offer   |
| FEMA  | Foreign Exchange Management Act, 1999 read with rules and regulations there under and amendments thereto.   |
| FII(s)  | Foreign Institutional Investors registered with SEBI under applicable laws  |
| FIPB  | Foreign Investment Promotion Board  |
| FY  | Financial year ending March 31  |
| Gol   | Government of India   |
| HIL   | Herdillia Investments Limited / Subsidiary Company  |
| IT Act  | The Income Tax Act, 1961 and amendments thereto   |
| Lead Manager to the Offer                       | Centrum Finance Limited   |
| Letter of Offer/ Offer Document                 | This Letter of Offer circulated to the Equity Shareholders and Beneficial Owners of the Company   |
| Memorandum                                      | Memorandum of Association of the Company  |

|  |  |
|--|--|
| NA                                       | Not applicable   |
| NAV                                      | Net Asset Value  |
| NR                                       | Non-resident   |
| NRI (s)                                  | Non-resident Indians   |
| NSDL                                     | National Securities Depository Limited   |
| NSDL and CDSL                            | Depositories   |
| NSE                                      | The National Stock Exchange of India Limited / Designated Stock Exchange   |
| OCB(s)                                   | Overseas Corporate Body (ies)  |
| Offer / Rights Offer                     | Offer of 1,81,31,250 Equity Shares of Rs. 10/- each for cash at a premium of Rs. 18/- per Equity Share on rights basis to the existing Equity Shareholders of the Company in the ratio of three Equity Shares for every four equity shares held on Record Date i.e. October 15, 2004, aggregating Rs. 5,076.75 lakhs |
| Offer Price                              | Rs. 28/- per Equity Share  |
| PAT                                      | Profit After Tax   |
| RBI                                      | The Reserve Bank of India  |
| Record Date                              | October 15, 2004   |
| Registrar to the Offer/<br>Registrar/TCS | Tata Consultancy Services Limited  |
| Rights Entitlement                       | The number of Equity Shares that an Equity Shareholder is entitled to under this Letter of Offer in proportion to his/ her/ its existing shareholding in the Company as on the Record Date.  |
| SEBI Guidelines                          | SEBI (Disclosure & Investor Protection) Guidelines, 2000 read with amendments thereto.   |
| Security Certificates                    | Equity Share certificates  |
| SIHPL                                    | Schenectady (India) Holdings Private Limited/Holding Company/ Promoter Company   |
| SII                                      | Schenectady International Inc./ Ultimate Holding Company / Parent Company  |
| Six Sigma                                | A quality standard that is equivalent to generating fewer than 3.4 defects per million manufacturing operations.   |

In this Letter of Offer, any discrepancies in any table between total and the sums of the amount listed are due to rounding off. References to the singular also refer to the plural and one gender also refers to any other gender wherever applicable.

## RISK FACTORS AND MANAGEMENT PROPOSAL TO ADDRESS THE RISK

The investors should consider the following risk factors together with all other information included in this Letter of Offer carefully, in evaluating the Company and its business before making any investment decision. Any projections, forecasts and estimates contained herein are forward looking statements that involve risks and uncertainties. Such statements use forward looking terminology like “may”, “believes”, “will”, “expect”, “anticipate”, “estimate”, “plan” or other similar words. The Company’s actual results could differ from those anticipated in these forward looking statements as a result of certain factors including those, which are set forth in the “Risk Factors” below.

The Letter of Offer also includes statistical data regarding the chemical industry. This data has been obtained from industry publications, reports and other sources that the Company and the Lead Managers believe to be reliable. Neither the Company nor the Lead Managers have independently verified the data.

### Internal Factors to the Company

1. The Company has not declared Dividend for the last 3 financial years/period

**Management’s proposal to address the risk:** In view of the non availability of disposable profit, consequent upon the losses suffered by the Company during the financial year ended March 31, 2002 & carried forward losses during the period ended December 31, 2002, no dividends were declared. For the year 2003, considering the high level of debt of the company, continued reductions of product tariffs & high costs of petroleum based food stocks no dividend was recommended.

Any future declaration of dividends is subject to availability of profits and other financial and economic considerations.

2. As on September 30, 2004, the Company has unsecured loans from SIHPL amounting to Rs. 4,899 lakhs, which has a maturity period of 6 months and demand loans amounting to Rs. 6,654 lakhs from the Bank of Nova Scotia.

**Management’s proposal to address the risk:** Out of the above unsecured loans, an amount not exceeding Rs. 4,569.08 lakhs, will be converted into share application money towards Promoters rights entitlement as well as any additional shares they would subscribe to ensure minimum 90% subscription as specified in page no. 7 of the Letter of Offer. In respect of Bank of Nova Scotia loans, the same are renewed from time to time as part of sanctioned working capital facilities.

3. Following are the qualifications made, by the Statutory Auditors of the Company, in their Report for which adjustment could not be carried out.

| Auditors’ qualifications  | Response of the Company  |
|---|--|
| 1. <u>Year ended 31 March 2000</u><br><br>Note B.1(g) - Schedule 19 regarding non provision of liability on account of outstanding settlement of wage agreement expired on 31 December 1998; amount not ascertainable.  | The long term contracts between the Management and the respective unions in respect of Navi Mumbai unit expired on 31 December 1998. The Company made a prospective settlement with the Union effective 28 December 2000.  |
| 2. <u>Nine month period ended 31 December 2002</u><br><br>Note no. 7(b) of Schedule 21 (B) regarding developed process technology and purchased technical know-how aggregating to Rs 990.53 lakhs carried under capital-work-in-progress ('CWIP'). The erstwhile SSAPL has till date not been able to start rebuilding the destroyed PTBP plant. The ultimate holding company, Schenectady International Inc., however, has stated its intent to either buyback the technology or sell it to a third party. | In respect of CWIP relating to technology developed by the erstwhile SSAPL, Schenectady International Inc. ('SII') had communicated its desire to either purchase the technology or sell it to a third party. Consequently, an amount of Rs 990.53 lakhs had been carried over under CWIP in the books of the Company as at the end of the period. |

| Auditors' qualifications  | Response of the Company  |
|---|--|
| Under the circumstances, we are unable to express an opinion on the carrying value of the CWIP and the impact, if any, on the Profit and loss account.  |  |
| <p>3. <u>Year ended 31 December 2003 and six month period ended 30 June 2004</u></p> <p>As more fully explained in note 4 of Schedule 18 to the financial statements regarding CWIP aggregating to Rs 990.53 lakhs in respect of developed process technology and purchased technical know-how, the Company intends to utilise the technology on the revived project, which is being implemented. Pending completion of the project, these financial statements do not include adjustments, if any, that may be necessary to the carrying value of the CWIP and the impact, if any, on the profit and loss account.</p> | <p>In respect of CWIP relating to technology developed by the erstwhile SSAPL for the manufacture of Butyl Phenols, the Company has decided to rebuild the PTBP/ DTBP plants at Rasal. The implementation of this project, which utilizes the developed and purchased technology, is already at the advanced stage. SII, the parent company, which supplied technical knowhow, has reiterated the soundness of this technology and, accordingly, has supported the implementation of the project. As this technology is expected to contribute towards the production of an economically viable product, the amount of Rs 990.53 lakhs has been shown as CWIP in the books of the Company as at end of the period.</p> |

**Management's proposal to address the risk:** The detailed response of the Company to the qualification in the Auditors Report is as given in the column above titled 'Response of the Company'.

4. Contingent liabilities not provided for by the Company as on June 30, 2004.

As on June 30, 2004 Schenectady Herdillia had the following contingent liabilities:

(Rupees in lakhs)

| Sr. No. | Particulars  | Amount |
|---------|--|--------|
| (i)     | Income Tax (IT) demands against the Company not acknowledged as debts.   | 872.14 |
| (ii)    | IT decisions in favour of the Company not accepted by the Department.  | 94.05  |
| (iii)   | Estimated amount of contracts remaining to be executed on capital account.                                     | 359.38 |
| (iv)    | Custom Duty demand raised against the Company not acknowledged as debt.  | 73.86  |
| (v)     | Custom duty amount on duty free Advance License for imports against which export obligations are pending.      | 82.85  |
| (vi)    | Central Excise demand against the Company not acknowledged as debt   | 143.15 |
| (vii)   | Pre-payment of Sales tax liability (paid to SICOM – implementing agency) not accepted by sales tax authorities | 184.54 |

**Management's proposal to address the risk:** The contingent liabilities have arisen in the ordinary course of business. The Company is contesting the above demands before the appropriate Appellate Authorities. The Company upon completion of capital projects will discharge the unexecuted portion of capital commitment amounting to Rs. 359.38 lakhs.

5. The funds are being used to replace the debt raised by the Company from its Promoters at the time of pre-payment of high cost debts as well as for augmenting long-term working capital requirements, but any Bank/ Financial Institution has not appraised the requirement. Thus, there will be no monitoring of the funds raised through the Offer and the deployment of funds will be left entirely to the Company.

**Management's proposal to address the risk:** The Company has, in the past, undertaken various projects, which have been implemented successfully. The funds raised through the Rights Offer would be used to replace the funds already received by the Company from its Promoters and for meeting the long-term working capital requirement and hence monitoring of such funds is not required. However, the Company undertakes to ensure proper utilization of the proceeds.

6. Loss making Promoter group companies

Herdillia Investments Limited (HIL), wholly owned subsidiary company had incurred a loss of Rs. 575.93 lakhs during the financial year ended March 31, 2002.

**Management's proposal to address the risk:** The Company has made necessary provision in its books for diminution in its value of investments in subsidiary company. Accordingly, the performance of HIL will not affect the operations of Schenectady Herdillia.

7. Charter of Demands raised by the employees Union of Navi Mumbai Unit and Rasal Unit on expiry of the Agreement on December 31, 2003 – amount not ascertainable.

**Management's proposal to address the risk:** The Company is negotiating with the employees Unions for a new settlement, which will be resolved to mutual satisfaction of both the parties.

8. Profitability on some of the key products will be affected as domestic prices are driven by international prices, which are volatile.

**Management's proposal to address the risk:** In order to combat International competition, the Company has been using various cost reduction measures like Six Sigma. These measures would minimize cost of production and consequently enable the Company to improve its profitability inspite of volatile market conditions.

9. The Company may not be able to pass on increase in the cost of raw material, especially those the Company is importing and other inputs, if any, to its customers. An increase in input cost could adversely affect the Company's profit margins.

**Management's proposal to address the risk:** The increase in price of raw material, especially those which on account of increase in crude price is likely to impact all the manufacturers in the petrochemical industry. While the Company attempts to monitor market to cover its purchases in case of an anticipated price increase the Company remains susceptible to the above risk.

10. The Company's sustained growth depends on its ability to retain key employees. The loss of service of certain key employees would have a material adverse effect on the results of its operations and/or financial conditions.

**Management's proposal to address the risk:** The Company has been giving high importance to human resources and has put in place a performance linked reward system for its key employees and initiated the programmes to develop its employee's competence and leadership qualities.

11. The Company enjoys low liquidity, as the trading volume of the Company's shares is very low as compared to the total number of subscribed shares.

**Management's proposal to address the risk:** Since the Promoters (82.09%) and Banks / Financial Institutions (10.31%) hold major chunk of the shareholding, the trading in shares of the Company is on lower side. Further, the trading in shares of the Company is permitted in dematerialised form since 2002. As at September 30, 2004 about 41.38% of shares of the Company have been dematerialised.

12. Litigations against group companies.

There are no litigations pending against any of the Promoter group companies

### 13. OUTSTANDING LITIGATIONS

#### (A) LITIGATION AGAINST SCHENECTADY HERDILLIA LTD.

- In respect of the Company's office premise on 13<sup>th</sup> floor, Air India Building, Nariman Point, Mumbai – 400021, Air India had initiated Eviction Proceedings under the provisions of Public Premises (Eviction of Unauthorised Occupants) Act, 1971. The Estate Officer appointed under the said Act by Air India had passed an order on May 11, 2002 directing the Company to vacate the said office premises. Against the said order of the Estate Officer, the Company had filed an Appeal (Misc. Appeal No. 122 of 2002) in the Bombay City Civil Court at Bombay for setting aside the order of the Estate officer. The said Appeal is pending for final hearing.
- Bengal Mills Stores Supply Co., had filed a Suit (No. 4180 of 1994) in the High Court of Judicature at Bombay for payment of outstanding amount of Rs. 2.83 lakhs payable to them by the Company on account of supply of certain pipes. The Company had disputed the said claim. By an Ex-parte Decree dated September 23, 2003, the Hon'ble Bombay High Court directed the Company to pay Rs. 7.69 lakhs. In response to the said Decree and consequent attachment of the movable properties, the Company, through an Appeal (lodging No.353 of 2004) stayed the effect and execution of the Decree passed on September 23, 2003 and Appeal has been admitted.
- Seven of the employees of the Contractor employed by the Company for house keeping and miscellaneous jobs at its office premise at Air India Building, 13<sup>th</sup> floor, Nariman Point, Mumbai – 400 021 had filed a complaint of Unfair Labour Practices (ULP) under Item No.1 of Schedule IV of the Maharashtra Recognition of Trade Unions and Prevention of Unfair Labour Practices Act, 1972 (MRTU and PULP Act), before the Labour Court, Maharashtra, Bombay against the Company and the Contractor. Subsequently, two of the employees of the Contractor withdrew their complaint and settled their account with the Contractor and remaining 5 pursued the complaint before the Labour Court. In response to the said complaint, the Company had filed an application *inter-alia* contesting that the complaints of ULP under the provisions of MRTU and PULP Act is not maintainable. By an order dated March 15, 2004 passed by the 9th Labour Court at Bombay, the Company's application was rejected. Against the said order the Company has filed a Revision Application (ULP No. RA 64 of 2004) before the Industrial Court, Maharashtra at Mumbai. The said Revision Application is pending for hearing. Since the matter is sub-judice, liability of the Company, if any, cannot be ascertained at this juncture.
- One case is pending before the 4th Labour Court at Thane in respect of a complaint filed by one Mr. J.R. Kaushik, an ex-employee, seeking the relief of reinstatement with full back wages. Further, Mr. Kaushik has also filed complaint (ULP No. 796/1995) before the Industrial Court at Thane. The Company is contesting the same on a stand that the said complainant was not a workman and therefore the complaints are not maintainable. Since the matter is sub-judice, the liability of the Company, if any, cannot be ascertained at this juncture.
- The Company was made a party in Suit No.387 of 1995 filed by Mr. Balya Ragho Patil, original Plaintiff (since deceased) in the Court of Civil Judge, Senior Division, Thane for declaration that the Company had no right to enter and encroach upon the suit land (part of the Company's leasehold land) situated at Navi Mumbai. By a Decree passed by the said Court dated August 17, 1999, the Court declared the acquisition of suit land by Maharashtra Industrial Development Corporation and the State of Maharashtra as illegal and therefore void and directed the Company to hand over the suit land to the Plaintiff. Against the said Decree, the Company has filed an Appeal before the Hon'ble Bombay High Court. By its order dated September 03, 2004, the Hon'ble High Court has condoned the delay in filing the Appeal subject to the condition that respondent making an application to the Collector for making a reference under Section 34 of the Maharashtra Industrial Development Corporation Act and the Collector referring the matter to the reference Court within the prescribed period.
- In a writ petition filed by an ex-employee of the Company in the Bombay High Court, the Company was made a respondent alongwith Commissioner of Income Tax and Life Insurance Corporation of India for certain alleged benefits due to the employee under the Companies Executive Staff Pension Fund. The said writ petition is still pending before the Bombay High Court.



- One case is pending (Motor Accident Claim No. 578 of 2003) before the Motor Accident Tribunal, Thane in respect of the accident and consequent death of the Petitioner's husband due to accident caused by the driver of the contractor's bus. The Company has filed its written statement and the same is pending before the said Tribunal. The claim amount estimated is at approximate. Rs. 2.45 lakhs.
- In a special raid by the Officers of the Dy. Commissioner of Labour, Thane in the year 1995 about 20 cases have been filed against the Contractors working for the Company. Being the Principal Employer, the Company has been made co-accused in all the cases. The Company had no option but to plead guilty in some of these cases. Still one or two cases are pending before the Judicial Magistrate, Vashi at CBD Court. The financial implications on these cases are negligible.
- 24 cases pending in respect of excise, income tax, customs & sales tax matters amounting to Rs. 1,367.74 lakhs before the Appropriate Authorities.

**Management's proposal to address the risk:** Management's proposal to address the risk is not given for the matters before a competent Court since they are sub-judice.

### **EXTERNAL FACTORS TO THE COMPANY**

1. Inadequacy of infrastructure to access imported raw material. While the Company has successfully imported its raw material like Orthoxylene/Cumene, it has not been able to import propylene, which is the major raw material for want of Chemical Terminal in the country.

**Management's proposal to address the risk:** It is envisaged that with the availability of Chemical Terminal and improved Port facility in the near future, the Company could have the option of imports. However propylene is now available domestically.

2. Imports of raw materials are subject to exchange rate fluctuations.

**Management's proposal to address the risk:** Apart from the natural hedge of exports made by the Company, partial forward cover is taken on the basis of expert advice received from time to time to minimize the impact of foreign exchange fluctuation on import of raw materials by the Company.

3. Changes in tariffs, custom duty, EXIM policies may affect the Company's operations and profitability.

**Management's proposal to address the risk:** Any further reduction in import duty on the Company's products will impact profit of the Company as majority of the products, which are produced, are sold in the domestic market. The Company is making various efforts to bring down the cost of production in order to reduce the impact of any such changes in the tariffs and EXIM policies.

4. The performance of the Company may be affected by a number of factors beyond its control including political and economic developments both in India and worldwide. Terrorist attacks and other acts of violence or war may negatively affect the domestic as well as the overseas markets. These acts may also result in a loss of business confidence, make travel and other services more difficult and ultimately affect the Company's business, financial conditions and results of operations.
5. The business of the Company is subject to the regulations of Government of India. A change in the Government's economic liberalization and deregulation policies could affect business and economic conditions in India and the business of the Company in particular.

### **Notes to Risk Factors**

- The investors are advised to refer to, 'Basis for Offer Price', on page no. 88 before investing in this Offer.
- The name of the Company was changed from Herdillia Chemicals Limited to Schenectady Herdillia Limited with effect from April 8, 2002
  - o Schenectady International Inc. (USA) through its wholly owned subsidiary Schenectady (India) Holdings Private Limited, had acquired controlling interest in the Company pursuant to the acquisition of shares directly from the Duncan Goenka Group and from the public through an Open Offer made in October 2001. Accordingly, SIHPL had assumed the promotership of the Company and in order to reflect the

identity and the goodwill of the new promoters, the name of the Company was changed from Herdillia Chemicals Limited to Schenectady Herdillia Limited. However there had been no change in the Objects Clause of the Memorandum of Association.

- Net worth prior to the Offer (as on June 30, 2004) as per the adjusted accounts is Rs. 5,564.28 lakhs. The Offer Size is Rs. 5,076.75 lakhs
- Cost per share of the shareholding of the Promoter as on the date is as follows  
Schenectady (India) Holdings Private Limited: Rs. 24.94 per share
- The book value of the Equity shares of the Company as on June 30, 2004 is Rs. 23.02 per share.
- During the last six months the Promoters and the Directors have not carried out transactions in equity shares of Schenectady Herdillia.
- The Company has entered into certain related party transactions. The related party transactions cover the financial transactions carried out in the ordinary course of business and/or discharge of contractual obligations. There are no common pursuits among the group companies and all the transactions are at Arm's length and are subject to Transfer Pricing regulations. The Statutory Auditors certify these transactions, which fall within the norms of Transfer Pricing u/s. 92A of the Income Tax Act, 1961, for the purposes of the Income Tax Return. The details of the transactions as certified by the auditors of the Company are as follows.  
(a) The following is a list of related parties with whom the Company has entered into transactions
  - **Entities controlling the Company**
    - Schenectady (India) Holdings Pvt. Limited. (Holding Company)
    - Schenectady International Inc., U.S.A (Ultimate Holding Company)
  - Subsidiary
    - Herdillia Investments Limited
  - Associates
    - Schenectady Europe (UK) Limited.
    - Schenectady Korea Limited.
    - Yuka Schenectady
    - Schenectady Prattein GmbH
    - Schenectady Australia Pty. Limited.
  - Key managerial Personnel
    - Mr. R.M. Pandia - Vice Chairman & Managing Director
    - Mr. G.C. Vasudeo - Director-Finance
  - Relative of key managerial personnel
    - Mrs. S.R. Pandia - Relative of Mr. R.M.Pandia
    - Mrs. C.A. Majumdar - Relative of Mr. R.M.Pandia

(b) The following is a list of related party transactions for year ended 31.03.2000, 31.3.2001, 31.3.2002, 9 months period ended 31.12.2002, year ended 31.12.2003 and 6 months period ended 30.06.2004.

Rupees in Lakhs

| Particulars              | Purchases of goods |             |             |             |              |               |
|--------------------------|--------------------|-------------|-------------|-------------|--------------|---------------|
|                          | 1999-00            | 2000-01     | 2001-02     | 2002        | 2003         | Jan04-Jun04   |
| Ultimate Holding Company | 0.00               | 0.00        | 0.00        | 0.00        | 52.50        | 45.76         |
| Fellow Subsidiaries      | 0.00               | 0.00        | 0.00        | 0.00        | 0.00         | 97.69         |
| <b>Total</b>             | <b>0.00</b>        | <b>0.00</b> | <b>0.00</b> | <b>0.00</b> | <b>52.50</b> | <b>143.45</b> |

Rupees in Lakhs

| Particulars              | Sale of goods |             |              |              |               |               |
|--------------------------|---------------|-------------|--------------|--------------|---------------|---------------|
|                          | 1999-00       | 2000-01     | 2001-02      | 2002         | 2003          | Jan04-Jun04   |
| Ultimate Holding Company | 0.00          | 0.00        | 24.41        | 25.64        | 85.29         | 83.54         |
| Fellow Subsidiaries      | 0.00          | 0.00        | 55.21        | 0.33         | 130.42        | 62.03         |
| <b>Total</b>             | <b>0.00</b>   | <b>0.00</b> | <b>79.62</b> | <b>25.97</b> | <b>215.71</b> | <b>145.57</b> |

Rupees in Lakhs

| Particulars                           | Sale of Fixed Assets/Investments |             |             |              |             |             |
|---------------------------------------|----------------------------------|-------------|-------------|--------------|-------------|-------------|
|                                       | 1999-00                          | 2000-01     | 2001-02     | 2002         | 2003        | Jan04-Jun04 |
| Relatives of Key Management Personnel | 0.00                             | 0.00        | 0.00        | 50.00        | 0.00        | 0.00        |
| <b>Total</b>                          | <b>0.00</b>                      | <b>0.00</b> | <b>0.00</b> | <b>50.00</b> | <b>0.00</b> | <b>0.00</b> |

Rupees in Lakhs

| Particulars              | Rendering of services (Including interest) |             |             |              |               |              |
|--------------------------|--|-------------|-------------|--------------|---------------|--------------|
|                          | 1999-00                                    | 2000-01     | 2001-02     | 2002         | 2003          | Jan04-Jun04  |
| Ultimate Holding Company | 0.00                                       | 0.00        | 0.00        | 22.19        | 91.07         | 57.43        |
| Fellow Subsidiaries      | 0.00                                       | 0.00        | 0.00        | 5.84         | 19.71         | 2.75         |
| Key Management Personnel | 0.23                                       | 0.24        | 0.09        | 0.06         | 0.08          | 0.25         |
| <b>Total</b>             | <b>0.23</b>                                | <b>0.24</b> | <b>0.09</b> | <b>28.09</b> | <b>110.86</b> | <b>60.43</b> |

Rupees in Lakhs

| Particulars                           | Receiving of services (Including interest) |              |              |               |               |               |
|---------------------------------------|--|--------------|--------------|---------------|---------------|---------------|
|                                       | 1999-00                                    | 2000-01      | 2001-02      | 2002          | 2003          | Jan04-Jun04   |
| Ultimate Holding Company              | 0.00                                       | 0.00         | 0.00         | 0.00          | 248.29        | 148.65        |
| Holding Company                       | 0.00                                       | 0.00         | 39.76        | 150.26        | 323.62        | 144.64        |
| Subsidiaries                          | 5.46                                       | 9.61         | 10.10        | 10.86         | 13.20         | 6.58          |
| Fellow Subsidiaries                   | 0.00                                       | 0.00         | 0.00         | 0.00          | 20.94         | 17.25         |
| Key Management Personnel              | 0.00                                       | 0.00         | 0.00         | 0.00          | 0.02          | 0.00          |
| Relatives of Key Management Personnel | 0.86                                       | 0.86         | 0.86         | 0.36          | 0.05          | 7.53          |
| <b>Total</b>                          | <b>6.32</b>                                | <b>10.47</b> | <b>50.72</b> | <b>161.48</b> | <b>606.12</b> | <b>324.65</b> |

Rupees in Lakhs

| Particulars              | Finance(including loans and equity contributions in cash or in kind)-Accepted |             |                |               |              |               |
|--------------------------|---|-------------|----------------|---------------|--------------|---------------|
|                          | 1999-00   | 2000-01     | 2001-02        | 2002          | 2003         | Jan04-Jun04   |
| Ultimate Holding Company | 0.00  | 0.00        | 0.00           | 0.00          | 86.00        | 0.00          |
| Holding Company          | 0.00  | 0.00        | 5941.59        | 796.00        | 0.00         | 755.00        |
| Subsidiaries             | 80.00   | 0.00        | 40.00          | 0.00          | 0.00         | 0.00          |
| <b>Total</b>             | <b>80.00</b>  | <b>0.00</b> | <b>5981.59</b> | <b>796.00</b> | <b>86.00</b> | <b>755.00</b> |

Rupees in Lakhs

| Particulars              | Finance(including loans and equity contributions in cash or in kind)-Payments |             |             |               |               |             |
|--------------------------|---|-------------|-------------|---------------|---------------|-------------|
|                          | 1999-00   | 2000-01     | 2001-02     | 2002          | 2003          | Jan04-Jun04 |
| Ultimate Holding Company | 0.00  | 0.00        | 0.00        | 0.00          | 200.00        | 0.00        |
| Holding Company          | 0.00  | 0.00        | 0.00        | 248.00        | 0.00          | 0.00        |
| <b>Total</b>             | <b>0.00</b>   | <b>0.00</b> | <b>0.00</b> | <b>248.00</b> | <b>200.00</b> | <b>0.00</b> |

Rupees in Lakhs

| Particulars              | Loan Recovery |             |             |             |             |             |
|--------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
|                          | 1999-00       | 2000-01     | 2001-02     | 2002        | 2003        | Jan04-Jun04 |
| Key Management Personnel | 0.18          | 0.18        | 0.17        | 0.13        | 0.18        | 1.01        |
| <b>Total</b>             | <b>0.18</b>   | <b>0.18</b> | <b>0.17</b> | <b>0.13</b> | <b>0.18</b> | <b>1.01</b> |

Rupees in Lakhs

| Particulars              | Repayment of Deposits Given |             |             |             |             |             |
|--------------------------|-----------------------------|-------------|-------------|-------------|-------------|-------------|
|                          | 1999-00                     | 2000-01     | 2001-02     | 2002        | 2003        | Jan04-Jun04 |
| Key Management Personnel | 0.00                        | 0.00        | 0.00        | 0.40        | 0.00        | 0.00        |
| <b>Total</b>             | <b>0.00</b>                 | <b>0.00</b> | <b>0.00</b> | <b>0.40</b> | <b>0.00</b> | <b>0.00</b> |

Rupees in Lakhs

| Particulars                           | Management contracts including for Deputation of employees |              |              |              |               |              |
|---------------------------------------|--|--------------|--------------|--------------|---------------|--------------|
|                                       | 1999-00  | 2000-01      | 2001-02      | 2002         | 2003          | Jan04-Jun04  |
| Key Management Personnel              | 33.97  | 27.51        | 37.68        | 58.53        | 138.72        | 78.92        |
| Relatives of Key Management Personnel | 0.00   | 0.00         | 0.00         | 5.47         | 15.00         | 0.00         |
| <b>Total</b>                          | <b>33.97</b>   | <b>27.51</b> | <b>37.68</b> | <b>64.00</b> | <b>153.72</b> | <b>78.92</b> |

Rupees in Lakhs

| Particulars         | Professional fees paid to a partnership firm in which Directors are Partners |             |             |             |             |             |
|---------------------|--|-------------|-------------|-------------|-------------|-------------|
|                     | 1999-00  | 2000-01     | 2001-02     | 2002        | 2003        | Jan04-Jun04 |
| Fellow Subsidiaries | 0.00   | 0.00        | 0.00        | 9.12        | 0.00        | 0.00        |
| <b>Total</b>        | <b>0.00</b>  | <b>0.00</b> | <b>0.00</b> | <b>9.12</b> | <b>0.00</b> | <b>0.00</b> |

Rupees in Lakhs

| Particulars                           | Balance of Payables |              |                |                |                |                |
|---------------------------------------|---------------------|--------------|----------------|----------------|----------------|----------------|
|                                       | 1999-00             | 2000-01      | 2001-02        | 2002           | 2003           | Jan04-Jun04    |
| Ultimate Holding Company              | 0.00                | 0.00         | 0.00           | 0.00           | 271.67         | 129.25         |
| Holding Company                       | 0.00                | 0.00         | 1010.00        | 3311.66        | 4157.66        | 4899.00        |
| Subsidiaries                          | 84.27               | 91.70        | 120.00         | 120.00         | 120.00         | 120.00         |
| Fellow Subsidiaries                   | 0.00                | 0.00         | 0.00           | 0.00           | 20.78          | 58.33          |
| Key Management Personnel              | 0.00                | 0.00         | 0.00           | 0.00           | 0.16           | 0.00           |
| Relatives of Key Management Personnel | 0.00                | 0.00         | 0.00           | 0.00           | 0.44           | 0.42           |
| <b>Total</b>                          | <b>84.27</b>        | <b>91.70</b> | <b>1130.00</b> | <b>3431.66</b> | <b>4570.71</b> | <b>5207.00</b> |

| Particulars                           | Balance of Receivables |             |              |              |               |               |
|---------------------------------------|------------------------|-------------|--------------|--------------|---------------|---------------|
|                                       | 1999-00                | 2000-01     | 2001-02      | 2002         | 2003          | Jan04-Jun04   |
| Ultimate Holding Company              | 0.00                   | 0.00        | 24.41        | 13.90        | 74.30         | 84.73         |
| Holding Company                       | 0.00                   | 0.00        | 0.00         | 0.00         | 0.00          | 4.30          |
| Fellow Subsidiaries                   | 0.00                   | 0.00        | 55.21        | 3.61         | 35.57         | 9.37          |
| Key Management Personnel              | 1.66                   | 1.49        | 1.31         | 1.18         | 1.01          | 0.00          |
| Relatives of Key Management Personnel | 0.40                   | 0.40        | 0.40         | 30.00        | 30.00         | 30.00         |
| <b>Total</b>                          | <b>2.06</b>            | <b>1.89</b> | <b>81.33</b> | <b>48.69</b> | <b>140.88</b> | <b>128.40</b> |

### HIGHLIGHTS

- Strong in-house research and development base
- International tie up for technology and marketing arrangements
- The Company has obtained ISO 9001 and ISO 14001 certifications
- The Company has been recognized as "Export House" in the year 1997 by the Govt
- Part of Schenectady International Inc., USA, one of the global leaders in Alkyl Phenols
- Multilocational manufacturing sites
- Natural hedge of commodities versus specialities against price fluctuations
- Captive power plant
- Second largest producer of Phenol in the country (source: CRIS INFAC, March 2004)
- Proven and skilled manpower

Dear Equity Shareholder(s),

Pursuant to the resolutions passed by the Board of Directors of the Company at its meeting held on May 29, 2004 and the Committee of Directors of the Board at its meeting held on July 12, 2004 and the approval of the Equity Shareholders in their Annual General Meeting held on June 28, 2004 it has been decided to make the following Offer to the Equity Shareholders of the Company:

Offer of 1,81,31,250 equity shares of Rs. 10/- each for cash at a premium of Rs. 18/- per equity share on rights basis to the existing equity shareholders of the Company in the ratio of three equity shares for every four equity shares held on Record Date i.e. October 15, 2004 aggregating Rs. 5,076.75 lakhs

**Disclaimer Clause**

**AS REQUIRED, A COPY OF THIS LETTER OF OFFER HAS BEEN SUBMITTED TO THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI). IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY BE DEEMED/ CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI.**

**SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE OFFER IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE LETTER OF OFFER. THE LEAD MANAGER CENTRUM FINANCE LIMITED HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURE AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED OFFER. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE OFFERER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE OFFER DOCUMENT, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE THE LEAD MANAGER CENTRUM FINANCE LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED JULY 27, 2004 WHICH READS AS FOLLOWS:**

- "1. WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, AND OTHER MATERIALS MORE PARTICULARLY REFERRED TO IN THE ANNEXURE HERETO IN CONNECTION WITH THE FINALISATION OF THE LETTER OF OFFER PERTAINING TO THE SAID OFFER;**
- 2. ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE OFFER, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY;**

**WE CONFIRM THAT:**

- a. THE LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE OFFER;**
- b. ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID OFFER AS ALSO THE GUIDELINES, INSTRUCTIONS ETC., ISSUED BY SEBI, THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
- c. THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO INVESTMENT IN THE PROPOSED OFFER;**
- 3. WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID; AND**

**THE FILING OF THE LETTER OF OFFER DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OR SECTION 68 OF THE COMPANIES ACT, 1956 OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCE AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED OFFER. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP, AT ANY POINT OF TIME, WITH THE LEAD MANAGER(S) (MERCHANT BANKERS) ANY IRREGULARITIES OR LAPSES IN THE LETTER OF OFFER.**

The Company may, if it deems necessary, get a part or whole of this Offer underwritten at any time prior to the Offer Closing Date.

**Caution**

The Offerer accepts no responsibility for statements made otherwise than in this Letter of Offer or in any advertisement or other material issued by the Company or by any other persons at the instance of the Company and anyone placing reliance on any other source of information would be doing so at his/her own risk.

The Lead Manager and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of the Letter of Offer with SEBI.

**Disclaimer with respect to Jurisdiction**

This Offer is made in India to those whose names appear in the Register of Members as on the Record Date who are specifically addressed through a communication directly to, and who are eligible to apply for equity shares. No person other than a member as on the Record Date and those in favour of whom the shares offered to such member had been renounced by him shall apply for subscription in the equity shares offered through this document.

This Offer Document does not, however, constitute an offer to sell or an invitation to subscribe to the equity shares of the Company in any other jurisdiction to any person to whom it is unlawful to make an offer in such jurisdiction. Any person into whose possession this Offer Document comes is required to inform himself about and to observe any such restrictions

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations there under. Any disputes arising out of this Offer will be subject to the jurisdiction of the appropriate court(s) in Mumbai, India only.

**Disclaimer Clause of the Stock Exchanges****Disclaimer Clause of the BSE**

The Stock Exchange, Mumbai (hereinafter referred to as "the Exchange") has given vide its letter dated August 14, 2004 permission to the Company to use the Exchange's name in this Letter of Offer as one of the stock exchanges on which this Company's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:

- (i) Warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or
- (ii) Warrant that this Company's securities will be listed or will continue to be listed on the Exchange; or
- (iii) Take any responsibility for the financial or other soundness of this Company, its promoters, its management or any scheme or project of this Company;

and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

**Disclaimer Clause of the NSE**

As required, a copy of this Letter of Offer has been submitted to National Stock Exchange of India Limited, the Designated Stock Exchange (hereinafter referred to as "NSE"). NSE has given vide its letter dated August 5, 2004 permission to the Offerer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Offerer's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Offerer. It is to be distinctly understood that the aforesaid permission, given by NSE, should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify, or endorse the correctness or completeness of any of the contents of this Letter of Offer; nor does it warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Offerer, its Promoters, its management, or any scheme or project of this Offerer.

Every person who desires to apply for or otherwise acquire any securities of this Offerer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription / acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.



## GENERAL INFORMATION

Name and Registered Office address of the Company:

### Schenectady Herdillia Limited.

13th Floor, Air India Building  
Nariman Point  
Mumbai 400021  
Tel: 91 022 2202 4224  
Fax: 91 022 2204 2379  
Email: SHL.Mumbai@siigroup.com  
Website: www.herdillia.com

The Offer is proposed to be listed at: The National Stock Exchange of India Limited (Designated Stock Exchange) and The Stock Exchange, Mumbai.

### Important

1. This Rights Offer is pursuant to the resolutions passed by the Board of Directors at its meeting held on May 29, 2004 & the Committee of Directors of the Board at their meeting held on July 12, 2004 and the approval by equity shareholders in the 42nd Annual General Meeting held on June 28, 2004.
2. This Offer is applicable to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company at the close of business hours on the Record Date, i.e., October 15, 2004
3. Your attention is drawn to the section on "Risk Factors" appearing on page no. i of this Letter of Offer.
4. Please ensure that you have received the CAF with this Letter of Offer.
5. Please read the Letter of Offer and the instructions contained herein and in the CAF carefully before filling in the CAFs. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. An application is liable to be rejected for any non-compliance of the Letter of Offer or the CAF.
6. All enquiries in connection with this Letter of Offer or CAFs should be addressed to the Registrar to the Offer, quoting the Registered Folio number/ DP and Client ID number and the CAF numbers as mentioned in the CAFs.

### Offer Schedule

|  |                   |
|--|-------------------|
| Offer Opening Date                               | November 2, 2004  |
| Last date for receiving requests for split forms | November 17, 2004 |
| Offer Closing Date                               | December 2, 2004  |

### Offer Management Team

#### Lead Manager to the Offer

#### Centrum Finance Limited

Khetan Bhavan, 5th Floor,  
198, J.Tata Road,  
Churchgate,  
Mumbai 400020  
Tel: 91-022-2202 3838  
Fax: 91-022-2204 6096  
Website: www.centrum.co.in  
Email: schenectadyherdillia@centrum.co.in

#### Registrar to the Offer

Tata Consultancy Services Limited  
Park West - II, Raheja Estate  
Kulupwadi Road, Borivali (East)  
Mumbai 400 066  
Tel: 91-022-5668 9898  
Fax: 91-022-5668 9799  
Email: tcssharc@mumbai.tcs.co.in



#### **AUDITORS OF THE COMPANY**

##### **BSR & Co.**

KPMG House  
Kamala Mills Compound  
448, Senapati Bapat Marg  
Lower Parel, Mumbai 400 013  
Tel: 91-022-2491 3030 / 2491 3131  
Fax: 91-022-2491 3132

#### **BANKERS TO THE OFFER**

##### **HDFC Bank Limited.**

Kamala Mills, Trade World  
New Building, 2nd Floor  
Senapati Bapat Marg, Lower Parel  
Mumbai 400 013  
Tel: 91-022-2498 8484  
Fax: 91-022-2496 3871  
Email: btiops@hdfcbank.com

#### **BANKERS TO THE COMPANY**

##### **State Bank of India**

Commercial Branch  
N.G.N. Vaidya Marg, P.B.No. 10141  
Mumbai 400 023  
Tel: 91-022-2266 2205  
Fax: 91-022-2262 6474

##### **HDFC Bank Limited.**

Kamala Mills, Trade World  
New Building, 2nd Floor  
Senapati Bapat Marg, Lower Parel  
Mumbai 400 013  
Tel: 91-022-2498 8484  
Fax: 91-022-2496 3871

##### **The Bank of Nova Scotia**

Mittal Tower "B" Wing, Ground Floor  
Nariman Point  
Mumbai 400 021  
Tel: 91-022-5636 4200  
Fax: 91-022-2287 3125

#### **LEGAL ADVISOR FOR THE OFFER**

##### **Crawford Bayley & Co**

State Bank Building, N.G.N. Vaidya Marg  
Mumbai 400 023  
Tel: 91-022-2266 3713/2266 8699  
Fax: 91-022-2266 0355

##### **Compliance Officer**

Mr. Dinesh Shetty  
General Manager - Finance & Secretarial  
13th floor, Air India Building,  
Nariman Point, Mumbai 400 021  
Tel: 91-022-2202 4224  
Fax: 91-022-2288 0942/2204 2379  
Email: dinesh.shetty@siigroup.com

**The Investors are requested to contact the above-mentioned Compliance Officer in case of any pre-issue /post-issue problems such as non-receipt of letters of allotment / share certificates/ refund orders, etc.**

#### **Eligibility for the Offer**

Schenectady Herdillia Limited is an existing company under the Act, whose equity shares are listed on BSE and NSE. It is eligible to offer this Rights Offer in terms of Clause 2.4.1 (iv) of the SEBI Guidelines. The Company, its Promoters, its Directors or any of the Company's associates or group companies have not been prohibited from accessing the capital market under any order or direction passed by SEBI. None of the Directors of the promoter company, Schenectady (India) Holdings Pvt. Limited. (SIHPL), have been prohibited from accessing the capital market under any order or direction passed by SEBI. Further the Promoters, their relatives (as per the Companies Act, 1956), the Company, group companies, associate companies are not detained as willful defaulters by RBI / Government authorities.

#### **Government Approvals**

No consent of the Government of India is required by the Company for this Offer. The Company has all the necessary approvals from the Government authorities as required to carry on the present business. The Company has complied with all the applicable guidelines / directions issued by RBI from time to time. The Company does not propose to enter new activities through this Rights Offer of Equity Shares for which any further approvals are required to be obtained.

Further, the Central Government and RBI accept no responsibility for the financial soundness or correctness of statements made in this Letter of Offer.

The Company has received the following important approvals required for the activities being carried on by it:

#### ➤ **Navi Mumbai Unit**

Factory License: License no. 2(m)(i)/2511 dated December 14, 2001 is valid up to December 31, 2004.

Power: Agreement with Maharashtra State Electricity Board (MSEB) dated March 16, 1988 for the sanction of load of 7292 KW with a maximum demand of 5113 KVA of electricity to the unit.

Pollution: Consent was granted under order no. BO/RONM/Thane/12-04/R/CC dated May 24, 2004, valid up to December 12, 2008 by the Maharashtra Pollution Control Board to the Company under:

- The Hazardous waste (Management and Handling) Rules, 1989, and Amended Rules 2000 to operate a facility for collection, storage, transport, disposal and selling of hazardous waste,
- Section 26 of the Water (Prevention and Control of Pollution) Act, 1974, for the discharge of effluent from the plant.
- Section 21 of the Air (Prevention and Control of Pollution) Act, 1974

Explosives License: Licence No. MR/TH/GCS-110 valid up to March 31,2005, to store Compressed Gas in Cylinders, Propylene Storage Licence No. MR/TH/PV/S-68 valid up to March 31, 2006, Licence No. MR/TH/LPG/S-98 to store L.P.G. in Cylinders valid up to March 31,2005, Petroleum Storage Licence No. P-12(7)824/MR/TH-110 valid up to December 31, 2004 and Licence No. MR/TH/187 for Petrol Pump valid up to December 31, 2004.

#### ➤ **Rasal Unit**

Factory License: License No. 079751 dated August 24, 2004 is valid upto December 31, 2004.

Power: Agreement with Maharashtra State Electricity Board (MSEB) dated September 18, 2000 for the sanction of load of 875 KW with a maximum demand of 560 KVA of electricity to the unit.

Pollution: Consent to operate and establish is granted under the Section 26 of the Water (Prevention and Control of Pollution) Act, 1974, Section 21 of the Air (Prevention and Control of Pollution) Act, 1974 and Hazardous waste (Management and Handling) Rules, 1989, and Amended Rules 2000 vide consent No. BO/ROR/Raigad-89/CC-614 and BO/TB/WPAE/Raigad-821/CC-389 valid up to April 30, 2006 and up to Commissioning respectively.

Explosives License: License No. P/HQ/MH/15/1338(P6655) and P/HQ/MH/15/1817(P7126) granted for the storage of Petroleum under the Petroleum Act, 1934, are valid up to December 31, 2004 and December 2, 2005 respectively.

#### ➤ **Lote Unit**

Factory License: License no. RAT/S-2(m)(1)39-392 dated August 13, 1988 is valid up to December 31, 2004.

Power: Agreement with Maharashtra State Electricity Board (MSEB) dated January 16, 1989, for the sanction of load of 499 KW with a maximum demand of 310 KVA of electricity to the unit.

Letter dated January 9, 2002, from the Maharashtra State Electricity Board (MSEB) granting consent for the Installation of One No. of 250 KVA standby Diesel Generating Set at the Unit.

Pollution: Consent No. BO/RO(HQ)-Amendment-B-3354 dated January 15, 2004, valid up to May 03, 2006, under the:

- Hazardous waste (Management and Handling) Rules, 1989, and Amended Rules 2000 is granted to operate a facility for collection, storage, transport and disposal of hazardous waste.
- Section 26 of the Water (Prevention and Control) Act, 1974 for the discharge of effluent from the plant subject to the compliances under the provisions of the Water (Prevention and Control) Cess, Act, 1977.
- Section 21 of the Air (Prevention and Control of Pollution) Act 1974.

Explosives License: License no. P/HQ/MH/15/1198(P6516) is granted for the importation and storage of 194 K.L. Petroleum subject to the provisions of the Petroleum Act, 1934 and the rules made there under. This license will remain in force till December 31, 2006.

#### ➤ **Registered Office**

Shops and Establishments: Registration No. 3425 under Shops & Establishment Act, 1948 in respect of office premises at 13th floor, Air India Building, Nariman Point, Mumbai 400 021 valid up to December 2004.

#### **Consents**

The consent of lenders, wherever required, has been received for making this Offer.

#### **Filing**

The draft Letter of Offer was filed with SEBI, Mittal Court, 'A' - Wing, Nariman Point, Mumbai 400 021 and SEBI has given its observations and the final Letter of Offer has been filed with the National Stock Exchange of India Limited (Designated Stock Exchange) and The Stock Exchange, Mumbai as per provisions of the Companies Act, 1956. All the legal requirements applicable till the date of filing the Letter of Offer with the stock exchanges have been complied with.

#### **Allotment Letters / Refund Orders**

The Company will issue and despatch letters of allotment/ securities certificates and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any within a period of six weeks from the Date of Closure of the Offer. If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73 of the Act.

Letters of allotment/ securities certificates/ refund orders above the value of Rs. 1,500 will be despatched by Registered Post/ Speed Post to the sole/ first applicant's registered address. However, refund orders for value not exceeding Rs. 1,500 shall be sent to the applicants under Postal Certificate. Such cheques or pay orders will be payable at par at all the centers where the applications were originally accepted and will be marked "A/c payee" and would be drawn in the name of the sole/ first applicant. Adequate funds would be made available to the Registrar to the Offer for despatch of the Letters of allotment/ securities certificates/ refund order.

In case the Company issues Letters of allotment, the corresponding Security Certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such Letters of Allotment, which would be exchanged later for the Security Certificates.

#### **Listing**

The existing equity shares of the Company are listed on BSE and NSE. The Company has made applications to the BSE and NSE for permission to deal in and for an official quotation in respect of the securities being offered in terms of this Letter of Offer.

The Company has received in-principle approvals from NSE by letter dated August 5, 2004 and from BSE by letter dated August 14, 2004. The Company will apply to all the above exchanges where its existing equity shares are listed for listing of the equity shares to be issued. If the permission to deal in and for an official quotation of the securities is not granted by any of the Stock Exchanges mentioned above, within six weeks from the Offer Closing Date, the Company shall forthwith repay, without interest, all monies received from applicants in pursuance of this Letter of Offer. If such money is not paid within eight days after the Company becomes liable to repay it, then the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Act.

#### **Credit rating**

This being an Offer of equity shares, no credit rating is required. Further, the Company has not applied for any ratings for other securities/instruments in the last 3 years.

### **Denomination of Shares**

The Company undertakes that at any given time, there shall be only one denomination for the shares of the Company and that the Company shall comply with such disclosures and accounting norms specified by SEBI from time to time.

### **Impersonation**

**As a matter of abundant caution, attention of the applicants is specifically drawn to the provisions of subsection (1) of Section 68A of the Companies Act, 1956 which is reproduced below:**

**"Any person who-**

- (a) Makes in a fictitious name an application to a company for acquiring, or subscribing for, any shares therein, or**
- (b) Otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name,**

**shall be punishable with imprisonment for a term which may extend to five years"**

### **Minimum Subscription**

If the Company does not receive the minimum subscription of 90% of the offer amount on the date of closure of the Offer, or if the subscription level falls below 90% after the closure of the Offer on account of cheques having been returned unpaid or withdrawal of the applications, the Company shall forthwith refund the entire subscription amount received within forty two days from the date of closure of the Offer. If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to repay the subscription amount, (i.e. forty two days after closure of the Offer), the Company will pay interest for the delayed period, at prescribed rates in sub-section (2) and (2A) of Section 73 of the Companies Act, 1956.

However, Schenectady (India) Holdings Private Limited (SIHPL), Promoter Company has confirmed to convert an amount not exceeding Rs. 4,569.08 lakhs (i.e. 90% of Offer size) out of the unsecured loan of Rs. 4,899 lakhs (as on September 30, 2004) provided to Schenectady Herdillia into advance against Equity subscription / share application money in respect of its rights entitlement and also for any additional shares, SIHPL may subscribe in case of under subscription to ensure that the Offer gets subscribed at least up to 90% of the Offer amount.

The Offer will become under subscribed after considering the number of shares applied as per entitlement plus additional shares. The under subscribed portion shall be applied for only after the close of the Offer. The Promoter shall subscribe to such under subscribed portion as per the relevant provisions of the law. If any person presently in control of the Company desires to subscribe to such under subscribed portion and if disclosure is made pursuant to SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, such allotment of the under subscribed portion will be governed by the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997. Allotment to promoters of any unsubscribed portion, over and above their entitlement shall be done in compliance with Clause 40A of the Listing Agreement in order to ensure minimum 10% public holding.

The above is subject to the terms mentioned under the "Basis of Allotment".

### **Utilisation of Offer Proceeds**

The Board of Directors declare that:

1. The funds received against this Offer (except the subscription amount of the Promoter's which has already been received to the extent of Rs. 4,569.08 lakhs) will be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Act.
2. Details of all moneys utilised out of the Offer shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such moneys has been utilised.
3. Details of all such unutilised moneys out of the Offer, if any, shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised moneys have been invested.

The funds received against this Rights Offer (except the subscription amount of the Promoter's which has already been received to the extent of Rs. 4,569.08 lakhs) will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Offer has been received by the Company.

**Undertaking by the Company**

- The complaints received in respect of the captioned Rights Offer shall be attended to by the Company and the Registrars to the Offer expeditiously and satisfactorily.
- All steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed will be taken within 7 working days of finalisation of basis of allotment.
- The funds required for despatch of refund orders/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Offer.
- The certificates of the securities/ refund orders to the non-resident Indians shall be despatched within the specified time.
- No further Offer of securities affecting equity capital of the Company shall be made till the securities issued/ offered through the captioned Rights Offer are listed or till the application moneys are refunded on account of non-listing, under-subscription etc.

All information shall be made available by the Lead Manager and the Offerer to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.

The Lead Manager and the Offerer shall update the offer document and keep the public informed of any material changes till the listing and trading commences.

All the legal requirements as applicable till the filing of the Letter of Offer with the NSE, Designated Stock Exchange and BSE have been complied with.

## CAPITAL STRUCTURE

|   |                             | Nominal Amount (Rs.)        |
|---|-----------------------------|-----------------------------|
| <b>Authorised share capital</b>   |                             |                             |
| 6,00,00,000 Equity shares of Rs. 10/- each  |                             | 60,00,00,000                |
| <b>Issued, Subscribed and paid-up share capital</b>   |                             |                             |
| 2,41,75,000 Equity shares of Rs. 10/- each  |                             | 24,17,50,000                |
| <b>Present Offer being offered to the Equity Shareholders through this Letter of Offer</b>                              | <b>Nominal Amount (Rs.)</b> | <b>Premium (Rs)</b>         |
| 1,81,31,250 Equity Shares of Rs. 10/- each at a premium of Rs. 18/- each  | 18,13,12,500                | 32,63,62,500                |
| <b>Paid up capital after the Offer</b>  |                             | <b>Nominal Amount (Rs.)</b> |
| 4,23,06,250 Equity shares of Rs. 10/- each<br>(Assuming Equity Shareholders subscribe to all the Equity Shares offered) |                             | 42,30,62,500                |
| <b>Share Premium Account</b>  |                             | <b>Premium (Rs)</b>         |
| Existing share premium account  |                             | 12,37,94,000                |
| Share premium account after the Offer assuming allotment of all Equity Shares offered                                   |                             | 45,01,56,500                |

### Notes to the Capital Structure:

- The equity shareholders do not hold any warrant, option or convertible loan or any debenture, which would entitle them to acquire further equity shares.
- 1,20,00,000 shares of Promoter are subject to a lock-in up to March 31, 2005 pursuant to the Preferential Allotment made in the year 2002 in line with SEBI Guidelines for Preferential Issues. The shares of the face value of Rs. 10/- per share have been allotted at Rs. 20/- per share.
- All shares issued since the date of incorporation of the Company are fully paid up.
- In 1999, the Company made a Rights Offer of 36,75,000 Equity shares of Rs. 10/- each at a price of Rs. 15/- per share.
- There has been no revaluation of assets of the Company in the last 5 FYs.

### Build up of Equity Capital

Details of Capital structure of the Company since incorporation is as follows:

| Year     | Number of shares | Paid up Capital (Rs.) | Face Value (Rs) | Offer Price (Rs) | % of Pre-Offer Capital | Consi-deration | Remarks  |
|----------|------------------|-----------------------|-----------------|------------------|------------------------|----------------|--|
| 03.07.63 | 2,900            | 29,000                | 10              | 10               | 0.01%                  | Cash           | Subscription to Memorandum and Articles of Association             |
| 28.08.63 | 300              | 3,000                 | 10              | 10               | 0.001%                 | Cash           | Shares allotted to the Directors                                   |
| 27.11.63 | 3,75,794         | 37,57,940             | 10              | 10               | 1.55%                  | Cash           | Shares allotted to friends and associates of the Indian Promoters. |
| 28.07.65 | 40,21,006        | 4,02,10,060           | 10              | 10               | 16.63%                 | Cash           | Initial Public Issue <sup>(1)</sup>                                |
| 24.11.67 | 5,00,000         | 50,00,000             | 10              | 10               | 2.07%                  | Cash           | Shares allotted to the then Promoter Companies                     |
| 08.03.78 | 24,50,000        | 2,45,00,000           | 10              | 10               | 10.13%                 | Cash           | Bonus Issue in the ratio of 1:2                                    |
| 10.08.99 | 36,75,000        | 3,67,50,000           | 10              | 15               | 15.20%                 | Cash           | Rights Offer in the ratio of 1:2                                   |

| Year         | Number of shares   | Paid up Capital (Rs.) | Face Value (Rs) | Offer Price (Rs) | % of Pre-Offer Capital | Consi-deration | Remarks  |
|--------------|--------------------|-----------------------|-----------------|------------------|------------------------|----------------|--|
| 31.03.02     | 1,20,00,000        | 12,00,00,000          | 10              | 20               | 49.64%                 | Cash           | Preferential Issue of Equity shares to Promoters (SIHPL) <sup>(2)</sup>                                  |
| 18.12.02     | 11,50,000          | 11,50,00,000          | 10              | 10               | 4.76%                  | Kind           | Issued to the shareholders of Schenectady Specialities Asia (P) Limited upon amalgamation <sup>(3)</sup> |
| <b>TOTAL</b> | <b>2,41,75,000</b> | <b>24,17,50,000</b>   |                 |                  | <b>100.00%</b>         |                |  |

<sup>(1)</sup> In the year 1965, the Company (formerly Herdillia Chemicals Limited), made an Initial Public Issue of its equity shares. The post issue public shareholding was approximately 44.63% of the then paid up capital.

<sup>(2)</sup> Pursuant to a Share Purchase Agreement dated July 3, 2001, entered into between SII and Duncans Goenka, SIHPL along with SII, ultimate promoter, acquired controlling interest in the Company by acquiring 55,21,723 fully paid Equity Shares of Rs. 10/- each representing approximately 50.08% of the outstanding equity share capital of the Company at a price of Rs. 20/- per fully paid equity share payable in cash and also acquired 11,73,316 shares representing 10.64% of the then paid up capital pursuant to an open offer under the SEBI (SAST) Regulations, 1997 and in compliance with clause 40A of the Listing Agreement.

Subsequently, the Company made a preferential allotment of shares to the Promoter, SIHPL, pursuant to the guidelines issued by SEBI (DIP) Guidelines, 2000 for Preferential Issues. SIHPL made the necessary disclosures to SEBI under Regulation 3(4) of the SEBI (SAST) Regulations, 1997 in respect of this preferential issue.

**Purpose/object and reasons for preferential allotment:**

Subsequent to the acquisition of controlling interest in the Company, the Promoters, in order to strengthen the financial position of the Company, initiated a process of re-aligning the Company's outstanding debt. Accordingly, in order to improve the Net Worth of the Company, SIHPL agreed to inject equity through a preferential allotment. Accordingly, 1,20,00,000 Equity shares were allotted on a preferential basis at Rs. 20/- per share.

<sup>(3)</sup> In the year 2002, the Company issued 11,50,000 equity shares for consideration in kind, to the shareholders of Schenectady Specialities Asia Private Limited upon a Scheme of Amalgamation approved by the Bombay High Court.

**Salient terms of the amalgamation are as under:**

In the terms of the Scheme of Amalgamation between the Company and Schenectady Specialities Asia Private Limited (SSAPL) which was sanctioned by an order of the Hon'ble Bombay High Court dated November 28, 2002, all the assets and liabilities of SSAPL were transferred to and vested with the Company w.e.f. the Appointed date i.e., September 27, 2002.

1. The shareholders of SSAPL were allotted 1 equity share of the Company of Rs. 10/- each for every 10 equity shares of Rs. 10/- each held by them in SSAPL
2. No adjustments were intended to be made to the book values of the assets and liabilities of the Transferor Company when they were incorporated in the books of accounts of the Transferee Company except that the Transferor Company may dispose off or part with any items(s) forming part of its fixed assets, by way of sale if the Board of Directors have already taken a decision to sell or otherwise dispose off the same.
3. The difference between the value of net assets recorded and the aggregate of Reserves and the paid up value of shares issued is treated as goodwill.
4. Changes in accounting policies is dealt as extra ordinary items.
5. All the employees in the employment of the Transferor Company on the Effective Date, shall become the employees of the Transferee Company on the basis that their services have not been interrupted due to the vesting of the Undertaking of the Transferor Company in the Transferee Company.



**Current shareholding pattern of the Company (as on October 15, 2004)**

Shareholding pattern of the Company including details of holdings of Promoter Group and the subscription by the Promoters is as follows:

| Category                         | Pre-Issue             |                         | Post Offer capital assuming all shares offered are allotted |                         |
|----------------------------------|-----------------------|-------------------------|---|-------------------------|
|                                  | Number of shares held | % age of issued capital | Number of shares held                                       | % age of issued capital |
| Promoters Holdings               | 1,98,45,039           | 82.09                   | 3,47,28,818   | 82.09                   |
| <b>Sub total (a)</b>             | <b>1,98,45,039</b>    | <b>82.09</b>            | <b>3,47,28,818</b>  | <b>82.09</b>            |
| Non-promoters Holding            |                       |                         |   |                         |
| Banks/ FIs / Insurance companies | 24,91,357             | 10.31                   | 43,59,875   | 10.31                   |
| Mutual Funds and UTI             | 8,000                 | 0.03                    | 14,000  | 0.03                    |
| Foreign Nationals / NRIs         | 18,465                | 0.08                    | 32,314  | 0.08                    |
| Public/others                    | 18,12,139             | 7.50                    | 31,71,243   | 7.50                    |
| <b>Sub Total (b)</b>             | <b>43,29,961</b>      | <b>17.91</b>            | <b>75,77,432</b>  | <b>17.91</b>            |
| <b>GRAND TOTAL (a+b)</b>         | <b>2,41,75,000</b>    | <b>100.00</b>           | <b>4,23,06,250</b>  | <b>100.00</b>           |

Note: Post Offer Promoters shareholding is based on the assumption that all shareholders including promoters will subscribe to their entire Rights entitlement.

**Promoters' Contribution and lock-in provisions:** The provisions relating to promoters contribution and lock in period are not applicable to Rights Issues as per clause 4.10 (c) of SEBI DIP Guidelines 2000.

**Promoters' intention to subscribe to their entire rights entitlement:**

Schenectady (India) Holdings Pvt. Limited. (SIHPL), as a Promoter of the Company, has confirmed that it intends to subscribe to the full extent of its entitlement in the Offer. SIHPL intends to apply additional equity shares in the Offer such that at least 90% of the Offer size is subscribed. As a result of this subscription and consequent allotment, SIHPL may acquire equity shares over and above their entitlement in the Offer, which may result in their shareholding in the Company being above their current shareholding. Since SIHPL is a wholly owned subsidiary of SII, USA, it has obtained the approval from FIPB, vide its letter dated August 12, 2004, for increase in foreign equity participation in the equity capital up to 90% of Schenectady Herdillia.

**Top Ten Shareholders of the Company as on the date of Letter of Offer i.e. as on October 15, 2004.**

| Name of the shareholder                       | Shares             | % age        |
|---|--------------------|--------------|
| Schenectady (India) Holdings Private Limited. | 1,98,45,039        | 82.09        |
| Life Insurance Corporation of India           | 9,16,129           | 3.79         |
| The New India Assurance Company Limited       | 5,59,055           | 2.31         |
| United India Insurance Company Limited        | 4,94,550           | 2.05         |
| General Insurance Corporation of India        | 2,79,335           | 1.16         |
| The Oriental Insurance Company Limited        | 1,83,392           | 0.76         |
| Mega Resources Limited                        | 1,09,150           | 0.45         |
| India Syntans Investments Private Limited     | 88,574             | 0.37         |
| National Insurance Company Limited            | 53,075             | 0.22         |
| Mr. Kewal Kumar Vohra                         | 29,823             | 0.12         |
| <b>Total Shares</b>                           | <b>2,25,28,122</b> | <b>93.31</b> |

**Top Ten Shareholders of the Company 10 days before the Letter of Offer, i.e., as on October 5, 2004.**

| Name of the shareholder                       | Shares             | % age        |
|---|--------------------|--------------|
| Schenectady (India) Holdings Private Limited. | 1,98,45,039        | 82.09        |
| Life Insurance Corporation of India           | 9,17,029           | 3.79         |
| The New India Assurance Company Limited       | 5,59,055           | 2.31         |
| United India Insurance Company Limited        | 4,94,550           | 2.05         |
| General Insurance Corporation of India        | 2,79,435           | 1.16         |
| The Oriental Insurance Company Limited        | 1,83,392           | 0.76         |
| Mega Resources Limited                        | 1,09,150           | 0.45         |
| India Syntans Investments Private Limited     | 88,574             | 0.37         |
| National Insurance Company Limited            | 48,075             | 0.20         |
| Mr. Kewal Kumar Vohra                         | 29,823             | 0.12         |
| <b>Total Shares</b>                           | <b>2,25,54,122</b> | <b>93.30</b> |

**Top Ten Shareholders of the Company two years before the Letter of Offer, i.e., as on October 15, 2002**

| Name of the shareholder                | Shares             | % age        |
|--|--------------------|--------------|
| Schenectady (India) Holdings Pvt. Ltd  | 1,86,95,039        | 81.19        |
| Life Insurance Corporation of India    | 13,16,464          | 5.72         |
| The New India Assurance Company Ltd    | 5,59,055           | 2.43         |
| United India Insurance Company Limited | 4,94,550           | 2.15         |
| General Insurance Corporation of India | 3,11,321           | 1.35         |
| The Oriental Insurance Company Limited | 1,83,392           | 0.80         |
| National Insurance Company Limited     | 1,53,075           | 0.66         |
| Mega Resources Limited                 | 1,09,150           | 0.47         |
| Anurag Commercials Pvt. Ltd.           | 16,150             | 0.07         |
| Mr. Santosh Goenka                     | 15,950             | 0.07         |
| <b>Total Shares</b>                    | <b>2,18,54,146</b> | <b>94.87</b> |

**Details of the equity shares held by the Promoters, Persons acting in Concert and the Directors are as follows:**

| Sr. No. | Particulars   | Party                                      | No. of Shares      | % of total share capital |
|---------|---|--|--------------------|--------------------------|
| 1.      | Promoter in active Control of the Company and responsible for formation of the business plans   | Schenectady (India) Holdings Pvt. Limited. | 1,98,45,033        | 82.09                    |
| 2.      | Persons in Concert with person as mentioned in point (a) (Jointly with person mentioned in (a)) | Mr. R.M. Pandia*                           | 1                  | 0.001                    |
|         |   | Mr. G. C. Vasudeo*                         | 1                  | 0.001                    |
|         |   | Mr. Dinesh Shetty                          | 1                  | 0.001                    |
|         |   | Mr. S.V. Sarma                             | 1                  | 0.001                    |
|         |   | Mr. S.A. Padhye                            | 1                  | 0.001                    |
|         |   | Mr. P.S. Paradkar                          | 1                  | 0.001                    |
|         |   | <b>Sub Total</b>                           |                    | <b>1,98,45,039</b>       |
| 3.      | Directors   | Mr. R.M. Pandia                            | 3,100              | 0.01                     |
|         | <b>Grand Total</b>  |  | <b>1,98,48,139</b> | <b>82.10</b>             |

\*Are common Directors of SIHPL (Promoter Company) and Schenectady Herdillia. Their shareholding in Schenectady Herdillia is as mentioned in the above table.

The total number of members of the Company as on September 30, 2004 is **8106**.

1. The present Offer being a Rights Offer, as per clause 4.10.1 (c) of extant SEBI guidelines, the requirement of promoters' contribution is not applicable
2. The Company has not availed of Bridge Loans to be repaid from the proceeds of the Offer, for incurring expenditure on the Objects of the Offer.
3. The Company, Promoters, Directors and Lead Managers to the Offer have not entered into any buy-back, standby or similar arrangements for any of the securities being offered through this Letter of Offer.
4. The terms of Offer to Non-Resident Equity Shareholders / Applicants have been presented under the "Terms of the Offer" Section of this Letter of Offer.
5. At any given time, there shall be only one denomination of the equity shares of the Company. The Company shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
6. The Directors, Promoters and Promoter Group of the Company have not entered into any purchase or sale transactions of the Company's shares in the last six months.
7. No further issue of capital by way of issue of bonus shares, preferential allotment, rights issue or public issue or in any other manner which will affect the capital of the Company, shall be made during the period commencing from the filing of the Letter of Offer with the SEBI till the Equity Shares issued under this Letter of Offer have been listed or application moneys are refunded on account of the failure of the Offer.
8. Further, presently the Company does not have any proposal, intention, negotiation or consideration to alter the capital structure by way of split / consolidation of the denomination of the shares / issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities within a period of six months from the date of opening of the present Offer. However, subject to the condition in Note 7 above, if business needs of the Company so require, the Company may alter the capital structure by way of split / consolidation of the denomination of the shares / issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities during the period of six months from the date of listing of the shares issued under this Letter of Offer or from the date the application moneys are refunded on account of failure of the Offer, after seeking and obtaining all the approvals which may be required for such alteration.
9. The Promoters have confirmed that they intend to subscribe to the full extent of their entitlement in the Offer. The Promoters intend to apply for additional shares in the Offer such that at least 90% of the Offer size is subscribed. As a result of this subscription and consequent allotment, the promoters may acquire shares over and above their entitlement in the Offer, which may result in their shareholding in the Company being above their current shareholding. This subscription and acquisition of additional shares by Promoters, if any, will not result in change of control of the management of the Company and shall be exempt in terms of proviso to Regulation 3(1)(b)(ii) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997. As such, other than meeting the requirements indicated in Use of Funds, Objects of the Offer (refer "Particulars of the Offer", page no. 28 of the Letter of Offer), there is no other intention / purpose for this Offer, including any intention to delist the Company, even if, as a result of allotments to the Promoters in this Offer, the Promoter shareholding in the Company exceeds their current shareholding. However, Promoter has confirmed that in case the Rights Offer of the Company is completed with the promoters subscribing to equity shares over and above their entitlement and as a result, if the public shareholding in the Company after the Rights Offer falls below the "permissible minimum level" i.e. 10% as specified in the current listing condition or listing agreement, they will either individually or jointly with other promoters make an offer for sale of their holdings so that the public shareholding is raised to the "permissible minimum level" within a period of 3 months from the date of allotment in the proposed Offer, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority.

In this context, the promoters of Schenectady Herdillia Limited have provided following undertaking:

"We hereby undertake that, in case the Rights Offer of Schenectady Herdillia Limited is completed with the Promoters subscribing to equity shares over and above their entitlement and as a result, if the public shareholding in the Company after the Rights Offer falls below the "permissible minimum level" i.e. 10% as specified in the current listing condition or listing agreement, we will either individually or jointly with other promoters make an offer for sale of our holdings so that the public shareholding is raised to the "permissible minimum level" within a period of 3 months from the date of allotment in the proposed Offer, as per the requirements of sub-clause 17.1 and 17.2 of SEBI (Delisting of Securities) Guidelines, 2003 or as per any amendment thereto or any other period as may be directed by SEBI or any appropriate authority."

Further, Schenectady (India) Holdings Private Limited (SIHPL) has agreed to convert an amount not exceeding Rs. 4,569.08 lakhs (i.e. 90% of Offer size) out of the unsecured loan of Rs. 4,899 lakhs (as on September 30, 2004) provided to Schenectady Herdillia into advance against equity subscription / share application money in respect of their rights entitlements and also for additional shares, SIHPL may subscribe to ensure 90% subscription of the Rights Offer.

## TERMS OF THE OFFER

The Equity Shares, now being offered, are subject to the terms and conditions of this Letter of Offer, the enclosed Composite Application Form ("CAF"), the Memorandum & Articles of Association of the Company, the approvals from the GoI, FIPB and RBI, if applicable, the provisions of the Companies Act, 1956, guidelines issued by SEBI, guidelines, notifications and regulations for Offer of capital and for listing of securities issued by Government of India and / or other statutory authorities and bodies from time to time, terms and conditions as stipulated in the allotment advice or letter of allotment or security certificate and rules as may be applicable and introduced from time to time.

### Authority of the Offer

The Offer is being made pursuant to the resolutions passed by the Board of Directors of the Company at its meeting held on May 29, 2004 & the Committee of Directors of the Board at its meeting held on July 12, 2004 and the approval of the Equity Shareholders in the 42nd Annual General Meeting held on June 28, 2004.

### Basis of the Offer

The Equity Shares are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in electronic form and on the Register of Members of the Company in respect of shares held in physical form at the close of business hours on the Record Date i.e., October 15, 2004 fixed in consultation with the NSE (Designated Stock Exchange). The Equity Shares are being offered for subscription in the ratio of three Equity Shares for every four Equity Shares held by the Equity Shareholders.

### Rights Entitlement

As you were an Equity Shareholder on the Record Date, you are being made this Offer as shown in part A of the enclosed Composite Application Form.

### Fractional entitlement

If the shareholding of any of the Equity Shareholders is not in multiple of four then the fractional entitlement of such equity shareholders shall be rounded up to the next higher integer. Shareholders holding one share will be offered one new equity share.

### Nomination facility

In terms of Section 109A of the Act, nomination facility is available in case of equity shares in the physical form. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose. In the case shares in electronic form the facility applies to the beneficiary account maintained with any depository participant.

### Offer to Non-Resident Equity Shareholders / Applicants

Applications received from NRIs and non-residents for Allotment of Equity Shares shall be inter-alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 1999 (FEMA) in the matter of refund of application moneys, Allotment of Equity Shares, Issue of Letter of Allotment / share certificates, payment of interest, dividends, etc. General permission has been granted to any person resident outside India to apply shares offered on rights basis by an Indian Company in terms of FEMA and the Rules and regulations thereunder.

The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued.

Further the NR shareholders (except OCB's) may apply for issue of additional Equity shares under the Rights Offer.

### Principal Terms and Conditions of the Offer

#### Equity Shares

- Face value  
Each Equity Share shall have the face value of Rs. 10/-
- Offer Price  
Each Equity Share is being offered at a price of Rs. 28/- (including a premium of Rs. 18/-)
- Entitlement Ratio

The Equity Shares are being offered on rights basis to the existing Equity Shareholders of the Company in the ratio of three equity shares for every four equity shares held as on the Record Date.

- Market lot

The market lot for the equity shares in dematerialised mode is one. In case of physical certificates, the Company would issue one certificate for the equity shares allotted to one folio ("Consolidated Certificate")

- Terms of payment

The Offer price per Equity Share shall be payable as follows:

100% of the Offer price (i.e. Rs. 28/-) per Equity Share on Application

- Ranking of the Equity Shares

The Equity Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects including dividends, with the existing equity shares of the Company.

#### **Option available to the Equity Shareholders**

The Composite Application Form clearly indicates the number of Equity Shares that the Equity Shareholder is entitled to. If the Equity Shareholder applies for an investment in Equity Shares, then he can:

- Apply for his entitlement in part
- Apply for his entitlement in part and renounce the other part
- Apply for his entitlement in full
- Apply for his entitlement in full and apply for additional Equity Shares

Renounees for Equity Shares can apply for the Equity Shares renounced to them and also apply for additional Equity Shares.

#### **How to Apply**

##### **Resident Equity Shareholders**

Application should be made only on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Manager or by the Registrar to the Offer or by the Company at any offices except in the case of postal applications as per instructions given on page no. 20 in the Letter of Offer.

##### **Non-resident Equity Shareholders**

Applications received from the Non-Resident Equity Shareholders for the allotment of Equity Shares shall, inter alia, be subject to the conditions as may be imposed from time to time by the Reserve Bank of India, in the matter of Refund of application moneys, allotment of Equity Shares, issue of Letters of Allotment / certificates / payment of dividends etc.

#### **The CAF consists of four parts:**

Part A: Form for accepting the Equity Shares offered and for applying for additional Equity Shares

Part B: Form for renunciation

Part C: Form for application for renounees

Part D: Form for request for split application forms

#### **Acceptance of the Rights Offer**

You may accept the Offer and apply for Equity Shares offered, either in full or in part by filling Block III of Part "A" of the enclosed CAF and submit the same along with the application money payable to the "Bankers to the Offer " or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Offer Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Mumbai / demand draft payable at Mumbai to the Registrar to the Offer by registered post. Such applications sent to anyone other than the Registrar to the Offer are liable to be rejected.

## **Renunciation**

As an Equity Shareholder, you have the right to renounce your entitlement for the Equity Shares in full or in part in favour of one or more person(s). Your attention is drawn to the fact that the Company shall not allot and / or register any Equity Shares in favour of:

- More than three persons including joint holders
- Partnership firm(s) or their nominee(s)
- Minors
- Hindu Undivided Family
- Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its Constitutions to hold Equity Shares of a Company)

The right of renunciation is subject to the express condition that the Board / Committee of Directors shall be entitled in its absolute discretion to reject the request for allotment to renouncee(s) without assigning any reason thereof.

## **Procedure for renunciation**

### **To renounce the whole offer in favour of one renouncee**

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favour renunciation has been made should complete and sign Part C of the CAF. In case of joint renouncees, all joint renouncees must sign this part of the CAF.

### **To renounce in part or renounce the whole to more than one person(s)**

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renouncees, the CAF must be first split into requisite number of forms. Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Offer so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed.

In case the signature of the Equity Shareholder(s), who has renounced the Equity Shares, does not agree with the specimen registered with the Company, the application is liable to be rejected.

## **Renouncee(s)**

The person(s) in whose favour the Equity Shares are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Offer on or before the Offer Closing Date along with the full application money.

## **Change and/ or introduction of additional holders**

If you wish to apply for Equity Shares jointly with any other person or persons, not more than three, who is/are not already joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

However, this right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renouncee(s) without assigning any reason thereof.

## **Please note that:**

- (a) Part A of the CAF must not be used by any person(s) other than those in whose favour this offer has been made. If used, this will render the application invalid.
- (b) Request for split form should be made for a minimum of 50 Equity Shares or in multiples thereof and one Split Application Form for the balance Equity Shares, if any.
- (c) Only the person to whom this Letter of Offer has been addressed to and not the renouncee(s) shall be entitled to renounce and to apply for Split Application Forms. Forms once split cannot be split again.
- (d) Split form(s) will be sent to the applicant(s) by ordinary post at the applicant's risk.

### Additional Equity Shares

You are eligible to apply for additional Equity Shares over and above the number of equity shares you are entitled to, provided you have applied for all the equity shares offered without renouncing them in whole or in part in favour of any other person(s). Applications for additional equity shares shall be considered and allotment shall be made in the manner prescribed on page no. 18 in the Letter of Offer under the "Basis of Allotment". The renounees applying for all the equity shares renounced in their favour may also apply for additional Equity Shares. In case of application for additional equity shares by non-resident equity shareholders, the allotment of additional securities will be subject to the permission of the RBI. Where the number of additional equity shares applied for exceeds the number available for allotment, the allotment would be made on a fair and equitable basis in consultation with NSE (Designated Stock Exchange). The summary of options available to the equity shareholder is presented below. You may exercise any of the following options with regard to the equity shares offered, using the enclosed CAF:

| Sr. Option Available No.   | Action Required  |
|--|--|
| 1. Accept whole or part of your entitlement without renouncing the balance.                                  | Fill in and sign Part A (All joint holders must sign)  |
| 2. Accept your entitlement in full and apply for additional Equity Shares                                    | Fill in and sign Part A including Block III relating to the acceptance of entitlement and Block IV relating to additional Equity Shares (All joint holders must sign)  |
| 3. Renounce your entitlement in full to one person (Joint renounees are considered as one).                  | Fill in and sign Part B (all joint holders must sign) indicating the number of Equity Shares renounced and hand it over to the renounee. The renounees must fill in and sign Part C.(All joint renounees must sign)  |
| 4. Accept a part of your entitlement and renounce the balance to one or more renounee(s)                     | Fill in and sign Part D (all joint holders must sign) requesting for Split Application Forms. Send the CAF to the Registrar to the Offer so as to reach them on or before the last date for receiving requests for Split Forms. Splitting will be permitted only once.   |
| <p>OR</p> <p>Renounce your entitlement to all the Equity Shares offered to you to more than one renounee</p> | <p>On receipt of the Split Form take action as indicated below.</p> <p>For the Equity Shares you wish to accept, if any, fill in and sign Part A. For the Equity Shares you wish to renounce, fill in and sign Part B indicating the number of Equity Shares renounced and hand it over to the renounees. Each of the renounees should fill in and sign Part C for the Equity Shares accepted by them.</p> |
| 5. Introduce a joint holder or change the sequence of joint holders  | This will be treated as a renunciation. Fill in and sign Part B and the renounees must fill in and sign Part C.  |

### Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Offer will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID no. and his / her full name and address to the Registrar to the Offer . Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements he/ she shall face the risk of rejection of both the applications.

### Application on Plain Paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Rights Offer on plain paper, along with an Account Payee Cheque drawn on a local bank at Mumbai / Demand Draft payable at Mumbai which should be drawn in favour of the Company and send the same by registered post directly to the Registrar to the Offer.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Offer before the Date of Closure of the Offer and should contain the following particulars:

- Name of Offerer
- Name and address of the Equity Shareholder including joint holders
- Registered Folio Number/ DP and Client ID no.
- Number of shares held as on Record Date
- Number of Rights Equity Shares entitled
- Number of Rights Equity Shares applied for
- Number of additional Equity Shares applied for, if any
- Total number of Equity Shares applied for
- Total amount paid @ Rs. 28/- per Equity Share
- Particulars of cheque/ Draft
- Savings/Current Account Number and name and address of the bank where the Equity shareholder will be depositing the refund order
- PAN/GIR number and Income Tax Circle/Ward/District where the application is for Equity Shares of a total value of Rs. 50,000 or more for the applicant and for each applicant in case of joint names, and
- Signature of equity shareholders to appear in the same sequence and order as they appear in the records of the Company. Payments in such cases, should be through a cheque/ demand draft payable at Mumbai, drawn in favour of the Bankers to the Offer marked "A/c Payee" and marked "**HDFC Bank - A/c Schenectady Herdillia Limited - Rights Issue**".

Please note that those who are making the application otherwise than on original CAF shall not be entitled to renounce their Rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications as well as forfeiture of amounts remitted along with the applications.

#### **Last date of Application**

The last date for submission of CAF is December 2, 2004. The Board will have the right to extend the said date for such period as it may determine from time to time but not exceeding sixty days from the date the Offer opens.

If the CAF together with the amount payable is not received by the Bankers to the Offer / Registrar on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/ Committee of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board/ Committee of Directors shall be at liberty to dispose off the Equity Shares hereby offered, as provided under the heading "Basis of Allotment".

**INVESTORS MAY PLEASE NOTE THAT THE EQUITY SHARES OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.**

#### **Basis of Allotment**

1. Subject to provisions contained in this Letter of Offer, the Articles of Association of the Company and approval of the Designated Stock Exchange, the Board will proceed to allot the Equity Shares in the following order of priority:
  - (a) Full allotment to those Equity Shareholders who have applied for their rights entitlement either in full or in part and also to the renounee(s) who has/ have applied for Equity Shares renounced in their favour, in full or in part.
  - (b) Allotment to the Equity Shareholders who having applied for all the Equity Shares offered to them as rights and have also applied for additional Equity Shares. The allotment of such additional Equity Shares will be made as far as possible on an equitable basis having due regard to the number of Equity Shares held by them on the Record Date, provided there is an under-subscribed portion after making full allotment in (a) above. The allotment of such Equity Shares will be at the sole discretion of the Board/Committee of Directors in consultation with the Designated Stock Exchange, as a part of the rights Offer and not preferential allotment.
  - (c) Allotment to the renounees who having applied for the Equity Shares renounced in their favour have also applied for additional Equity Shares, provided there is an under-subscribed portion after making full allotment in (a) and (b) above. The allotment of such additional Equity Shares will be made on a proportionate basis at the sole discretion of the Board/Committee of Directors but in consultation with the Designated Stock Exchange, as a part of the rights Offer and not preferential allotment.



2. The Company shall retain no over subscription.
3. The Offer will become undersubscribed after considering the number of shares applied as per entitlement plus additional shares. The undersubscribed portion shall be applied for only after the close of the Offer. The promoters shall subscribe to such undersubscribed portion as per the relevant provisions of the law. If any person presently in control of the company desires to subscribe to such undersubscribed portion and if disclosure is made pursuant to SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, such allotment of the undersubscribed portion will be governed by the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997.
4. After taking into account the allotments made under 1(a), 1(b) and 1(c) above, if there is still any under subscription, the unsubscribed portion shall be disposed off by the Board or Committee of Directors authorised in this behalf by the Board upon such terms and conditions, through such securities (Equity Shares) and to such person / persons and in such manner as the Board/ Committee of Directors may in its absolute discretion deem fit, as a part of the rights Offer and not preferential allotment.

Allotment to promoters of any unsubscribed portion, over and above their entitlement shall be done in compliance with Clause 40A of the Listing Agreement in order to ensure minimum 10% public shareholding.

#### **Underwriting**

The present Offer is not underwritten.

#### **Allotment / Refund**

The Company will issue and despatch letters of allotment/ securities certificates and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any within a period of six weeks from the Date of Closure of the Offer. If such money is not repaid within 8 days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73(2)(2A) of the Act.

Letters of allotment/ securities certificates/ refund orders above the value of Rs. 1,500 will be despatched by Registered Post/ Speed Post to the sole/ first applicant's registered address. However, refund orders for value not exceeding Rs. 1,500 shall be sent to the applicants under Postal Certificate. Such cheques or pay orders will be payable 'at par' at all the centres where the applications were originally accepted and will be marked "A/c payee" and would be drawn in the name of the sole/ first applicant. Adequate funds would be made available to the Registrar to the Offer for the despatch of Letters of allotment/ securities certificates / refund orders.

In case the Company issues Letters of allotment, the corresponding Security Certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Company Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such Letters of Allotment, which would be exchanged later for the Security Certificates.

As regards allotment/ refund to Non - Residents, the following further conditions shall apply. In case of non-residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which should be furnished in the CAF. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts (details of which should be furnished in the CAF) and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time. The Company will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The equity share certificate(s) will be sent by registered post at the Indian address of the non-resident applicant.

#### **Letters of Allotment / Equity Share certificates**

Letter(s) of Allotment/ Equity Share certificates or Letters of Regret will be despatched to the registered address of the first named applicant or respective beneficiary accounts will be credited within six weeks, from the date of closure of the subscription list. In case the Company issues Letters of Allotment, the relative Equity Share certificates will be despatched within three months from the date of allotment. Allottees are requested to preserve such Letters of allotment (if any) to be exchanged later for Equity Share certificates. Export of Letters of Allotment (if any)/ Equity Share certificates to non-resident allottees will be subject to the approval of RBI.

#### **Arrangement for odd lot Equity Shares**

The Company has not made any arrangements for the disposal of odd lot Equity Shares arising out of this Offer. The Company will issue certificates of denomination equal to the number of shares being allotted to the Equity Shareholder.

### **Option to receive Equity Shares in Dematerialised Form**

Applicants to the Equity Shares of the Company offered through this Rights Offer shall be allotted the securities in dematerialised (electronic) form at the option of the applicant. The Company and the Registrar to the Company - Tata Consultancy Services Limited have signed a tripartite agreement with National Securities Depository Limited (NSDL) on April 30, 2001, and with Central Depository Services (India) Limited (CDSL) on April 24, 2001 which enables the investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

In this Rights Offer, the allottees who have opted for Equity Shares in dematerialised form will receive their Equity Shares in the form of an electronic credit to their beneficiary account with a Depository Participant. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and dematerialised form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected.

The Equity Shares of the Company will be listed on The Stock Exchange, Mumbai and the National Stock Exchange of India Limited. Procedure for availing this facility for allotment of Equity Shares in this Offer in the electronic form is as under:

1. Open a Beneficiary Account with any Depository Participant (care should be taken that the Beneficiary Account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In case of joint holding, the Beneficiary Account should be opened carrying the names of the holders in the same order as with the Company). In case of Investors having various folios in the Company with different joint holders, the investors will have to open separate accounts for such holdings. Those Equity Shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.
2. For Equity Shareholders already holding equity shares of the Company in dematerialised form as on Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later or those who change their accounts and wish to receive their Rights Equity Shares by way of credit to such account, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of securities arising out of this Offer may be made in dematerialised form even if the original equity shares of the Company are not dematerialised. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Company.
3. Responsibility for correctness of applicant's age and other details given in the CAF vis-à-vis those with the applicant's Depository Participant would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be same as registered with the applicant's Depository Participant.
4. If incomplete / incorrect Beneficiary Account details are given in the CAF the applicant will get Equity Shares in physical form.
5. The Rights Equity Shares allotted to investors opting for dematerialised form, would be directly credited to the Beneficiary Account as given in the CAF after verification. Allotment advice, Refund Order (if any) would be sent directly to the applicant by the Registrar to the Offer but the applicant's Depository Participant will provide to him the confirmation of the credit of the Rights Equity Shares to the applicant's Depository Account.
6. Renouncees will also have to provide the necessary details about their Beneficiary Account for allotment of securities in this Offer. In case these details are incomplete or incorrect, the application is liable to be rejected.

### **Utilisation of Proceeds**

The funds received against this Rights Offer (except the subscription amount of the Promoter's which has already been received to the extent of Rs. 4,569.08 lakhs) will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Offer has been received by the Company.

### **General instructions for applicants**

- a) Please read the instructions printed on the enclosed CAF carefully.
- b) Application should be made on the printed CAF, provided by the Company and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and without deduction of bank commission and other charges. The CAF must be filled in English and the names of all the applicants, details of occupation, address, and father's / husband's name must be filled in block letters.

- c) The CAF together with cheque / demand draft should be sent to the Bankers to the Offer / Collecting Bank or to the Registrar and not to the Company or Lead Managers to the Offer . Applicants residing at places other than cities where the branches of the Bankers to the Offer have been authorised by the Company for collecting applications, will have to make payment by Demand Draft payable at Mumbai and send their application forms to the Registrar to the Offer by REGISTERED POST. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
- d) Applications for a total value of Rs. 50,000 or more, i.e. where the total number of securities applied for multiplied by the Offer price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/ her permanent account number allotted under the Income-Tax Act, 1961 or where the same has not been allotted, the GIR number and the Income-Tax Circle / Ward / District. In case where neither the permanent account number nor the GIR number has been allotted, the fact of non-allotment should be mentioned in the CAFs. Forms without this information will be considered incomplete and are liable to be rejected.
- e) Applicants are advised to provide information as to their savings/current account number and the name of the Bank with whom such account is held in the CAF to enable the Registrar to print the said details in the Refund Orders, if any, after the names of the payees. Application not containing such details is liable to be rejected.
- f) The payment against the application should not be effected in cash if the amount to be paid is Rs. 20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Offer.
- g) Signatures should be either in English or Hindi or in any other language specified in the 8th Schedule of the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Company.
- h) In case of an application under Power of Attorney or by a body corporate or by a society, a certified true copy of the relevant Power of Attorney or relevant resolution or authority to make investment and sign the application along with a copy of the Memorandum & Articles of Association and / or bye laws must be lodged with the Registrar to the Offer giving reference of the serial number of the CAF. In case these papers are sent to any other entity besides the Registrar to the Offer or are sent after the Offer Closure Date, then the application is liable to be rejected.
- i) In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renounees, the number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
- j) Application(s) received from Non-Resident / NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent offer and allotment of Equity Shares, interest, export of Equity Share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
- k) All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Offer prior to the date of allotment in this Offer quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number. Please note that any intimation for change of address of Equity Shareholders, after the date of allotment, should be sent to the Registrar and Transfer Agents of the Company (i.e., Tata Consultancy Services Limited) in the case of equity shares held in physical form and to the respective DP, in case of equity shares held in dematerialised form.
- l) Split forms cannot be re-split.
- m) Only the person or persons to whom Equity Shares have been offered and not renounee(s) shall be entitled to obtain split forms.
- n) Applicants must write their CAF number at the back of the cheque / demand draft.
- o) Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.

p) A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. (For payment against application in cash please refer point (f) above)

q) No receipt will be offered for application money received. The Bankers to the Offer / Collecting Bank/ Registrar will acknowledge receipt of the same by stamping and returning the acknowledgment slip at the bottom of the CAF.

**r) Mode of payment for Resident Equity Shareholders/ Applicants:**

All cheques / drafts accompanying the CAF should be drawn in favour of the Collecting Bank (specified on the reverse of the CAF), crossed "A/c Payee only" and marked "**HDFC Bank - A/c Schenectady Herdillia Limited - Rights Issue**" Applicants residing at places other than places where the bank collection centres have been opened by the Company for collecting applications, are requested to send their applications together with Demand Draft for the full application amount favoring the Bankers to the Offer, crossed "A/c Payee only" and marked "**HDFC Bank- A/c Schenectady Herdillia Limited - Rights Issue**" payable at Mumbai directly to the Registrar to the Offer by registered post so as to reach them on or before the Offer Closing Date. The Company or the Registrar will not be responsible for postal delays or loss of applications in transit, if any.

s) **Mode of payment for Non-Resident Equity Shareholders/ Applicants:** As regards the application by non-resident Equity Shareholders, the following further conditions shall apply: Payment by non-residents must be made by demand draft / cheque payable at Mumbai or funds remitted from abroad in any of the following ways:

1. Application with repatriation benefits

a) By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or

b) By cheque / draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Mumbai; or

c) By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Mumbai or

d) FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.

2. Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Mumbai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Mumbai. In such cases, the allotment of Equity Shares will be on non-repatriation basis. All cheques/drafts submitted by non-residents should be drawn in favour of the Bankers to the Offer and marked "HDFC Bank - A/c Schenectady Herdillia Limited - Rights Issue -NR" payable at Mumbai and must be crossed "A/c Payee only" for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on the Offer Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/ FCNR/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected.

**Note:**

In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares can be remitted outside India, subject to tax, as applicable according to Income Tax Act, 1961.

In case Equity Shares are allotted on non-repatriation basis, the dividend and sale proceeds of the Equity Shares cannot be remitted outside India.

The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on the aforesaid Offer Closing Date. A separate cheque or bank draft must accompany each CAF.

In case application received from Non-Residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

**Disposal of application and application money**

No acknowledgment will be issued for the application moneys received by the Company. However, the Bankers to the Offer/ Registrar to the Offer receiving the CAF will acknowledge its receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

The Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, and in either case without assigning any reason thereto.

In case an application is rejected in full, the whole of the application money received will be refunded. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on Equity Shares allotted, will be refunded to the applicant within six weeks from the close of the Offer.

**For further instructions, please read the Composite Application Form carefully.**

**Important**

1. Please read this Letter of Offer carefully before taking any action. The instructions contained in the accompanying Composite Application Form (CAF) are an integral part of the conditions of this Letter of Offer and must be carefully followed; otherwise the application is liable to be rejected.
2. All enquiries in connection with this Letter of Offer or accompanying Composite Application Form and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID no., the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and superscribed "Schenectady Herdillia - Rights Offer " on the envelope) to the Registrar to the Offer at the following address:

**Tata Consultancy Services Limited**

Unit Schenectady Herdillia Limited

Park West - II, Raheja Estate

Kulupwadi Road, Borivali (East)

Mumbai 400 066

Tel: 91-022-5668 9898

Fax: 91-022-5668 9799

Email: [tcssharac@mumbai.tcs.co.in](mailto:tcssharac@mumbai.tcs.co.in)

3. It is to be specifically noted that this Offer of Equity Shares is subject to Risk Factors appearing on page no. i of this Letter of Offer.
4. The Rights Offer will not be kept open for more than 30 days unless extended, in which case it will be kept open for a maximum 60 days.

## TAX BENEFITS

The Auditors of the Company, BSR and Co. have advised the Company vide their letter dated October 8, 2004 that under the current direct tax law, the following tax benefits inter alia will be available to the Company and the shareholders of the Company. A shareholder is advised to consider in his own case the tax implication of an investment in the shares.

The tax benefits listed below are the possible benefits available under the current tax laws in India. Several of these benefits are dependent on the Company or its Shareholders fulfilling the conditions prescribed under the relevant tax laws, Hence the ability of the Company or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which are based on business imperatives it faces in the future, it may not choose to fulfill.

### 1. Benefits available to the Company

#### 1.1 Direct Tax - The Income-tax Act 1961 ('the Act')

- a) Scientific Research: The Company is entitled to claim deduction as per and in accordance with Section 35 of the Act in respect of the revenue and capital expenditure (other than on acquisition of any land) incurred on Scientific Research related to its business in the year in which it is incurred
- b) Voluntary Retirement Scheme of Employees: The Company is entitled to claim by way of amortization over five years, the expenditure incurred for payment of any sum to the employees at the time of their voluntary retirement, as per and in accordance with Section 35DDA of the Act.
- c) Amalgamation / Demerger Expenses: The Company is eligible to amortized expenses incurred for amalgamation of Schenectady Specialties Asia Private Limited (effective date 27 September 2002) with it over a period of five years commencing from the financial year 2002-03 as per and in accordance with Section 35DD of the Act.
- d) Set-off of losses and its carry forward: The Company is entitled to carry forward and set-off unabsorbed losses (business loss, depreciation and capital losses to be computed in accordance with and subject to the various provisions of the Act), under Section 72A of the Act, of Schenectady Specialties Asia Private Limited, which merged with it with effect from 27 September 2002.
- e) Dividend income: Dividend income, if any, received by the Company from its investment in shares of another Domestic Company will be tax-exempt under Section 10(34) read with Section 115O of the Act. Income received on units of Mutual Funds specified under Section 10(23D) of the Act will be tax-exempt under Section 10(35) of the Act.
- f) Capital gains: Capital assets are to be categorized into short term capital assets and long term capital assets based on the period of holding. All capital assets (except shares held in a Company or any other listed securities or units of UTI or Mutual Fund units) are considered to be long-term capital assets if they are held for a period in excess of 36 months. Shares held in a Company or any other listed securities or units of UTI and Mutual Fund units are considered as long term capital assets if these are held for a period exceeding 12 months.

Section 48 of the Act, which prescribes the mode of computation of capital gains, provides for deduction of cost of acquisition / improvement and expenses incurred in connection with the transfer of a capital asset, from the sale consideration to arrive at the amount of capital gains. However, in respect of long term capital gains, for resident shareholders it offers a benefit by permitting substitution of cost of acquisition / improvement with the indexed cost of acquisition / improvement, which adjusts the cost of acquisition / improvement by a cost inflation index, as prescribed from time to time.

Under the provisions of Section 112 of the Act, long-term gains are subject to tax at a rate of 20.91 percent (basic rate of 20% to be increased by a surcharge of 2.50 percent and the total to be increased by an additional surcharge by way of education cess at the rate of 2 percent).

Under the proviso to Section 112(1), the long term capital gains arising on transfer of listed securities or units is restricted to 10.45 percent (basic rate of 10% to be increased by a surcharge of 2.50 percent and the total to be increased by an additional surcharge by way of education cess at the rate of 2 percent) of gains without indexation benefit.

From 1 October 2004, long-term capital gains arising on sale of equity shares and units of equity oriented mutual fund (as defined) under Section 10(23D) on a recognized stock exchange are exempt from tax under Section 10(38) of the Act on being subject to Securities Transaction Tax levied under Chapter VII of the Finance (No. 2) Act of 2004.

From 1 October 2004, Short-term capital gains arising on sale of equity shares and units of equity oriented mutual fund (as defined) under Section 10(23D) on recognized stock exchange are subject to tax at the rate of 10.45 per

cent (basic rate of 10% to be increased by a surcharge of 2.50 per cent and the total to be increased by an additional surcharge by way of education cess at the rate of 2 per cent), provided the transfer is chargeable to Securities Transaction Tax being levied under Chapter VII of the Finance (No. 2) Act of 2004.

- g) Exemption of capital gains from income tax: As per Section 54EC of the Act and subject to conditions specified therein, taxable long-term capital gains are not chargeable to tax to the extent they are invested in certain notified bonds within six months from the date of transfer. If the Company transfers or converts the notified bonds into money (as stipulated therein) within a period of three years from the date of their acquisition, the amount of gain exempted earlier would become chargeable in such year. The bonds specified for this Section are bonds issued by National Bank for Agriculture and Rural Development (NABARD), the National Highway Authority of India (NHAI), the National Housing bank (NHB), the Rural Electrification Corporation Ltd. (REC) and Small Industrial Development Bank of India (SIDBI).

As per Section 54ED of the Act and conditions specified therein, long term capital gains arising on listed securities or units are not be chargeable to tax to the extent such gains are invested in acquiring equity shares forming part of an "eligible issue of share capital". The investment needs to be within six months from the relevant date of transfer. Eligible Issue of capital means an issue of equity shares that satisfied the following conditions:

- The issue is made by a public company formed and registered in India; and
- The shares forming part of the issue are offered for subscription to the public.

There is a legal uncertainty over whether the benefit under this Section can be extended to shares forming part of the offer for sale by the selling shareholders. At this stage, it may be relevant to note that under Section 10(36) of the Act, the Central Board of Direct Taxes ('CBDT') has clarified vide Circular no.7/2003 dated 5 September 2003, that 'public issue' shall include the offer of equity shares in a company to the public through a prospectus, whether by the company or by the existing shareholders of the company.

## 1.2 Indirect Tax

- a) Customs duty: The Company is eligible to import goods duty free as per Duty Exemption Entitlement Certificate (DEEC) Advance Licence Scheme in accordance with conditions specified therein.
- b) Excise duty: The Company is eligible to avail CENVAT credit on all its inputs and capital goods used in capital goods purchased from local market or imported and used in the process of manufacture. The Company is also eligible to export its goods without payment of excise duty. The Company is also eligible (effective 10 September 2004) to claim CENVAT credit in respect of Service-tax paid on input services used for manufacture and clearance of goods.
- c) Sales tax: The manufacturing units of the Company located at 'Lote' in the State of Maharashtra is entitled to incentives in the form of sales tax deferral for a period 10 years under the Packaged Scheme of Incentives 1993 of the Government of Maharashtra. The unit is entitled to retain sales tax collected during the period October 2002 to March 2014 or up to the ceiling of Rs. 56.86 mn of sales tax collected whichever is earlier. The sales tax collected in the eligibility period/ ceiling can be retained for a period of ten years thereafter and would need to repaid in five equal annual installments.

## 2. Benefits available to resident shareholders

- a) **Dividend income:** As outlined in item (e) of paragraph 1.1 above.
- b) **Capital gains:** As outlined in item (f) of paragraph 1.1 above.
- c) **Exemption of capital gains from income tax:** As outlined in item (g) of paragraph 1.1 above. Further, as per the provisions of Section 54F of the Act and subject to conditions specified therein, any taxable long term capital gains (other than residential house but including those on shares) other than residential house interest to an individual or Hindu Undivided Family are exempt from capital gains tax if the net sales consideration is utilized, within a period of one year before, or two years after the date of transfer, in purchase of a new residential house, or for construction of residential house within three year from the date of transfer.

If the residential house in which the investment has been made is transferred within a period of three years from the date of its purchase or construction, the amount of capital gains tax exempted earlier would become chargeable to tax as long term capital gains in the year in which such residential house is transferred.

Similarly, if the shareholder purchases within a period of two years or constructs within a period of three years after the date of transfer of capital asset, another residential house, then the original exemption will be taxed as capital gains in the year in which the additional residential house is required.

### 3. Benefits available to Non-Resident Shareholders

- a) **Dividend income:** As outlined in item (e) of paragraph 1.1 above.
- b) **Capital gains:** As outlined in item (f) of paragraph 1.1 above except that under first proviso to Section 48 of the Act, the taxable capital gains arising on transfer of capital assets being shares or debentures of an Indian Company need to be computed by converting the cost of acquisition, expenditure on connection with such transfer and full value of the consideration received or accruing as a result of the transfer into the same foreign currency in which the shares were originally purchased. The resultant gains thereafter need to be reconverted into Indian currency. The conversion needs to be at the prescribed rates prevailing on dates stipulated. In view of this mechanism, in computing such gains, the benefit of indexation is not available to non-resident shareholders. In case of a non-resident individual, the applicable surcharge is 10 per cent if the total income exceeds Rs. 850,000 and needs to be factored in before levy of additional surcharge of 2 per cent. In other cases the applicable surcharge is nil and additional surcharge of 2 per cent.
- c) Exemption of capital gains from income tax: Benefits outlined in item (g) of paragraph 1.1 and benefits available to resident shareholders in item (c) of paragraph 2 above are also available to non-resident shareholders.
- d) Tax Treaty Benefits: As per Section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the tax treaty to the extent they are more beneficial to the non-resident. Thus, a non-resident can opt to be governed by the beneficial provisions of an applicable tax treaty.

### 4. Benefits available to Non-Resident Indian shareholders

- a) **Dividends:** As outlined in item (e) of paragraph 1.1 above.
- b) **Capital gains:** Under Section 115I of the Act, a Non-resident Indian (NRI) as defined therein has the option to be governed by the normal provisions of the Act as outlined in item (f) of paragraph 1.1 and item (b) of paragraph 2 or the provisions of Chapter XII-A of the Act through appropriate declaration in the return of income. The said Chapter inter alia entitles NRI to the benefits stated hereunder in respect of income from shares of an Indian company acquired, purchased or subscribed in convertible foreign exchange

As per the provisions of Section 115D read with Section 115E of the Act and subject to the conditions specified therein, taxable long term capital gains arising on transfer of an Indian company's shares, will be subject to tax at the rate of 10.2 percent (basic rate of 10 per cent to be increased by additional surcharge of 2 per cent toward education cess) (if the total income exceeds Rs. 850,000 then a surcharge of 10% needs to be factored before levy of additional surcharge).

As per the provisions of Section 115F of the Act and subject to the conditions specified therein, gains arising on transfer of a long-term capital asset being shares in an Indian Company would not be chargeable to tax. To avail this benefit the entire net consideration received on such transfer needs to be invested within the prescribed period of six months in any specified asset or savings certificates referred to in Section 10(4B) of the Act.

If part of such net consideration is invested within the prescribed period of six months in any specified asset or savings certificates referred to in Section 10(4B) of the Act then such gains would not be chargeable to tax on a proportionate basis. For this purpose, net consideration means full value of the consideration received or accrued as a result of the transfer of the capital asset as reduced by any expenditure incurred wholly and exclusively in connection with such transfer.

The specified asset or savings certificates in which the investment has been made are restricted from being transferred within a period of three years from the date of investment. In the event of such a transfer the amount of capital gains tax exempted earlier would become chargeable to tax as long-term capital gains in the year in which such specified asset or savings certificates are transferred.

As per the provisions of Section 115G of the Act, Non-Resident Indians are not obliged to file a return of income under Section 139(1) of the Act, if:

- Their only source of income is income from investments or long term capital gains earned on transfer of such investments or both; and
- The tax has been deducted at source from such income as per the provisions of Chapter XVII-B of the Act.

As per Section 115H of the Act, when a NRI becomes a resident in India, the provisions of the Chapter XII-A can continue to apply in relation to investment made when he was a NRI. Towards this, the NRI needs to furnish a declaration in writing to the Assessing Officer along with his return of income.



- c) Tax Treaty Benefits: As per Section 90(2) of the Act, the provisions of the Act would prevail over the provisions of the tax treaty to the extent they are more beneficial to the non-resident. Thus, a non-resident (including NRIs) can opt to be governed by the beneficial provisions of an applicable tax treaty.

**5. Special benefits available to Foreign Institutional Investors ('FIIs')**

- a) Dividend income: As outlined in item (e) of paragraph 1.1 above.
- b) Capital gains: As per the provisions of Section 115AD of the Act, FIIs are taxed on the capital gains income at the following rates:

| Nature of income         | Rate of tax (%) |
|--------------------------|-----------------|
| Long-term capital gains  | 10              |
| Short-term capital gains | 30              |

The above tax rates would need to be increased by the applicable surcharge of 2.5 per cent and the total to be increased by an additional surcharge of 2 per cent towards education cess. In case of Non-corporate FIIs (e.g. trusts) the surcharge is 10% if their total income exceeds Rs. 850,000, otherwise it is Nil. This has to be increased by additional surcharge of 2%. The benefits of indexation and foreign currency fluctuation protection as provided by Section 48 of the Act are NOT available to a FII.

From 1 October 2004, long-term capital gains arising on sale of equity shares and units of equity oriented mutual fund (as defined) under Section 10(23D) on the recognized stock exchange are exempt from tax under Section 10(38) of the Act on being subject to Securities Transaction Tax as levied under Chapter VII of the Finance (No. 2) Act of 2004.

From 1 October 2004, Short-term capital gains arising on sale of equity shares and units of equity oriented mutual fund (as defined) under Section 10(23D) on the recognized stock exchange to Corporate FIIs are subject to tax at the rate of 10.45 per cent (basic rate of 10% to be increased by a surcharge of 2.50 per cent and the total to be increased by an additional surcharge of 2 per cent by way of education cess) on being subject to Securities Transaction Tax levied under Chapter VII of the Finance (No. 2) Act of 2004. In case of Non-corporate FIIs (e.g. FII), the applicable surcharge is 10% if their total income exceeds Rs. 850,000.

- c) Tax Treaty Benefits: As outlined in paragraph 4(c) above.

**6. Benefits available to Mutual Funds**

**Dividend income:** As outlined in item (e) of paragraph 1.1 above.

As per the provisions of Section 10(23D) of the Act, any income of Mutual Funds registered under the Securities and Exchange Board of India Act, 1992 or Regulations made thereunder, Mutual Funds set up by public sector banks or public financial institutions and Mutual Funds authorized by the Reserve Bank of India, would be exempt from income tax, subject to the prescribed conditions.

**7. Benefits available to Venture Capital Companies / Funds**

**Dividend income:** As outlined in item (e) of paragraph 1.1 above.

As per the provisions of Section 10(23FB) of the Act, any income of Venture Capital Companies / Funds registered with the Securities and Exchange Board of India, would be exempt from income tax, subject to the conditions specified.

**8. Benefits available under the Wealth-tax Act, 1957**

Asset as defined under Section 2(ea) of the Wealth Tax Act, 1957 does not include shares in companies and hence, shares are not liable to wealth tax.

**9. Benefits available under the Gift-tax Act**

Gift tax is not leviable in respect of any gifts made on or after October 1, 1998. Therefore, any gift of shares will not attract gift tax.

## PARTICULARS OF THE OFFER

### I. Objects of the Offer

The present Offer of equity shares is being made:

1. To inject long term funds to replace:
  - a. The debt raised by the Company from its Promoters at the time of pre-payment of high cost debts as well as for injection of long term working capital requirements; and
  - b. Funds borrowed by the erstwhile Schenectady Specialties Asia Pvt. Limited (now amalgamated with Schenectady Herdillia), for its initial capital projects which have already been implemented and working capital requirements.
2. To augment long-term working capital requirements of the Company by replacing / reducing the existing working capital facilities / loans.

The expenses for the Rights Offer will be met out of the proceeds of the Offer.

In addition to the above, the proposed Rights Offer will also improve the debt-equity structure of the Company.

The objects for which the Rights Offer is being made have not been appraised by any agency.

### II. Fund Requirements

The total requirements of the funds on account of the above, as estimated by the Company, are as below:

(Rupees in Lakhs)

| Particulars                                   | Amount       |
|---|--------------|
| Replacement / Adjustment of Debt              | 4,568        |
| Replacement of existing working capital loans | 475          |
| Offer expenses                                | 33           |
| <b>TOTAL</b>                                  | <b>5,076</b> |

### III. Sources of Funds

(Rupees in Lakhs)

| Particulars           | Amount       |
|-----------------------|--------------|
| Rights Offer proceeds | 5,076        |
| <b>TOTAL</b>          | <b>5,076</b> |

#### 1. Unsecured Loans from the Promoters

During January 2002, Schenectady International Inc. USA (SII), through its wholly owned subsidiary, Schenectady (India) Holdings Pvt. Limited., (SIHPL), acquired controlling interest in the Company. Immediately after the acquisition of the controlling interest, the Promoters initiated a financial restructuring of the Company through swapping of high interest bearing term loans, cash credit facility with low interest bearing loans and also infused fresh equity by way of preferential allotment. For the purpose of swapping of these loans, SIHPL had advanced unsecured loans in the form of inter-corporate deposits amounting to Rs. 1806 lakhs and the same were utilized for the pre-payment of various term loans/working capital loans availed from banks and financial institutions. This resulted in substantial savings in the interest cost to the Company and consequent improvement in operating profits. Out of the above loan, the Company had repaid Rs. 448 lakhs and accordingly Rs. 1358 lakhs are outstanding on this account to SIHPL.

During September 2002, Schenectady Specialties Asia Private Limited., (SSAPL), a subsidiary company of SIHPL, was amalgamated with the Company pursuant to the order dated November 28, 2002 of the Hon'ble Bombay High Court with the Company in order to align SII's business activities in India. Consequent upon this merger, Rs. 1780 lakhs that were outstanding from SSAPL to SIHPL got transferred to the Company. SSAPL had borrowed these loans from SIHPL during its initial stages of project implementation for its projects relating to manufacture of Nonyl Phenol, Dodecyl Phenol and Para Tertiary Butyl Phenol at Rasal Unit and working capital requirements.

During August 2003, the Company acquired the Performance Resins Business of SII in India alongwith the fixed assets relating to the said business. In order to fund the said acquisition, the Company had borrowed a sum of Rs. 1006 lakhs from SIHPL as unsecured loans in the form of inter-corporate deposits. The said amount is still outstanding.

During June 2004, in order to bridge the gap for the working capital requirements of the Company, SIHPL had lent unsecured loans in the form of inter-corporate deposits amounting to Rs. 755 lakhs out of which Rs. 324 lakhs was repaid during August 2004. Subsequently, additional loan of Rs. 324 was borrowed during September 2004 and the said loan is still outstanding.

The details of the above outstanding unsecured loans are as follows:

(Rupees in Lakhs)

| Date of Receipt   | Amount (as on September 30, 2004) | Current Rate of Interest (%) | Maturity Date |
|-------------------|-----------------------------------|------------------------------|---------------|
| Dec'98 to Feb'02  | 1,780                             | 7                            | 01-01-2005    |
| Jan' 02 to Sep'02 | 1,358                             | 7                            | 01-01-2005    |
| Aug'03 to Oct'03  | 1,006                             | 7                            | 01-01-2005    |
| June 2004         | 431                               | 7                            | 01-01-2005    |
| September 2004    | 324                               | 7                            | 01-01-2005    |
| <b>Total</b>      | <b>4,899</b>                      |                              |               |

Accordingly, after considering the present debt-equity ratio and in order to re-align the same, it was contemplated that a Rights Offer be considered with the objective of converting the interest bearing unsecured loans from the Promoter into long-term interest free funds by way of equity shares.

The Board of Directors have proposed that a Rights Offer be floated through which the Promoters alongwith the existing shareholders will have the right to subscribe to their entitlement and applying the above unsecured loan towards subscription amount.

Accordingly, an amount not exceeding Rs. 4,569.08 lakhs (i.e., 90% of Offer size) out of the above unsecured loans of Rs. 4,899 lakhs (as on September 30, 2004) provided by SIHPL would be treated as advance subscription amount / share application money towards equity shares to be subscribed by SIHPL as per their Rights entitlement and also for any additional shares that SIHPL may subscribe in order to ensure minimum 90% subscription.

## 2. Reduction of debt

The Company currently has various short-term loans / cash credit facilities in the nature of working capital loans from its Bankers carrying various maturity dates, the average interest rate on which works out 6.02% per annum. Accordingly, the Company is proposing to repay / reduce part of the working capital loans out of the Offer proceeds. The final aggregate repayment amount of the debt shall be subject to the prevailing interest rate and the decision taken by the Board / Management.

**Note:** The funds are being used to replace the debt raised by the Company from its Promoters at the time of pre-payment of high cost debts as well as for injection of long-term working capital requirements, but any Bank/ Financial Institution has not appraised the requirement. Thus, there will be no monitoring of the funds raised through the Offer and the deployment of funds will be left entirely to the Company.

The Company undertakes to make proper utilization of the funds raised out of this Rights Offer.

## 3. Estimated Offer expenditure

The total expenses of the Offer payable by the Company are estimated at Rs. 33 lakhs (0.65 % of the Offer size) and the entire costs would be borne out of the Offer proceeds. The Offer expenses consists of fees payable to the Lead Managers to the Offer (Rs. 10.80 lakhs), Registrars to the Offer, Bankers, Auditors and the Legal Advisors (Rs. 13 lakhs), printing and stationery (Rs. 2.00 lakhs), Advertising and Marketing (Rs. 4.00 lakhs) and other expenses and contingencies (Rs. 3.20 lakhs).

## HISTORY, MAIN OBJECTS AND PRESENT BUSINESS OF THE COMPANY

### Brief History

Schenectady Herdillia Limited, formerly known as Herdillia Chemicals Limited, was promoted in 1965 by Hercules Inc., USA and Distillers Company Limited, UK for the manufacture of organic chemicals with a manufacturing facility at Navi Mumbai. Presently the Company is a part of the Schenectady International Inc., USA and renamed as Schenectady Herdillia Limited, on April 8, 2002. Mr. Charles G. Griswold is the Chairman, while Mr. R M. Pandia is the Vice Chairman & Managing Director of the Company.

The Company's plants for Cumene, Phenol, Acetone, Diacetone Alcohol, Phthalic Anhydride, and Phthalate plasticisers were set up at Thane-Belapur, Navi Mumbai, with technological support from leading international licensors such as UOP, BP Chemicals, Hercules Inc., U.S.A. and Scientific Design. The Company commenced operations in 1968 with the production of commodity chemicals, viz., Cumene, Phenol, Acetone, Phthalic Anhydride (PAN), Phthalate Plasticisers and Diacetone Alcohol. Apart from substantial expansion of capacity of these products, the Company has been able to launch a number of value-added Speciality products such as Fumaric Acid, Alkyl Phenols, Isobutyl Benzene, Diphenyl Oxide, Acetophenone, Alpha Methyl Styrene, Heat Transfer Fluids and Isophorone.

The initial capacity of Phenol and Acetone at 10,000 MT per annum and 6,000 MT per annum was enhanced over the years to 34,200 MT per annum and 20,860 MT per annum respectively. Apart from this, the respective capacities of PAN, Phthalates and Diacetone Alcohol plants were also augmented through in-house process engineering.

Schenectady Herdillia identified several new areas for investment and growth. The Company capitalised its strong R&D base and commercial plants for recovery of Cumene by trans-alkylation of Cumene bottoms and Fumaric Acid from the vent gases of Phthalic Anhydride went on stream. Later on, the processes for the manufacture of Dodecyl and other Alkyl Phenols were developed in the Company's R&D centre and successfully commercialised in 1986-88.

The Company has a strong and proven R&D base which has enabled it to commercialise six products from pilot level plants and widen the spectrum of its product line. In fact, the Company was awarded the coveted Acharya P. C. Ray award instituted by Indian Chemicals Manufacturers Association (ICMA) for excellence in indigenously developing technologies during 1992.

In keeping with the thrust areas of Speciality chemicals and exports, the Company had commercialised its own R&D based products, viz. Di-Phenyl Oxide and Isobutyl Benzene during 1992-93. In fact, the Isobutyl Benzene technology was a closely guarded secret of the select few global players in this line. During the years 1993-95, projects for the production of value added products Isophorone and Heat Transfer Fluids were commissioned successfully by the technical team of Schenectady Herdillia.

Over the years the Company's Safety and Environmental efforts have been recognized by a number of statutory as well as non-government agencies. During the year 1998, the Company received the Award for Excellence in Management of Health/Safety/Environment /At Source Reduction in Waste Generation at manufacturing site of the Company by ICMA.

During the year 1998, while expanding the Phenol/Acetone capacities, the Company absorbed state of the art technology from M.W.Kellogg of U.S.A to improve the production yields. Further, the Company also installed a captive co-generation power plant, which is designed to generate 4.5 M.W. of power and 38 TPH of steam at competitive cost.

During January 2002, Schenectady International Inc., USA, a leading producer of Alkyl Phenols in the world, took controlling interest in the Company through its Indian wholly owned subsidiary SIHPL from Duncans Goenka Group. Consequent upon the acquisition of controlling interest in the Company, the name of the Company was changed to Schenectady Herdillia Limited with effect from April 8, 2002. In order to align SII's business activities in India, Schenectady Specialities Asia Private Limited, a subsidiary Company of SIHPL, was amalgamated with Schenectady Herdillia Limited with effect from September 27, 2002 after obtaining the approval of the Hon'ble Bombay High Court. With this amalgamation, SSAPL's manufacturing site for the manufacture of Nonyl Phenol, Dodecyl Phenol and Para Tertiary Butyl Phenol at Rasal became part of Schenectady Herdillia.

As a part of the global sale of Electrical Insulation Business by SII in April 2003, and after considering the various synergies available, the Company acquired, on a going concern basis, the Phenolic Resins (PR) business of SII in India along with a manufacturing site at Lote and related properties in respect of Phenolic Resins business during August 2003.

The current range of products includes a mix of commodity and speciality chemicals, including Cumene, Phenol, Acetone, Diacetone Alcohol, Phthalic Anhydride, Isophorone, Isobutyl Benzene, Diphenyl Oxide, several Alkyl Phenols, Acetophenone, Alpha Methyl Styrene, Resins and unsaturated dimers of Alpha Methyl Styrene.

## Objects of the Company

The main objects of the Company as set out in the Memorandum and Articles of Association and include inter alia:

1. To carry on business as manufacturers, producers, importers, exporters, merchants, distributors, commission agents, and brokers of, and wholesale and retail dealers in, Phenol, Cumene, Acetone, Diacetone Alcohol, Ethyl Alcohol, Phthalic Anhydride, Phthalates, Titanium dioxide and its pigments, their derivatives, by-products, co-products and compounds, and other heavy and fine chemicals, and of and in all kinds of chemical preparations, industrial, agricultural, medicinal, pharmaceutical, toilet, and otherwise and allied and auxiliary products and intermediates thereof.
2. To carry on business as manufacturers, producers, importers, exporters, merchants, distributors, commission agents, brokers of, and wholesale and retail dealers in steel drums and other drums, and of and in all kinds of containers, crates, cases, tanks, casks, cisterns, receptacles, carboys, jars, bottles, bags, boxes, cartons, and all other articles which may be used for the purpose of packing.
3. To manufacture, produce, import, export, buy, sell and deal in benzene, propylene, naphthalene, xylenes, and all other paraffinic, naphthenic, olefinic and aromatic compounds, alcohols, organic acids, sulphuric acid, oleum, other inorganic acids, alkalis, ilmenite, and all residual and intermediate products resulting from the manufacture or use of such chemicals, and all forms of thermoplastic and thermosetting resins and plastic and their components, plasticisers, caprolactam, terephthalic acid and its esters, isophthalic acid and its esters, all forms of synthetic fibres, synthetic detergents, all forms of polymerised olefines, organic solvents, vinyl compounds, explosives, paints, colours, pigments, dyes, dyestuffs, dye-intermediates, gums, varnishes, lacquers, artificial leather, cosmetics, and rubber goods.

The main Object Clause of the Memorandum of Association of the Company enables the Company to undertake the activities, which the Company has been carrying on till date.

## PRESENT BUSINESS ACTIVITIES

The Company is a leading and diversified organic chemical manufacturing company in India, which is committed to support continuing efforts in improving responsible management of chemicals. It pledges itself to manage the business with great emphasis on safety, health and environmental standards, energy conservation, community service, human resource development and focused customer orientation. It has received several prestigious national awards for its contribution in these areas. Schenectady Herdillia is the first chemical company in India to be bound by the principles of Responsible Care® and having certification under ISO 9001 and ISO 14001.

The Company is engaged in the manufacture and sale of organic chemicals such as Phenol, Acetone, Diacetone Alcohol, Phthalic Anhydride, Fumaric Acid, Phthalates, Resins, Alkyl Phenols and their derivatives, several Speciality Chemicals, by-products etc.

### Location, Land and Building

**The Company has 3 manufacturing units at the following address:**

|                         |   |
|-------------------------|---|
| <b>Navi Mumbai Unit</b> | 2/1, TTC Industrial Area, Thane Belapur Road, Navi Mumbai - 400 703             |
| <b>Lote Unit</b>        | Plot No. D-1/3, MIDC, Lote Parshuram, Taluka, Khed, District Ratnagiri - 415722 |
| <b>Rasal Unit</b>       | Village Rasal, P.O. Pali, Taluka Sudhagad, District Raigad - 410 205            |

### A. NAVI MUMBAI UNIT

The manufacturing site at Navi Mumbai is certified by BVQI for the following systems:

- ISO 9001:2000 - Quality Management System
- ISO 14001 - Environmental Management System &
- OSHAS 18001 - Occupational Health and Safety Assessment Specifications.

#### ▪ Plant and Machinery

Schenectady Herdillia's plant located at Navi Mumbai is an integrated petrochemical complex with several state-of-art plants. These plants produce a wide spectrum of 14 products, which range from commodity to Speciality chemicals, some of which are the first and only plants in India.

The plants are automatic and controlled by electronic instrumentation with computerized Distributed Control Systems. The machinery and equipment consists broadly of:

- (a) Various types of reactors, distillation columns and other heat and mass transfer equipment.

- (b) Storage vessels, tanks, pumps and piping
- (c) Supporting utilities such as cooling towers, D.M. water plant, refrigeration units etc.
- (d) Loading, unloading and drum filling facilities

- **Manufacturing Processes**

Phenol, Acetone and Phthalic Anhydride are the main commodity chemicals manufactured by Schenectady Herdillia.

In order to gain competitive market edge, Schenectady Herdillia has gone for forward integration, whereby Phenol and Acetone are further processed to manufacture value added speciality products. Dodecyl, Nonyl, Para Octyl and some other Alkyl phenols as well as Diphenyl Oxide are manufactured from phenol. Diacetone Alcohol and Isophorone are manufactured from Acetone.

Some of the normal waste streams emanating out of above plants are converted to value added products. Alpha methyl styrene, Fumaric acid and Woodytol are examples of such waste stream conversion.

A brief outline of various processes is given below:

Phenol/Acetone: These are manufactured from oxidation of Cumene and cleavage of Cumene hydroperoxide.

Cumene: Cumene is manufactured by alkylation of benzene by propylene over a catalyst.

Phthalic Anhydride: Phthalic Anhydride is manufactured by oxidation of orthoxylene over a catalyst.

Diacetone Alcohol: Acetone is condensed in presence of a catalyst to manufacture Diacetone alcohol.

Isophorone: A high pressure process is used to condense acetone to manufacture Isophorone.

Diphenol Oxide (DPO): DPO is manufactured by catalytic dehydration of phenol.

Isobutyl Benzene (IBB): IBB is manufactured by alkali metal catalysed reaction of toluene with propylene.

- **Technology**

The technologies for Schenectady Herdillia's plants are from reputed process licensors, which include UOP, USA for Cumene, Kellogg Brown Root, USA for Phenol/Acetone, British Petroleum/Costain, U.K. for Isophorone, BASF, Germany for Phthalic Anhydride catalyst. In addition, the Company has built a strong R&D Centre recognised by the DSIR, which has also received several prestigious awards. The R&D Centre has developed and successfully commercialised some of the speciality chemical processes for Diphenyl Oxide, Alkyl Phenols, Iso Butyl Benzene etc. The products meet stringent international specifications of U.S.A., Europe and Japan.

- **Power And Water**

The power required is around 5 M.W. This requirement was earlier met by MSEB. However, to ensure stable power supply to some of the process units, Schenectady Herdillia successfully commissioned its own gas turbine generator during 1998, which suffices for most of its requirement. The balance is supplied by Maharashtra State Electricity Board (MSEB).

Maharashtra Industrial Development Corporation (MIDC) has been supplying water to Schenectady Herdillia since its inception. The water supply is adequate, consistent and of good quality.

- **Steam And Compressed Air**

Schenectady Herdillia sources its steam requirements mainly from a heat recovery steam generator (HRSG) boiler of its gas turbine power generation unit.

However, five numbers of high-pressure boilers which were the erstwhile steam sources are also available as standby for the HRSG unit.

Compressed air is supplied by highly efficient centrifugal compressors supplied by KKK AG, Eliot, USA etc.

- **Environment Clearance**

Schenectady Herdillia has always kept environmental impact reduction as a primary objective. The effluent water has been constantly improved ahead of statutory norms.

Schenectady Herdillia is a signatory to the Responsible Care movement and certified by BVQI for the ISO 14001 Environmental Management System and OHSAS 18001 - Occupational Health and Safety Assessment Specifications. The Company has won the ICMA Award for 'Excellence in Management of Health, Safety and Environment/At source reduction in waste generation in 1998. The Company has the necessary consent to operate from Maharashtra Pollution Control Board.

## B. RASAL UNIT

### ▪ **Plant and Machinery**

The plant located at Rasal is a speciality Alkyl Phenol manufacturing unit. Presently, Rasal Unit manufactures Para Nonyl Phenol, Para Dodecyl Phenol and Para Tertiary Octyl Phenol. A project for producing other Butyl Phenols is in progress.

The plants are automatic and controlled by electronic instrumentation with computerized Distributed Control System. The machinery and equipment consists broadly of:

- (a) Various types of reactors, distillation columns and other heat and mass transfer equipment.
- (b) Storage vessels, tanks, pumps and piping.
- (c) Supporting utilities such as cooling towers, softener unit, N<sub>2</sub> plant etc.
- (d) Loading, unloading and drum filling facilities

All the plants and processes have been certified under the ISO 9001 Quality Management System.

### ▪ **Manufacturing Processes**

Para Nonyl Phenol, Para Dodecyl Phenol and Para Tertiary Octyl Phenol are the main speciality chemicals manufactured in Rasal. In order to gain competitive market edge, Rasal Unit has gone for backward integration whereby Phenol is manufactured in Navi Mumbai.

A brief outline of various processes is given below:

Para Nonyl Phenol/Para Dodecyl Phenol: These are manufactured from Phenol, Propylene Trimer and Tetramer respectively.

Para Tertiary Octyl Phenol: This is manufactured from Phenol and DIB.

Butyl Phenols are manufactured from Phenol and Isobutylene / C<sub>4</sub>.

All the Alkyl phenols are produced by catalytic alkylation of phenol with the respective olefin. All the above processes involve several stages of refining and other separation processes to manufacture high purity products.

### ▪ **Technology**

The technologies for Rasal's plants are from SII. The R&D Centre located at Navi Mumbai Unit is involved in the development of new products and processes relating to Rasal Unit.

### ▪ **Power and Water**

The power required is around 800 KVA. This 800 KVA requirement is met by Maharashtra State Electricity Board (MSEB). However, to ensure stable power supply to the process unit Diesel Generating Sets have been put up.

Irrigation Department of Maharashtra is supplying adequate, consistent and good quality water to the Unit.

### ▪ **Steam and Compressed Air**

Rasal Unit sources its steam requirements mainly from a boiler unit (SM-80). Compressed air is supplied by reciprocating compressors supplied by Ingersoll Rand and Kirloskar.

### ▪ **Environment Clearance**

Rasal Unit has kept environmental impact reduction as a primary objective. The quality of effluent water is below the maximum limits set by statutory agencies. Further, it is a signatory to the Responsible Care movement and certified by BVQI for the ISO 14001 -Environmental Management Systems. This manufacturing site was earlier certified by M/s DNV for ISO 9001, ISO 14001 and OHSAS 18001 systems. Process of integrating their certification with our Navi Mumbai unit for ISO 14001 through a common certifying agency, i.e., BVQI has been completed. The process of integrating its certification of ISO 9001 and OHSAS 18001 on the same lines is in progress.

The Rasal Unit has won the SIGI President's Award for 'Excellence in Management of Health, Safety and Environment' for last 3 years. The Unit has the necessary consent to operate from Maharashtra Pollution Control Board.

### C. LOTE UNIT

#### ▪ **Plant and Machinery**

Lote Unit comprises typically of multipurpose batch type SS reactors. These have been specially designed for manufacture of synthetic resins and related specialty chemicals and their formulations.

The larger units are automatic and controlled by electronic instrumentation with computerized Distributed Control Systems. The machinery and equipment consists broadly of:

- (a) SS reactors with overhead columns, condensers and other heat and mass transfer equipment,
- (b) Storage vessels, tanks, pumps and piping,
- (c) Supporting utilities such as cooling towers, thermic fluid heater, steam boilers, refrigeration units, nitrogen plant tc.,
- (d) Loading, unloading and drum filling facilities, and
- (e) Sandvik make state of the art belt flaker cum Pastillator and a floor pan for solid products.

#### ▪ **Manufacturing Processes**

Currently the facility manufactures mainly high performance Phenol and Alkyl Phenols - Formaldehyde resins of Novolac and Resole types for tire, adhesive, electronics and other specialty applications.

#### ▪ **Technology**

Technology for these resins is obtained from world wide network of SII and its group companies and consists of the latest state of the art processes and equipments comparable to the best available.

#### ▪ **Power and Water**

The power requirement is met by Maharashtra State Electricity Board (MSEB). However, to ensure stand-by power supply incase of MSEB power failure, the site has a diesel generating set of its own. Water is supplied to the unit by Maharashtra Industrial Development Corporation (MIDC) and is of good quality.

#### ▪ **Steam and Compressed Air**

Steam requirements of the unit are met by a couple of non-IBR boilers of Thermax make. High Temperature reactions are carried out by using Thermic Fluid heater also supplied by Thermax.

Compressed air is supplied by highly efficient centrifugal compressor supplied by CP Tools & Co.

#### o **Environment Clearance**

The Lote Unit has had a strong Environment Health and Safety initiative right from its inception. The effluent water has been constantly monitored and maintained well within statutory norms. The unit has not had any major Accident / Incident over last 15 years of its existence.

The unit is certified for ISO 14001 - Environmental Management Systems and OHSAS 18001 - Occupational Health and Safety Assessment Specifications. The Unit was earlier certified by TUV for the ISO 9001-2000 and ISO 14001. Process of integrating their certification with Navi Mumbai unit for ISO 14001 and OHSAS 18001 through a common certifying agency i.e., BVQI has been completed. The process of integrating its certification of ISO 9001 on the same lines is in progress. The Unit has the necessary consent to operate from Maharashtra Pollution Control Board.

#### o **Raw Materials**

The main raw materials of the Company are Propylene, Benzene, Cumene and Orthoxylene etc. The Company has maintained an excellent relationship with its suppliers in India and overseas. The availability of the material is adequate at competitive prices. As regards local sourcing, the Company has supply contracts with the major refineries /suppliers in the country. The requisite material is available at the prevailing market prices in the country based on landed price parity.

#### o **Manpower**

Company's manpower consists of Covenanted Management Staff and Non Covenanted Staff. The number of levels in the organisation for Management Cadre is only five, which is relatively flat structure compared to other organisations of the same size. The span of control is large in Schenectady Herdillia mainly because of chemical process plant with all continuous operations. Also, with higher automation in new plant, the span of control has



increased. For managerial staff, training needs are identified through the appraisal system. As on September 30, 2004 the total number of employees were 642.

o **Market and Marketing Arrangement**

The Company manufactures organic chemicals, which are mainly industrial raw materials. These products are used by various industries as building blocks for the Value Added Compounds.

The Company's product line is broadly divided into the categories of Commodity Chemicals and Speciality Chemicals. Commodity Chemicals are chemicals which have multiple applications and are sold in large quantities, while Speciality Chemicals can be used for a limited number of end uses and are required in much smaller quantities. The details of end uses, competition as well as various capacities are narrated as follows:

- o **Phenol:** Phenol is one of the basic chemicals used for manufacturing Phenol Formaldehyde Resins which are used in Foundries, Decorative and Industrial Laminates and many other Resin Applications.

Phenol is also used in the production of agro chemicals such as Meta Phenoxy, Benzyldehyde and 24 Dichloro Phenol.

Phenol finds applications in manufacture of bulk drugs such as Aspirin also Phenol is also used in manufacture of Diphenyl Oxide and Alkyl Phenol such as Nonyl Phenol, Dodecyl Phenol, Para Tertiary Butyl Phenol, Para Tertiary Octyl Phenol.

Total production capacity in the country is 87,200 TPA and Schenectady Herdillia is the second largest producer of Phenol in India. In 2003-04, Phenol demand increased by 5-6 percent owing to the increase in the demand from the phenolic resin segment. (Source: CRIS INFAC)

The customer base comprises decorative and industrial laminate producers, major Agro Chemical Industries and Aspirin / Salicylate manufacturers.

- o **Acetone:** Acetone is an important solvent due to its cost effectiveness over other solvents and specific properties, which make it ideally suitable for applications in solvent combination for thinners used in coating applications.

Acetone is an important solvent for pharmaceutical industry and has no substitute in the process of solvent extraction. Acetone is also used for producing Methyl Methacrylate and Diacetone Alcohol and various rubber chemicals where the same is used as a major raw material. Acetone also finds application with various Ordnance factories.

In 2003-04, the demand for acetone increased by only 3 percent, owing to the low demand from the pharmaceutical sector, which accounts for 25 percent of the acetone consumption. (Source: CRIS INFAC)

The major users comprise Pharmaceutical industry, coating industry, Ordnance Factories and Rubber Chemical producers.

- o **Diacetone Alcohol:** Schenectady Herdillia is the only producer of Diacetone Alcohol in the country. The current demand in the domestic market is in the tune of 4000 MT per annum, which is being met, to the satisfaction of the customer. Diacetone Alcohol is an important solvent in the coating industry due to its major properties that help in gloss retention and achieving ideal drying time. Diacetone Alcohol is the preferred solvent in manufacture of coatings based on epoxy and polytoluene. Diacetone Alcohol is also being exported to various countries in South East Asia and Australia.

- o **Phthalic Anhydride:** Phthalic Anhydride (PAN) is used in production of plasticizers such as Dibutyl Phthalate, Dioctyl Phthalate that are used in polymer processing. PAN also forms the backbone of Alkyd Resins used widely in production of paints. The customer base comprises major plasticizers producers, paint industries, dyes and dyestuff producers.

In 2003-04, domestic demand for PAN increased by 4-5 per cent with the rise in consumption in the paints and pigments segment (Source: CRIS INFAC)

- o **Nonyl Phenol:** Nonyl Phenol is a value added product produced from Phenol and is currently one of the major products exported by Schenectady Herdillia. Nonyl Phenol is used to manufacture Nonyl Phenol Ethoxylates, which in turn find application as surfactants used in Agro Chemicals, Paint and Detergent Industry. Schenectady Herdillia is the only consistent producer of Nonyl Phenol in the country today and caters to the requirements of all Ethoxylaters.

- o Dodecyl Phenol: Dodecyl Phenol is also value addition to Nonyl Phenol. Dodecyl Phenol is used as a raw material for producing Lube Oil Additives and the major domestic users depend exclusively on Schenectady Herdillia for this product.

Both Nonyl Phenol and Dodecyl Phenol also form a limited but important part of resins uses in printing ink industry and this application is likely to have major growth in the next few years.

- o Isophorone: Schenectady Herdillia produces approximately 3000 MT per annum of Isophorone. This is a value addition to Acetone and finds application in printing inks, can coatings and is also raw material for Xylynols and Perfumery Compounds. Presently, 80% of the production is exported and the domestic market potential is likely to grow at the rate of more than 30% p.a. in future from the current base of 350 MT per annum.
- o Other products: Apart from these products which form the bulk business, Schenectady Herdillia produces Speciality Chemicals like Diphenyl Oxide which are used in producing Heat Transfer Media. Schenectady Herdillia has a strategic alliance for producing Heat Transfer Media for a major multi-national who market the product in domestic as well as international market.

Schenectady Herdillia also produces Alpha Methyl Styrene, Acetophenone, Hexylene Glycol and Fumaric Acid. These products though low in volume are important from the point of view that the same consume the waste streams produce during the manufacturing process and added value. Schenectady Herdillia has major plans to expand the Alkyl Phenol capacity and to produce solid Alkyl Phenols like PTBP, PTOB. Further, Schenectady Herdillia has also plans to produce 2,4 DTBP, 2,6 DTBP and OTBP which are value additions to Phenol and find applications in Perfumery Chemicals, Resins and Anti Oxidants.

Schenectady Herdillia markets the products directly to the end users to an extent of 60% of the business. The rest of the business are done through a well-knit network of distributors (numbering 5)/ dealers/consignment agents through out India and supported by well-trained and qualified marketing staff. The emphasizes is on actual users contact and the business through distributors is also done necessarily to the actual users segment for most of the products.

## **TECHNOLOGICAL COLLABORATIONS**

Agreement dated February 06, 1997 between Schenectady Herdillia (erstwhile Herdillia Chemicals) and M W Kellogg Technology Company for Advanced Cleavage Technology for the cleavage of Cumene Hydroperoxide to Phenol & Acetone. Salient terms of the agreement are as follows:

- M. W. Kellogg had granted Schenectady Herdillia the right and license to use its technical information to design, engineer and construct the Revamped Unit and the right to practice the Advanced Cleavage Technology in the Revamped Unit, including the right to make and have made for use in operations so licensed for the cleavage of cumene hydroperoxide (CHP) to phenol and acetone and associated reactions including conversion of dimethylbenzyl alcohol (DMBA) to alpha-methylstyrene (AMS) via dicumylhydroperoxide;
- M. W. Kellogg had guaranteed, under this Agreement, performance of the Revamped Unit;
- The confidentiality of this Agreement would be maintained for a period of fifteen (15) years from the Effective Date of this Agreement.

## **RESEARCH AND DEVELOPMENT**

Research & development is being carried out for new products in which customers show active interest and which appear to have profitability potential. The commercial Development Group of the parent company, Schenectady International Inc. is in continued interaction with prospective customers to know their needs.

Several of the existing products of the Company are manufactured based on the technologies developed by R&D in the past. These are being upgraded from time to time. A cost effective, safe, environmentally friendly technology package for a speciality product was developed by R&D during the last year. The technology package is being evaluated for scale up, market seeding etc. with a view to commercialising the technology.

## **EXPORTS**

The Company's export mainly consists of speciality chemicals. The main products of export are Isophorone, Diacetone Alcohol, Diphenyl Oxide, Heat Transfer Media and Alkyl Phenols. The Company's products have been accepted world over for its quality and service. The Company has established distributors/agents/traders in various countries where the Company's products are exported. Currently, the Company exports products to several destinations, including South East Asia, the Far East, the USA, Western Europe, Australia, the Middle East and South Africa. The Company already has the status of a recognized Export House. In addition, some exports are routed through a third party as part of a strategic alliance.

**INSTALLED CAPACITIES & CAPACITY UTILISATION DURING LAST 3 YEARS**

(Units: MT)

| Product                       | Installed Capacity Dec 03/02 | Year Ended December 2003 |                          | Period Ended December 2002 (9 months) |                          | March 2002         |            |                          |
|-------------------------------|------------------------------|--------------------------|--------------------------|---------------------------------------|--------------------------|--------------------|------------|--------------------------|
|                               |                              | Production               | Capacity Utilization (%) | Production                            | Capacity Utilization (%) | Installed Capacity | Production | Capacity Utilization (%) |
| Phenol                        | 34200                        | 34676                    | 101                      | 25585                                 | 100                      | 34200              | 32397      | 95                       |
| Acetone                       | 20860                        | 21127                    | 101                      | 15497                                 | 99                       | 20860              | 19955      | 96                       |
| Diacetone Alcohol             | 9000/7200                    | 8204                     | 91                       | 5561                                  | 103                      | 7200               | 7437       | 103                      |
| Phthalic Anhydride            | 11000/10000                  | 5778                     | 53                       | 6282                                  | 84                       | 10000              | 8716       | 87                       |
| Phthalates                    | 8500                         | -                        | -                        | -                                     | -                        | 8500               | -          | -                        |
| Cumene                        | 29800                        | 30188                    | 101                      | 24355                                 | 109                      | 29800              | 29560      | 99                       |
| Alpha Methyl Styrene          | 900                          | 483                      | 54                       | 460                                   | 68                       | 900                | 493        | 55                       |
| Fumaric Acid                  | 570                          | 142                      | 25                       | 89                                    | 21                       | 570                | 160        | 28                       |
| Capacitor Fluids              | 2000                         | -                        | -                        | -                                     | -                        | 2000               | -          | -                        |
| Dodecyl & Other Alkyl Phenols | 21100                        | 14129                    | 67                       | 4774                                  | 30                       | 9100               | 6402       | 70                       |
| Iso-Butyl Benzene             | 3500                         | 1553                     | 44                       | 1553                                  | 59                       | 3500               | 1249       | 36                       |
| Diphenyl Oxide                | 3000                         | 1342                     | 45                       | 1171                                  | 52                       | 3000               | 1372       | 46                       |
| Cumyl Phenol                  | 1000                         | -                        | -                        | -                                     | -                        | 1000               | -          | -                        |
| Heat Transfer Media           | 3000                         | 857                      | 29                       | 444                                   | 20                       | 3000               | 530        | 18                       |
| Isophorone                    | 3500                         | 2801                     | 80                       | 2083                                  | 79                       | 2500               | 2175       | 87                       |
| Performance Resins            | 2000                         | 250**                    | 13                       | -                                     | -                        | -                  | -          | -                        |

\* On annualised basis.

\*\* Business acquired w.e.f August 13, 2003

**Future outlook**

The products manufactured by Schenectady Herdillia Limited are divided into two categories - Commodity Chemicals and Speciality Chemicals.

The Commodity Chemicals manufactured by the Company are Phenol, Acetone and Phthalic Anhydride. The Company has consistently marketed the entire production of these products in India. The demand for these products in the country has shown an upward trend and it is expected to grow at an average rate of 7-8%. However, large scale of imports of Company's finished products by traders and the volatility in crude oil prices may impact the prices of finished products as well as raw materials.

The Speciality Chemicals manufactured by the Company are largely exported. The Company is making concerted effort to improve its market share in the South East Asian countries.

**Operating Environment**

The Company is marketing Commodity Chemicals like Phenol and Acetone in spite of which India is a net importer. However, the consistent reduction in Customs Duty has put acute pressure from international suppliers. As regards the raw material availability, Propylene cannot be imported in the country for want of commercial chemical terminals. The Company manages to source its raw materials from the domestic refineries in the country. As regards the speciality chemicals, the Company has a stronger production base and is, therefore, in a position to compete internationally in the South East Asian region.

**Business Strategy**

As regards the Commodity Chemicals, the Company has been pursuing cost reduction exercises to keep its competitiveness against the international suppliers. The cost reduction programmes include financial restructuring, energy conservation, value engineering and technology up gradation. As regards the speciality chemicals, including Alkyl Phenols,

the Company has proceeded with higher production rates so as to bring down costs and concurrently capture larger market share in the export market. The R&D activities of the Company have been realigned in line with the SII's global R&D activities and the Company proposes to commercialise some of the products developed in the lab. The Company proposes to have more versatility in its plants so as to capture markets for those products where there is potential demand growth.

Development work on several high-value products with good potential in domestic and international markets will be pursued. The R&D Centre has plans to commercialise some of the products developed so far through better use of existing assets and as new projects.

#### SWOT Analysis

| Strength   | Weakness   |
|--|--|
| <ul style="list-style-type: none"> <li>● Company is a well established reliable manufacturer of organic chemicals</li> <li>● It is a part an American multinational group with presence in 14 countries.</li> <li>● It is a multi locational company with operation at 3 sites</li> <li>● It has received ISO 14001 certification apart from being a signatory to the Responsible Care<sup>®</sup> programme.</li> <li>● The Company is a recognized Export House</li> <li>● The Company has a strong R &amp; D center, which caters to the Global requirement.</li> </ul> | <ul style="list-style-type: none"> <li>● The Company has a site which is old and needs regular maintenance</li> <li>● The Company has a large debt to service</li> </ul> |
| Opportunity  | Threat   |
| <ul style="list-style-type: none"> <li>● It can cater to the growing South East Asian market for specialties.</li> </ul>   | <ul style="list-style-type: none"> <li>● The protective tariff would be reduced and international competition would become acute</li> </ul>                              |

#### Financial performance (Adjusted) of Schenectady Herdillia for the last five years

(Rupees in lakhs)

| Year ended                         | March 31, 2000<br>(12 months) | March 31, 2001<br>(12 months) | March 31, 2002<br>(12 months) | Dec 31, 2002<br>(9 months) | Dec 31, 2003<br>(12 months) | June 30, 2004<br>(6 months) |
|------------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------------|-----------------------------|-----------------------------|
| Sales                              |                               |                               |                               |                            |                             |                             |
| Manufactured                       | 22,997.14                     | 27,041.46                     | 26,192.89                     | 22,564.81                  | 37,504.03                   | 22,255.30                   |
| Traded                             | 24.50                         | -                             | 96.51                         | 475.43                     | 387.34                      | 100.48                      |
| Net Profit after tax & adjustments | 1,017.33                      | **(171.97)                    | 493.98                        | 1,091.42                   | 1,791.40                    | 334.81                      |
| Equity Share Capital               | 1,102.50                      | 1,102.50                      | 2,302.50                      | 2,417.50                   | 2,417.50                    | 2,417.50                    |
| Reserves                           | 1,425.94                      | 1,174.47                      | (265.37)                      | 1,128.11                   | 2,906.98                    | 3,236.03                    |
| Dividend per equity share (Rs.)    | 2.10                          | 0.50                          | -                             | -                          | -                           | -                           |
| EPS (Rs.)                          | 10.48                         | (1.56)                        | 4.47                          | 4.73                       | 7.41                        | *1.38                       |
| Book Value (Rs.)                   | 17.64                         | 13.42                         | 17.37                         | 14.89                      | 21.63                       | *23.02                      |

\* EPS and Book Value for the period 1-1-04 to 30-6-04 have not been annualised

\*\* The loss for the year ended March 2001 was consequent upon disinvestment of equity holdings in Herdillia Oxides, Herdillia Unimers and Herdillia Polymers Limited (the then group companies).

## SUBSIDIARY COMPANY

Herdillia Investments Limited (HIL)

### Board of Directors

Mr. R.M. Pandia  
 Mr. R.S. Nileshwar  
 Mr. P.P. Roy  
 Mr. G.C. Vasudeo

**Date of Incorporation:** February 06, 1987

### Nature of activities:

Herdillia Investments Limited, subsidiary company, is registered with the Reserve Bank of India as a Non Banking Finance Company vide their certificate No. 13.01197 dated February 26, 1999, under the NBFC Guidelines issued by RBI.

HIL was incorporated to carry on the business of an Investment Company and to undertake and transact all kinds of financial business and for that purpose to lend and to invest money in any form or manner and to buy, sell, deal in shares, debentures, bonds or stocks or any other securities of Unit Trust or securities issued by the government, Public or local authority, company or Corporation whether in India or elsewhere.

Shareholding pattern as on September 30, 2004

|                       | No of shares | Face Value | %     |
|-----------------------|--------------|------------|-------|
| Individuals           | 60           | 10/-       | 0.01  |
| Schenectady Herdillia | 70,01,010    | 10/-       | 99.99 |

### Financial performance of HIL

The financial highlights for the year ended March 31, 2002, period ended December 31, 2002, and year ended December 31, 2003 are as follows:

(Rupees in Lakhs)

| Particulars                               | Year Ended<br>March 2002 | Period Ended<br>(9 months)<br>December 2002 | Year Ended<br>December<br>2003 |
|---|--------------------------|---|--------------------------------|
| Income                                    | 10.43                    | 10.86                                       | 20.37                          |
| PBIDT                                     | (572.40)                 | 10.60                                       | 19.89                          |
| Interest                                  | -                        | -   | -                              |
| Depreciation                              | -                        | -   | -                              |
| Profit before tax                         | (572.40)                 | 10.60                                       | 19.89                          |
| Provision for taxation                    | 3.53                     | 3.93  | 6.70                           |
| Profit after tax                          | *(575.93)                | 6.60  | 13.20                          |
| Equity Capital                            | 700.10                   | 700.10                                      | 700.10                         |
| Reserves (excluding revaluation reserves) | -                        | -   | 3.97                           |
| Misc. Exp. / P&L debit balance            | 575.66                   | 568.99                                      | 559.80                         |
| Net worth                                 | 124.45                   | 131.11                                      | 144.27                         |
| Earnings per share (EPS)(Rs.)             | (8.226)                  | 0.094                                       | 0.188                          |
| Dividend (%)                              | -                        | -   | -                              |
| Book value                                | 1.78                     | 1.87  | 2.06                           |

\* In the year 2002, loss of Rs. 579.63 was incurred on account of disinvestment of equity holdings in Herdillia Oxide & Electronic Limited and Herdillia Unimers Limited, the then group companies.

## PROMOTERS

### Background of Promoter Company

**Ultimate Parent:** Schenectady International Inc., USA, (SII), (www.siigroup.com), is a global producer and marketer of alkyl phenols, electronic chemicals, and phenolic resins. After nearly 100 years in business, SII has 21 operations in 14 countries in every major market around the globe. Its four operating divisions, the Chemical, Electronic Speciality Chemicals, Performance Resins and the Speciality Coatings Division supply diverse products to global markets and share a company-wide commitment to provide technologically superior, high-quality products to the customers.

**Promoter Company:** In order to make and retain its investments in India, SII floated a wholly owned Indian subsidiary company in the name of Schenectady (India) Holdings Private Limited (SIHPL) during January 1998 after obtaining relevant approvals of the GoI. In line with the said approval, SII took controlling interest in Schenectady Herdillia during January 2002 through SIHPL.

SIHPL is a Non-Banking Financial Company incorporated on January 21, 1998, engaged in the business of investments in financial instruments. The company was incorporated as a deemed public company as per the provisions of the Companies Act, 1956. Subsequently on passing of the Companies (Amendment) Act, 2000, the Company changed its status as a 'Private Limited Company' and received an amended Certificate of Incorporation from the Registrar of Companies, Maharashtra w.e.f January 12, 2001.

### Permanent Account Number of SIHPL - AACCS 2571 D

Schenectady (India) Holdings Private Limited is the only company in the Promoter Group in India. The entire share capital of SIHPL is held by SII and its subsidiary companies.

Shareholding pattern of SIHPL as on September 30, 2004 is as follows:

| Name of shareholder       | No. of shares held | % of shareholding |
|---------------------------|--------------------|-------------------|
| <b>Equity</b>             |                    |                   |
| SII                       | 1,94,20,378        | 44.74             |
| Schenectady Canada        | 1                  | 0.01              |
| <b>Preference</b>         |                    |                   |
| Schenectady Prattein GmbH | 2,39,84,977        | 55.26             |
| <b>Total</b>              | <b>4,34,05,356</b> | <b>100.00</b>     |

### Financial performance of SIHPL

The financial highlights for the year ended March 31, 2002, period ended December 31, 2002, and year ended December 31, 2003 are as follows:

(Rupees in Lakhs)

| Particulars                   | Year Ended<br>March 2002 | Period Ended<br>(9 months)<br>December 2002 | Year Ended<br>December<br>2003 |
|-------------------------------|--------------------------|---|--------------------------------|
| Interest & Dividend           | 429.90                   | 468.58                                      | 371.74                         |
| Profit on sale of Investments | 0.06                     | -   | 1758.81                        |
| From other sources            | 1.74                     | -   | -                              |
| <b>Total Income</b>           | <b>431.70</b>            | <b>468.58</b>                               | <b>2130.55</b>                 |
| PBIDT                         | 303.92                   | 414.68                                      | 2,036.84                       |
| Interest                      | 220.66                   | 198.99                                      | 136.55                         |
| Depreciation                  | 1.00                     | 0.79  | 0.39                           |
| Profit/(Loss) before tax      | 82.28                    | 214.89                                      | 1,899.90                       |
| Profit/(Loss) after tax       | 82.28                    | 196.30                                      | 1,648.94                       |
| Equity Capital                | 1,942.03                 | 1,942.03                                    | 1,942.03                       |
| Share Application Money       | 2,398.50                 | -   | -                              |
| Preference Capital            | -                        | 2,398.50                                    | 2,398.50                       |
| Reserve                       | 3,956.87                 | 4,088.77                                    | 5,594.68                       |
| Net Worth                     | 5,898.90                 | 8,429.30                                    | 9,935.21                       |

## MANAGEMENT

The Company is managed by Vice Chairman & Managing Director and Whole-time Director under the overall supervision, control and direction of the Board of Directors. The Managing Director looks after the day-to-day affairs of the Company with assistance from the other top Management personnel drawn from various functions.

Mr. Rajeev M. Pandia, Vice Chairman & Managing Director is a Chemical Engineer from Indian Institute of Technology (IIT), Mumbai and also has a Master's Degree in Chemical Engineering from Stanford University, California, USA and has been in the Company for last 23 years.

Mr. G.C. Vasudeo, Whole-time Director designated as Director-Finance, is a Chartered Accountant, Cost Accountant, Company Secretary and a Law graduate and has been in the Company for last 11 years.

Other members on the Board are also renowned personalities and having significant expertise in their field and have been actively contributing through their valuable advice and guidance.

### Board of Directors

#### Composition of the Board:

- o **Mr. Charles Griswold**, a graduate from the University of Illinois, at Champaign, Illinois, with a Bachelor of Science in Microbiology, began his career in the chemical industry as a salesman for BASF. In February 1976, Mr. Griswold joined SII (formerly Schenectady Chemical) as the first salesman for the newly formed Chemical Division. Since then, he has been associated with Schenectady International Inc. (SII) and is currently designated as President & Chief Operating Officer.
- o **Mr. B. V. Bhargava** is a Post Graduate in Commerce and Law Graduate from University of Mumbai. Mr. Bhargava has had a distinguished career in development banking and project finance spanning nearly three decades. He joined ICICI Limited (now ICICI Bank) in 1968 and retired in May 1996 as Vice Chairman and Managing Director.
- o **Mr. Richard Barlow** graduated from the Clarkson University in 1984 with a Bachelor of Science in Accounting & Finance and began his career with KPMG Peat Marwick in 1984. He has been associated with Schenectady International Inc. (SII), USA since 1994 and is currently designated as Vice President - Global Controller of SII.
- o **Mr. B. Chakrabarti** is a Commerce Graduate from Kolkatta University and also a Chartered Accountant. He started his career in 1974 with United India Insurance (UII) and currently he is designated as General Manager and a Member of the Corporate Management Team of UII. He is Nominee Director of General Insurance Corporation Limited.
- o **Mr. A. Malcolm MacCormick** received his Bachelor's degree in Economics from St. Lawrence University, Canton, New York in 1980. He has been associated with Schenectady International Inc. (SII), USA since 1984 and is currently designated as Director-Affiliates.
- o **Ms. Ashley Palm** graduated from the University of North Carolina at Chapel Hill, USA. with a Bachelor of Science degree in Industrial Relations. She has been associated with Schenectady International Inc. (SII), USA since 1988 and is currently designated Vice Chairman of SII.
- o **Mr. R.M. Pandia** obtained the Bachelor's degree in Chemical Engineering from Indian Institute of Technology (IIT), Mumbai and the Master's degree in the same field from Stanford University, California, U.S.A. He started his career in ICICI and handled appraisal studies related to chemical and petrochemical projects. He then managed a Greenfield project for the manufacture of Carbon Black set up in collaboration with Phillips Petroleum Company, U.S.A. His association with project management continued in NOCIL and covered petrochemicals and agrochemicals. Mr. Pandia joined Schenectady Herdillia in 1981 and is currently the Vice Chairman & Managing Director of the Company.
- o **Mr. P.N. Ghatalia** is a commerce graduate from the University of Mumbai and also a member of the Institute of Chartered Accountants of India. Mr. Ghatalia is currently Senior Partner of M/s Price Waterhouse, Chartered Accountants and has been with them for the last 37 years. He is also a member of the Accounting Standards Committee of SEBI and on the Advisory Board of various academic institutions.
- o **Mr. S.N. Talwar** is a Solicitor and Advocate and has done his Bachelor of law (L.L.B.) and Bachelor of Commerce from University of Mumbai. Mr. Talwar is a Partner of Messrs Crawford Bayley & Co., a leading firm of Solicitors, since 1976. He is legal Counsel to numerous Indian companies, multinational corporations, Indian and foreign banks and is an expert in the field of Corporate Laws.
- o **Mr. G.C. Vasudeo** is a graduate in Commerce and Law from the University of Mumbai. Further Mr. Vasudeo is also Fellow member of the Institute of Chartered Accountants of India and Institute of Company Secretaries of India and also Associate member of the Institute of Cost and Works Accountants of India. Mr. Vasudeo has been in the whole

time employment of the Company since June 1993 and has wide experience of over 23 years. He is in charge of Corporate Finance, Accounts, Materials Sourcing and Information Technology.

- o **Ms. Heather Ward** is a graduate from Boston University in 1985. She began her career as a stockbroker at the investment banking firm Bear Stearns and Company in Boston, Massachusetts. She has been associated with Schenectady International Inc. (SII) since 1994 and is currently designated as the Corporate Secretary with responsibility for all Schenectady International Group Companies expense and capital budgets.

The Board meets with the requirements of Corporate Governance as it consists of nine Non-executive Directors out of eleven Directors as on date who account for more than 50% of the total strength of the Board.

| Sr. No. | Name, Address, Qualification, Experience, Age, Designation, Occupation  | Particulars of Other Directorships  |
|---------|---|---|
| 1.      | <p><b>Mr. Charles G. Griswold</b><br/>24, Edgewood drive, Burnt Hills,<br/>New York, U.S.A.–12027</p> <p>Qualification : B.Sc. (Microbiology)<br/>Experience : 28 years<br/>Age : 56 years</p> <p>Designation : Chairman<br/>Category : Non-Executive<br/>Occupation : Company Executive</p>                                    | <ul style="list-style-type: none"> <li>● Schenectady Korea Limited</li> <li>● Yuka Schenectady</li> <li>● Schenectady International Shanghai Limited</li> <li>● Schenectady Shanghai Trading Limited</li> <li>● Schenectady Europe Limited</li> <li>● Nisshoku Chemicals Kagaku Inc.</li> </ul>   |
| 2.      | <p><b>Mr. B. V. Bhargava</b><br/>1201, Gulmohar Apartments,<br/>Ceaser Road (Near Filmalaya Studio),<br/>Amboli, Andheri West,<br/>Mumbai 400058</p> <p>Qualification : M.Com<br/>Experience : 36 years<br/>Age : 68 years</p> <p>Designation : Director<br/>Category : Independent, Non-Executive<br/>Occupation : Retired</p> | <ul style="list-style-type: none"> <li>● Raymond Limited</li> <li>● The Credit Rating Information Services of India Ltd.</li> <li>● Cosmo Films Limited</li> <li>● Supreme Industries Limited</li> <li>● Grasim Industries Limited</li> <li>● J.K. Corporation Limited</li> <li>● ICICI Lombard General Insurance Company Limited</li> <li>● National Commodity and Derivative Exchange Limited</li> <li>● Excel Crop Care Limited</li> </ul> |
| 3.      | <p><b>Mr. Richard Barlow</b><br/>Devoe Drive, Clifton Park,<br/>New York, U.S.A. – 12065</p> <p>Qualification : B.Sc. (Accounting &amp; Finance)<br/>Experience : 20 years<br/>Age : 41 years</p> <p>Designation : Director<br/>Category : Non-Executive<br/>Occupation : Company Executive</p>                                 | <ul style="list-style-type: none"> <li>● Schenectady International Inc.</li> <li>● Schenectady Europe Limited</li> <li>● Schenectady Crios S.A.</li> </ul>  |
| 4.      | <p><b>Mr. B. Chakrabarti</b><br/>Block C, flat 2B, Anugraha Apartments,<br/>Nungambakkam High Road,<br/>Chennai – 34</p> <p>Qualification : Chartered Accountant<br/>Experience : 30 years<br/>Age : 55 years</p> <p>Designation : Director<br/>Category : Independent, Non-Executive<br/>Occupation : Company Executive</p>    | <ul style="list-style-type: none"> <li>● United India Insurance Co. Limited</li> <li>● Alfa Laval India Limited</li> </ul>  |



| Sr. No. | Name, Address, Qualification, Experience, Age, Designation, Occupation   | Particulars of Other Directorships   |
|---------|--|--|
| 5.      | <p><b>Mr. A. Malcolm MacCormick</b><br/>110, White Street, Saratoga Springs,<br/>New York, U.S.A. 12866</p> <p>Qualification : Bachelor in Economics<br/>Experience : 20 years<br/>Age : 45 years</p> <p>Designation : Director<br/>Category : Non-Executive<br/>Occupation : Company Executive</p>                                  | <ul style="list-style-type: none"> <li>● Schenectady Mexico S.A. de C.V.</li> <li>● Schenectady Australia Pty. Limited</li> <li>● Schenectady South Africa (Pty) Limited</li> <li>● Schenectady International Shanghai Limited</li> <li>● Nisshoku Schenectady Kagaku Inc.</li> <li>● Schenectady Crios S. A.</li> <li>● Schenectady Shanghai Trading Limited</li> <li>● Schenectady Asia Pacific Holdings</li> <li>● Schenectady European Holdings</li> <li>● Schenectady International Inc.</li> <li>● Schenectady International Group Inc.</li> <li>● Schenectady (India) Holdings Private Limited</li> </ul> |
| 6.      | <p><b>Ms. Ashley Palm</b><br/>14, Vista Court, Burnt Hills,<br/>New York, U.S.A. – 12027</p> <p>Qualification : B.Sc.(Industrial Relations)<br/>Experience : 16 years<br/>Age : 42 years</p> <p>Designation : Director<br/>Category : Non-Executive<br/>Occupation : Company Executive</p>   | <ul style="list-style-type: none"> <li>● Schenectady Australia Pty. Limited</li> <li>● Schenectady Crios S. A.</li> <li>● Schenectady International Shanghai Limited</li> <li>● Schenectady Asia Pacific Holdings</li> <li>● Schenectady India Holdings Private Limited</li> <li>● Yuka Schenectady</li> <li>● Schenectady Mexico.</li> <li>● Schenectady International Inc.</li> </ul>  |
| 7.      | <p><b>Mr. R. M. Pandia</b><br/>701 'Benson', Saibaba Road,<br/>Santacruz (West),<br/>Mumbai 400 054</p> <p>Qualification : B.Tech (Hons)<br/>M.S. (Stanford)<br/>Experience : 32 years<br/>Age : 54 years</p> <p>Designation : Vice Chairman &amp; Managing Director<br/>Category : Executive<br/>Occupation : Company Executive</p> | <ul style="list-style-type: none"> <li>● Herdillia Investments Limited</li> <li>● Schenectady (India) Holdings Private Limited</li> </ul>  |
| 8.      | <p><b>Mr. P. N. Ghatalia</b><br/>4B Cosmopolis, RD Ruparell Marg,<br/>Malabar Hills, Mumbai - 400 006</p> <p>Qualification : Chartered Accountant<br/>Experience : 37 years<br/>Age : 63 years</p> <p>Designation : Director<br/>Category : Independent, Non-Executive<br/>Occupation : Partner of Price Waterhouse</p>              | <ul style="list-style-type: none"> <li>● Star Paper Mills Limited</li> <li>● Foseco India Limited</li> <li>● Gulf Oil Corporation Limited</li> <li>● NRC Limited</li> </ul>  |

| Sr. No. | Name, Address, Qualification, Experience, Age, Designation, Occupation  | Particulars of Other Directorships   |
|---------|---|--|
| 9.      | <p><b>Mr. Suresh N. Talwar</b><br/>           10, Shiv Shanti Bhuvan,<br/>           146, Maharshi Karve Road,<br/>           Churchgate Reclamation,<br/>           Mumbai 400020</p> <p>Qualification : B.Com, LLB.<br/>           Experience : 28 years<br/>           Age : 65 years</p> <p>Designation : Director<br/>           (Alternate to Malcolm MacCormick)<br/>           Category : Independent, Non-Executive<br/>           Occupation : Advocate &amp; Solicitor</p> | <ul style="list-style-type: none"> <li>● PZ Cussons India Private Limited</li> <li>● FCI OEN Connectors Ltd</li> <li>● Trans Warranty Finance</li> <li>● Armstrong World Industries (India) Pvt Limited</li> <li>● Moly Colloids Pvt Limited</li> <li>● Merck Ltd</li> <li>● Romi Finance &amp; Investments Pvt Limited</li> <li>● Sidham Finance &amp; Investments Pvt Limited</li> <li>● 20<sup>th</sup> Century Fox Corpn ( I) Pvt Ltd</li> <li>● ACNielson ORG-Marg Pvt Ltd</li> <li>● Non Global Insurance Services Pvt.Limited</li> <li>● Biocon Limited</li> <li>● Birla Sun Life Insurance Co. Limited</li> <li>● Blue Star Limited</li> <li>● Blue Star Infotech limited</li> <li>● Cadbury India Limited</li> <li>● Carborundum Universal Ltd</li> <li>● Cholamandalam MS General Insurance Co. Limited</li> <li>● Chowgule &amp; Company Ltd</li> <li>● Decagon Investments Pvt Ltd</li> <li>● Emerson Process Management (India) Pvt Limited</li> <li>● India Value Fund Trustee Co Pvt Limited</li> <li>● IVF (Mauritius) PCC</li> <li>● JM Morgan Stanley Retail Services Pvt Limited</li> <li>● JM Morgan Stanley Securities Pvt Limited</li> <li>● Madura Coats Pvt Ltd.</li> <li>● Renfro India Pvt Limited</li> <li>● Rishabh Instruments Pvt Limited</li> <li>● Refco (India) Private Limited</li> <li>● Reva Electric Car Company Pvt Limited</li> <li>● Rediffusion-Dentsu, Young &amp; Rubicam Pvt Limited</li> <li>● RCI India Pvt Limited</li> <li>● Sandvik Asia Limited</li> <li>● Shrenuj &amp;Co Limited</li> <li>● Solvay Pharma India Ltd</li> <li>● Swiss Re Shared Services ( India) Pvt Limited</li> <li>● Sonata Software Limited</li> <li>● Albright &amp; Wilson Chemicals India Limited</li> <li>● Beck India Limited</li> <li>● Esab India Limited</li> <li>● Garware-Wall Ropes Limited</li> <li>● Greaves Morganite Crucible Limited</li> <li>● Johnson &amp; Johnson Ltd</li> <li>● John Fowler (India) Pvt. Ltd</li> <li>● Schenectady (India) Holdings Pvt Limited</li> <li>● Uhde India Limited</li> <li>● Wyeth Limited</li> <li>● Larsen &amp; Toubro Limited</li> <li>● Showdiff World Wide Pvt. Limited</li> <li>● Greaves Cotton Limited</li> </ul> |

| Sr. No. | Name, Address, Qualification, Experience, Age, Designation, Occupation  | Particulars of Other Directorships   |
|---------|---|--|
| 10.     | <p><b>Mr. G. C. Vasudeo</b><br/>358-A, Gangaram Khatri Wadi, 2<sup>nd</sup> Floor,<br/>J.S. Road,<br/>Mumbai 400 002</p> <p>Qualification : B.Com, ACA, FCS,<br/>AICWA, LLB<br/>Experience : 25 years<br/>Age : 49 years</p> <p>Designation : Director-Finance<br/>(Alternate to Ashley Palm)<br/>Category : Executive<br/>Occupation : Company Executive</p> | <ul style="list-style-type: none"> <li>● Herdillia Investments Limited</li> <li>● Schenectady (India) Holdings Private Limited</li> </ul>  |
| 11.     | <p><b>Ms. Heather Ward</b><br/>25, Featherbeed Lane,<br/>Ballstan Spa, New York<br/>U.S.A.</p> <p>Qualification : Bachelor (Boston University)<br/>Experience : 13 years<br/>Age : 40 years</p> <p>Designation : Director</p> <p>Category : Non-Executive<br/>Occupation : Company Executive</p>  | <ul style="list-style-type: none"> <li>● Bellevue Woman's Hospital</li> <li>● Schenectady International Inc.</li> <li>● Schenectady International Group Inc.</li> <li>● Schenectady Mexico S.A. de C.V.</li> <li>● Schenectady (India) Holdings Pvt. Limited</li> <li>● Schenectady Asia Pacific Holdings Inc.</li> <li>● Schenectady Luxembourg S.a.r.l</li> <li>● Schenectady Australia Private Limited</li> </ul> |

**Changes in the Directors in the last three years:**

| Year & Date of Change | Name of Director          | Reasons of change |
|-----------------------|---------------------------|-------------------|
| January 08, 2002      | Mr. G.P. Goenka           | Resigned          |
| January 08, 2002      | Mr. J.N. Guzder           | Resigned          |
| January 08, 2002      | Mr. V.C. Vaidya           | Resigned          |
| January 08, 2002      | Mr. G.V. Kapadia          | Resigned          |
| January 08, 2002      | Mr. A. Ghosh              | Resigned          |
| January 08, 2002      | Mr. P. Murari             | Resigned          |
| January 08, 2002      | Mr. P.K. Lahiri           | Resigned          |
| January 08, 2002      | Mr. H.V. Lodha            | Resigned          |
| January 08, 2002      | Mr. S.K. Diwanji          | Resigned          |
| May 10, 2002          | Mr. F.M. Pardiwalla       | Resigned          |
| February 22, 2002     | Mr. Charles G. Griswold   | Appointed         |
| February 22, 2002     | Mr. Richard Barlow        | Appointed         |
| February 22, 2002     | Ms. Ashley Palm           | Appointed         |
| February 22, 2002     | Ms Heather Ward           | Appointed         |
| January 01, 2002      | Mr. A. Malcolm MacCormick | Appointed         |
| January 01, 2002      | Mr. Manu Tandon           | Appointed         |
| January 01, 2002      | Mr. Suresh Talwar         | Appointed         |
| June 27, 2002         | Mr. G.C. Vasudeo          | Appointed         |
| June 27, 2002         | Mr. B.V. Bhargava         | Appointed         |
| August 21, 2003       | Mr. P.N. Ghatalia         | Appointed         |
| September 30, 2003    | Mr. Manu Tandon           | Resigned          |

**Shareholding of Directors as on September 30, 2004**

| Name of the Director | Shareholding as on September 30, 2004 | As % of Outstanding Shares |
|----------------------|---------------------------------------|----------------------------|
| Mr. Rajeev M. Pandia | 3,100                                 | 0.001                      |

None of the other Directors hold any shares of the Company.

**Key Managerial Personnel**

- o The key managerial personnel are as under:

The Company's management team is made up of professionally qualified personnel with rich experience in management of industry and their respective fields. In addition to the profile of Mr. R.M. Pandia and Mr. G.C. Vasudeo as provided earlier, following is the profile of other senior management team at Schenectady Herdillia Limited

**Mr. R.S. Nileshwar**, Executive Vice President, Operations, B-Tech Chemical Engg. from IIT Mumbai and Diploma in Business Management from the Jamnalal Bajaj Institute of Management Studies (University of Mumbai), joined the Company in 1985 as Personnel Manager. Prior to this he worked for 15 years with Union Carbide India Limited, in their Petrochemicals Complex at Trombay. After taking charge of the Works as General Manager in Navi Mumbai, in July 1986 he has assumed overall responsibility of manufacturing operations inclusive of Technology Acquisition, R&D and Projects. He has a total work experience of about 35 years.

**Mr. K. Shankar**, Executive Vice President marketing, M-Tech from IIT Bombay and MMM from Mumbai University, joined the Company in 2002 and prior to this he worked for E.I.DuPont India for 5 years and Reliance Industries for 3 years. In addition, he was also based in Taipei, Taiwan for 2 years with Top Peace Industrial Company. He has total work experience of 24 years including vast experience of international trade. Currently he is responsible for Marketing of the Company's entire products in domestic and export market.

| Name/Age/Qualification  | Designation                       | Area  | Date of joining | Experience  | Details of previous Employment               |
|---|-----------------------------------|---|-----------------|---|--|
| Mr. R.M. Pandia<br>Age: 54 years<br>B.Tech, M.S. (Stanford)         | Vice Chairman & Managing Director | Overall in charge of the Company            | 27.01.81        | 32 years experience in production, project management, operational and general management     | National Organic Chemical Industries Limited |
| Mr. G.C. Vasudeo<br>Age: 49 years<br>B.Com, L.L.B., FCA, AICWA, ACS | Director - Finance                | Finance, Commercial and Management Services | 28.06.93        | 25 years experience in corporate finance, accounts, audit, taxation and secretarial practices | Laxmi Vishnu Textile Mills Limited.          |
| Mr. R.S. Nileshwar<br>Age: 54 years<br>B.Tech, Chem. Engg., D.I.M.  | Exe. Vice President - Operations  | Factory Operations                          | 01.09.85        | 36 years experience in production and operations and maintenance of factory                   | Union Carbide India Limited.                 |
| Mr. K. Shankar<br>Age: 48 years<br>M.Tech, M.M.M.                   | Exe. Vice President - Marketing   | Marketing                                   | 02.05.02        | 24 years experience in marketing, sales and export  | Reliance Industries Limited.                 |

The persons whose names appear as key management personnel are on the rolls of the Company as permanent employees.

**o Compensation to key managerial personnel**

Following table give details of the compensation to key managerial personnel during last financial year:

| Sr. No. | Name                | Compensation for the year ended 31/12/2003 |
|---------|---------------------|--|
| 1       | Mr. R. M. Pandia    | 1,11,53,000                                |
| 2       | Mr. G. C. Vasudeo   | 27,19,364                                  |
| 3       | Mr. K. Shankar      | 6,30,549                                   |
| 4       | Mr. R. S. Nileshwar | 7,96,814                                   |

**o Shareholding of key managerial personnel as on September 30, 2004**

Except Mr. R.M. Pandia (3100 shares) none of the other key managerial personnel hold any shares in the Company.

**o Loans to key managerial personnel**

There are no loans outstanding against key managerial personnel as on September 30, 2004.

**o Changes in the key managerial personnel in the last three years**

| Sr. No. | Names of key managerial personnel | Designation                           | Month/year of change | Reason   |
|---------|-----------------------------------|---------------------------------------|----------------------|----------|
| 1.      | Mr. K. Shankar                    | Executive Vice-president - Marketing  | May, 2002            | Joined   |
| 2.      | Mr. N. D. Gupte                   | Executive Vice-president - Commercial | June, 2001           | Resigned |
| 3.      | Mr. P.P. Roy                      | Ex. Vice president - HR & CD          | Dec, 2003            | Retired  |

**Details of Service Contract including compensation of the Directors, Whole-time Directors, and Date of appointment and expiration of current term are as follows:**

| Sr.No. | Name of the Director | Date of expiry of the current term of office  |
|--------|----------------------|---|
| 1.     | Mr. C.G. Griswold    | Liable to retire by rotation at the 44th AGM  |
| 2.     | Mr. B.V. Bhargava    | Liable to retire by rotation at the 43rd AGM  |
| 3.     | Mr. Richard Barlow   | Liable to retire by rotation at the 44th AGM  |
| 4.     | Mr. B. Chakrabarti   | Liable to retire by rotation at the 43rd AGM  |
| 5.     | Mr. A.M. MacCormick  | Liable to retire by rotation at the 43rd AGM  |
| 6.     | Ms. Ashley Palm      | Liable to retire by rotation at the 43rd AGM  |
| 7.     | Mr. R.M. Pandia      | Holds office of Managing Director upto Nov 23, 2007 (Not liable to retire by rotation)  |
| 8.     | Mr. P.N. Ghatalia    | Liable to retire by rotation at the 44th AGM  |
| 9.     | Mr. S.N. Talwar      | Alternate Director to Mr. A. Malcolm MacCormick   |
| 10.    | Mr. G.V. Vasudeo     | Holds office as a Whole-time Director upto June 30, 2007 (Alternate to Ms. Ashley Palm) |
| 11.    | Ms. Heather Ward     | Liable to retire by rotation at the 44th AGM  |

**Details of remuneration to Non Whole-time Directors are as follows:**

Resident non-executive directors were paid sitting fees for attending Board/Committee meetings at Rs. 5,000/- per meeting during the year ended December 31, 2003.

| Sr. No. | Name of Directors  | Sitting fees for Board Meetings (Rs.) | Sitting Fees for Committee Meetings (Rs.) |
|---------|--------------------|---------------------------------------|---|
| 1.      | Mr. B.V. Bhargava  | 25,000                                | 20,000                                    |
| 2.      | Mr. B. Chakrabarti | -                                     | 10,000                                    |
| 3.      | Mr. P.N. Ghatalia  | 5,000                                 | 5,000                                     |
| 4.      | Mr. S.N. Talwar    | 20,000                                | -   |

**Details of remuneration to Whole-time Directors are as follows:**

The Compensation of the executive directors are determined by the Board as per the approval of the Members and it comprises of a fixed component and performance salary. The performance salary is determined based on certain pre-agreed performance parameters.

**Terms of Remuneration of Mr. R. M. Pandia, Managing Director**

**Approval:** Resolution passed by the Members of the Company at the Annual General meeting of the Company held on June 27, 2003.

**Period of appointment:** 5 years from November 24, 2002

**Remuneration:**

**Salary:** Salary fixed in the year 2003, was Rs. 12 lakhs per annum with such increments as may be decided by the Board of Directors from time to time.

**Performance Salary:** Performance Salary not exceeding Rs. 15 lakhs per annum or such enhanced amount as may be decided by the Board of Directors from time to time.

**Perquisites and allowances:** In addition to the salary and commission payable, the Managing Director shall also be entitled to perquisites and allowances comprising inter-alia furnished residential accommodation (or house rent allowance in lieu thereof), together with reimbursement of expenses or allowances for gas, electricity, water, house upkeep and repairs, house furnishing reimbursement/allowance, special allowances, reimbursement of medical expenses incurred for self and family, leave travel assistance/allowance for self and family (including the right to accumulate), club fees, premium on medical and personal accident insurance and such other benefits and allowances as per the rules of the Company or as

may be agreed between the Board of Directors and the Managing Director. The annual value of all these perquisites evaluated as per Income Tax Rules shall not exceed Rs. 30 lakhs or such enhanced amount as may be approved by the Board of Directors from time to time.

**Terms of Remuneration of Mr. G. C. Vasudeo, Director - Finance**

**Approval:** Resolution passed by the Members of the Company at the Annual General meeting of the Company held on September 25, 2002.

**Period of appointment:** 5 years from July 1, 2002

**Remuneration :**

**Salary:** Salary as fixed in the year 2002 shall not be exceeding Rs. 8 lakhs per annum as may be decided by the Board of Directors from time to time.

**Performance salary:** Performance salary not exceeding Rs. 5 lakhs per annum as may be decided by the Board of Directors from time to time.

**Perquisites and allowances:** In addition to the salary and performance salary as above, Mr. G.C. Vasudeo shall also be entitled to perquisites and allowances comprising inter-alia furnished residential accommodation (or house rent allowance in lieu thereof), together with reimbursement of expenses or allowances for gas, electricity, water, house upkeep and repairs, house furnishing reimbursement/allowance, special allowances, reimbursement of medical expenses incurred for self and family, leave travel assistance/ allowance for self and family (including the right to accumulate), club fees, premium on medical and personal accident insurance and such other benefits and allowances as per the rules of the Company or as may be agreed between the Board of Directors and Mr. G.C. Vasudeo. The annual value of all these perquisites evaluated as per Income Tax Rules shall not exceed Rs. 10 lakhs or such enhanced amount as may be approved by the Board of Directors from time to time.

**The break-up of remuneration paid to Whole-time Directors during the financial year ended December 31, 2003 are as follows**

(Rupees in Lakhs)

| Name of the Director | Designation                       | Salary | Performance salary | Perquisites |
|----------------------|-----------------------------------|--------|--------------------|-------------|
| Mr. R.M. Pandia      | Vice Chairman & Managing Director | 17.16  | 34.68              | 55.05       |
| Mr. G.C. Vasudeo     | Director - Finance                | 6.72   | 10.98              | 7.67        |

**Qualification shares required to be held by Directors**

As per the Articles of Association of the Company, no qualification share is prescribed for being a Director.

**Borrowing Powers of the Board**

The Shareholders vide a resolution pursuant to Section 293(1)(d) of the Companies Act, 1956 passed at the 36th Annual General Meeting held on July 19, 1995 had approved and delegated powers to the Board for borrowing up to a sum of Rs. 500 crores.

**Interest of Promoters /Directors**

There is no interest of Promoters or payment or benefit to Promoters/Directors except as mentioned in the Related Party Transactions in the document. Please refer page no. vi for details.

**CORPORATE GOVERNANCE**

The Company has complied with the SEBI guidelines in respect of Corporate Governance by broad basing the Board, constituting the committees such as Audit Committee, shareholding/ investor grievance committee, etc. The Company's philosophy on corporate governance envisages an attainment of the highest level of transparency, accountability, and equity in all facets of its operations and in all interactions with the stakeholders, including the shareholders, employees, Government and lenders.

**Measures taken by the Company to implement Corporate Governance:**

- The Board of Directors of the Company comprises of two Executive Directors and nine Non-Executive Directors. The number of Independent Directors is more than one-third of the total number of Directors.

- The meetings of the Board of Directors of the Company are held atleast four times a year and with a maximum time gap of four months between two meetings.
- The members of the Board are provided with all the requisite information well in advance of the Board Meetings and the same are dealt with appropriately. All the Directors who are on various Committees are within the permissible limits of the Listing Agreement.
- The Company has constituted the following Committees of the Board of Directors:

**1. Audit Committee**

Composition & Terms of Reference:

The Audit Committee constituted by the Board comprises of 3 Directors viz. Mr. B. V. Bhargava, Mr. B. Chakrabarti and Mr. P.N. Ghatalia. Mr. B.V. Bhargava is the Chairman of the Audit Committee. All the Directors in the Audit Committee are Non-Executive Independent Directors. The terms of reference of the Committee are wide enough covering the matters specified for the Audit Committee under the Listing Agreement. The Auditors, Director-Finance and the General Manager - Finance & Secretarial are invited to attend the meetings of the Audit Committee. Mr. Dinesh Shetty, General Manager - Finance & Secretarial, acts as Secretary to the Audit Committee. The Committee meets periodically to discuss the areas specified under the provisions of the Companies Act, 1956, and the Listing Agreement.

**2. Remuneration Committee**

Since the Board in terms of resolution passed by the members has fixed the appointment and remuneration of the Executive Directors, no separate Remuneration Committee has been formed.

**3. Share Transfer and Finance Committee (STFC)**

The Board has constituted Share Transfer and Finance Committee (Shareholders and Investors' Grievance Committee) which looks into Shareholders/Investors related matter. It comprises of 3 directors viz. Mr. Mr. P.N. Ghatalia, Mr. R.M. Pandia and Mr. G.C. Vasudeo. Mr. P.N. Ghatalia, who is Non-executive Independent Director, is Chairman of the Committee.

Mr. G.C. Vasudeo, Director - Finance, and Mr. Dinesh Shetty, General Manager- Finance & Secretarial, are the Compliance Officers of the Company. The meeting of Shareholders/Investors Committee is held at regular intervals in which transfers, transmission, issuance of certificates, etc. are approved. Mr. Dinesh Shetty and Mr. G.C. Vasudeo are also authorised by the Board to approve transfers and therefore, transfers are also approved by them generally at the interval of 15 days time.

**Compliance**

The Company has complied with all the requirements of the Listing Agreement with Stock Exchanges and regulations and guidelines of SEBI.

**CHANGES IN AUDITORS IN THE LAST 3 YEARS**

| CY   | Name of Auditor changed | Name of Auditor appointed                        | Reason      |
|------|-------------------------|--|-------------|
| 2003 | Price Waterhouse        | BSR & Co.(formerly known as Bharat S Raut & Co.) | Resignation |



## FINANCIAL PERFORMANCE OF THE COMPANY

We, the Lead Managers to the Offer, confirm that all notes to the accounts, significant accounting policies as well as the auditors' qualifications have been incorporated.

### AUDITORS' REPORT ON FINANCIAL INFORMATION

Auditors' Report

#### To the Board of Directors of Schenectady Herdillia Limited

In accordance with the requirements of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('SEBI Guidelines') and our terms of reference with Schenectady Herdillia Limited ('the Company') dated 16 September 2004 requesting us to make this report for the purpose of the Letter of Offer in connection with the rights issue of 18,131,250 equity shares of Rs. 10 each fully paid-up on right basis in the ratio of 3 equity shares for every 4 equity shares held at a premium of Rs. 18 per equity share, we have examined the attached Statement of Adjusted Profit and Loss (Annexure I), the Statement of Adjusted Assets and Liabilities (Annexure II) and the financial information contained in Annexures III to XVII. Annexures I to XVII are the responsibility of the Company's management. Our responsibility is to report on the Annexures I to XVII based on our examination. The Annexures I to XVII have been prepared by the Company's management based on:

1. The audited financial statements of the Company for the years ended 31 March 2000, 2001, 2002 and nine month period ended 31 December 2002, audited by another firm of chartered accountants;
2. The audited financial statements of the Company for the year ended 31 December 2003 and six month period ended 30 June 2004 audited by us;
3. The audited financial statements of the Company's subsidiary, Herdillia Investments Limited ('the Subsidiary') for the years ended 31 March 2000, 2001, 2002 and nine month period ended 31 December 2002, audited by another firm of chartered accountants; and
4. The audited financial statements of the subsidiary for the year ended 31 December 2003 and six month period ended 30 June 2004 audited by us.

Based on our examination and the information and explanations received by us, we report that:

1. The restated results of the Company for the financial years ended 31 March 2000, 2001 and 2002 and the nine month period ended 31 December 2002, year ended 31 December 2003 and the six month period ended 30 June 2004 are as set out in Annexure I to this report. These results have been arrived at after making adjustments, wherever quantifiable, for audit qualifications, prior period items and changes in accounting policies and regroupings as in our opinion are appropriate and more fully described in the Notes appearing in Annexure IV.
2. The restated assets and liabilities of the Company for the financial years ended 31 March 2000, 2001 and 2002 and the nine month period ended 31 December 2002, year ended 31 December 2003 and the six month period ended 30 June 2004 are as set out in Annexure II to this report. These have been arrived at after making adjustments, wherever quantifiable, for audit qualifications, prior period items, changes in accounting policies and regroupings as in our opinion are appropriate and more fully described in the Notes appearing in Annexure IV.
3. The rates of dividends paid by the Company, where applicable, in respect of the financial years ended 31 March 2000, 2001 and 2002 and the nine month period ended 31 December 2002, year ended 31 December 2003 and the six month period ended 30 June 2004 are as shown in Annexure VI to this report.
4. We have examined the following financial information relating to the Company and as approved by the Board of Directors for the purpose of inclusion in the letter of offer:
  - i. Other selective financial information as at 30 June 2004 as appearing in Annexure V;
  - ii. Accounting ratios as appearing in Annexure VII;
  - iii. Statement of capitalisation as at 30 June 2004 as appearing in Annexure VIII;
  - iv. Details of Other income as appearing in Annexure IX; and
  - v. Statement of tax shelters as appearing in Annexure XVII.

In respect of the financial information contained in this report, we have relied upon the audited financial statements for the years ended 31 March 2000, 2001 and 2002 and the nine month period ended 31 December 2002 which were audited by a firm of chartered accountants other than us, as referred above.

In our opinion, the above financial information of the Company, read with significant accounting policies attached in Annexure III to this report after making adjustments, wherever quantifiable, and regrouping as considered appropriate, has been prepared in accordance with the SEBI Guidelines.

5. Also attached are the statements of Adjusted Profit and loss and Assets and liabilities of the Subsidiary as set out in Annexures X and XI. The adjusted statements of Adjusted Profit and loss and Assets and liabilities of the Subsidiary have been consolidated into the Company's statements of Adjusted Profit and loss and Assets and liabilities as set out in Annexures XIV and XV.

This report is intended solely for your information for the purpose of incorporating in the letter of offer to be issued by the Company in connection with the proposed rights issue by the Company.

Yours faithfully

**For BSR and Co.**  
*Chartered Accountants*

**Sanjay Aggarwal**

*Partner*

Membership No. 40780

Mumbai

8 October 2004

**Statement of Adjusted Profit and Loss**
**Annexure I**

(Rupees in lakhs)

| <b>PARTICULARS</b>   | <b>Year ended<br/>31 March<br/>2000</b> | <b>Year ended<br/>31 March<br/>2001</b> | <b>Year ended<br/>31 March<br/>2002</b> | <b>9 months ended<br/>31 December<br/>2002</b> | <b>Year ended<br/>31 December<br/>2003</b> | <b>6 months<br/>ended 30<br/>June 2004</b> |
|--|---|---|---|--|--|--|
| <b>Income</b>  |   |   |   |  |  |  |
| Sales - Manufactured   | 22,997.14                               | 27,041.46                               | 26,192.89                               | 22,564.81                                      | 37,504.03                                  | 22,255.30                                  |
| Traded   | 24.50                                   | –                                       | 96.51                                   | 475.43   | 387.34                                     | 100.48                                     |
| <b>Total</b>   | <b>23,021.64</b>                        | <b>27,041.46</b>                        | <b>26,289.40</b>                        | <b>23,040.24</b>                               | <b>37,891.37</b>                           | <b>22,355.78</b>                           |
| Other income   | 165.58                                  | 90.56                                   | 296.10                                  | 109.83   | 855.80                                     | 320.10                                     |
| Increase/ (decrease) in stock  | 35.61                                   | 462.15                                  | (182.68)                                | 364.37   | 180.83                                     | 970.23                                     |
| <b>Total</b>   | <b>23,222.83</b>                        | <b>27,594.17</b>                        | <b>26,402.82</b>                        | <b>23,514.44</b>                               | <b>38,928.00</b>                           | <b>23,646.11</b>                           |
| <b>Less: Expenditure and<br/>Packing Material</b>  |   |   |   |  |  |  |
| Cost of raw materials<br>consumed and purchase<br>of traded goods                        | 12,609.36                               | 16,814.43                               | 15,439.31                               | 13,938.23                                      | 24,886.49                                  | 16,723.99                                  |
| Staff costs  | 1,938.63                                | 2,163.27                                | 2,114.09                                | 1,680.04                                       | 2,347.92                                   | 1,279.49                                   |
| Other manufacturing<br>expenses  | 4,472.98                                | 4,806.80                                | 4,597.16                                | 4,534.66                                       | 6,049.79                                   | 3,356.37                                   |
| Administration expenses  | 785.52                                  | 766.48                                  | 811.22                                  | 547.79   | 491.32                                     | 364.42                                     |
| Selling and distribution<br>expenses   | 392.93                                  | 513.37                                  | 524.58                                  | 399.16   | 791.61                                     | 458.23                                     |
| Loss on sale of investments  | –                                       | –                                       | 206.81                                  | –  | –  | –  |
| (Write back)/ provision for<br>diminution in value of<br>investments                     | (221.68)                                | 165.27                                  | 70.72                                   | 0.82   | (31.13)                                    | –  |
| Interest   | 1,048.50                                | 1,724.21                                | 1,405.97                                | 800.73   | 1,068.67                                   | 368.28                                     |
| <b>Total Expenditure</b>   | <b>21,026.24</b>                        | <b>26,953.83</b>                        | <b>25,169.86</b>                        | <b>21,901.43</b>                               | <b>35,604.67</b>                           | <b>22,550.78</b>                           |
| Less : Cost capitalised  | –                                       | –                                       | –                                       | –  | 20.13                                      | –  |
| <b>Total operating<br/>expenses</b>  | <b>21,026.24</b>                        | <b>26,953.83</b>                        | <b>25,169.86</b>                        | <b>21,901.43</b>                               | <b>35,584.54</b>                           | <b>22,550.78</b>                           |
| <b>Profit before<br/>depreciation, doubtful<br/>advances and<br/>extraordinary items</b> | <b>2,196.59</b>                         | <b>640.34</b>                           | <b>1,232.96</b>                         | <b>1,613.01</b>                                | <b>3,343.46</b>                            | <b>1,095.33</b>                            |
| Gross depreciation   | 592.51                                  | 596.28                                  | 588.70                                  | 526.86   | 944.04                                     | 498.28                                     |
| Less : Transfer from<br>Revaluation reserve  | (20.08)                                 | (19.05)                                 | (13.32)                                 | (9.51)   | (12.14)                                    | (5.76)                                     |
| Net depreciation   | 572.43                                  | 577.23                                  | 575.38                                  | 517.35   | 931.90                                     | 492.72                                     |
| Provision for doubtful<br>advances (net)   | 494.33                                  | 232.58                                  | 140.00                                  | 75.00  | 50.00                                      | 30.00                                      |
| <b>Net adjusted profit/ (loss)<br/>before extraordinary items</b>                        | <b>1,129.83</b>                         | <b>(169.47)</b>                         | <b>517.58</b>                           | <b>1,020.66</b>                                | <b>2,361.56</b>                            | <b>572.81</b>                              |
| Add : Extraordinary items  | –                                       | –                                       | –                                       | 0.41   | –  | –  |
| <b>Net profit/(loss) after<br/>extraordinary items</b>                                   | <b>1,129.83</b>                         | <b>(169.47)</b>                         | <b>517.58</b>                           | <b>1,021.07</b>                                | <b>2,361.56</b>                            | <b>572.81</b>                              |
| Less: Provision for current<br>tax including wealth tax                                  | (140.50)                                | ( 32.50)                                | (72.50)                                 | (50.70)  | (201.00)                                   | (125.00)                                   |
| Less: Provision for<br>deferred tax (net)  | –                                       | –                                       | 70.31                                   | 106.05   | (369.16)                                   | (113.00)                                   |
| Effect of adjustments on tax   |   |   |   |  |  |  |
| - Current tax  | 28.00                                   | 30.00                                   | 25.30                                   | 15.00  | –  | –  |
| - Deferred tax   | –                                       | –                                       | (46.71)                                 | –  | –  | –  |
| <b>Net profit/(loss) after<br/>taxation and adjustments</b>                              | <b>1,017.33</b>                         | <b>(171.97)</b>                         | <b>493.98</b>                           | <b>1,091.42</b>                                | <b>1,791.40</b>                            | <b>334.81</b>                              |

**Statement of Adjusted Assets and Liabilities**
**Annexure II**

(Rupees in lakhs)

| PARTICULARS                                   | As at<br>31 March<br>2000 | As at<br>31 March<br>2001 | As at<br>31 March<br>2002 | As at<br>31 December<br>2002 | As at<br>31 December<br>2003 | As at<br>30 June<br>2004 |
|---|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|--------------------------|
| <b>(A) Fixed assets</b>                       |                           |                           |                           |                              |                              |                          |
| (i) Gross block                               | 15,936.09                 | 16,179.65                 | 15,669.04                 | 19,603.90                    | 21,297.14                    | 21,781.04                |
| Less : Accumulated depreciation               | 7,173.86                  | 7,766.39                  | 8,203.37                  | 8,700.13                     | 9,547.46                     | 10,045.73                |
| Net block                                     | 8,762.23                  | 8,413.26                  | 7,465.67                  | 10,903.77                    | 11,749.68                    | 11,735.31                |
| Less : Revaluation reserve                    | 816.37                    | 797.25                    | 116.80                    | 107.28                       | 95.02                        | 89.25                    |
|   | 7,945.86                  | 7,616.01                  | 7,348.87                  | 10,796.49                    | 11,654.66                    | 11,646.06                |
| (ii) Capital work in progress                 | 526.37                    | 584.72                    | 13.82                     | 1,235.32                     | 1,319.81                     | 1,390.88                 |
| Net block after adjustment                    | 8,472.23                  | 8,200.73                  | 7,362.69                  | 12,031.81                    | 12,974.47                    | 13,036.86                |
| <b>(B) Investments</b>                        | 942.30                    | 777.14                    | 200.19                    | 204.47                       | 235.10                       | 235.00                   |
| <b>(C) Current assets, loans and advances</b> |                           |                           |                           |                              |                              |                          |
| (i) Inventories                               | 2,947.24                  | 2,698.97                  | 2,780.34                  | 3,796.89                     | 6,189.50                     | 9,232.16                 |
| (ii) Sundry debtors                           | 4,785.64                  | 4,494.55                  | 3,941.46                  | 5,357.88                     | 6,325.44                     | 7,275.52                 |
| (iii) Cash and bank balances                  | 216.65                    | 446.77                    | 785.23                    | 431.90                       | 444.18                       | 307.73                   |
| (iv) Loans and advances                       | 1,428.16                  | 1,576.66                  | 1,230.13                  | 1,894.00                     | 2,326.81                     | 2,576.98                 |
| <b>A+B+C</b>                                  | <b>18,792.22</b>          | <b>18,194.82</b>          | <b>16,300.04</b>          | <b>23,716.95</b>             | <b>28,495.5</b>              | <b>32,664.25</b>         |
| <b>(D) Less : Liabilities and provisions</b>  |                           |                           |                           |                              |                              |                          |
| Secured loans                                 | 6,244.88                  | 5,545.45                  | 4,690.74                  | 1,942.83                     | 1,103.46                     | 1,858.40                 |
| Unsecured loans                               | 3,809.14                  | 4,605.82                  | 3,018.47                  | 11,442.34                    | 12,152.14                    | 12,558.15                |
| Net deferred tax liabilities                  | –                         | –                         | 2,033.89                  | 1,957.70                     | 2,326.86                     | 2,439.87                 |
| Current liabilities                           | 6,601.78                  | 6,260.19                  | 4,531.61                  | 4,581.52                     | 7,298.10                     | 9,800.68                 |
| Provisions                                    | 424.35                    | 303.64                    | 105.00                    | 354.23                       | 385.48                       | 442.87                   |
|   | <b>17,080.15</b>          | <b>16,715.10</b>          | <b>14,379.71</b>          | <b>20,278.62</b>             | <b>23,266.04</b>             | <b>27,099.97</b>         |
| <b>Net Worth</b>                              | <b>1,712.07</b>           | <b>1,479.72</b>           | <b>1,920.33</b>           | <b>3,438.33</b>              | <b>5,229.46</b>              | <b>5,564.28</b>          |
| Represented by                                |                           |                           |                           |                              |                              |                          |
| (i) Share capital                             | 1,102.50                  | 1,102.50                  | 2,302.50                  | 2,417.50                     | 2,417.50                     | 2,417.50                 |
| (ii) Reserve and surplus                      | 1,425.94                  | 1,174.47                  | (265.37)                  | 1,128.11                     | 2,906.98                     | 3,236.03                 |
| Less: Revaluation reserve                     | 816.37                    | 797.25                    | 116.80                    | 107.28                       | 95.02                        | 89.25                    |
| Net Reserves and surplus                      | 609.57                    | 377.22                    | (382.17)                  | 1,020.83                     | 2,811.96                     | 3,146.78                 |
| <b>Net Worth</b>                              | <b>1,712.07</b>           | <b>1,479.72</b>           | <b>1,920.33</b>           | <b>3,438.33</b>              | <b>5,229.46</b>              | <b>5,564.28</b>          |

## Summary of significant accounting policies

## Annexure III

### 1. Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, on an accrual basis of accounting and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956, to the extent applicable.

### 2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities on the date of financial statements. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

### 3. Fixed assets and depreciation

Fixed assets are carried at cost of acquisition or construction or revalued amounts less accumulated depreciation. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised. The cost of fixed assets also includes the exchange differences arising in respect of foreign currency loans or other liabilities incurred for the purpose of their acquisition or construction.

Depreciation is provided on the straight-line method except in the case of revaluation surplus on building and plant and machinery where the written down value method is used. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 have been used. However, for the purpose of the Statements of Adjusted Profit and Loss and Adjusted Assets and Liabilities, the impact of revaluation has been negated.

Plant and machinery and furniture and fixtures costing individually Rs 5,000 or less, are depreciated fully in the year of purchase.

Goodwill arising out of merger is amortised over a period of 60 months from the "Appointed Date" of merger.

Cost and revaluation surplus on leasehold land is amortised over the period of lease.

### 4. Research and development

Revenue expenditure on research and development is charged against the profit of the year in which it is incurred. Capital expenditure on research and development is shown as addition to fixed assets.

### 5. Investments

Long-term investments are stated at cost less any other than temporary diminution in value, determined separately for each individual investment.

### 6. Inventories

Inventories are valued at lower of cost and net realisable value. By-products are valued at net realisable value. Cost is determined in respect of raw materials on First-in; First-out (FIFO) basis and in respect of packing materials, stores and spares and process chemicals on weighted average basis. The cost in the case of work-in-process and finished goods comprises direct materials, labour, utilities and appropriate cost of conversion.

The net realisable value of work-in-progress is determined with reference to the selling price of related finished goods. Raw materials and other supplies held for use in production of inventories are not written down below cost except in cases where material prices have declined, and it is estimated that the cost of the finished products will exceed their net realisable value.

Non inclusive method of accounting is consistently followed for Cenvat under the Central Excise Act, 1944, with regard to inventories, purchases and consumption.

Estimated amount of customs duty on materials lying in bonded warehouse at the year end and excise duty on closing stock of finished goods are included in valuation of inventory.

The expenditure on catalyst is written-off over the period of its life. The portion of expenditure related to un-expired life is carried forward.

**7. Retirement benefits**

Gratuity and leave encashment are accrued based on actuarial valuation at the balance sheet date, carried out by an independent actuary. For the employees of Rasal and Lote units of the Company, contributions to the Life Insurance Corporation of India ('LIC') under the employees' group gratuity cum life assurance scheme are made based on intimations raised by LIC.

Contributions payable to the pension fund and the recognised provident fund are charged to the profit and loss account as incurred.

**8. Revenue recognition**

Revenue from sale of goods is recognised on transfer of all significant risks and rewards of ownership to the buyers, which is at the point of dispatch of goods. The amount recognised as sales is exclusive of sales tax and trade discounts. Revenue from services is recognised on rendering of services to customers.

Dividend income is recognised when the right to receive payment is established.

**9. Foreign exchange transactions**

Foreign currency transactions are recorded using the average of the opening and closing spot rate on the date of the respective transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account, except that exchange differences related to acquisition of fixed assets are adjusted in the carrying amount of the related fixed assets.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the closing exchange rates on that date; the resultant exchange differences are recognised in the profit and loss account except those related to acquisition of fixed assets which are adjusted in the carrying amount of the related fixed assets.

The premium or discount on forward exchange contracts is recognised over the period of the contracts. The premium or discount in respect of forward exchange contracts related to acquisition of fixed assets is adjusted in the carrying amount of the related fixed assets. In respect of other contracts, it is recognised in the profit and loss account.

**10. Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with income tax laws) and deferred tax charge or credit (reflecting the tax effect of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that the assets can be realised in future; however when there is unabsorbed depreciation or carry forward loss under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

**11. Contingencies**

Loss contingencies arising from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated.

**Notes to statements of adjusted profit and loss (Annexure I) and adjusted assets and liabilities (Annexure II)**

**Annexure IV**  
(Rupees in lakhs)

| <b>Adjustments [(income)/ expense] in Statement of Profit and Loss arising out of:</b> | <b>Year ended 31 March 2000</b> | <b>Year ended 31 March 2001</b> | <b>Year ended 31 March 2002</b> | <b>9 months ended 31 December 2002</b> | <b>Year ended 31 December 2003</b> | <b>6 months ended 30 June 2004</b> |
|--|---------------------------------|---------------------------------|---------------------------------|--|------------------------------------|------------------------------------|
| <b>Audit qualifications</b>  |                                 |                                 |                                 |  |                                    |                                    |
| (a) Non provision of gratuity liability<br>(Refer Note (ii) below)                     | –                               | 42.15                           | (130.85)                        | –                                      | –                                  | –                                  |
| (b) Non provision of doubtful loans and advances<br>(Refer Note (iii) below)           | 494.33                          | 212.58                          | –                               | –                                      | –                                  | –                                  |
| (c) Non provision of diminution in value of investments<br>(Refer Note (iii) below)    | (221.68)                        | 165.27                          | (535.28)                        | –                                      | –                                  | –                                  |
| (d) Insurance claims written-off<br>(Refer Note (iv) below)                            | –                               | –                               | –                               | 137.15                                 | (137.15)                           | –                                  |
| (e) Loss on sale of investments<br>(Refer Note (iii) below)                            | –                               | –                               | (1,508.19)                      | –                                      | –                                  | –                                  |
| <b>Adjustments [(income)/ expense] in Statement of Profit and Loss arising out of:</b> |                                 |                                 |                                 |  |                                    |                                    |
| <b>Prior period items</b><br>[Refer Note (v) below]                                    |                                 |                                 |                                 |  |                                    |                                    |
| (a) Write back of demurrage liability  | 9.56                            | 107.00                          | 70.12                           | –                                      | –                                  | –                                  |
| (b) Discount earned on purchase of Raw material  | (9.20)                          | 9.20                            | 19.12                           | –                                      | –                                  | –                                  |
| (c) Write back of Panchayat tax  | –                               | –                               | 14.61                           | –                                      | –                                  | –                                  |
| (d) Gratuity liability of earlier years<br>[Also refer Note (ii) below]                | (173.00)                        | –                               | –                               | –                                      | –                                  | –                                  |
| (e) Electricity duty cess  | –                               | 46.67                           | (46.67)                         | –                                      | –                                  | –                                  |
| (f) Taxation matters   |                                 |                                 |                                 |  |                                    |                                    |
| - Current tax  | 24.40                           | (10.56)                         | 40.00                           | (3.14)                                 | –                                  | –                                  |
| - Deferred tax   | –                               | –                               | –                               | –                                      | 378.52                             | –                                  |
| [Also refer Note (i) below]  |                                 |                                 |                                 |  |                                    |                                    |

(Rupees in lakhs)

| Adjustments<br>[increase/ (decrease)]<br>in Statement of assets<br>and liabilities : | As at<br>31 March<br>2000 | As at<br>31 March<br>2001 | As at<br>31 March<br>2002 | As at<br>31 December<br>2002 | As at<br>31 December<br>2003 | As at<br>30 June<br>2004 |
|--|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|--------------------------|
| (i) Reserves and Surplus<br>[Refer Note (i) below]                                   | (7,426.93)                | (7,969.37)                | (298.36)                  | 417.37                       | 98.30                        | 98.30                    |
| (ii) Current liabilities   | (220.18)                  | (57.18)                   | –                         | –                            | –                            | –                        |
| (iii) Provisions   | 88.70                     | 130.85                    | –                         | –                            | –                            | –                        |
| (iv) Deferred tax liability (net)  | –                         | –                         | 378.52                    | 378.52                       | –                            | –                        |
| (v) Investments  | (1,878.20)                | (2,043.47)                | –                         | –                            | –                            | –                        |
| (vi) Loans and Advances  | (5,680.21)                | (5,852.23)                | 80.16                     | (38.85)                      | 98.30                        | 98.30                    |

**Notes:**

- i. Adjustments in respect of continuing audit qualifications as at 31 March 2000 and prior period adjustments relating to financial years prior to 31 March 2000 aggregating Rs 7,330.52 lakhs have been reflected in opening reserves at 1 April 1999. Adjustments in respect of deferred tax pertaining to year ended 31 March 2001 and earlier aggregating Rs 331.81 lakhs have been adjusted in opening reserves as at 1 April 2001. The effect of adjustments relating to the period prior to year ended 31 March 2000 aggregating (net) Rs 220.54 lakhs on taxation of these years is not readily ascertainable/ quantifiable, and hence not adjusted.
- ii. Consequent to successive amendments to the Payment of Gratuity Act, 1972, the Company was liable to additional gratuity liability. The arrears paid during the year ended 31 March 2000 were disclosed as prior period item. Arrears outstanding at 31 March 1999, 2000 and 2001 and not provided for, were the subject matter of Auditors' qualification for the respective years.
- iii. These comprise of certain loans and advances including inter corporate loans / deposits, current account balances, bills receivables, and investments in then associates companies, recoverability/carrying value of which were the subject matter of Auditors' qualifications for the years ended 31 March 2000 and 2001. The amounts were settled/ provided/ adjusted on demerger of non chemical business during the year ended 31 March 2002. No adjustments have been made in respect of non provision of debtor balances as these were settled at their respective book values.
- iv. In terms of the Scheme of Arrangement, the Company had taken over the assets and liabilities of Schenectady Specialities Asia (P) Ltd. ('SSAPL') during the 9 month period ended 31 December 2002. Consequent to an accident at the factory premises of SSAPL in September 2000, there were substantial damages to its assets, in respect of which a claim was filed with the insurers. The recoverability of balance claim receivable at 31 December 2002 was the subject matter of Auditors' qualification for the 9 month period then ended and was adjusted in the financial statements for the year ended 31 December 2003 to give effect to the final settlement with the insurance company.
- v. These represent adjustments in respect of prior period items being material charges or credits which arise in a particular period as a result of errors or omission in the preparation of financial statements of one or more prior periods and/ or material adjustments necessitated by circumstances which though related to previous periods are determined in the particular (current) period.
- vi. Effective year ended 31 March 2000, the Company refined its basis of valuation of finished goods by including therein the excise duty payable on the finished goods lying in the closing stock as at year-end, as against the practice of accounting for such excise duty on clearance of finished goods from factory premises. However, this has no impact on the statement of profit and loss.



**Auditors' qualifications for which adjustments could not be carried out in the adjusted financial statements and response of the Company in respect of the same**

| <b>Auditors' qualifications</b>   | <b>Response of the Company</b>   |
|---|--|
| <p>1. <u>Year ended 31 March 2000</u></p> <p>Note B.1(g) – Schedule 19 regarding non provision of liability on account of outstanding settlement of wage agreement expired on 31 December 1998; amount not ascertainable.</p>   | <p>The long-term contracts between the Management and the respective unions in respect of Navi Mumbai unit expired on 31 December 1998. The Company made a prospective settlement with the Union effective 28 December 2000.</p>   |
| <p>2. <u>Nine month period ended 31 December 2002</u></p> <p>Note no. 7(b) of Schedule 21 (B) regarding developed process technology and purchased technical know-how aggregating to Rs 990.53 lakhs carried under capital-work-in-progress ('CWIP'). The erstwhile SSAPL has till date not been able to start rebuilding the destroyed PTBP plant. The ultimate holding company, Schenectady International Inc., however, has stated its intent to either buyback the technology or sell it to a third party. Under the circumstances, we are unable to express an opinion on the carrying value of the CWIP and the impact, if any, on the Profit and loss account.</p> | <p>In respect of CWIP relating to technology developed by the erstwhile SSAPL, Schenectady International Inc. ('SII') had communicated its desire to either purchase the technology or sell it to a third party. Consequently, an amount of Rs 990.53 lakhs had been carried over under CWIP in the books of the Company as at the end of the period.</p>  |
| <p>3. <u>Year ended 31 December 2003 and six month period ended 30 June 2004</u></p> <p>As more fully explained in note 4 of Schedule 18 to the financial statements regarding CWIP aggregating to Rs.990.53 lakhs in respect of developed process technology and purchased technical know-how, the Company intends to utilise the technology on the revived project, which is being implemented. Pending completion of the project, these financial statements do not include adjustments, if any, that may be necessary to the carrying value of the CWIP and the impact, if any, on the profit and loss account.</p>   | <p>In respect of CWIP relating to technology developed by the erstwhile SSAPL for the manufacture of Butyl Phenols, the Company has decided to rebuild the PTBP/ DTBP plants at Rasal. The implementation of this project, which utilizes the developed and purchased technology, is already at the advanced stage. SII, the Parent Company, which supplied technical knowhow, has reiterated the soundness of this technology and, accordingly, has supported the implementation of the project. As this technology is expected to contribute towards the production of an economically viable product, the amount of Rs 990.53 lakhs has been shown as CWIP in the books of the Company as at end of the period.</p> |

**Other Significant notes and changes in the business of the Company during the last five years**
**1. Year ended 31 March 2000**

Consequent to mandatory AS - 2 in respect of Valuation of Inventory effective 1 April 1999, the Company changed the method of valuation of closing stock of raw material from the annual weighted average cost to the first-in; first-out (FIFO) cost method and in respect of work-in-progress and finished goods, from the direct cost basis to absorption cost basis. Had the Company followed the method of valuation adopted in the previous year, the closing stock and profit before tax for the year would have been lower by Rs. 285 lakhs.

**2. Year ended 31 March 2002**

- a) During the year, Schenectady (India) Holdings Private Limited ('SIHPL') acquired the management control by purchasing 5,521,723 shares (representing 50.08% of the outstanding paid-up capital) from the Duncan Goenka group. The new promoters acquired 1,173,316 shares by way of a public offer and additional 12,000,000 shares were issued to the promoters on preferential basis. The total holding by SIHPL as of March 31, 2002 was 18,695,039 fully paid-up shares (representing 81.19% of the paid-up share capital).

- b) Consequent to the change in the management control of the Company, the Company made an application and the Honorable Bombay High Court approved the Company's application for a Scheme of Demerger ('the Scheme') of certain assets and liabilities relating to non-chemical business with the appointed date 1 April 2001. Under the approved scheme, the Company transferred to M/s Subh Shanti Services Limited, net assets (including inter-alia investments and loans and advances with associate companies) valued at Rs 6,713 lakhs, which was adjusted to Reserves and surplus.
- c) Consequent to AS-22 in respect of Accounting for Taxes on Income, deferred tax liability in respect of prior years upto 31 March 2001 amounting to Rs 1,725.68 lakhs has been charged to the extent of General Reserve as available and the remaining amount to Profit and Loss Account balance brought forward in absence of Revenue Reserve of the requisite amount available for adjustments.

### 3. 9 month period ended 31 December 2002

- a) The name of the Company was changed from Herdillia Chemicals Limited to Schenectady Herdillia Limited with effect from 8 April 2002.
- b) In order to be in line with the financial year of Schenectady International Inc., USA (SII), the Company changed its financial year ending to 31 December from 31 March.
- c) In terms of the Scheme of Arrangement between the Company and Schenectady Specialities Asia (P) Ltd. ('SSAPL') which was sanctioned by the Order of the Honorable Bombay High Court dated 28 November 2002 (effective date), all the assets and liabilities of SSAPL stand transferred to and vested with the Company with effect from the Appointed date viz, 27 September 2002.
- I. Shareholders of SSAPL were allotted one share in the Company for every 10 shares held by them in SSAPL.
  - II. The difference of Rs. 886.57 lakhs between the value of net assets recorded and the aggregate of reserves and the paid-up value of shares are treated as Goodwill.
  - III. Changes in accounting policies are dealt as extraordinary items.
  - IV. The consequential impact in the profit and loss of the Company subsequent to merger of SSAPL is given in (5) below.

### 4. Year ended 31 December 2003

During the year, the Company acquired the Phenolic Resin [PR] business from M/s Schenectady Beck India Ltd. – a Schenectady affiliate company located at Lote, effective 13 August 2003. [Refer Note 3 of Annexure V].

The consequential impact in the profit and loss statement of the Company subsequent to acquisition is given in (5) below.

### 5. Impact on Profit and Loss of the Company of items referred to in 3(c)(iv) and 4 above

(Rupees in lakhs)

|                           | 9 month period ended 31 December 2002 |           | Year ended 31 December 2003 |           | 6 month period ended 30 June 2004 |           |
|---------------------------|---------------------------------------|-----------|-----------------------------|-----------|-----------------------------------|-----------|
|                           | SSAPL Unit                            | Lote Unit | SSAPL Unit                  | Lote Unit | SSAPL Unit                        | Lote Unit |
| Sales                     | 1,323                                 | –         | 7,172                       | 193       | 5,552                             | 251       |
| Profit/ (loss) before tax | (180)                                 | –         | 531                         | (57)      | 472                               | (61)      |

**Other selective financial information as at 30 June 2004****Annexure V****1) Contingent liabilities not provided for in respect of:****a) Taxation matters**

- (i) Demands against the Company not acknowledged as debts Rs. 1056.68 lakhs (2003 - Rs. 847.94 lakhs)
- (ii) Decisions in favour of the Company not accepted by the Department Rs. 94.05 lakhs (2003 - Rs. 94.05 lakhs)
- b) Central Excise and Service tax demand against the Company not acknowledged as debt Rs. 143.15 lakhs (2003 - Rs. 159.62 lakhs)
- c) Estimated amount of contracts remaining to be executed on capital account Rs. 359.38 lakhs (2003 - Rs. 115.46 lakhs).
- d) Customs duty amounting to Rs. 73.86 lakhs (2003 - Rs. 73.86 lakhs) in dispute as demand raised against the Company not acknowledged as debt and custom duty amounting to Rs. 82.85 lakhs (2003 - Rs. 2.05 lakhs) on duty free Advance License for imports against which export obligations are pending.

**2) Secured Loans:****Nature of security****a) Term loans:**

Foreign Currency Loan [Refer Schedule 3(1)] from Caterpillar Financial Services Corporation (CFSC), U.S.A., secured by:

A first and exclusive charge of a continuing security by way of hypothecation of the equipments viz. (a) One (1) Solar turbines – Taurus 60 Generator Package S/N: TG97972 and (b) One (1) Energy Recovery International Model MFA-4-99511, MAX-FIRE Heat Recovery steam Generator System, Boiler S/N:W3764, Economizer S/N:E3765, installed at the Company's factory at Navi Mumbai. Repayable within one year Rs. 274.18 lakhs (2003–Rs. 273.52 lakhs).

**b) Other loans [Refer Schedule 3(2)(a) to (c)]****From banks****a) Demand cash credit and export packing credit**

Secured by a joint-hypothecation of the entire present and future stocks of raw materials, finished and semi-finished goods, stores and process chemicals, outstanding monies receivable, book debts, etc. in favour of a consortium of banks on a *pari passu* basis.

The Company has created a Second charge in favour of State Bank of India and the Consortium Bankers by way of joint-equitable mortgage by deposit of title-deeds by constructive delivery by way of second charge in respect of the Company's immovable properties situated at Navi Mumbai as collateral security, in respect of various Working Capital facilities provided by Consortium Bankers.

**b) State Bank of India FCNR (B) - Demand loan secured as per (a) above.**

**Note:** The charge mentioned at [(ii)(a)] above covers consortium bankers' guarantees issued for Rs. 86.73 lakhs (2003 - Rs. 67.41 lakhs) outstanding on 30 June 2004.

- 3) During the previous year ended 31 December 2003, the Company under a Transfer of Business Agreement ('TBA') acquired the Performance Resin ('PR') business of Schenectady Beck India Limited with its manufacturing location at Lote in Maharashtra. In accordance with TBA the Company acquired the assets and liabilities of the business together with the dedicated employees of the PR business. The purchase consideration was determined at Rs. 491 lakhs for the fixed assets (net of long term deferred liabilities of Rs. 133.67 lakhs) and Rs. 86.03 lakhs for the net current assets at 12 August 2003.

The total consideration of Rs. 577.03 lakhs paid by the Company had been apportioned to the various assets on a fair value basis as determined by competent valuers appointed by the Company. The apportioned value of the assets taken over on 12 August 2003 and included in the financial statements from that date are:

(Rupees in lakhs)

| Particulars                       | Amount        |
|-----------------------------------|---------------|
| Land                              | 40.90         |
| Building                          | 152.87        |
| Plant and machinery               | 326.34        |
| Furniture, fixtures and equipment | 1.94          |
| Vehicles                          | 1.85          |
| CWIP                              | 100.77        |
| Net current assets                | 86.03         |
| Long term deferral liability      | (133.67)      |
| <b>Total</b>                      | <b>577.03</b> |

- 4) CWIP includes an amount of Rs. 990.53 lakhs (Rs 819.62 lakhs for developed process technology and Rs. 170.91 lakhs for purchase of technical know how) incurred in development of Para Tertiary Butyl Phenol ('PTBP') and Di Tertiary Butyl Phenol ('DTBP') plant at the Rasal unit of the Company which was destroyed by fire. During the previous year ended 31 December 2003, the Company decided to rebuild the PTBP/DTBP plant at Rasal. Since implementation of this project has already commenced, the Company shall utilize the developed process technology and purchased technology. Accordingly, the Company has carried forward the technical know how expenditure of Rs. 990.53 lakhs under CWIP.
- 5) The Company had preferred an insurance claim amounting to Rs. 964.61 lakhs in respect of assets damaged in a fire at the Rasal plant in September 2000. During the assessment of the claim, certain assets aggregating to Rs. 186.12 lakhs were found not damaged, claim in respect of which was subsequently withdrawn and assets reinstated in the Fixed Asset Register. Further, based on the preliminary assessment made by the Insurance Company, the Company had adjusted unrecoverable balance in the profit and loss account. The balance recoverable aggregating to Rs. 45.50 lakhs was received during the half year ended 30 June 2004.
- 6) The Company is entitled to deferred sales tax benefit under the Package Scheme of Incentives, 1993 of the Government of Maharashtra for its two plants at Rasal and Lote. During the six months ended 30 June 2004 the Company has part settled Rs. 268.12 lakhs of the liability at a lower amount in pursuance of the option granted to it by the Bombay Sales Tax Act, 1959 and the difference between the amount payable and the amount paid on discounting the liability, amounting to Rs. 195.16 lakhs has been credited to profit and loss account for the six months ended 30 June 2004 and shown under 'Other income'.
- 7) Subsequent to the period the Company has finalized a Memorandum of Understanding for transfer of part of its leasehold land in Navi Mumbai for a consideration of approximately Rs. 3,400 lakhs, subject to requisite approvals.
- 8) Total outstanding dues of Small Scale Industrial Undertakings which are outstanding for more than 30 days Rs. Nil (2003 – Rs. Nil). Total Outstanding dues of the creditors other than Small Scale Industrial Undertakings are Rs. 5221.43 lakhs (2003 – Rs. 3769.92 lakhs)
- 9) (a) Provision for income tax of Rs. 125 lakhs (2003 – Rs. 200 lakhs), is made for the period after considering the expert opinion received by the Company in respect of the gain on foreclosure of deferred sales tax liability.  
(b) Provision for deferred tax for the current period amounting to Rs. 113 lakhs (2003 – Rs. 369.16 lakhs) has been created as a liability. An amount of Rs. NIL (2003 – Rs. 378.52 lakhs) has been provided as deferred tax liability, relating to prior years.
- 10) The foreign exchange difference on account of monetary items recognised and included to the credit of profit and loss account amounts to Rs. 46.14 lakhs; (2003 – Rs. 46.69 lakhs). The amount of exchange differences gain credited to in the carrying amount of fixed assets is Rs. 1.86 lakhs (2003 - Rs. 42.54 lakhs).

Premium on forward covers to be amortised over the next period Rs. 2.05 lakhs (2003 – Rs. 0.60 lakhs)

- 11) Managerial Remuneration under Section 198 of the Companies Act, 1956.

(Rupees in lakhs)

|  | 6 month period<br>ended 30 June 2004 | Year Ended<br>31 December 2003 |
|--|--------------------------------------|--------------------------------|
| 1. Salaries                                | 44.64                                | 69.55                          |
| 2. Contribution to Provident & Other Funds | 4.36                                 | 6.45                           |
| 3. Perquisites                             | 29.92                                | 62.72                          |
| <b>Total</b>                               | <b>78.92</b>                         | <b>138.72</b>                  |

The above amount does not include gratuity and leave encashment payable which is actuarially determined on an overall basis for the company and individual information in respect of the directors is not available.

## 12) Segment Information

### (a) Primary Business Segment

The Company is engaged in manufacture of organic chemicals. As the Company is engaged only in one business segment, the Balance Sheet and the Profit and Loss Account for the year pertain to one business segment.

### (b) Secondary Business Segment

(Rupees in lakhs)

|  | India                    | Outside India          | Total                    |
|--|--------------------------|------------------------|--------------------------|
| Revenue by geographical market           | 20,592.75<br>(38,846.68) | 4,695.65<br>(5,018.61) | 25,288.40<br>(43,865.29) |
| Carrying amount of segment asset (Gross) | 22,411.65<br>(20,808.64) | –                      | 22,411.65<br>(20,808.64) |
| Capital expenditure                      | 485.87<br>(1,877.43)     | –                      | 485.87<br>(1,877.43)     |

Note: Figures for the year ended 31 December 2003 have been shown in brackets.

## 13) Related Party Transactions for the six month period ended 30 June 2004

Related party disclosures, as required by Accounting Standard 18, "Related Party Disclosures", issued by the Institute of Chartered Accountants of India are given below:

### 1. Based on Control

| Related party                                  | Relationship             | %of holding |
|--|--------------------------|-------------|
| a) Schenectady International Inc. USA          | Ultimate holding Company | –           |
| b) Schenectady (India) Holding Private Limited | Holding Company          | 82.09%      |
| c) Herdillia Investments Limited               | Subsidiary Company       | 100.00%     |
| d) Fellow subsidiaries:                        |                          |             |
| 1. Schenectady Europe (UK) Ltd                 |                          |             |
| 2. Schenectady Korea Ltd.                      |                          |             |
| 3. Yuka Schenectady                            |                          |             |
| 4. Schenectady Prattein GMBH                   |                          |             |
| 5. Schenectady Australia Pty Ltd.              |                          |             |

### 2. Directors of the Company

Wholetime Directors:

R.M. Pandia (Managing Director)

G.C. Vasudeo (Director Finance)

### 3. Relatives of Key Management personnel

C A. Majumdar (Sister of R.M Pandia)

S R. Pandia (Wife of R.M Pandia)

#### Transactions with Related Parties

(Rupees in lakhs)

| Transactions with Related Parties  | Ultimate Holding Company | Holding Company | Subsidiaries | Fellow Subsidiaries | Key Management Personnel | Relatives of Key Management Personnel | Total      |
|--|--------------------------|-----------------|--------------|---------------------|--------------------------|---------------------------------------|------------|
| (a) Purchases of goods   | 45.76                    | –               | –            | 97.69               | –                        | –                                     | 143.45     |
|  | (52.50)                  | (–)             | (–)          | (0.13)              | (–)                      | (–)                                   | (52.63)    |
| (b) Sale of goods  | 83.54                    | –               | –            | 62.03               | –                        | –                                     | 145.57     |
|  | (85.29)                  | (–)             | (–)          | (480.18)            | –                        | –                                     | (565.47)   |
| (c) Purchase of fixed assets   | –                        | –               | –            | –                   | –                        | –                                     | –          |
|  | (–)                      | (–)             | (–)          | (920.00)            | (–)                      | (–)                                   | (920.00)   |
| (d) Purchase of net current Assets                                       | –                        | –               | –            | –                   | –                        | –                                     | –          |
|  | (–)                      | (–)             | (–)          | (86.03)             | (–)                      | (–)                                   | (86.03)    |
| (e) Rendering of services (Including interest)                           | 57.43                    | –               | –            | 2.75                | 0.26                     | –                                     | 60.43      |
|  | (91.07)                  | (–)             | (–)          | (19.71)             | (–)                      | (–)                                   | (110.78)   |
| (f) Receiving of services (Including interest)                           | 148.65                   | 144.64          | 6.58         | 17.25               | –                        | 7.53                                  | 324.65     |
|  | (248.29)                 | (323.62)        | (13.20)      | (30.39)             | (0.02)                   | (0.05)                                | (615.57)   |
| (g) Finance (including loans and equity contribution in cash or in kind) |                          |                 |              |                     |                          |                                       |            |
| Accepted   | –                        | 755.00          | –            | –                   | –                        | –                                     | 755.00     |
|  | (86.00)                  | (–)             | (–)          | (–)                 | (–)                      | (–)                                   | (86.00)    |
| Payments   | –                        | –               | –            | –                   | –                        | –                                     | –          |
|  | (200.00)                 | (–)             | (–)          | (–)                 | (–)                      | (–)                                   | (200.00)   |
| (h) Loan recovery  | –                        | –               | –            | –                   | 1.01                     | –                                     | 1.01       |
|  | (–)                      | (–)             | (–)          | (–)                 | (–)                      | (–)                                   | (–)        |
| (i) Management contracts including for Deputation of employees           | –                        | –               | –            | –                   | 78.92                    | –                                     | 78.92      |
|  | (–)                      | (–)             | (–)          | (–)                 | (138.72)                 | (15.00)                               | (153.72)   |
| (j) Closing balance:   |                          |                 |              |                     |                          |                                       |            |
| Payables   | 129.25                   | 4899.00         | 120.00       | 58.33               | –                        | 0.42                                  | 5,207.00   |
|  | (271.67)                 | (4,157.66)      | (120.00)     | (27.42)             | (0.16)                   | (0.44)                                | (4,577.35) |
| Receivables  | 84.73                    | 4.30            | –            | 9.37                | –                        | 30.00                                 | 128.40     |
|  | (74.30)                  | (–)             | (–)          | (35.60)             | (–)                      | (30.00)                               | (139.90)   |

Note: Figures for the year ended 31 December 2003 have been shown in brackets.

## Dividend

### Annexure VI

| Particulars                             | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|---|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|--------------------------------------|
| <b>Equity shares</b>                    |                                |                                |                                |  |                                   |                                      |
| Number of shares                        | 1,10,25,000                    | 1,10,25,000                    | 2,30,25,000                    | 2,41,75,000                              | 2,41,75,000                       | 24,175,000                           |
| Face value (Rs.)                        | 10                             | 10                             | 10                             | 10                                       | 10                                | 10                                   |
| Paid-up value (Rs.)                     | 10                             | 10                             | 10                             | 10                                       | 10                                | 10                                   |
| Rate of dividend                        | 21%                            | 5%                             | –                              | –  | –                                 | –                                    |
| Total dividend (Rs)                     | 2,03,90,225                    | 55,12,500                      | –                              | –  | –                                 | –                                    |
| Corporate dividend<br>tax on above (Rs) | 44,85,850                      | 5,62,275                       | –                              | –  | –                                 | –                                    |

## Accounting ratios

### Annexure VII

| Particulars   | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004<br>(not<br>annualized) |
|---|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|---|
| 1. Earning Per Equity<br>Share (Rs.)                        | 10.48                          | (1.56)                         | 4.47                           | 4.73                                     | 7.41                              | 1.38  |
| 2. Return on Net Worth<br>(%) (for Equity<br>shareholders)  | 59.42                          | (11.62)                        | 25.72                          | 31.74                                    | 34.26                             | 6.02  |
| 3. Net Asset Value<br>Per Share (Rs.)<br>(of Equity shares) | 17.64                          | 13.42                          | 17.37                          | 14.89                                    | 21.63                             | 23.02   |

Note: The above information has been given for all the years based on equity shares with a face value of Rs. 10 each.

### Definitions of Ratios

- (1) Earnings Per Equity Share = (Adjusted Net profit after tax and after Preference share dividend and tax thereon) / (Weighted average number of Equity shares). The figures for the six month period ended 30 June 2004 have not been annualised.
- (2) Return on Net Worth = (Net profit after tax and dividend on Preference Shares (including tax)) / (Equity shareholder's funds after reduction of Miscellaneous expenditure not written off at the end of the year)
- (3) Net Asset Value = (Net assets after reduction of Miscellaneous expenditure not written off and Preference share capital at the end of the year) / (Weighted average number of equity shares)

**Statement of Capitalisation**
**Annexure VIII**  
(Rupees in lakhs)

| Particulars  | Pre-Issue as at<br>30 June 2004 | Adjusted on Post-issue Basis at a<br>premium of Rs 18 per share |
|--|---------------------------------|---|
| Borrowings   |                                 |   |
| Short term debts (refer Notes 1 and 3)                                   | 14,018.72                       | 8,941.97  |
| Long term debts  | 397.83                          | 397.83  |
| <b>Total debts</b>   | <b>14,416.55</b>                | <b>9,339.80</b>   |
| Shareholders' funds:   |                                 |   |
| Share capital  | 2,417.50                        | 4,230.63  |
| Reserves (net of Revaluation reserve)                                    | 3,146.78                        | 6,410.41  |
| Miscellaneous Expenditure<br>(to the extent not written-off or adjusted) | –                               | –   |
| <b>Total Shareholders' Funds</b>   | <b>5,564.28</b>                 | <b>10,641.04</b>  |
| <b>Long term debt/ equity ratio</b>                                      | <b>0.071 : 1</b>                | <b>0.037 : 1</b>  |

1. Debts maturing within the next one year from 30 June 2004 are considered as short-term debts.
2. In terms of resolution of Board of Directors dated 12 July 2004, shares premium is Rs. 18 per equity share.
3. As informed by management, proceeds from the proposed issue are to be utilized for repayment of short term debts (as defined in Note 1 above) and hence have been considered in computing the post-issue short term debts.

**Other income**
**Annexure IX**  
(Rupees in lakhs)

| Details of Other income                      | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|--------------------------------------|
| Recurring                                    |                                |                                |                                |  |                                   |                                      |
| Income from non-trade investments            | 16.41                          | 16.40                          | 12.35                          | 0.81                                     | 0.81                              | –                                    |
| Indenting commission                         | –                              | –                              | –                              | 26.85                                    | 60.12                             | 36.17                                |
| Sale of scrap                                | 29.07                          | 8.73                           | 4.86                           | 6.04                                     | 37.99                             | 6.62                                 |
| Export freight brokerage                     | –                              | –                              | –                              | –  | 1.76                              | 1.64                                 |
| Cash discount received                       | –                              | –                              | 13.08                          | 7.30                                     | 32.11                             | 20.55                                |
| Sale of surplus                              | –                              | –                              | –                              | 6.08                                     | 30.45                             | 13.67                                |
| Sales tax set-off                            | 14.45                          | 24.72                          | 4.45                           | 4.28                                     | 11.39                             | 6.31                                 |
| Research and development fees-               | –                              | –                              | –                              | 47.25                                    | 24.00                             | –                                    |
| Others                                       | 1.72                           | 1.70                           | 3.50                           | 2.44                                     | 3.81                              | 2.82                                 |
| Non recurring                                |                                |                                |                                |  |                                   |                                      |
| Profit on sale of assets                     | 1.24                           | –                              | 217.86                         | –  | –                                 | –                                    |
| Management services fee from erstwhile SSAPL | –                              | –                              | 30.00                          | 36.00                                    | –                                 | –                                    |



(Rupees in lakhs)

| Details of Other income                                | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|--------------------------------------|
| Export incentives                                      | 18.76                          | 3.90                           | —                              | —  | —                                 | —                                    |
| Energy recovery (compensation<br>for COGEN plant)      | 68.52                          | —                              | —                              | —  | —                                 | —                                    |
| Grant ISO 14001 certification                          | 7.91                           | —                              | —                              | —  | —                                 | —                                    |
| Deutsche HUL Mandate refund                            | 7.50                           | —                              | —                              | —  | —                                 | —                                    |
| Claims   | —                              | 26.64                          | —                              | 0.17                                     | —                                 | —                                    |
| Sonmarg royalty receivable<br>from Ms Agerwala         | —                              | 8.47                           | 10.00                          | —  | —                                 | —                                    |
| Sales Tax refund<br>Assessment 1999 - 2000             | —                              | —                              | —                              | —  | —                                 | 13.17                                |
| Gain on foreclosure of<br>deferred sales tax liability | —                              | —                              | —                              | —  | 583.50                            | 195.15                               |
| Exchange difference gain<br>(net)                      | —                              | —                              | —                              | 19.86                                    | 46.61                             | —                                    |
| <b>Total</b>   | <b>165.58</b>                  | <b>90.56</b>                   | <b>296.10</b>                  | <b>109.83</b>                            | <b>855.80</b>                     | <b>320.10</b>                        |

- 1 Details of Other income is as per the Statement of Adjusted Profit and Loss.
- 2 The classification of Other income by management into recurring and non-recurring is based on the current operations and business activities of the Company.

#### Statement of adjusted profit and loss of Herdillia Investments Limited

Annexure X

(Rupees in lakhs)

| Particulars   | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|---|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|--------------------------------------|
| <b>Income</b>   |                                |                                |                                |  |                                   |                                      |
| Sales - Manufactured  | —                              | —                              | —                              | —  | —                                 | —                                    |
| Traded  | —                              | —                              | —                              | —  | —                                 | —                                    |
| <b>Total</b>  | <b>—</b>                       | <b>—</b>                       | <b>—</b>                       | <b>—</b>                                 | <b>—</b>                          | <b>—</b>                             |
| Interest  | 7.00                           | 10.65                          | 10.12                          | 10.86                                    | 13.47                             | 6.99                                 |
| Other income  | —                              | 0.54                           | 0.31                           | —  | 5.70                              | —                                    |
| Increase/ (decrease) in stock                                     | —                              | —                              | —                              | —  | —                                 | —                                    |
| <b>Total</b>  | <b>7.00</b>                    | <b>11.19</b>                   | <b>10.43</b>                   | <b>10.86</b>                             | <b>19.17</b>                      | <b>6.99</b>                          |
| Less : Expenditure  |                                |                                |                                |  |                                   |                                      |
| Cost of raw materials<br>consumed and purchase<br>of traded goods | —                              | —                              | —                              | —  | —                                 | —                                    |
| Staff costs   | —                              | —                              | —                              | —  | —                                 | —                                    |
| Other manufacturing expenses                                      | —                              | —                              | —                              | —  | —                                 | —                                    |

| Particulars  | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|--------------------------------|--------------------------------|--------------------------------|--|-----------------------------------|--------------------------------------|
| Administration expenses  | 0.48                           | 0.42                           | 0.86                           | 0.26                                     | 0.47                              | 0.20                                 |
| Selling and distribution expenses  | –                              | –                              | –                              | –  | –                                 | –                                    |
| Loss on sale of investments  | 10.25                          | –                              | 44.64                          | –  | –                                 | –                                    |
| (Write back)/ provision for diminution in value of investments               | (90.36)                        | 41.00                          | 2.34                           | –  | (1.20)                            | –                                    |
| Interest   | –                              | –                              | –                              | –  | –                                 | –                                    |
| <b>Total expenditure</b>   | <b>(79.63)</b>                 | <b>41.42</b>                   | <b>47.84</b>                   | <b>0.26</b>                              | <b>(0.73)</b>                     | <b>0.20</b>                          |
| Less : Cost capitalized  | –                              | –                              | –                              | –  | –                                 | –                                    |
| <b>Total operating expenses</b>  | <b>(79.63)</b>                 | <b>41.42</b>                   | <b>47.84</b>                   | <b>0.26</b>                              | <b>(0.73)</b>                     | <b>0.20</b>                          |
| Profit/(loss) before depreciation, doubtful advances and extraordinary items | 86.63                          | (30.23)                        | (37.41)                        | 10.60                                    | 19.90                             | 6.79                                 |
| Gross depreciation   | –                              | –                              | –                              | –  | –                                 | –                                    |
| Less : Transfer from Revaluation reserve                                     | –                              | –                              | –                              | –  | –                                 | –                                    |
| Net depreciation   | –                              | –                              | –                              | –  | –                                 | –                                    |
| Less : Provision for doubtful advances (net)                                 | –                              | –                              | –                              | –  | –                                 | –                                    |
| <b>Net profit /(loss) before extraordinary items</b>                         | <b>86.63</b>                   | <b>(30.23)</b>                 | <b>(37.41)</b>                 | <b>10.60</b>                             | <b>19.90</b>                      | <b>6.79</b>                          |
| Add : Extraordinary items  | –                              | –                              | –                              | –  | –                                 | –                                    |
| <b>Net profit/(loss) after extraordinary items</b>                           | <b>86.63</b>                   | <b>(30.23)</b>                 | <b>(37.41)</b>                 | <b>10.60</b>                             | <b>19.90</b>                      | <b>6.79</b>                          |
| Less : Provision for current tax   | (2.53)                         | (3.92)                         | (3.55)                         | (3.85)                                   | (6.70)                            | (2.43)                               |
| Less :Provision for deferred tax (net)                                       | –                              | –                              | –                              | –  | –                                 | –                                    |
| Effect of adjustments on tax   |                                |                                |                                |  |                                   |                                      |
| - Current tax  | –                              | –                              | –                              | –  | –                                 | –                                    |
| - Deferred tax   | –                              | –                              | –                              | –  | –                                 | –                                    |
| <b>Net profit/(loss) after taxation and adjustments</b>                      | <b>84.10</b>                   | <b>(34.15)</b>                 | <b>(40.96)</b>                 | <b>6.75</b>                              | <b>13.20</b>                      | <b>4.36</b>                          |

Statement of adjusted assets and liabilities of Herdillia Investments Limited

Annexure XI

(Rupees in lakhs)

| PARTICULARS                                   | As at<br>31 March<br>2000 | As at<br>31 March<br>2001 | As at<br>31 March<br>2002 | As at<br>31 December<br>2002 | As at<br>31 December<br>2003 | As at<br>30 June<br>2004 |
|---|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|--------------------------|
| <b>(A) Fixed assets</b>                       |                           |                           |                           |                              |                              |                          |
| (i) Gross block                               | —                         | —                         | —                         | —                            | —                            | —                        |
| Less : Accumulated depreciation               | —                         | —                         | —                         | —                            | —                            | —                        |
| Net block                                     | —                         | —                         | —                         | —                            | —                            | —                        |
| Less : Revaluation reserve                    | —                         | —                         | —                         | —                            | —                            | —                        |
| (ii) Capital work in progress                 | —                         | —                         | —                         | —                            | —                            | —                        |
| Net block after adjustment                    | —                         | —                         | —                         | —                            | —                            | —                        |
| <b>(B) Investments</b>                        | 111.29                    | 62.03                     | 1.89                      | 1.89                         | 3.10                         | 3.10                     |
| <b>(C) Current assets, loans and advances</b> |                           |                           |                           |                              |                              |                          |
| (i) Inventories                               | —                         | —                         | —                         | —                            | —                            | —                        |
| (ii) Sundry debtors                           | —                         | —                         | —                         | —                            | 0.70                         | —                        |
| (iii) Cash and bank balances                  | 5.19                      | 13.69                     | 4.05                      | 10.84                        | 21.14                        | 25.96                    |
| (iv) Loans and advances                       | 86.49                     | 97.03                     | 126.87                    | 130.30                       | 134.21                       | 136.66                   |
| <b>A+B+C</b>                                  | <b>202.97</b>             | <b>172.75</b>             | <b>132.81</b>             | <b>143.03</b>                | <b>159.15</b>                | <b>165.72</b>            |
| <b>(D) Less : Liabilities and provisions</b>  |                           |                           |                           |                              |                              |                          |
| Secured loans                                 | —                         | —                         | —                         | —                            | —                            | —                        |
| Unsecured loans                               | —                         | —                         | —                         | —                            | —                            | —                        |
| Net deferred tax liabilities                  | —                         | —                         | —                         | —                            | —                            | —                        |
| Current Liabilities                           | 0.22                      | 0.23                      | 0.23                      | 0.23                         | 0.25                         | 0.03                     |
| Provisions                                    | 3.15                      | 7.30                      | 8.13                      | 11.71                        | 14.62                        | 17.05                    |
|   | <b>3.37</b>               | <b>7.53</b>               | <b>8.36</b>               | <b>11.94</b>                 | <b>14.87</b>                 | <b>17.08</b>             |
| <b>Net Worth</b>                              | <b>199.60</b>             | <b>165.45</b>             | <b>124.45</b>             | <b>131.09</b>                | <b>144.28</b>                | <b>148.64</b>            |
| Represented by                                |                           |                           |                           |                              |                              |                          |
| (i) Share capital (equity)                    | 700.11                    | 700.11                    | 700.11                    | 700.11                       | 700.11                       | 700.11                   |
| (ii) Reserve and surplus                      | (500.51)                  | (534.66)                  | (575.66)                  | (569.02)                     | (555.83)                     | (551.47)                 |
| Less : Revaluation reserve                    | —                         | —                         | —                         | —                            | —                            | —                        |
| Net of revaluation reserve                    | (500.51)                  | (534.66)                  | (575.66)                  | (569.02)                     | (555.83)                     | (551.47)                 |
| <b>Net Worth</b>                              | <b>199.60</b>             | <b>165.45</b>             | <b>124.45</b>             | <b>131.09</b>                | <b>144.28</b>                | <b>148.64</b>            |

**1. Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention, on an accrual basis of accounting and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) and the relevant provisions of the Companies Act, 1956 to the extent applicable.

**2. Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities on the date of financial statement. Actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in current and future periods.

**3. Investments**

Long-term investments are stated at cost less any other than temporary diminution in value, determined separately for each individual investment.

**4. Revenue recognition**

Interest income is recognised on time proportion basis.

Income from services rendered is recognised on accrual basis as per the terms of the contract.

**5. Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the period determined in accordance with income tax laws) and deferred tax charge or credit (reflecting the tax effect of timing differences between accounting income and taxable income for the period). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that the assets can be realised in future; however when there is unabsorbed depreciation or carry forward loss under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realisation of such assets. Deferred tax assets are reviewed as at each balance sheet date and written down or written up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised.

**6. Contingencies**

Loss contingencies arising from claims, litigation, assessment, fines, penalties, etc. are recorded when it is probable that a liability has been incurred, and the amount can be reasonably estimated.

Notes to statements of adjusted profit and loss (Annexure X) and adjusted assets and liabilities (Annexure XI) of Herdillia Investments Limited

Annexure XIII  
Rupees in lakhs

| Adjustments [(income)/ expense] in Statement of Profit and Loss arising out of: | Year ended 31 March 2000 | Year ended 31 March 2001 | Year ended 31 March 2002 | 9 months ended 31 December 2002 | Year ended 31 December 2003 | 6 months period ended 30 June 2004 |
|---|--------------------------|--------------------------|--------------------------|---------------------------------|-----------------------------|------------------------------------|
| <b>Audit qualifications</b><br>[Refer Note (ii) below]                          |                          |                          |                          |                                 |                             |                                    |
| (a) Non provision of diminution in value of investments                         | (20.00)                  | 41.00                    | –                        | –                               | –                           | –                                  |
| (b) Loss on sale of investments   | –                        | –                        | (535.00)                 | –                               | –                           | –                                  |
| <b>Prior period items</b>   |                          |                          |                          |                                 |                             |                                    |
| (a) Taxation matters<br>- Current tax<br>[Refer Note (iii) below]               | 0.13                     | –                        | 0.02                     | (0.08)                          | (0.03)                      | –                                  |

Rupees in lakhs

| Adjustments [(increase)/ (decrease)] in Statement of assets and liabilities: | As at 31 March 2000 | As at 31 March 2001 | As at 31 March 2002 | As at 31 December 2002 | As at 31 December 2003 | As at 30 June 2004 |
|--|---------------------|---------------------|---------------------|------------------------|------------------------|--------------------|
| (i) Reserves and surplus<br>[Refer Note (i) below]                           | (493.93)            | (534.93)            | 0.05                | (0.03)                 | –                      | –                  |
| (ii) Provisions  | (0.07)              | (0.07)              | (0.05)              | 0.03                   | –                      | –                  |
| (iii) Investments  | (494.00)            | (535.00)            | –                   | –                      | –                      | –                  |

**Notes:**

- i. Adjustments in respect of continuing audit qualifications as at 31 March 2000 and prior period adjustments relating to financial years prior to 31 March 2000 aggregating to Rs 513.80 lakhs have been reflected in opening reserves at 1 April 1999.
- ii. These comprise of investments in certain companies, recoverability/carrying value of which were the subject matter of Auditors' qualifications for the years ended 31 March 2000 and 2001. The amounts were settled/ provided/ adjusted on disposal of investments.
- iii. These represent adjustments in respect of prior period items being material charges or credits which arise in a particular period as a result of errors or omission in the preparation of financial statements of one or more prior periods and/or material adjustments necessitated by circumstances which though related to previous periods are determined in the particular (current) period.

Consolidated statement of Adjusted Profit and Loss

Annexure XIV

(Rupees in lakhs)

| PARTICULARS  | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended<br>31 December<br>2002 | Year<br>ended<br>31 December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|--------------------------------|--------------------------------|--------------------------------|--|--------------------------------------|--------------------------------------|
| <b>Income</b>  |                                |                                |                                |  |                                      |                                      |
| Sales - Manufactured   | 22,997.14                      | 27,041.46                      | 26,192.89                      | 22,564.81                                | 37,504.03                            | 22,255.30                            |
| Traded   | 24.50                          | –                              | 96.51                          | 475.43                                   | 387.34                               | 100.48                               |
| <b>Total</b>   | <b>23,021.64</b>               | <b>27,041.46</b>               | <b>26,289.40</b>               | <b>23,040.24</b>                         | <b>37,891.37</b>                     | <b>22,355.78</b>                     |
| Other income   | 167.12                         | 92.14                          | 296.43                         | 109.83                                   | 861.63                               | 320.18                               |
| Increase/(decrease) in stock   | 35.61                          | 462.15                         | (182.68)                       | 364.37                                   | 180.83                               | 970.23                               |
| <b>Total</b>   | <b>23,224.37</b>               | <b>27,595.75</b>               | <b>26,403.15</b>               | <b>23,514.44</b>                         | <b>38,933.83</b>                     | <b>23,646.19</b>                     |
| <b>Less : Expenditure</b>  |                                |                                |                                |  |                                      |                                      |
| Cost of raw materials consumed and purchase of traded goods                  | 12,609.36                      | 16,814.43                      | 15,439.31                      | 13,938.23                                | 24,886.49                            | 16,723.99                            |
| Staff costs  | 1,938.63                       | 2,163.27                       | 2,114.09                       | 1,680.04                                 | 2,347.92                             | 1,279.49                             |
| Other manufacturing expenses   | 4,472.98                       | 4,806.80                       | 4,597.16                       | 4,534.66                                 | 6,049.79                             | 3,356.37                             |
| Administration expenses  | 786.00                         | 766.90                         | 812.08                         | 548.05                                   | 491.79                               | 364.62                               |
| Selling and distribution expenses  | 392.93                         | 513.37                         | 524.58                         | 399.16                                   | 791.61                               | 458.23                               |
| Loss on sale of investments  | 10.25                          | –                              | 251.45                         | –  | –                                    | –                                    |
| (Write back)/ provision for diminution in value of investments               | (813.15)                       | 172.38                         | 32.39                          | 0.82                                     | (32.33)                              | –                                    |
| Interest   | 1,043.04                       | 1,714.60                       | 1,395.87                       | 789.87                                   | 1,055.33                             | 361.37                               |
| <b>Total expenditure</b>   | <b>20,440.04</b>               | <b>26,951.75</b>               | <b>25,166.93</b>               | <b>21,890.83</b>                         | <b>35,590.60</b>                     | <b>22,544.07</b>                     |
| Less : Cost capitalized  | –                              | –                              | –                              | –  | 20.13                                | –                                    |
| <b>Total operating expenses</b>  | <b>20,440.04</b>               | <b>26,951.75</b>               | <b>25,166.93</b>               | <b>21,890.83</b>                         | <b>35,570.47</b>                     | <b>22,544.07</b>                     |
| <b>Profit before depreciation, doubtful advances and extraordinary items</b> | <b>2,784.33</b>                | <b>644.00</b>                  | <b>1,236.22</b>                | <b>1,623.61</b>                          | <b>3,363.36</b>                      | <b>1,102.12</b>                      |
| Gross depreciation   | 592.51                         | 596.28                         | 588.70                         | 526.86                                   | 944.04                               | 498.28                               |
| Less : Transfer from Revaluation reserve                                     | (20.08)                        | (19.05)                        | (13.32)                        | (9.51)                                   | (12.14)                              | (5.76)                               |
| Net depreciation   | 572.43                         | 577.23                         | 575.38                         | 517.35                                   | 931.90                               | 492.52                               |
| Less : Provision for doubtful advances (net)                                 | 494.33                         | 232.55                         | 140.00                         | 75.00                                    | 50.00                                | 30.00                                |
| <b>Net profit /(loss) before extraordinary items</b>                         | <b>1,717.57</b>                | <b>(165.81)</b>                | <b>520.84</b>                  | <b>1,031.26</b>                          | <b>2,381.46</b>                      | <b>579.60</b>                        |
| Add: Extraordinary items   | –                              | –                              | –                              | 0.41                                     | –                                    | –                                    |
| <b>Net profit/(loss) after extraordinary items</b>                           | <b>1,717.57</b>                | <b>(165.81)</b>                | <b>520.84</b>                  | <b>1,031.67</b>                          | <b>2,381.46</b>                      | <b>579.60</b>                        |
| Less: Provision for current tax  | (143.03)                       | (36.42)                        | (76.05)                        | (54.55)                                  | (207.70)                             | (127.43)                             |
| Less: Provision for deferred tax (net)                                       | –                              | –                              | 70.31                          | 106.05                                   | (369.16)                             | (113.00)                             |
| Effect of adjustments on tax   |                                |                                |                                |  |                                      |                                      |
| - Current tax  | 28.00                          | 30.00                          | 25.30                          | 15.00                                    | –                                    | –                                    |
| - Deferred tax   | –                              | –                              | (46.71)                        | –  | –                                    | –                                    |
| <b>Net profit/(loss) after taxation and adjustments</b>                      | <b>1,602.54</b>                | <b>(172.23)</b>                | <b>493.69</b>                  | <b>1,098.17</b>                          | <b>1,804.60</b>                      | <b>339.17</b>                        |

Consolidated statement of Adjusted Assets and Liabilities

Annexure XV

(Rupees in lakhs)

| PARTICULARS  | As at<br>31 March<br>2000 | As at<br>31 March<br>2001 | As at<br>31 March<br>2002 | As at<br>31 December<br>2002 | As at<br>31 December<br>2003 | As at<br>30 June<br>2004 |
|--|---------------------------|---------------------------|---------------------------|------------------------------|------------------------------|--------------------------|
| <b>(A) Fixed assets</b>                              |                           |                           |                           |                              |                              |                          |
| (i) Gross block                                      | 15,936.09                 | 16,179.65                 | 15,669.04                 | 19,603.90                    | 21,297.14                    | 21,781.04                |
| Less : Accumulated depreciation                      | 7,173.86                  | 7,766.39                  | 8,203.37                  | 8,700.13                     | 9,547.46                     | 10,045.73                |
| Net block  | 8,762.23                  | 8,413.26                  | 7,465.67                  | 10,903.77                    | 11,749.68                    | 11,735.31                |
| Less : Revaluation reserve                           | 816.37                    | 797.25                    | 116.80                    | 107.28                       | 95.02                        | 89.25                    |
|  | 7,945.86                  | 7,616.01                  | 7,348.87                  | 10,796.49                    | 11,654.66                    | 11,824.56                |
| (ii) Capital work in progress                        | 526.37                    | 584.72                    | 13.82                     | 1,235.32                     | 1,319.81                     | 1,390.80                 |
| Net block after adjustment                           | 8,472.23                  | 8,200.73                  | 7,362.69                  | 12,031.81                    | 12,974.47                    | 13,036.86                |
| <b>(B) Investments</b>                               | 854.6                     | 674.07                    | 77.65                     | 81.93                        | 113.77                       | 113.67                   |
| <b>(C) Current assets, loans and advances</b>        |                           |                           |                           |                              |                              |                          |
| (i) Inventories                                      | 2,947.24                  | 2,698.97                  | 2,780.34                  | 3,796.89                     | 6,189.50                     | 9,232.16                 |
| (ii) Sundry debtors                                  | 4,785.64                  | 4,494.55                  | 3,941.46                  | 5,357.88                     | 6,326.14                     | 7,275.52                 |
| (iii) Cash and bank balances                         | 221.84                    | 460.46                    | 789.28                    | 442.74                       | 465.32                       | 333.69                   |
| (iv) Loans and advances                              | 1,426.04                  | 1,574.92                  | 1,228.89                  | 1,892.58                     | 2,326.4                      | 2,576.59                 |
| <b>A+B+C</b>   | <b>18,707.59</b>          | <b>18,103.7</b>           | <b>16,180.31</b>          | <b>23,603.83</b>             | <b>28,395.60</b>             | <b>32,568.49</b>         |
| <b>(D) Less : Current liabilities and provisions</b> |                           |                           |                           |                              |                              |                          |
| Secured loans  | 6,244.88                  | 5,545.45                  | 4,690.74                  | 1,942.83                     | 1,103.46                     | 1,858.40                 |
| Unsecured loans                                      | 3,729.14                  | 4,525.82                  | 2,898.47                  | 11,322.34                    | 12,032.14                    | 12,438.15                |
| Net deferred tax liabilities                         | —                         | —                         | 2,033.89                  | 1,957.70                     | 2,326.86                     | 2,439.87                 |
| Current Liabilities                                  | 6,596.54                  | 6,248.72                  | 4,531.82                  | 4,581.75                     | 7,298.35                     | 9,800.71                 |
| Provisions   | 424.36                    | 303.65                    | 105.00                    | 354.23                       | 385.49                       | 442.88                   |
|  | 16,994.92                 | 16,623.64                 | 14,259.92                 | 20,158.85                    | 23,146.30                    | 26,980.01                |
| <b>Net Worth</b>                                     | <b>1,712.67</b>           | <b>1,480.06</b>           | <b>1,920.39</b>           | <b>3,444.98</b>              | <b>5,249.30</b>              | <b>5,588.48</b>          |
| Represented by                                       |                           |                           |                           |                              |                              |                          |
| (i) Share capital                                    | 1,102.50                  | 1,102.50                  | 2,302.50                  | 2,417.50                     | 2,417.50                     | 2,417.50                 |
| (ii) Reserve and surplus                             | 1,426.54                  | 1,174.81                  | (265.31)                  | 1,134.76                     | 2,926.82                     | 3,260.23                 |
| Less : Revaluation reserve                           | 816.37                    | 797.25                    | 116.80                    | 107.28                       | 95.02                        | 89.25                    |
| Net of revaluation reserve                           | 610.17                    | 377.56                    | (382.11)                  | 1,027.48                     | 2,831.80                     | 3,170.98                 |
| <b>Net Worth</b>                                     | <b>1,712.67</b>           | <b>1,480.06</b>           | <b>1,920.39</b>           | <b>3,444.98</b>              | <b>5,249.30</b>              | <b>5,588.48</b>          |

**Principles of consolidation****Annexure XVI**

The adjusted consolidated statements of Profit and loss and of Assets and liabilities include the respective adjusted statements of Schenectady Herdillia Limited ('the Company'), the parent company and its subsidiary, the details of which are as follows:

| <b>Name of the Subsidiary Company</b> | <b>Country of Incorporation</b> | <b>% voting power held as at 30 June 2004</b> |
|---------------------------------------|---------------------------------|---|
| <i>Herdillia Investments Limited</i>  | <i>India</i>                    | <i>100</i>                                    |

The consolidated statements have been prepared on the following basis:

- i. The adjusted statements of the parent company and its subsidiary have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances / transactions and resulting unrealised profits in full.
- ii. The Group accounts for investments by the equity method of accounting where it is able to exercise significant influence over the operating and financial policies of investee.
- iii. The consolidated adjusted statements are presented, to the extent possible, in the same format as that adopted by the parent company for its separate financial statements.



**Statement of tax shelters**

**Annexure XVII**  
(Rupees in lakhs)

| PARTICULARS  |          | Year<br>ended<br>31 March<br>2000 | Year<br>ended<br>31 March<br>2001 | Year<br>ended<br>31 March<br>2002 | 9 months<br>ended 31<br>December<br>2002 | Year<br>ended 31<br>December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|----------|-----------------------------------|-----------------------------------|-----------------------------------|--|--------------------------------------|--------------------------------------|
| Profit before current and deferred taxes, as restated        | A        | 1,129.83                          | (169.47)                          | 517.58                            | 1,021.807                                | 2,361.56                             | 572.81                               |
| Tax Rate - Normal  | B        | 38.50%                            | 39.55%                            | 35.70%                            | 36.49%                                   | 35.88%                               | 36.23%                               |
| Tax Rate - MAT   | C        | 11.55%                            | 8.48%                             | 7.65%                             | 7.88%                                    | 7.69%                                | 7.84%                                |
| Tax expense at applicable tax rate on restated profits       | D        | 130.50                            | –                                 | 184.78                            | 80.46                                    | 711.17                               | 207.32                               |
| <b>Adjustments:</b>  |          |                                   |                                   |                                   |  |                                      |                                      |
| <b>Permanent Differences</b>                                 |          |                                   |                                   |                                   |  |                                      |                                      |
| Deduction in respect of export profits                       |          |                                   |                                   | (96.05)                           |  | (35.91)                              | (4.71)                               |
| Donation   |          | –                                 | –                                 | –                                 | –  | –                                    | 0.48                                 |
| Provision for contingent liability                           |          | 16.62                             |                                   |                                   |  |                                      |                                      |
| Exempt dividend income                                       |          | (16.41)                           |                                   | (12.35)                           |  | –                                    |                                      |
| Amounts withdrawn from Reserves                              |          | (180.06)                          |                                   |                                   |  |                                      |                                      |
| MAT Credit adjustment  |          |                                   |                                   | (592.41)                          |  | –                                    |                                      |
| Interest on tax-free Bonds                                   |          |                                   |                                   |                                   |  | (4.97)                               | (2.57)                               |
| Sales Tax Deferral- income claimed exempt as capital receipt |          |                                   |                                   |                                   |  | (368.30)                             | (86.64)                              |
| <b>Total</b>   | <b>E</b> | <b>(179.85)</b>                   | <b>–</b>                          | <b>(700.81)</b>                   | <b>–</b>                                 | <b>(409.18)</b>                      | <b>(93.65)</b>                       |
| <b>Temporary Differences</b>                                 |          |                                   |                                   |                                   |  |                                      |                                      |
| Difference between tax depreciation and book depreciation    |          |                                   |                                   | 318.25                            |  | 212.98                               | 73.65                                |
| Provision for doubtful debts                                 |          |                                   |                                   | 140.00                            |  | 26.25                                | 12.62                                |
| Capital expenditure on R&D written off                       |          |                                   |                                   | 2.67                              |  |                                      |                                      |
| Loss on sale of investment                                   |          |                                   |                                   | 277.51                            |  | –                                    |                                      |
| Capital expenditure debited to P&L A/c                       |          |                                   |                                   | 212.56                            |  | –                                    |                                      |
| Prior period adjustment                                      |          |                                   |                                   | (224.19)                          |  | –                                    |                                      |
| Provision for Insurance Claim                                |          |                                   |                                   |                                   |  | 33.86                                | 11.29                                |
| Profit/(Loss) on sale of assets                              |          |                                   |                                   | (217.86)                          |  | (3.31)                               | (1.10)                               |
| Technical know-how   |          |                                   |                                   | (16.20)                           |  | –                                    |                                      |

(Rupees in lakhs)

| PARTICULARS  |           | Year ended<br>31 March<br>2000 | Year ended<br>31 March<br>2001 | Year ended<br>31 March<br>2002 | 9 months<br>ended 31<br>December<br>2002 | Year<br>ended 31<br>December<br>2003 | 6 months<br>ended<br>30 June<br>2004 |
|--|-----------|--------------------------------|--------------------------------|--------------------------------|--|--------------------------------------|--------------------------------------|
| Allowance/Disallowance under section 43B                       |           |                                |                                | 101.09                         |  | 15.89                                | (1.14)                               |
| Allowance for R & D Capital expenditure                        |           |                                |                                |                                |  | (9.62)                               | (17.14)                              |
| Amortization of VRS expenses                                   |           |                                |                                | 7.34                           |  | (3.20)                               | (2.53)                               |
| Disallowance/ Allowance in respect of payment to non-residents |           |                                |                                |                                |  | (80.18)                              | (26.73)                              |
| Amortization of Catalyst purchases / consumption               |           |                                |                                | 30.27                          |  | (118.83)                             | (31.03)                              |
| Set-off of brought forward unabsorbed losses/depreciation      |           |                                |                                | (325.15)                       | (588.70)                                 | (896.21)                             | (248.29)                             |
| Merger and preliminary Expenses                                |           |                                |                                |                                |  | (5.66)                               | (3.34)                               |
| Inter Period Adjustments                                       |           |                                |                                |                                |  | (143.00)                             | 96.39                                |
| <b>Total</b>   | <b>F</b>  | <b>-</b>                       | <b>-</b>                       | <b>306.29</b>                  | <b>(588.70)</b>                          | <b>(971.03)</b>                      | <b>(137.35)</b>                      |
| Net Adjustments  | G=E + F   | (179.85)                       | -                              | (394.52)                       | (588.70)                                 | (1,380.21)                           | (231.00)                             |
| Tax savings thereon  | H=G * B/C | (20.77)                        | -                              | (140.84)                       | (46.39)                                  | (511.08)                             | (83.35)                              |
| Net impact   | I = H - D | 109.72                         | -                              | 43.93                          | 34.07                                    | 200.09                               | 123.98                               |
| <b>Adjusted Tax Provision</b>                                  |           | <b>110.00</b>                  | <b>-</b>                       | <b>44.70</b>                   | <b>35.00</b>                             | <b>201.00</b>                        | <b>125.00</b>                        |

**Notes:**

- 1) The weighted average rate of tax is the normal rate of tax / MAT tax rate as may be applicable in the respective financial years.
- 2) The tax shelter for the year ended 31 December 2003 is computed by applying MAT tax rate for the period upto 31 March 2003 and for the balance period at normal rate of tax
- 3) The above statement excludes capital losses which company has / is eligible to carry forward and set-off.

**STATEMENT OF CASH FLOWS**

(Rupees in lakhs)

| Particulars   | 6 months<br>period<br>ended 30<br>June 2004<br>(Adjusted) | As on 31<br>December<br>2003<br>(Adjusted) | As on 31<br>December<br>2002<br>(Adjusted) | As on 31<br>March<br>2002<br>(Adjusted) |
|---|---|--|--|---|
| <b>A. CASH FLOW FROM OPERATING ACTIVITIES:</b>  |   |  |  |   |
| Net (loss)/profit before tax but after exceptional/<br>extraordinary items Adjustments For: | 572.81  | 2,361.56                                   | 1,020.66                                   | 517.58                                  |
| - Depreciation & Amortisation   | 492.52  | 931.90                                     | 517.00                                     | 575.38                                  |
| - Interest Expenses   | 478.74  | 1,141.55                                   | 829.17                                     | 1,613.74                                |
| - Interest Income   | (110.46)  | (93.01)                                    | (28.44)                                    | (207.77)                                |
| - Dividends   | –   | (0.81)                                     | (0.81)                                     | (12.35)                                 |
| - Foreign Exchange (Gain)/Loss  | (43.47)   | (1.47)                                     | –  | –                                       |
| - (Profit)/Loss on fixed assets sold  | (0.21)  | (3.16)                                     | 37.10                                      | (217.86)                                |
| - (Profit)/Loss on sale of investments  | –   | –  | –  | 206.81                                  |
| - Claims written off  | –   | –  | 137.15                                     | 42.92                                   |
| - Capital WIP debited to P&L A/C  | –   | –  | –  | 62.01                                   |
| - Other write offs  | –   | –  | –  | 170.82                                  |
| - Miscellaneous Expenditure written off   | –   | –  | 57.61                                      | –                                       |
| - Provision for bad & doubtful debts  | 30.00   | 50.00                                      | 75.00                                      | 140.00                                  |
| - Provision for diminution in value of investments  | –   | (31.13)                                    | –  | 70.70                                   |
| - <b>PROVISION FOR GRATUITY &amp; LEAVE<br/>ENCASHMENT</b>                                  | <b>57.39</b>  | <b>30.71</b>                               | <b>33.48</b>                               | <b>(177.69)</b>                         |
| - Write back of provision for diminution in value of<br>investments                         | –   | –  | 0.82                                       | –                                       |
| - Prior period expenses/(income)(net)   | –   | –  | –  | 103.85                                  |
| - Extra ordinary items  | (195.16)  | –  | (0.41)                                     | –                                       |
| - Transferred from reserves   | –   | –  | –  | –                                       |
| - Tax deducted at source on interest income   | –   | –  | –  | 4.63                                    |
| <b>OPERATING PROFIT BEFORE WORKING CAPITAL<br/>CHANGES</b>                                  | <b>1282.16</b>  | <b>4,386.14</b>                            | <b>2,678.33</b>                            | <b>2,892.77</b>                         |
| Adjustment for changes in working capital:  |   |  |  |   |
| - (INCREASE)/DECREASE in sundry debtors   | (958.59)  | (1,018.70)                                 | (405.65)                                   | 413.11                                  |
| - (INCREASE)/DECREASE in loans & advances<br>& other receivables                            | (224.79)  | (338.99)                                   | (232.67)                                   | 273.10                                  |
| - (INCREASE)/DECREASE in inventories  | (3042.66)   | (2,392.61)                                 | (105.72)                                   | (81.36)                                 |
| - (INCREASE)/DECREASE in trade and other payables   | 2545.64   | 2,703.52                                   | (1,101.42)                                 | (1,822.86)                              |
| <b>CASH GENERATED FROM OPERATIONS</b>   | <b>(398.24)</b>   | <b>3,339.37</b>                            | <b>832.87</b>                              | <b>1,674.76</b>                         |

| Particulars   | 6 months<br>period<br>ended 30th<br>June 2004<br>(Adjusted) | As on 31<br>December<br>2003<br>(Adjusted) | As on 31<br>December<br>2002<br>(Adjusted) | As on 31<br>March<br>2002<br>(Adjusted) |
|---|---|--|--|---|
| Direct taxes paid   |   |  |  |   |
| -Taxes (paid)/received (net of TDS)                                     | (152.48)  | (292.84)                                   | (92.39)                                    | (108.57)                                |
| -Wealth tax paid  | –   | (0.43)                                     | (2.08)                                     | –                                       |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                               | <b>(550.72)</b>   | <b>3,046.10</b>                            | <b>738.40</b>                              | <b>1,566.19</b>                         |
| <b>B CASH FLOW FROM INVESTING ACTIVITIES:</b>                           |   |  |  |   |
| Purchase of fixed assets  | (485.88)  | (1,877.57)                                 | (60.63)                                    | (86.83)                                 |
| Capital work in progress including capital advances                     | (70.99)   | (84.48)                                    | (222.65)                                   | 69.95                                   |
| Proceeds from sale of fixed assets                                      | 0.32  | 90.65                                      | 43.63                                      | 261.09                                  |
| Purchase of investments   | –   | –  | –  | (114.00)                                |
| Sale of investments   | 0.10  | 0.50                                       | –  | 59.43                                   |
| Interest received   | 112.56  | 91.85                                      | 15.76                                      | 199.18                                  |
| Dividend received   | –   | 0.81                                       | 0.81                                       | 12.35                                   |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                            | <b>(443.89)</b>   | <b>(1,778.24)</b>                          | <b>(223.08)</b>                            | <b>401.17</b>                           |
| <b>C CASH FROM FINANCING ACTIVITIES</b>                                 |   |  |  |   |
| Proceeds from fresh issue of share capital<br>(including share premium) | –   | –  | –  | 2,400.00                                |
| Proceeds from long term borrowings                                      | –   | 1,621.74                                   | –  | –                                       |
| Long terms borrowing repayments   | (101.05)  | (674.76)                                   | (1,951.74)                                 | (366.59)                                |
| Proceeds from short term borrowings                                     | 1865.46   | 220.50                                     | 3,888.00                                   | –                                       |
| Short term borrowings repayments  | (264.38)  | (768.39)                                   | (25.00)                                    | (988.01)                                |
| (Repayment)/Addition to fixed deposit from public                       | (142.07)  | (528.69)                                   | (931.31)                                   | (363.50)                                |
| Payment of cash credit  | –   | –  | (881.21)                                   | (399.97)                                |
| Interest payment  | (499.80)  | (1,125.96)                                 | (1,013.97)                                 | (1,850.22)                              |
| Dividend paid(incl. of dividend tax)                                    | –   | –  | –  | (60.61)                                 |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                            | <b>858.16</b>   | <b>(1,255.56)</b>                          | <b>(915.23)</b>                            | <b>(1,628.90)</b>                       |
| <b>NET INCREASE/(DECREASE) IN CASH &amp; CASH<br/>EQUIVALENTS</b>       | <b>(136.45)</b>   | <b>12.28</b>                               | <b>(399.91)</b>                            | <b>338.46</b>                           |
| <b>CASH &amp; CASH EQUIVALENTS AS AT BEGINNING<br/>OF THE YEAR</b>      | <b>444.18</b>   | <b>431.90</b>                              | <b>831.81</b>                              | <b>446.77</b>                           |
| <b>CASH &amp; CASH EQUIVALENTS AS AT THE END<br/>OF THE YEAR</b>        | <b>307.73</b>   | <b>444.18</b>                              | <b>431.90</b>                              | <b>785.23</b>                           |

Note: Cash & Cash Equivalents as at March 31, 2002 includes Rs. 46.58 lakhs of erstwhile Schenectady Specialities Asia Private Limited on arrangement.

**OTHER FINANCIAL INFORMATION**
**Details of Secured Loans as on September 30, 2004**

(Rupees lakhs)

| Sr. No  | Name of Institution/ Bank  | Sanction Amount       | Outstanding Amount               | Rate of Interest % | Security   | Over - dues | Repayment Schedule   |
|---|--|-----------------------|----------------------------------|--------------------|--|-------------|--|
| <b>(A) Term Loans</b>   |  |                       |                                  |                    |  |             |  |
|   | Caterpillar Financial Services Corporation, USA<br><br>Foreign Currency Loan | USD 4.381 Million     | USD 9.80 lakhs (Rs.450.29 lakhs) | 3M LIBOR +250 bps  | A first and exclusive charge of a continuing security by way of hypothecation of the equipments viz. (a) One (1) Solar turbines- Taurus 60 Generator Package S/N: TG97972 and (b) One (1) Energy Recovery International Model MFA-4-99511, MAX-FIRE Heat Recovery steam Generator System, Boiler S/N: W3764, Economizer S/N: E3765, installed at the company's factory at Navi Mumbai. | Nil         | Quarterly repayments ending May'06 2004 -(Oct-Dec) - USD 1.49 lakhs (Rs.68.45 lakhs) 2005 - USD 5.97 lakhs (Rs.274.30 lakhs) 2006 - USD 2.34 lakhs (Rs.107.54 lakhs) |
|   | <b>Sub Total (A)</b>   |                       | <b>Rs 450.29 lakhs</b>           |                    |  |             |  |
| <b>(B) Working Capital Facilities from Banks (Fund based limits):</b> |  |                       |                                  |                    |  |             |  |
| 1   | State Bank of India  | Rs. 1650 lakhs        | Nil                              | SBAR+ 2%           | Working capital facilities are secured by first pari passu hypothecation charge over current assets viz. all stock of raw materials, stock in process, finished goods, consumable stores and book debts of the Company both existing and future and further secured by second charge on the Company's immovable properties situated at Mumbai.   |             |  |
| 2.  | HDFC Bank  | Rs. 125 lakhs         | Nil                              | 10.5               |  |             |  |
|   | <b>Sub Total (B)</b>   | <b>Rs 1,775 lakhs</b> | <b>Nil</b>                       |                    |  |             |  |
|   | <b>Total (A+B)</b>   |                       | <b>450.29</b>                    |                    |  |             |  |

**Details of Unsecured Borrowings as on September 30, 2004**

(Rupees lakhs)

| Banks / Institutions / Others  | Amount<br>(Rs. lakhs) | Interest<br>Rate (%) | Period  | Repayable on  | Can It be<br>recalled by<br>lender |
|--|-----------------------|----------------------|---------|---------------|------------------------------------|
| <b>From Promoter/Subsidiary</b>  |                       |                      |         |               |                                    |
| Inter Corporate Deposit from Schenectady (India) Holdings Private Limited. | 4899.00               | 7                    | 6 month | 01.01.05      | No                                 |
| <b>From Others</b>   |                       |                      |         |               |                                    |
| Public Deposits  | 224.75                | 12.50                | 3 year  | Various Dates | No                                 |
| Bank of Nova Scotia  | 3748.81               | 5.95                 | 6 month | 13.12.04      | Yes                                |
| Bank of Nova Scotia  | 3013.20               | 5.95                 | 6 month | 20.12.04      | Yes                                |
| Bank of Nova Scotia  | 801.00                | 5.95                 | 6 month | 04.01.05      | Yes                                |
| <b>Total</b>   | <b>12686.76</b>       |                      |         |               |                                    |

**Details of Sundry Debtors as on June 30, 2004**

Rupees in lakhs

| Particulars  | Amount          |
|--|-----------------|
| Debts outstanding for a period exceeding six months: |                 |
| Considered good                                      | 259.33          |
| Considered doubtful                                  | 330.20          |
| Less: Provision for doubtful debts                   | (330.20)        |
|  | <b>259.33</b>   |
| Other debts: Considered good                         | 7,037.60        |
| <b>Total Sundry debts</b>                            | <b>7,296.93</b> |

- There are no receivables from the Directors of the Promoter Group
- Receivables, if any, from the Promoters forming part of the promoter group are mentioned in this Letter of Offer under the head 'Related Party Transactions'.

**Agewise Distribution Of Debtors as on June 30, 2004**

Rupees in lakhs

| 0 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Above 180 days | Total    |
|--------------|---------------|---------------|----------------|----------------|----------|
| 4,258.55     | 1911.75       | 585.34        | 311.66         | 229.63         | 7,296.93 |

**Loans and Advances to companies belonging to Promoter Group**

The Company has not given any loans to its promoter group companies.

**The Company has not given any inter-corporate deposits to its promoter group companies.**

**Details of guarantees given by the Company**

The Company has not given any guarantees.

### Schedule of Investments

Schedule of Investments as on June 30, 2004 are as follows:

|   | Nos       | Face Value Rs. | Rupees in Lakhs |
|---|-----------|----------------|-----------------|
| <b>Long term Investment</b>   |           |                |                 |
| 1) 7 Year National Saving Certificates  | 4         | 1000           | 0.04            |
| 2 (a) Indira Vikas Patra  | 35        | 500            | 0.18            |
| 2 (b) Indira Vikas Patra  | 193       | 2500           | 4.82            |
| Quoted  |           |                |                 |
| 1) 6.75% Tax free Bonds of Unit Trust Of India.                               | 1,17,622  | 100            | 104.20          |
| 2) Fully paid Equity Shares of<br>HDFC Bank Ltd.                              | 500       | 10             | 0.05            |
| 3) Fully paid Equity Shares of Housing<br>Development Finance Corporation Ltd | 6,400     | 10             | 1.28            |
| Unquoted:   |           |                |                 |
| Fully paid Equity Shares of<br>Herdillia Investments Limited                  | 70,01,010 | 10             | 700.10          |
| Less. : Provision for diminution in value.                                    |           |                | (575.67)        |
|   |           |                | 124.43          |
| <b>TOTAL</b>  |           |                | <b>235.00</b>   |

### Component-wise break-up of Inventory as on June 30, 2004

(Rupees in lakhs)

| Particulars            | Amount          |
|------------------------|-----------------|
| Raw Materials          | 5,304.64        |
| Packing materials      | 22.77           |
| Stores & Spares        | 1,036.16        |
| Work in process        | 2,110.88        |
| Finished good          | 757.71          |
| <b>Total Inventory</b> | <b>9,232.16</b> |

### List of Small Scale Undertakings (SSU) to which Company owes any sum together with interest outstanding for more than 30 days as on June 30, 2004

There are no SSU's to which the Company owes any sum together with interest outstanding for more than 30 days as on June 30, 2004

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OUTLOOK

International competitive market environment continues to put pressure on the Company's selling prices of products. Further, in view of the recent sharp increases in raw material prices, consequent upon the price movement of crude oil, and steep decrease in customs tariffs, will affect the margins of the Company's products adversely. The Company is making concerted effort to contain overhead costs and improve efficiencies through knowledge engineering.

### KEY STRENGTHS AND GROWTH DRIVERS

In order to achieve higher operational efficiencies, the Company is committed to upgrading manufacturing technology, process hardware and operating parameters at its three sites. The Company is a very well established reliable manufacturer of organic chemicals in the market through its sustained efforts and emphasis on product quality, continuing improvements, introduction of new products through in-house development, creating customer preference and competitive pricing. The Company's R&D efforts are focused on development and engineering of processes for high value speciality chemicals based on existing products, processes and synergies.

### FINANCE AND FINANCIAL RISKS

Financial risks could include high foreign currency exposure arising from payment for raw materials vis-à-vis export earnings. The Company being a net user of foreign exchange is vulnerable to depreciation in the value of the rupee.

As a measure of prudent foreign exchange management and as a matter of policy, the Company does not speculate on foreign currencies except booking of forward cover for import payments. Imports on revenue account are paid, as and when due, by market purchase of foreign exchange and also partially out of export earnings.

### RISKS AND CONCERN

The Company has a petrochemical complex which carries with it the usual risks associated with hazardous operations. The Company endeavours to keep its safety standards at peak levels.

### Analysis of Financial Performance of Schenectady Herdillia

#### Management Discussion and Analysis of Financial Performance of Schenectady Herdillia

Consequent to change in Accounting Year of the Company to January - December, Accounts for the year 2001-02 were for a shorter period of 9 months ending December 31, 2002. Hence the figures for the financial year 2001-02 and financial year 2003 are not strictly comparable with those for the period ended December 31, 2002.

#### Statement of Adjusted Profit & Losses

(Rupees in lakhs)

| PARTICULARS  | Year<br>ended<br>March 31<br>2002 | 9 months<br>ended<br>December 31<br>2002 | Year<br>ended<br>December 31<br>2003 | 6 months<br>ended<br>June<br>30 2004 |
|--|-----------------------------------|--|--------------------------------------|--------------------------------------|
| <b>INCOME</b>  |                                   |  |                                      |                                      |
| Sales - Manufactured   | 26,192.89                         | 22,564.81                                | 37,504.03                            | 22,255.30                            |
| Traded   | 96.51                             | 475.43                                   | 387.34                               | 100.48                               |
| <b>TOTAL</b>   | <b>26,289.40</b>                  | <b>23,040.24</b>                         | <b>37,891.37</b>                     | <b>22,355.78</b>                     |
| Other income   | 296.1                             | 109.83                                   | 855.8                                | 320.1                                |
| Increase/(decrease) in stock                                 | (182.68)                          | 364.37                                   | 180.83                               | 970.23                               |
| <b>TOTAL</b>   | <b>26,402.82</b>                  | <b>23,514.44</b>                         | <b>38,928.00</b>                     | <b>23,646.11</b>                     |
| <b>LESS: EXPENDITURE</b>                                     |                                   |  |                                      |                                      |
| Cost of raw materials consumed and purchase of traded goods  | 15,439.31                         | 13,938.23                                | 24,886.49                            | 16,723.99                            |
| Staff costs  | 2,114.09                          | 1,680.04                                 | 2,347.92                             | 1,279.49                             |
| Other manufacturing expenses                                 | 4,597.16                          | 4,534.66                                 | 6,049.79                             | 3,356.37                             |
| Administration expenses                                      | 811.22                            | 547.79                                   | 491.32                               | 364.42                               |
| Selling & distribution expenses                              | 524.58                            | 399.16                                   | 791.61                               | 458.23                               |
| Loss on sale of investments                                  | 206.81                            | -  | -                                    | -                                    |
| (Writeback)/Provision for diminution in value of investments | 70.72                             | 0.82                                     | (31.13)                              | -                                    |
| Interest   | 1,405.97                          | 800.73                                   | 1,068.67                             | 368.28                               |
| <b>Total Expenditure</b>                                     | <b>25,169.86</b>                  | <b>21,901.43</b>                         | <b>35,604.67</b>                     | <b>22,550.78</b>                     |



(Rupees in lakhs)

| PARTICULARS   | Year ended<br>March 31<br>2002 | 9 months ended<br>December 31<br>2002 | Year ended<br>December 31<br>2003 | 6 months ended<br>June<br>30 2004 |
|---|--------------------------------|---------------------------------------|-----------------------------------|-----------------------------------|
| Less: Cost capitalized  | –                              | –                                     | 20.13                             | –                                 |
| <b>TOTAL OPERATING EXPENSES</b>                                 | <b>25,169.86</b>               | <b>21,901.43</b>                      | <b>35,584.54</b>                  | <b>22,550.78</b>                  |
| <b>PROFIT BEFORE DEPRECIATION</b>                               | <b>1,232.96</b>                | <b>1,613.01</b>                       | <b>3,343.46</b>                   | <b>1,095.33</b>                   |
| Gross depreciation  | 588.70                         | 526.86                                | 944.04                            | 498.28                            |
| Less: Transfer from revaluation reserve                         | (13.32)                        | (9.51)                                | (12.14)                           | (5.76)                            |
| Less: depreciation  | 575.38                         | 517.35                                | 931.90                            | 492.52                            |
| Less: Provision for doubtful debts and advances (net)           | 140.00                         | 75.00                                 | 50.00                             | 30.00                             |
| <b>NET PROFIT BEFORE EXTRAORDINARY ITEMS</b>                    | <b>517.58</b>                  | <b>1,020.66</b>                       | <b>2,361.56</b>                   | <b>572.81</b>                     |
| Add: Extra ordinary items                                       | –                              | 0.41                                  | –                                 | –                                 |
| <b>NET PROFIT/(LOSS) AFTER EXTRAORDINARY ITEMS</b>              | <b>517.58</b>                  | <b>1,021.07</b>                       | <b>2,361.56</b>                   | <b>572.81</b>                     |
| Less: Provision for current tax                                 | (72.50)                        | (50.70)                               | (201.00)                          | (125.00)                          |
| Less: 'Provision for deferred tax asset/liability(net)          | 70.31                          | 106.05                                | (369.16)                          | (113.00)                          |
| Add: provision for current tax on adjustments                   | 25.30                          | 15.00                                 | –                                 | –                                 |
| Less: provision for deferred tax asset/liability on adjustments | (46.71)                        | –                                     | –                                 | –                                 |
| <b>NET PROFIT/(LOSS) AFTER TAXATION</b>                         | <b>493.98</b>                  | <b>1,091.42</b>                       | <b>1,791.40</b>                   | <b>334.81</b>                     |

#### PERIOD OF 6 MONTHS ENDED ON JUNE 30, 2004

The Company registered sales of Rs. 22,355.78 lakhs during the 6 month period ended on June 30, 2004. Cost of materials and consumables as a percentage of total revenues was 71.50% and manufacturing expenses were 15.30% of total revenues. Profit before tax for this period was Rs. 572.81 lakhs. After making the provision for tax, the net profit after tax was Rs. 334.81 lakhs.

#### COMPARISON OF FINANCIAL YEAR 2002 (9 MONTHS ENDED DECEMBER 31, 2002) WITH FINANCIAL YEAR ENDED MARCH 31, 2002 (12 MONTHS)

Consequent upon approval at the court convened shareholders meeting held on September 25, 2002, the Hon'ble Bombay High Court approved the Scheme of Amalgamation for the merger of Schenectady Specialities Asia Private. Limited. (SSAPL) with the Company on November 28, 2002. The Appointed Date for the merger was September 27, 2002.

In view of the above, the financial results of the Company for the period ended December 31, 2002 are inclusive of the operations of the erstwhile SSAPL from the Appointed Date. Further, as per the Scheme, the Company issued and allotted 11,50,000 equity shares, as fully paid up, to the shareholders of the erstwhile SSAPL on December 18, 2002.

An amount of Rs. 886.57 lakhs, being the difference in the value of net assets as compared to the aggregate of reserves and equity shares issued as aforesaid has been attributed to Goodwill and the same would be amortized over a period of 5 years.

#### Revenues:

Sales turnover was higher by 16% on an annualised basis. While there was severe competition from imports, the margins could be improved due to continuing cost control measures despite steep increase in cost of raw materials. Trading activity on Alkyl Phenols manufactured by Schenectady International Inc. (SII) affiliates in other parts of the world was taken up in a major scale.

#### Other Income

The other income for the year ended March 31, 2002 included profit of Rs. 218 lakhs on sale of a residential flat.

#### Raw materials consumed

There is an increase of 20% on an annualised basis over the previous year. Prices of raw materials registered a steep increase during the year.

#### Other expenses

Manufacturing and other expenses registered an increase of 11% on an annualised basis essentially because of an 18% increase in fuel power and water costs. The Company also incurred a overhauling (once in 3 years) expense of Rs. 338 lakhs on its captive power generator during the year.

**Staff costs**

Expenses for the year were very much in line with that of the previous year on an annualised basis.

**Interest**

Term loans and short term borrowings at higher interest rates were replaced by short term borrowings at lower rates of interest from the promoters. This led to lower incidence of interest costs by 24%.

**Depreciation**

For period ended December 31, 2002, amortisation of goodwill on merger of Rs. 44 lakhs was a new item. Proportionate depreciation for 3 months 4 days on the fixed assets acquired on merger also accounted for the increase.

**Profitability**

Profit for the period ended December 31, 2002 before extra ordinary items was higher mainly on account of lower interest expenses during the current period. Profit at Rs. 1,020 lakhs was higher by 89% on an annualised basis compared to the previous year.

**COMPARISON OF FINANCIAL YEAR 2003 (12 MONTHS ENDING DECEMBER 31, 2003) WITH FINANCIAL YEAR 2002 (9 MONTHS ENDED DECEMBER 31, 2002)**

Consequent upon the divestment of the global electrical insulation business by Schenectady International Inc., USA and the subsequent business restructuring, the Company acquired the Performance Resins (PR) business of Schenectady Beck India Limited as a going concern, with effect from August 13, 2003. This includes the manufacturing facility located at Lote Parshuram, Maharashtra. The Company is making a concerted effort to optimally use the available capacity at Lote.

In view of the above, the financial results of the Company for the year ended December 31, 2003 are inclusive of the operations of the above PR business.

**Revenues**

Sales turnover at Rs. 379 lakhs was higher by 25% on an annualised basis over that of the previous period. The increase in turnover is largely attributed to the increased capacity utilization at Rasal (unit of erstwhile SSAPL) leading to higher sales of Alkyl Phenol. Input costs continued to rise during the year and put pressure on margins.

**Other Income**

The other income for the year ended December 31, 2003 was on higher side on account of fees received in respect of R& D services (Rs. 47 Lakhs) and gain on foreclosure of deferred sales tax liability (Rs. 584 Lakhs).

**Raw material cost**

Input costs were higher by 34% in comparison to the previous period (annualised). The steep increase in crude price in the international market had the same effect on the downstream products which are the raw materials for the Company's products.

**Staff costs**

Staff costs were marginally higher representing addition to employee strength consequent upon the merger of SSAPL and acquisition of Lote unit.

**Other expenses**

Manufacturing expenses were higher by 5% mainly because of higher cost incurred in fuel, power and water.

**Administrative expenses**

Insurance claim written off of Rs. 137 lakhs in the year ended December 31, 2003 was pertaining to the erstwhile SSAPL and was therefore adjusted to the results of financial period ended December 31, 2002. After adjustment the expenses show an increase of 6% over the previous period on an annualised basis.

**Selling and distribution expenses**

Expenses for the year were higher by 19% mainly on account of royalty payable to SII and commission payable on account of higher exports commission in view of substantial increase in export business.

**Depreciation**

Charge for the year is higher by 34% because of the full year impact of depreciation on the fixed assets and goodwill acquired through merger of SSAPL and part of the year depreciation on the assets of the business acquisition during the year.

**Profitability**

Profit before depreciation at Rs. 3,343 lakhs was 56% more than the annualised figure of Rs. 2,149 lakhs for the previous period. After accounting for full year's depreciation on additions to fixed assets, the profit before tax at Rs. 2,361 lakhs was 74% more than the annualised figure for the previous period.

**Unusual or infrequent events or transactions**

Other income for the year ended December 31, 2003 and 6 month period ended June 30, 2004 includes gain on discounting and premature payment of sales tax liabilities (Rs. 584 lakhs and Rs. 195 lakhs respectively) paid under the Sales-tax Deferral Schemes under PSI 1993 sanctioned to SSAPL (now amalgamated with the Company) in respect of Rasal unit.

**Significant Economic Changes**

The Company's raw material prices are driven by international crude oil prices as the sourcing of raw materials are from local / imports from Refineries / Petrochemical manufacturers/ International traders. The prices are prone to fluctuations due to crude oil prices and foreign exchange fluctuations. Similarly, the prices of finished production of the Company, particularly Phenol, Acetone, DAA, PAN etc. are driven by international prices and import tariff structures. The margins on these products vary widely without any consistency, the revenues of the Company are therefore not uniform from year to year. These economic changes could significantly affect income from continuing operations.

**Known trend or uncertainties**

Uncertainty prevails in availability of continuous supply of raw materials to various plants of the Company. Occasionally, few raw materials, though available, are at uneconomical prices, which result in severe pressure on margins and volumes.

In addition, the increase in Naphtha prices has made operation of gas turbines for electrical power for captive consumption very uneconomical. The quality of power supply from MSEB, has not improved. These factors affect Company's operations, eroding volumes, margins and profits.

**Future changes in relationship between cost and revenues**

The recent trend in continuous increase in international prices of raw materials compared to the prices of finished products may further shrink margins in future. Following the steep increase in the price of crude oil during the past one year, the cost of Naphtha, Fuels and Energy also rose substantially. Substantial portion of such increases may have to be absorbed by the Company as international suppliers with favourable import duty structure dictate the domestic selling prices of Company's finished products. On the financial front the Company is taking steps towards better working capital management and financial re-structuring for reducing interest cost.

**Extent to which material increases in net sales or revenue are due to increased sales volume, introduction of new products or services or increased sales prices**

It is expected that, during the current year ended December 2004, the Company would commence production of new grades of Alkyl Phenols at Rasal unit. The installed capacity is expected to be 2500 MT p.a. and the additional sales turnover in this respect expected to be Rs. 1000 lakhs.

The Company is also contemplating to start new grades of Performance Resins in their manufacturing facility at Lote Unit.

**Total turnover of each major industry segment in which the Company operates**

The Company has only one segment of activity namely "Chemicals" and therefore there is only one segment in which the Company operates.

**Status of any publicly announced new products or business segments**

The project for manufacture of PTBP/DTBP plants at Rasal Unit is under implementation. The Company is utilizing the developed and purchased process technology and expected to be commissioned during the fourth quarter of the current financial year. The construction activity is progressing satisfactorily and the new product falls in the existing business segment of the Company.

**Seasonality of Business**

The business carried out by the Company is not seasonal.

**Over dependence on Single Supplier/Customer**

Most of the raw materials and fuel oils procured by the Company both from domestic and international sources are from manufacturers who are dominant suppliers. Domestic suppliers of Propylene, Benzene Oxylene include Bharat Petrochemicals Limited. (BPCL), Indian Oil Corporation (IOC) and Reliance Petrochemicals Limited. (RIL). Other raw materials like Cumene, Nonene, Propylene Tetramer Oxylene are imported. Fuel oils are exclusively supplied from BPCL though they are available from HPCL / IOC.

Most of the Company's products are supplied to wide variety of customers except Speciality Chemicals viz. IBB / IPN / DPO / DDP where the number of customers are not large as these products are special in nature.

### Competitive Conditions

The Company is in the business of manufacture and sale of organic chemicals including speciality chemicals. The mainstays of the Company are Commodity Chemicals viz. Phenol, Acetone, DAA and PAN.

Phenol and Acetone are also manufactured by Hindustan Organic Chemicals - a Government of India undertaking with a capacity of 50,000 MT p.a. and 30,000 MT p.a. for Phenol and Acetone respectively. The competition also comes from Imports by the Traders, as there are no import restrictions. While both the domestic manufacturers are able to sell their volumes, the domestic selling price is often dictated by competition from Imports.

### Auditors' qualifications for which adjustments could not be carried out in the audited financial statements and response of the Company in respect of the same

| Auditors' qualifications   | Response of the Company  |
|--|--|
| <p>1. <u>Year ended 31 March 2000</u></p> <p>Note B.1(g) – Schedule 19 regarding non-provision of liability on account of outstanding settlement of wage agreement expired on 31 December 1998; amount not ascertainable.</p>  | <p>The long-term contracts between the Management and the respective unions in respect of Navi Mumbai Unit expired on 31 December 1998. The Company made a prospective settlement with the Union effective 28 December 2000.</p>   |
| <p>2. <u>Year ended 31 December 2002</u></p> <p>Note no. 7(b) of Schedule 21 (B) regarding developed process technology and purchased technical know-how aggregating to Rs 990.53 lakhs carried under capital-work-in-progress ('CWIP'). The erstwhile SSAPL has till date not been able to start rebuilding the destroyed PTBP plant. The ultimate holding company, Schenectady International Inc., however, has stated its intent to either buyback the technology or sell it to a third party. Under the circumstances, we are unable to express an opinion on the carrying value of the CWIP and the impact, if any, on the Profit and loss account.</p> | <p>In respect of CWIP relating to technology developed by the erstwhile SSAPL, SII had communicated its desire to either purchase the technology or sell it to a third party. Consequently, an amount of Rs 990.53 lakhs had been carried over under CWIP in the books of the Company as at the end of the period.</p>   |
| <p>3. <u>Year ended 31 December 2003 and six month period ended 30 June 2004</u></p> <p>As more fully explained in note 4 of Schedule 18 to the financial statements regarding CWIP aggregating to Rs 990.53 lakhs in respect of developed process technology and purchased technical know-how, the Company intends to utilise the technology on the revived project, which is being implemented. Pending completion of the project, these financial statements do not include adjustments, if any, that may be necessary to the carrying value of the CWIP and the impact, if any, on the profit and loss account.</p>                                      | <p>In respect of CWIP relating to technology developed by the erstwhile SSAPL for the manufacture of Butyl Phenols, the Company has decided to rebuild the PTBP/ DTBP plants at Rasal. The implementation of this project, which utilizes the developed and purchased technology, is already at the advanced stage. SII, the parent company, which supplied technical knowhow, has reiterated the soundness of this technology and, accordingly, has supported the implementation of the project. As this technology is expected to contribute towards the production of an economically viable product, the amount of Rs 990.53 lakhs has been shown as CWIP in the books of the Company as at end of the period.</p> |

### STOCK MARKET DATA

The Company's shares are listed on The Stock Exchange, Mumbai and The National Stock Exchange of India Limited (Designated Stock Exchange). As the shares are traded on BSE and NSE, the Company's stock market data has been given separately for these two stock exchanges.

The high and low closing prices recorded on BSE and NSE for the preceding three years and the number of shares traded on the days the high and low prices were recorded are stated below:

#### THE STOCK EXCHANGE, MUMBAI:

On BSE the last traded price on May 31, 2004, the working day after the Board Resolution was passed approving this Rights Offer, was Rs. 31.15/- per share.

| Year ending Dec 31 | High (Rs.) | Date of High | Volume on date of high (no. of shares) | Low (Rs.) | Date of Low | Volume on date of low (no. of shares) | Average price (for the year (Rs.)) |
|--------------------|------------|--------------|--|-----------|-------------|---------------------------------------|------------------------------------|
| 2001*              | 18.30      | Oct-19       | 5.00                                   | 9.70      | May-11      | 250                                   | 13.12                              |
| 2002               | 31.50      | Aug-07       | 103                                    | 15.00     | Apr-02      | 250                                   | 23.03                              |
| 2003               | 69.00      | Dec-26       | 348                                    | 20.00     | Feb-14      | 459                                   | 35.01                              |

\*Prior to January 1, 2002, Schenectady Herdillia bearing scrip code 506460 was traded in physical segment. The data prior to January 1, 2002 refers to Herdillia Chemicals Limited bearing scrip code 6460.

#### NATIONAL STOCK EXCHANGE:

On NSE the last traded price on May 31, 2004, the working day after the Board Resolution was passed approving this Rights Offer, was Rs. 31.40/- per share

| Year ending Dec 31 | High (Rs.) | Date of High | Volume on date of high (no. of shares) | Low (Rs.) | Date of Low | Volume on date of low (no. of shares) | Average price (for the year (Rs.)) |
|--------------------|------------|--------------|--|-----------|-------------|---------------------------------------|------------------------------------|
| 2001               | 24.00      | Oct-24       | 2556                                   | 9.90      | May-07      | 100                                   | 15.42                              |
| 2002               | 31.00      | Jul-22       | 100                                    | 15.65     | Apr-02      | 30                                    | 22.81                              |
| 2003               | 68.00      | Dec-29       | 11848                                  | 21.00     | Mar-31      | 133                                   | 35.97                              |

#### Script code HERDILCHEM

High and low prices and volume of shares traded on the respective dates during the last six months:

#### THE STOCK EXCHANGE, MUMBAI:

| Month          | High (Rs.) | Date of High | Volume on date of high | Low (Rs.) | Date of Low | Volume on date of Low | Total Volume for the month |
|----------------|------------|--------------|------------------------|-----------|-------------|-----------------------|----------------------------|
| March 2004     | 41.45      | Mar-03       | 901                    | 29.90     | Mar-31      | 7,937                 | 1,02,484                   |
| April 2004     | 40.00      | Apr-23       | 5,355                  | 31.50     | Apr-01      | 13,893                | 54,661                     |
| May 2004       | 41.75      | May-07       | 551                    | 30.30     | May-17      | 700                   | 32,123                     |
| June 2004      | 34.00      | Jun-09       | 2,377                  | 30.25     | Jun-29      | 2,761                 | 29,491                     |
| July 2004      | 37.00      | Jul-26       | 2742                   | 29.70     | Jul-09      | 150                   | 24,040                     |
| August 2004    | 43.80      | Aug-30       | 7365                   | 33.30     | Aug-02      | 1850                  | 75,779                     |
| September 2004 | 59.10      | Sept-28      | 6553                   | 39.00     | Sept-6      | 7301                  | 1,67,180                   |

#### NATIONAL STOCK EXCHANGE:

| Month          | High (Rs.) | Date of High | Volume on date of high | Low (Rs.) | Date of Low | Volume on date of Low | Total Volume for the month |
|----------------|------------|--------------|------------------------|-----------|-------------|-----------------------|----------------------------|
| March 2004     | 41.90      | Mar-03       | 750                    | 29.70     | Mar-31      | 16,700                | 60,927                     |
| April 2004     | 39.70      | Apr-27       | 2,050                  | 32.60     | Apr-01      | 2,250                 | 29,058                     |
| May 2004       | 41.00      | May-06       | 551                    | 30.70     | May-17      | 1,050                 | 15,642                     |
| June 2004      | 34.60      | Jun-03       | 750                    | 30.20     | Jun-24      | 400                   | 12,818                     |
| July 2004      | 37.20      | Jul-28       | 3                      | 30.00     | Jul-05      | 4000                  | 15904                      |
| August 2004    | 43.60      | Aug-30       | 2958                   | 32.00     | Aug-06      | 4890                  | 16435                      |
| September 2004 | 60.80      | Sept-29      | 33490                  | 39.15     | Sept-16     | 2751                  | 130721                     |

### BASIS FOR OFFER PRICE

The following factors have been considered while arriving at the Offer price of Rs.28/- per equity share:

#### Qualitative Factors:

1. Pioneer petrochemicals' company of India and an affiliate of Schenectady International Group, Inc.
2. Second largest producer of phenols in the country
3. Multilocational versatile plants
4. International tie ups for technology
5. ISO 9001, ISO 14001, OSHAS 18000 certified
6. Natural hedge between commodities and specialties for price fluctuations

#### Quantitative Factors:

##### 1. Key financials for the last five years

(Rupees in lakhs)

| Year ended                         | March 31,<br>2000<br>(12 mths) | March 31,<br>2001<br>(12 mths) | March 31,<br>2002<br>(12 mths) | Dec 31,<br>2002<br>(9 mths) | Dec 31,<br>2003<br>(12 mths) | June 30<br>2004<br>(6 mths) |
|------------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------|------------------------------|-----------------------------|
| <b>Sales</b>                       |                                |                                |                                |                             |                              |                             |
| Manufactured                       | 22,997.14                      | 27,041.46                      | 26,192.89                      | 22,564.81                   | 37,504.03                    | 22,255.30                   |
| Traded                             | 24.50                          | –                              | 96.51                          | 475.43                      | 387.34                       | 100.48                      |
| Net Profit after tax & adjustments | 1,017.33                       | (171.97)                       | 493.98                         | 1,091.42                    | 1,791.40                     | 334.81                      |
| Equity Share Capital               | 1,102.50                       | 1,102.50                       | 2,302.50                       | 2,417.50                    | 2,417.50                     | 2,417.50                    |
| Reserves                           | 1,425.94                       | 1,174.47                       | (265.37)                       | 1,128.11                    | 2,906.98                     | 3,236.03                    |
| Dividend per equity share (Rs.)    | 2.10                           | 0.50                           | –                              | –                           | –                            | –                           |
| EPS (Rs.)                          | 10.48                          | (1.56)                         | 4.47                           | 4.73                        | 7.41                         | *1.38                       |
| Book Value (Rs.)                   | 17.64                          | 13.42                          | 17.37                          | 14.89                       | 21.63                        | *23.02                      |

\* EPS and Book Value for the period January 1, 2004 to June 30, 2004 have not been annualised

##### 2. Adjusted Earnings per share (EPS) (Rs.)

|                     | EPS (Rs.) | Weights |
|---------------------|-----------|---------|
| a) Dec 2003         | 7.41      | 3       |
| b) Dec-2002         | 4.73      | 2       |
| c) Mar 2002         | 4.47      | 1       |
| d) Weighted Average | 6.02      |         |

##### 3. Price Earning Ratio in relation to Offer Price (x)

|                               |       |
|-------------------------------|-------|
| Based on Dec 31, 2003 EPS     | 3.78  |
| Based on Weighted Average EPS | 4.65  |
| Industry P/E*                 |       |
| i. Highest:                   | 86.20 |
| ii. Lowest:                   | 0.40  |
| iii. Average:                 | 10.57 |

\*Source: Capital Market Volume XIX / 15 Dated Sept. 27 - Oct.10, 2004; Industry: Chemicals

**4. Return on Net Worth**

|                     | RONW (%) | Weights |
|---------------------|----------|---------|
| a) December - 2003  | 34.26%   | 3       |
| b) December - 2002  | 31.74%   | 2       |
| c) March - 2002     | 25.72%   | 1       |
| d) Weighted Average | 31.99%   |         |

Minimum Return on total Net Worth after Offer needed to maintain EPS at Rs. 5.28 is 17.95%

**5. Net Asset value (NAV) (Rs.)**

|                            |       |
|----------------------------|-------|
| a) As on December 31, 2003 | 21.63 |
| b) After the issue         | 24.13 |
| c) Offer Price             | 28.00 |

**6. Offer price of Rs. 28/- per share is 2.8 times of the face value of Rs. 10/- per share**

Apart from the reasons mentioned above, the Company and the Lead Managers to the Offer, in consultation with whom the premium has been decided, are of the opinion that the premium is reasonable and justified.

## UNAUDITED WORKING RESULTS FOR THE LATEST PERIOD

Unaudited working results of the Company for 8 months ended August 31, 2004 during the current financial year 2004 are as follows:

(Rupees in lakhs)

| Particulars                                    | Amount     |
|--|------------|
| Net Sales/Income from operations               | 31,770     |
| Other Income                                   | 361        |
| <b>Total Expenditure</b>                       |            |
| (a) Decrease/(Increase) in Stock in trade      | (2912)     |
| (b) Consumption of raw materials               | 25,691     |
| (c) Purchase of finished goods                 | 139        |
| (d) Staff costs                                | 1,836      |
| (e) Other expenditure                          | 5,379      |
| (f) Profit before interest, depreciation, tax. | 1,998      |
| (g) Interest                                   | 537        |
| (h) Depreciation                               | 663        |
| (i) Profit before tax.                         | 798        |
| (j) Provision for Tax                          | (305)      |
| <b>Net profit</b>                              | <b>493</b> |

### PERIOD OF 8 MONTHS ENDED ON AUGUST 31, 2004

The Company registered sales of Rs. 31,770 lakhs during the 8 month period ended on August 31, 2004. Cost of materials and consumables as a percentage of total revenues was 72.10% and manufacturing expenses were 22.70% of total revenues. Profit before tax for this period was Rs. 798 lakhs. After making the provision for tax, the Net Profit after Tax was Rs. 493 lakhs.

### Financial Highlight of group companies

Kindly refer to page no. 40 of this Letter of Offer under head 'Financial Performance of SIHPL.' for the financial highlights of SIHPL.

### Issue of Capital by the Company

Kindly refer to page no. 9 of this Letter of Offer under the head 'Build up of Equity Capital'.

### Issue of Capital by other listed companies within the meaning of section 370 (1B)

There are no other listed companies under the same management within the meaning of section 370 (1)(B) of the Companies Act, 1956.

There are no group companies for which application has been made to ROC for striking off their names.

### PROMISE VERSUS PERFORMANCE

1) Last three rights / public Issues made by the Company i.e., Schenectady Herdillia Limited.

- a) The Company had made a Rights Offer of 36,75,000 equity shares of Rs. 10/- each at a premium of Rs. 5/- per share aggregating Rs. 551.25 lakhs to equity shareholders of the Company (during June/July 1999) in ratio of 1:2. The object of the Offer was to raise funds for injecting long term funds to replace the debt raised by the Company from its then promoters at the time of implementing its capital projects which had already been implemented and to meet the expenses of the said Offer and the promised future performance of the Company was not presented in the offer document and hence a comparison of the Company's actual performance vis-à-vis the projections made in the offer document is not possible.

The funds raised in the Rights Offer were utilized for the objects of the Offer.

### 2) By Subsidiary

The subsidiary company has not made any rights/public issue.



## OUTSTANDING LITIGATION, DEFAULTS AND MATERIAL DEVELOPMENTS

### (A) LITIGATION AGAINST SCHENECTADY HERDILLIA

- In respect of the Company's office premise on 13th floor, Air India Building, Nariman Point, Mumbai - 400021, Air India had initiated Eviction Proceedings under the provisions of Public Premises (Eviction of Unauthorised Occupants) Act, 1971. The Estate Officer appointed under the said Act by Air India had passed an order on May 11, 2002 directing the Company to vacate the said office premises. Against the said order of the Estate Officer, the Company had filed an Appeal (Misc. Appeal No. 122 of 2002) in the Bombay City Civil Court at Bombay for setting aside the order of the Estate officer. The said Appeal is pending for final hearing.
- Bengal Mills Stores Supply Co., had filed a Suit (No. 4180 of 1994) in the High Court of Judicature at Bombay for payment of outstanding amount of Rs. 2.83 lakhs payable to them by the Company on account of supply of certain pipes. The Company had disputed the said claim. By an Ex-parte Decree dated September 23, 2003, the Hon'ble Bombay High Court directed the Company to pay Rs. 7.69 lakhs. In response to the said Decree and consequent attachment of the movable properties, the Company, through an Appeal (lodging No.353 of 2004) stayed the effect and execution of the Decree passed on September 23, 2003 and Appeal has been admitted.
- Seven of the employees of the Contractor employed by the Company for house keeping and miscellaneous jobs at its office premise at Air India Building, 13th floor, Nariman Point, Mumbai - 400 021 had filed a complaint of Unfair Labour Practices (ULP) under Item No.1 of Schedule IV of the Maharashtra Recognition of Trade Unions and Prevention of Unfair Labour Practices Act, 1972 (MRTU and PULP Act), before the Labour Court, Maharashtra, Bombay against the Company and the Contractor. Subsequently, two of the employees of the contractor withdrew their complaint and settled their account with the Contractor and remaining 5 pursued the complaint before the Labour Court. In response to the said complaint, the Company had filed an application inter-alia contesting that the complaints of ULP under the provisions of MRTU and PULP Act is not maintainable. By an order dated March 15, 2004 passed by the 9th Labour Court at Bombay, the Company's application was rejected. Against the said order the Company has filed a Revision Application (ULP No. RA 64 of 2004) before the Industrial Court, Maharashtra at Mumbai. The said Revision Application is pending for hearing. Since the matter is sub-judice, liability of the Company, if any, cannot be ascertained at this juncture.
- One case is pending before the 4th Labour Court at Thane in respect of a complaint filed by one Mr. J.R. Kaushik, an ex-employee, seeking the relief of reinstatement with full back wages. Further, Mr. Kaushik has also filed complaint (ULP No. 796/1995) before the Industrial Court at Thane. The Company is contesting the same on a stand that the said complainant was not a workman and therefore the complaints are not maintainable. Since the matter is sub-judice, the liability of the Company, if any, cannot be ascertained at this juncture.
- The Company was made a party in Suit No.387 of 1995 filed by Mr. Balya Ragho Patil, original Plaintiff (since deceased) in the Court of Civil Judge, Senior Division, Thane for declaration that the Company had no right to enter and encroach upon the suit land (part of the Company's leasehold land) situated at Navi Mumbai. By a Decree passed by the said Court dated August 17,1999, the Court declared the acquisition of suit land by Maharashtra Industrial Development Corporation and the State of Maharashtra as illegal and therefore void and directed the Company to hand over the suit land to the Plaintiff. Against the said Decree, the Company has filed an Appeal before the Hon'ble Bombay High Court. By its order dated September 03, 2004, the Hon'ble High Court has condoned the delay in filing the Appeal subject to the condition that respondent making an application to the Collector for making a reference under Section 34 of the Maharashtra Industrial Development Corporation Act and the Collector referring the matter to the reference Court within the prescribed period.
- In a writ petition filed by an ex-employee of the Company in the Bombay High Court, the Company was made a respondent alongwith Commissioner of Income Tax and Life Insurance Corporation of India for certain alleged benefits due to the employee under the Companies Executive Staff Pension Fund. The said writ petition is still pending before the Bombay High Court.
- One case is pending (Motor Accident Claim No. 578 of 2003) before the Motor Accident Tribunal, Thane in respect of the accident and consequent death of the Petitioner's husband due to accident caused by the driver of the contractor's bus. The Company has filed its written statement and the same is pending before the said Tribunal. The claim amount estimated is at approximate. Rs. 2.45 lakhs.
- In a special raid by the Officers of the Dy. Commissioner of Labour, Thane in the year 1995 about 20 cases have been filed against the Contractors working for the Company. Being the Principal Employer, the Company has been made co-accused in all the cases. The Company had no option but to plead guilty in some of these cases. Still one or two cases are pending before the Judicial Magistrate, Vashi at CBD Court. The financial implications on these cases are negligible.

- 24 cases pending in respect of excise, income tax, customs & sales tax matters amounting to Rs. 1,367.74 lakhs before the Appropriate Authorities.

**(B) Litigations against Group Companies**

There are no litigations pending against group companies.

The Company, Schenectady Herdillia Limited, confirms that there are no other pending litigations, defaults, non payment of statutory dues, proceedings initiated for economic offences/civil offences, any disciplinary action taken by the Board/ Stock Exchanges against the Company/Promoters and their other business ventures/Directors other than those mentioned in this Letter of Offer and that no litigations have arisen after the issue of SEBI's observation letter and the Company and its Directors take full responsibility of the information mentioned in the offer document.

Further, the Company, Schenectady Herdillia Limited, confirms that there are no pending litigations towards tax liabilities, or any criminal/ civil prosecution against any of the Directors of the Company for any offences.

**INVESTOR GRIEVANCES AND REDRESSAL SYSTEM**

The Company has adequate arrangements for redressal of investor complaints

1. Automated correspondence system developed for letters of routine nature by the Registrar
2. Share transfer and dematerialisation system being handled by well-equipped professionally managed Registrar and Transfer Agents
3. Letter filed category wise after having attended to
4. Redressal norm for response time for all the complaints including shareholders complaints is 15 days.

The Share Transfer & Finance Committee consists of 3 non-executive directors viz. Mr. P.N. Ghatalia, Mr. R.M. Pandia and Mr. G.C. Vasudeo. The role of the Committee includes looking into the redressal of the shareholders complaints inter alia approval of transfer, transmission, dematerialisation, duplicate, split etc. The meetings of the Committee are held at regular intervals in which transfers, transmission, issuance of certificates etc. are approved.

During the period January 1, 2004 to September 30, 2004, 47 complaints were received and resolved to the satisfaction of the investors.

**STATUS OF COMPLAINTS**

Total No. of complaints received during the last financial year (December 31, 2003): 37

Total No. of complaints received upto September 30, 2004: 47

Status of the complaints: Resolved

No. of share holders' complaints outstanding as of date: 0

Time normally taken for disposal of various types of investor grievances: 15 days

**DETAILS OF ADVERSE EVENTS AFFECTING THE COMPANY SINCE THE LAST FINANCIAL STATEMENTS**

In the opinion of the Board of Directors of the Company except the following there have not arisen any, since the date of the last financial statement disclosed in the Letter of Offer, any circumstances that materially affect or are likely to affect the trading or profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months (as per accounting standard 4 of the Institute of Chartered Accountants of India)

The Company had entered into a Memorandum of Understanding for transfer of approximately 56 acres of leasehold land in Navi Mumbai, subject to requisite approvals, with M/s K. Raheja Corp. Private Limited, Mumbai at a total consideration of Rs. 3,400 lakhs out of which a sum of Rs. 1,592 lakhs was received during August, 2004.

The major terms and conditions of the MOU are as follows:

1. Subject to the approval of Maharashtra Industrial Development Corporation (MIDC) and other requisite approvals, if any, the Company would transfer approximately 56 acres (subject to final joint survey) to M/s K. Raheja Corp Private Limited for developing IT/ITES related buildings.
2. M/s K. Raheja Corp. Private Limited would bear all the costs of transfer including stamp duty, transfer fees payable to MIDC etc.
3. The exact area to be transferred would be determined after a joint survey with MIDC.

4. A part of the land approximately 3 acres would be retained by the Company for construction of residential towers for its employees.
5. 50% of the total consideration had been received on the date of signing of the MoU. The balance amount would be paid by the Purchaser as follows:
  - i) 30% on receipt of MIDC/ULC approval.
  - ii) 20% on possession of the entire land subject to construction of residential towers by the Purchaser.
6. At the time of the payment of the second installment, the Purchaser is also required to provide a Bank Guarantee in respect of the amount payable under third installment.
7. Handing over of the vacant possession of a portion of the land out of the total land to be transferred, subject to the Purchaser paying the balance sum from and out of the last installment for the area of such portion.
8. The completion of the transfer is subject to the construction of residential towers by the Purchaser for which a separate agreement would be executed.

#### **OFFER EXPENSES**

The total expenses of the Offer payable by the Company are estimated at Rs. 33.00 lakhs (0.65 % of the Offer size) and the entire costs would be borne out of the Offer proceeds. The Offer expenses consists of fees payable to the Lead Managers to the Offer (Rs. 10.80 lakhs), Registrars to the Offer, Bankers, Auditors and the Legal Advisors (Rs. 13.00 lakhs), printing and Stationery (Rs. 2.00 lakhs), Advertising and Marketing (Rs. 4.00 lakhs) and other expenses and contingencies (Rs. 3.20 lakhs).

#### **EXPERT OPINION**

Save and otherwise stated in the Letter of Offer, the Company has not obtained any expert opinions.

#### **OPTION TO SUBSCRIBE**

The Equity Shareholders are given the option to receive the security certificates or hold securities in dematerialised form with a depository. (Refer the "Terms of Offer " for details)

### **MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION**

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company), which are or may be deemed material have been entered or are to be entered into by the Company. Copies of these contracts and also the documents for inspection referred to hereunder will be delivered to The National Stock Exchange (Designated Stock Exchange). These documents may be inspected at the Registered Office of the Company from 11:00 am to 2:00 pm on all working days, from the date of this Letter of Offer until the date of closure of the Subscription List.

#### **Material contracts**

1. Memorandum of Understanding entered into between the Company and Centrum Finance Limited dated June 7, 2004.
2. Memorandum of Understanding entered into between the Company and TCS dated July 22, 2004.
3. Tripartite agreement entered between the Company, National Securities Depository Limited and TCS dated April 30, 2001.
4. Tripartite agreement entered between the Company, Central Depository Services (India) Limited and TCS dated April 24, 2001.

#### **Documents**

1. Memorandum and Articles of Association of the Company.
2. Annual Reports of Schenectady Herdillia for the last five years.
3. Annual Reports of SIHPL for past three years.
4. Resolutions passed by the Board of Directors at their meeting held on May 29, 2004 and by the Committee of Directors of the Board at their meeting held on July 12, 2004; Resolution passed in the Annual General Meeting held on June 28, 2004 forming the authority for the Offer.
5. Consents from Directors, Auditors, Bankers to the Offer, Compliance Officer of the Company, Lead Manager to the Offer, Legal Advisor for the Offer and the Registrar to the Offer.
6. Auditors' report of Schenectady Herdillia dated October 8, 2004 giving the financial information, which is enclosed in the Letter of Offer.
7. Auditors' certificate dated October 8, 2004 regarding tax benefits.
8. Letters of intent for the subscription to rights entitlement and unsubscribed portion, received from the Promoters.
9. Consents for this Offer obtained from lenders to the Company, i.e., The Bank of Nova Scotia, State Bank of India, HDFC Bank and Caterpillar Financial Services Corporation.
10. Application made to NSE, dated July 27, 2004 and BSE dated July 27, 2004 for listing of shares.
11. In-principle approval dated August 5, 2004 from NSE and dated August 14, 2004 from BSE for listing of the securities offered in this Offer.
12. Resolution of the Board of Directors approving the Draft Letter of Offer on July 6, 2004; and resolution of the Committee of Directors approving the Final Letter of Offer on October 11, 2004.
13. Due diligence Certificate dated July 27, 2004 Centrum Finance Limited, Lead Manager to the Offer.
14. Observation Letter CFD/DIL/MKS/ISSUES/20496/2004 dated September 13, 2004 issued by the Securities and Exchange Board of India.
15. Agreement between M. W. Kellogg and Schenectady Herdillia for technological collaboration.
16. Memorandum of Understanding between M/s K. Raheja Corp. Private Limited, Mumbai and Schenectady Herdillia for sale of land in Navi Mumbai.
17. All Govt. approvals as specified in page no. 5.

### **DECLARATION**

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government or the guidelines issued by the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in the Letter of Offer is contrary to the provisions of the Companies Act, 1956, or the Securities and Exchange Board of India Act, 1992 or rules made there under or guidelines issued (including the SEBI (Disclosure and Investor Protection) Guidelines, 2000), as the case may be.

Yours faithfully

**For Schenectady Herdillia Limited**

Signed by the Directors (through power of attorney in favour of Mr. G.C. Vasudeo)

**Mr. Charles Griswold**

**Mr. Richard Barlow**

**Mr. Malcom A. MacCormick**

**Ms. Ashley Palm**

**Ms. Heather Ward**

**Mr. B. Chakrabarti**

**Mr. B.V. Bhargava**

**Mr. S.N. Talwar**

**Mr. P.N. Ghatalia**

Signed by Vice Chairman & Managing Director

**Mr. R.M. Pandia**

Signed by Director- Finance

**Mr. G.C. Vasudeo**

Place: Mumbai

Date: October 15, 2004

Encl. Composite Application Form

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