



20th ANNUAL GENERAL MEETING

Date : 17th September 2004
Day : Friday
Time : 11.30 A.M.
Place : “Tropicana Hall”
TAJ RESIDENCY Vadodara
Akota Gardens,
Vadodara - 390 020

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BOARD OF DIRECTORS

Dr. I. G. Patel *Chairman*
Mr. Andrew Fawthrop
Mr. B. R. Sule *(upto 23.09.2003)*
Mr. C. K. Mehta
Mr. Deepak S. Parekh
Mr. Hasmukh Shah
Mr. Manu R. Shroff
Mr. Mohammad N. Khan *(from 28.04.2004)*
Mr. R. Vasudevan
Mr. Rasesh N. Mafatlal *(upto 15.06.2004)*
Mr. Ronald S. Somers *(upto 23.01.2004)*
(from 29.01.2004)
Mr. Vimal Bhandari
Mr. Rakesh Jain *Managing Director*

AUDITORS

M/s. S. B. Billimoria & Company
Chartered Accountants, Mumbai

PRINCIPAL BANKERS

ABN AMRO Bank
Corporation Bank
HDFC Bank Limited

REGISTERED OFFICE

'HOEC House', Tandalja Road,
Vadodara-390 020 (India)
www.hoec.com
E-mail: contact@hoec.com

MUMBAI OFFICE

Anand House, Khatwari Darbar Road,
Off Linking Road, Khar (West),
Mumbai-400 052 (India)

ASSISTANT COMPANY SECRETARY

Mr. Ketan Thaker

**REGISTRARS AND SHARE
TRANSFER AGENT**

Intime Spectrum Registry Limited
201, Sidcup Towers, Race Course,
Vadodara-390 007 (India)
Tele-Fax: 0265-233 2474
E-mail: vadodara@intimespectrum.com

SENIOR EXECUTIVES

Mr. Amit Shah — Accounts Controller
Mr. Manish Maheshwari — Head – Business Development & Commercial Services
Mr. Ramesh Bhatia — Principal Geologist
Mr. Sagar Mehta — Head – Cambay Basin Business Unit
Dr. Udayan Das Gupta — Chief – New Exploration Ventures
Mr. Vipul Bhatt — Head – Project Support Services

DIRECTORS' REPORT

TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 20th Annual Report and Audited Statement of Accounts for the year ended 31st March 2004.

FINANCIAL HIGHLIGHTS

(Rs. in Lac)

	2003-2004	2002-2003
Sales	4,186.58	4,832.68
Other Income	778.11	950.33
Gross Profit before Depreciation/ Depletion/Amortisation/Write offs/ Taxation	2,783.34	3,610.56
Less: Depreciation/Depletion/ Amortisation	456.18	1,441.98
Less: Provisions & Write offs	122.07	1,654.46
Profit before Tax and Prior Period Adjustments	2,205.09	514.12
Less: Prior Period Adjustments	52.49	—
Less: Provision for Current Tax	160.00	190.00
Add: Provision for Deferred Tax	219.55	836.67
Profit after Tax	2,212.15	1,160.79
Profit/(Loss) brought forward	2,377.02	1,746.40
Profit available for Appropriation	4,589.17	2,907.19
Less: Proposed Dividend on Equity Shares	587.45	469.96
Less: Dividend Tax	75.27	60.21
Balance carried to the Balance Sheet	3,926.45	2,377.02

Profit after tax is higher at Rs. 2,212.15 lac as compared to Rs. 1,160.79 lac for the previous year. After considering brought forward profit of Rs. 2,377.02 lac the profit available for appropriation is Rs. 4,589.17 lac.

DIVIDEND

Considering the performance during the year under review, your Directors recommend dividend @ 10% (Rs. 1.00 per equity share of Rs. 10/- each) on the equity shares of the Company for the year ended 31st March 2004. The proposed dividend will absorb Rs. 662.72 lac (including corporate dividend tax of Rs. 75.27 lac).

FINANCIAL & OPERATION REVIEW

Management Discussion and Analysis of Financial Condition and Results of Operations of the Company as well as the Risk Management Report are given as separate statements in the Annual Report.

CHANGE IN ACCOUNTING POLICY WITH RESPECT TO VALUATION OF STOCK

As prudent valuation of inventories and with a view to link the value of production, to the cost of production for the quarter/year, your Directors have changed the accounting policy with respect to valuation of closing stock of crude oil as "Closing stock of crude oil in saleable condition is valued at net realisable value", effective from 1st April 2003. Such change in the accounting policy falls in line with the guidelines/standards prescribed by the Institute of Chartered Accountants of India.

COST ACCOUNTING RECORDS

The Company has maintained cost records effective 1st April 2003 as required by Cost Accounting Records (Petroleum Industry) Rules, 2002 vide notification dated 8th October 2002.

PY-3 FIELD (CY-OS-90/1 BLOCK)

Beginning May 2004, the PY-3 Consortium has drilled and activated well PD-3-S (replacement to well PD-3-RL). Pursuant to this well going onstream, the aggregate production from the field has increased to around 7000 barrels per day.

Further, your Company has commissioned an independent international petroleum certification agency to certify the PY-3 reserves. The agency has estimated proved developed reserves (P90) of 20.4 MMBO from the core producing area. This translates into balance recoverable reserves (P90) of 6.45 MMBO as of 31st March 2004.

CY-OSN-97/1 BLOCK

During April 2004, on behalf of the Consortium, the Company has successfully completed acquisition of 3D and 2D seismic data in the Cauvery Basin block located offshore East Coast of India. With this acquisition programme, your Company achieved a milestone of managing and operating first Offshore campaign in its history.



While the newly acquired seismic data is being processed, the initial on-board QC processing results from the seismic are encouraging.

SECURITISATION OF PY-3 RECEIVABLES

The Board of Directors has decided to raise a term loan of upto Rs. 350 million from ING Vysya Bank against PY-3 receivables. The loan agreement and the securitisation deeds are being finalised.

HOEC BARDAHL INDIA LIMITED [HBIL] (WHOLLY OWNED SUBSIDIARY OF HOEC)

On account of focussed marketing strategy, HBIL has been able to increase its presence in the automotive segment through strategic alliance with OEMs like Maruti and Hyundai. Further, HBIL is targeting industrial segment, more specifically power generation. The Company could earn a profit of Rs. 83 lac for the year as against Rs. 34 lac for the financial year 2002-03. HBIL has repaid over Rs. 92 lac during the year to the Company towards the loans advanced earlier. Expecting improved profitability and cash position of HBIL, the Company has written back the provision of Rs. 86.42 lac made earlier towards loans advanced to HBIL.

The audited accounts of HBIL together with the report of the directors and auditors, as required under Section 212 of the Companies Act, 1956 are attached.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India and the Listing Agreement entered into with the Stock Exchanges, Consolidated Financial Statements are part of this annual report.

AUDITORS' REPORT

With reference to the observation made in Auditors' Report regarding unaudited joint ventures' accounts, we have to state that as per Production Sharing Contracts signed with the Government of India, the Operators have been allowed time upto 30th September to submit audited accounts. Considering this, some of the Operators have not submitted audited accounts till the Company's accounts are audited. Hence, the statements of expenditure/ unaudited accounts submitted by those Operators have been incorporated.

Regarding non-disclosure of outstanding payment to Small Scale Industries with respect to joint ventures, we have to state that the requirement of the said disclosure is not applicable to joint ventures and hence the required information is not available.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as of the balance sheet date.

DIRECTORS

Mr. Rasesh N. Mafatlal passed away on 15th June 2004. He was on the Board of the Company since its inception and was the Chairman of the Company from 10th November 1994 to 26th July 1999. The Board places on record its sincere appreciation of the excellent and outstanding contributions made by Mr. Rasesh N. Mafatlal to the growth of the Company. On his death we have lost a visionary and a guiding force and will miss his valuable counsel.

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. C.K. Mehta, Mr. Deepak S. Parekh and Mr. Manu R. Shroff will retire by rotation at the ensuing Annual General Meeting and they, being eligible offer themselves for re-appointment. After more than 16 years of association with the Company, Mr. Ajit C. Kapadia ceased to be the Managing Director/ Director on 1st August 2003. The Board places on record its appreciation for the commendable efforts and leadership of Mr. Kapadia in establishing this Company as the first private sector Exploration & Production Company. Mr. Rakesh Jain has joined as the Managing Director upon the cessation of Mr. Kapadia's term, pursuant to an extensive selection process initiated by the Board. We are confident that Mr. Jain will drive the Company's future growth towards leadership position.

Mr. Ronald Somers ceased to be a Nominee Director of Unocal Bharat Limited effective from 23rd January 2004. The Board appointed Mr. Somers as an Additional Director at its meeting held on 29th January 2004. The Board of Directors has at their meeting held on 28th April 2004 appointed Mr. Mohammad N. Khan, Nominee of Unocal Bharat Limited, as an Additional Director. The Board welcomes Mr. Somers and Mr. Khan and looks forward to their valued contribution

and guidance. Mr. Somers and Mr. Khan shall hold office upto the date of ensuing Annual General Meeting. The Company has received a valid notice and requisite deposit from a member of the Company under Section 257 of the Companies Act, 1956, signifying the intention to propose the name of Mr. Somers and Mr. Khan for the office of the Director at the ensuing Annual General Meeting.

VOLUNTARY DELISTING OF THE COMPANY'S SHARES FROM CERTAIN STOCK EXCHANGES

The Company's equity shares are presently listed on the stock exchanges at Ahmedabad, Bangalore, Chennai, Delhi, Kolkata, Mumbai (BSE) and National Stock Exchange of India Limited (NSE).

The trading volumes at The Stock Exchange Ahmedabad, Bangalore Stock Exchange Limited, The Calcutta Stock Exchange Association Limited, The Delhi Stock Exchange Association Limited and Madras Stock Exchange Limited (hereinafter referred to as "the said Stock Exchanges") are on the decline, as bulk of the equity shares are transacted on the BSE and NSE and the listing fees paid do not offer commensurate benefits to the Company/its investors by continuing the listing of the Equity Shares on the said Stock Exchanges in the changed scenario of the extensive network of nationwide trading terminals set up by BSE and NSE providing access to online dealings in the Company's equity shares across the country. The listing fees paid to the said Stock Exchanges constitute about 68% of the total listing fees paid by the Company and the investors or the shareholders of the Company do not get any additional benefit by continuing the listing of the equity shares on the said Stock Exchanges. The continued listing on the said Stock Exchanges is therefore, not considered necessary. With respect to the same it is proposed to delist the Company's equity shares from the said Stock exchanges.

The proposed delisting of the Company's equity shares from the said Stock Exchanges will not adversely affect any investor including the members located in the regions where the said stock exchanges are situated as the equity shares shall continue to remain listed on BSE and NSE and would further contribute to the reduction in administrative costs/efforts of the Company. The Board of Directors has, therefore, decided to apply for the voluntary delisting under Securities and Exchange

Board of India (Delisting of Securities) Guidelines, 2003, of the Company's equity shares from the said Stock Exchanges. Considering that the equity shares will continue to be listed on BSE and NSE, no exit option/opportunity is required to be offered to the shareholders, pursuant to the said guidelines. A proposal in this respect is contained in the accompanying Notice of the forthcoming Annual General Meeting.

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

The Company is engaged in the business of exploration and extraction of crude oil and does not carry out any manufacturing activity. Hence, the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are not applicable. Particulars regarding foreign exchange earnings and outgo are as under:

Particulars	Rs. Lac
A. Foreign Exchange Earnings	NIL
B. Foreign Exchange Used	
• Cash Call Payment to Joint Ventures	2,206.42
• Expenditure in Foreign Currency	280.48
• Dividend (Gross)	167.06
• CIF Value of Imports	102.02
Total Foreign Exchange used	2,755.98

PARTICULARS OF EMPLOYEES

The particulars of employees required to be furnished pursuant to Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are attached hereto and form part of this Report.

AUDITORS

The Auditors M/s. S.B. Billimoria & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting. As recommended by the Audit Committee, the Board has at its Meeting held on 16th June 2004 proposed their appointment as Statutory Auditors to audit the accounts of the Company for the financial year 2004-05. You are requested to consider their appointment.



DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- i. that in the preparation of the annual accounts for the financial year ended 31st March 2004, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii. that the directors had selected such accounting policies and applied them consistently unless otherwise stated and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- iii. that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets

of the Company and for preventing and detecting fraud and other irregularities;

- iv. that the directors had prepared the accounts for the financial year ended 31st March 2004 on a 'going concern' basis.

CONCLUSION AND ACKNOWLEDGEMENT

Your Directors place on record their gratitude for the support and co-operation received from Government of India's agencies namely, Ministry of Petroleum and Natural Gas, Director General of Hydrocarbons, Government of Gujarat, Consortium Partners and Bankers. We express our sincere appreciation to our dedicated and committed team of employees who have contributed in the growth of the organization.

For and on behalf of the Board

Place : Mumbai
Date : 16th June 2004

Dr. I. G. Patel
Chairman



ANNEXURE TO THE DIRECTORS' REPORT

Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March 2004.

Name & Qualification	Age	Designation	Remuneration received (Rs.)	Experience (No. of years)	Date of joining	Last Employment	
						Name of the Co.	Designation
Ajit C. Kapadia B.Sc. (Hons.), M.E., (Chem.), Business Management Certificate, Sr. Course	62	Managing Director	1,456,233*	40	30.03.1987	Gas Authority of India Limited	Director (Planning)
Rakesh Jain B.Tech (Mechanical Engineering), Post Graduate Diploma in Business Management	45	Managing Director	4,346,322*	21	16.06.2003	Tata Consultancy Services	Principal Consultant

* For part of the year

Notes:

1. Gross remuneration as above includes salary, taxable allowances, sign on bonus, Company's contribution to Provident Fund and Superannuation Fund, Gratuity paid (but excludes Company's contribution to Gratuity Fund), reimbursement of medical expenses, personal accident and mediclaim insurance premium, leave travel assistance and monetary value of perquisites calculated in accordance with the provisions of the Income Tax Act, 1961 and the Rules thereunder.
2. The above mentioned employees are not relatives of any Director of the Company.
3. The nature of employment is contractual.
4. Mr. Rakesh Jain joined the Company as Managing Director-Designate on 16th June 2003 and became the Managing Director w.e.f. 1st August 2003.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS
A. Financial Conditions

1. The financial statements have been prepared in compliance with the requirement of the Companies Act, 1956, and Generally Accepted Accounting Principles (GAAP) in India. The management of HOEC accepts responsibility for the integrity and objectivity of these financial statements, as well as for various estimates and judgements used therein. The estimates and judgements relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner the form and substance of transactions, and reasonably present the company's state of affairs and profits for the year.

2. Share Capital

The Company has only one class of share capital i.e., equity shares of face value of Rs. 10/- each. The authorized share capital of the Company is increased from Rs. 100 crore to Rs. 200 crore mainly with a view to augment the funds at an appropriate time so as to enable the Company to take up work programme of projects on hand.

3. Reserves and Surplus

Profit of Rs. 3,926 lac (after providing for dividend) has been retained in profit and loss account.

4. Fixed Assets

Rs. lac			
As of 31st March	2004	2003	Growth %
Exploration expenditure	1,880	1,040	80.8
Development expenditure	4,174	2,068	101.8
Producing properties	8,706	8,925	(2.5)
Other Fixed Assets	1,748	1,524	14.7
Total	16,508	13,557	21.8

During the year, the Company added Rs. 2,951 lac to its gross block of assets on account of following investments made during the year.

4.1. Exploration Expenditure

Rs. lac		
As of 31st March	2004	2003
Assam Business Unit	416	0
Cambay Business Unit	1,056	981
Cauvery Business Unit	408	59
Total	1,880	1,040

The Company invested in exploration activities in each of its business units with a view to add new reserves.

- (i) **Assam Business Unit:** Rs. 416 lac on account of seismic interpretation and well planning activities undertaken prior to drilling of the first exploration well.
- (ii) **Cambay Business Unit:** Rs. 75 lac has been on account of onshore block CB-ON-7 (Palej) comprising of remedial work of the well, preparatory work on commercial discovery report for Palej and G&A expenses, as well as expenditure on account of offshore exploration CB-OS-1 wherein HOEC enhanced its non-operating interest from 17.36% to 57.11%.
- (iii) **Cauvery Business Unit:** Rs. 349 lac have been incurred in exploration block CY-OSN-97/1, covering exploration expenses towards seismic acquisition programme initiated during the year as well as payment to Mosbacher India LLC. for acquisition of 50% participating interest along with transfer of Operatorship.

4.2. Development Expenditure

Rs. lac		
As of 31st March	2004	2003
Cambay Business Unit	125	57
Cauvery Business Unit	4,049	2,011
Total Development Expenditure	4,174	2,068

The Company invested in development activities with a view to bring on production existing commercial reserves in an optimal manner.

- (i) **Cambay Business Unit:** An amount of Rs. 68 lac has been incurred on block CB-ON-7 (Palej) and North Balol field with the view to develop existing commercial discoveries and secure first oil and first gas sale respectively from the two projects.
- (ii) **Cauvery Business Unit:** Total amount of Rs. 2,038 lac has been incurred in the Cauvery Business Unit covering following activities:
 - (a) Rs. 925 lac towards drilling of the replacement well in the PY-3 project with the objective of establishing higher

proved developed producing reserves from the core area and enhancing the field production rate. The said well is producing from May 2004. The Insurance claim for the lost PY-3 D3 well has been lodged.

- (b) Rs. 603 lac towards settlement amount payable on account of receipt of final award from the London Court of International Arbitration covering the settlement of the forfeiture of Energy Equity India Pty. Ltd. (EEIPL)'s interest in the PY-1 project.
- (c) Rs. 131 lac incurred towards legal and technical due diligence work undertaken to support Company's decision to exercise its pre-emptive rights and acquire MIL's 53.85% interest in PY-1 project and 50% interest in CY-OSN-97/1 block along with Operatorship.
- (d) Rs. 379 lac incurred on account of HOEC having undertaken integrated sub-surface work as well as conceptual engineering work, post execution of a Sales and Purchase Agreement with MIL. The objective of this work was to arrive at a revised plan of development to be submitted to the Government for approval.

4.3. Producing Properties

Rs. lac		
As of 31st March	2004	2003
Producing Properties	8,706	8,924

- (i) Rs. 72 lac was added to the producing property namely, PY-3 Block and comprises of the depreciation on water injection facility that has been commissioned with the objective of increasing the field production from the existing core producing area.
- (ii) Reduction in the producing property namely, PY-3 and amounting to Rs. 289 lac took place on account of receipt of insurance claims towards the physical damage of the equipments and control of well which was lost due to storm conditions and Rs.1 lac on account of sale of material from Asjol to another project.

4.4. Other Fixed Assets

Rs. lac		
As of 31st March	2004	2003
Land-Freehold	34	34
Buildings	446	441
Office Equipments	122	123
Computers	91	110
Office Furniture	96	73
Plant & Machinery	734	655
Vehicles	60	42
Intangible Assets (software)	165	43
Others	0	3
Total	1,748	1,524

During the year, the Company invested in upgradation of technologies, in terms of advanced software along with associated hardware, so as to enable its technical team perform high quality subsurface work keeping in view its enhanced Operatorship position in the Cauvery basin. The Company also invested in refurbishing its office as well as in water injection facility at PY-3 (Plant and Machinery).

5. Investment

Rs. lac		
As of March 31	2004	2003
Equity Shares of HOEC Bardahl India Limited	50	50
Equity Shares of Reliance Industries Ltd.	1	1
Equity Shares of Gujarat Securities Ltd.	10	10
HDFC Income Fund Premium Plan	1,059	0
IL & FS Bond Fund Institutional Plan	135	0
HDFC Liquid Fund	282	191
JM Short Term Plan	366	166
Total	1,903	418
Provision for Diminution in value of Investments	60	60
Total	1,843	358

The increase in investment during the year is as a result of investment strategy of diverting the surplus funds from bank deposits/ICDs to liquid income mutual funds. It may be noted that HOEC Bardahl India Limited (HBIL) has turned profitable since last three years and has repaid the substantial amount of the loan during the year. Hence, the Company has

written back the provision made earlier towards loan given to HBIL. However, considering the accumulated loss of the subsidiary, the Company has retained the provision made towards the investment made in equity shares of HBIL.

6. Deferred Tax Asset

The standard on accounting for taxes on income became mandatory effective 1st April 2001. The Company recorded deferred tax assets in the book aggregating Rs. 1,214 lac as of 31st March 2004 (Rs. 995 lac as of 31st March 2003). The deferred tax asset represents timing differences in the financial and tax books arising mainly out of exploration expenses written off, provision for contingencies and provision for site restoration etc.

7. Sundry Debtors

As of 31st March	2004	Rs. lac 2003
Due for more than six months	25	21
Others	17	349
Total	42	370

As the crude oil produced is supplied to the government nominated refineries, the payment of invoices raised have been received strictly within the credit limit defined, i.e., 30 to 45 days. However, the buyer of crude oil produced from Asjol field has disputed the sales tax payment. Considering the long pending issue the said amount has been provided as contingencies. The Company has sundry debtors of Rs. 25 lac due for more than six months. The Company is regularly depositing sales tax with the appropriate authorities.

8. Cash and Cash Equivalents

As of 31st March	2004	Rs. lac 2003
Cash balances	1	1
Bank balances with scheduled banks		
Current accounts	98	119
Deposit accounts	1,593	1,156
Bank balances with non-scheduled banks		
Current accounts	16	2
Inter Corporate Deposits	2,800	500
Total Cash and Cash Equivalents	4,508	1,778

The cash and bank balances include Company's share in those balances in various joint ventures merged on line to line basis as per the Company's accounting policy.

The Company's treasury policy calls for investing Company's surplus funds with highly rated banks and financial institutions for preferably short term maturities with a limit on investments in individual entities. The details of the Bank deposits placed by the Company.

As of 31st March	2004	Rs. lac 2003
ABN AMRO Bank	305	808
Corporation Bank	11	11
HDFC Bank Ltd.	155	355
ICICI Bank Ltd.	2,482	600
IDBI Bank Ltd.	1,500	200
UTI Bank Ltd.	2,400	806
State Bank of India (Site Restoration)	209	192
Total Bank deposits	7,062	2,972

9. Loans and Advances

As of 31st March	2004	Rs. lac 2003
Loans and advances to the subsidiary (including accrued interest)	109	201
Advances recoverable in cash or in kind or for value to be received	320	466
Claims recoverable	101	105
Inter Corporate Deposits	3,300	7,875
Advance taxes	1,624	1,908
Total	5,454	10,556
Less: Provision for Doubtful Claims/Loans	41	127
Total Loans and Advances	5,413	10,429

9.1. During the year the subsidiary company has repaid Rs. 92 lac towards the unsecured loans given to them. The repayment schedule for the balance loan amount has been defined.

9.2. Advances Recoverable in Cash or Kind

Advances are primarily towards amounts paid in advance to joint ventures, for material and services to be received in future, staff loans and joint venture books loans and advances merged on line to line basis. As per the terms of Joint Operating Agreement signed with JV partners we are required to place the funds with operator

in advance for the work to be carried out at joint venture level. Unspent amount if any, is recoverable/to be adjusted. The staff loans represent advances to employees towards purchase of assets. The Company has ceased to offer such advances as they are no longer considered necessary due to softening of interest rates/zero percent finance available in the market for certain type of assets.

9.3. Claims Recoverable

This comprises of cash calls raised by the Company as an Operator of the Joint Ventures and payable by the partners as per the terms of the Joint Operating Agreement. Rs. 41 lac receivable for PG block is under arbitration and provided as doubtful claim. All other claims are considered good.

9.4. Inter Corporate Deposits

This represents surplus funds deployed with highly rated corporate bodies in the form of short-term deposits. The details of such deposits are given below.

As of 31st March	Rs. lac	
	2004	2003
GE Capital Services India Ltd.	0	1,375
HDFC Ltd.	1,200	2,000
IL & FS Ltd.	0	2,400
Tata Sons Ltd.	1,900	1,900
Tata Industries Ltd.	200	200
Total	3,300	7,875

9.5. Advance Taxes

Advance income tax represents payments made towards tax liability and also refunds due for the previous years. The Company's liabilities towards tax is fully provided.

10. Current Liabilities & Provisions

As of 31st March	Rs. lac	
	2004	2003
Sundry Creditors	57	29
Creditors – Joint Venture Operators	1,190	86
Joint Venture Books Creditors	804	507
Total Sundry Creditors	2,051	622
Unpaid Dividend	32	23
Other Liabilities	37	115
Total Current Liabilities	2,120	760

As of 31st March	Rs. lac	
	2004	2003
Provisions for :		
Contingencies	146	105
Leave Encashment	25	27
Site Restoration	426	367
Taxation	1,167	1,006
Proposed Dividend & tax thereon	663	530
Total Provisions	2,427	2,035
Total Current Liabilities & Provisions	4,547	2,795

10.1. Sundry creditors represent the amount payable to vendors for supply of materials and services and accrued performance bonus payable to employees. Creditors – Joint Venture operators comprise of cash call payable to JV operators. Joint Venture books creditors are the sundry creditors of the JV merged into the Company's account on line to line basis as per accounting policy.

10.2. Unpaid Dividend

Unpaid dividend represents dividends paid, but not encashed by shareholders and are represented by bank balance of equivalent amount. No amount is due and outstanding which is required to be transferred to the Investor education and protection fund.

10.3. Other Liabilities

Other liabilities represent the statutory payments which have accrued but not due as of 31st March 2004 such as tax deducted at source, profit oil payable to Government of India, payment towards provident fund, gratuity fund etc., and similar dues of joint venture merged on line to line basis as per the Company's accounting policy.

10.4. Provisions

Provision for Leave Encashment is made on actuarial basis for the earned leave outstanding in the account of the employees as of 31st March 2004.

Provision for site restoration is in accordance with terms of Production Sharing Contract with the Government of India wherein JVs are obliged to restore the site at the end of the life of block/field. A provision towards the estimated site restoration expenses for the

producing fields has been made in the proportion of the production to balance proved developed reserves. The Company has made the site restoration provision for the existing PY-3 and Asjol fields.

Provision for taxation represent estimated income tax liabilities.

Proposed dividend represents the dividend recommended by the Board of Directors (including tax thereon). This will be paid after the Annual General Meeting upon approval by the shareholders.

B. Results of Operations

1. Income

The income of the Company is mainly from Company's share in sale of crude oil from two producing Joint Ventures namely, PY-3 & Asjol and income on the investments of surplus funds.

	Rs. lac	
Year ended 31st March	2004	2003
Sale of Crude Oil	3,985	5,407
Less: Profit Petroleum to Government of India	(151)	(248)
Total Sales	3,834	5,159
Increase/(Decrease) in stock of Crude Oil	353	(326)
Other Income	778	950
Total Income	4,965	5,783

Current year's production has reduced to 324,520 barrels from previous year's production of 362,043 barrels, i.e., a volume reduction of around 10%, on account of loss of one well in PY-3 due to storm conditions (November 2002) and dedication of one producing well to water injection partly compensated by increased productivity of the remaining wells.

However, the volume of crude oil sold decreased by 24% i.e., from 409,677 barrels to 309,819 barrels, attributable to lower production as mentioned above coupled with increase in the closing stock. In terms of value, sales decreased by 22.3% marginally offsetting volume reduction on account of around 3% higher average crude oil price realization i.e., 28.17 US dollars per barrel as compared to 27.34 US dollars per barrel in the previous year. Further reduction in total income occurred on account of lower other income mainly comprising of interest and

dividend earned on surplus funds reduced by 18% on account of lower investible funds as well as lower interest rate, affecting the annual yield by nearly 1.25% due to softening of interest rates in the market.

Effective 1st April 2003 the Company has changed its accounting policy related to valuation of stock of crude oil from "cost of production or market price whichever is lower" to "net realisable value basis". Had the Company not changed the accounting policy, the valuation of stock of crude oil and correspondingly profit for the year would have been lower by Rs. 338 lac.

2. Expenditure and Charges

	Rs. lac				
Year ended 31st March	2004	%	2003	%	Growth %
Total Income	4,965	100	5,783	100	(14.2)
Expenditure & Charges					
Field Operating Expenses	1,568	31.6	1,774	30.7	(11.6)
Depletion of Producing Properties	342	6.9	1,392	24.1	(75.5)
Corporate Expenses	612	12.3	398	6.9	53.8
Depreciation and Amortisation	115	2.3	50	0.9	131.4
Provisions and write offs	122	2.5	1,654	28.6	(92.6)
Total Expenditure & Charges	2,759	55.6	5,268	91.1	(47.6)
Profit before tax and Prior period adjustment	2,206	44.4	515	8.9	328.5
Prior Period adjustment	53	1.1	0	0	NA
Profit Before Tax	2,153	43.4	515	8.9	318.3
(Add)/Less provision for :					
Current Income Tax	160	3.2	190	3.3	(15.8)
Deferred Tax	(220)	(4.4)	(837)	(14.5)	(73.8)
Wealth Tax	1	0	1	0	14.9
Profit After Tax	2,212	44.6	1,161	20.1	90.6

2.1. Field operating expenses

These consist of expenditure incurred towards the production of crude oil from the two producing fields namely, PY-3 and Asjol. Lower field operating expenses is mainly attributable to reduced charter hire rates of floating production unit ("Tahara") at PY-3.

2.2. Depletion of producing properties

Based on the performance of the PY-3 field, the proved developed reserves have been increased by about 40% i.e., from 14.57 mmbbls to 20.40 mmbbls as certified by the independent agency NSAI. Accordingly, the depletion has significantly reduced for the year, as recalculated in accordance with the accounting policy on prospective method.

2.3. Corporate expenses

Year ended 31st March	Rs. lac	
	2004	2003
Staff Expenses	287	209
Establishment Expenses	45	27
Other Expenses	440	391
Gross Corporate Expenses	772	627
Less : Recovery of Expenses	(167)	(230)
Corporate Expenses	605	397

Staff expenses consist of salaries, allowances and bonus paid to the employees, contribution to provident and other fund and staff welfare expenses. The salary includes the performance bonus payable to the employees.

Establishment expenses include the expenses related to office such as electricity, repairs, rates and taxes.

Other expenses include primarily auditors' remuneration, legal and professional services (mainly towards the bid for acquiring one of the company through open bid), inland & overseas travel, filing fees for increase in authorised share capital, communication expenses etc.

Recovery of expenses represents the recovery of salary and other cost towards manpower deployed to the operating joint ventures. This recovery is made as per upstream oil sector's norms based on the time written by the employees for the work carried out for various joint ventures. Lower recovery is on account of farming out of operating share in AAP-ON-94/1 and lower activities at the operating joint ventures partly compensated by the secondment of employees to MIL.

2.4. Depreciation and Amortization

As against Rs. 50 lac for the previous year, the depreciation and amortisation for the current year is Rs. 115 lac mainly towards the amortisation of software purchased during the year for technological enablement.

2.5. Provisions and Write Offs

Year ended 31st March	Rs. lac	
	2004	2003
Provision for loss on revaluation of current investments	83	(50)
Provision for Contingencies	14	0
Provision for Site restoration	66	121
Provision for doubtful claims/loans	(86)	(43)
Exploration Expenses written off	13	1,622
Share Issue Expenses written off	3	3
Signature Bonus written off	2	2
Total	95	1,655

(i) **Provision for loss on revaluation of current investments:**

Provision for diminution in the value of current investments represents the difference between purchase cost of units of mutual funds and the net asset value as of 31st March 2004 after dividend payment.

(ii) **Provision for Contingencies:**

Provision is made towards advances considered doubtful.

(iii) **Provision for Site restoration:**

The provision for site restoration is lower on account of lower production and higher proved developed reserves, the details of which is covered elsewhere in the report.

(iv) **Provision for doubtful claims and loans:**

Provision made earlier towards the accumulated loss of the wholly owned subsidiary (HBIL) has been written back as the subsidiary has turned into profits for last three years and repaid the substantial amount of the loans during the year.

(v) **Exploration Expenses written off:**

As per the successful efforts method adopted by the Company, unsuccessful exploration expenses, if any, are being written off in the year in which it is determined to be unsuccessful. In line with this, Company had written off Rs. 1,622 lac in the previous year towards unsuccessful

exploration in CB-OS-1 (Rs. 1,507 lac) and CB-ON-2 (Rs. 115 lac). Exploration expenses written off during the current year are towards the claims of the operator of CB-ON-2 (Tarapur) block accepted during the year. The Company had decided last year not to enter the exploration phase II of CB-ON-2 (Tarapur). The said amount was shown as contingent liability in the previous year.

(iv) **Signature bonus written off:**

As per the terms of the development rounds, the Company is required to pay signature bonus upon the signing of the contracts for the development fields, which the Company is writing off over a period of 3 to 5 years depending upon the size of the field.

3. Prior Period Expenses

Prior period expenses, in accordance with Accounting Standard 5, represent short provision in earlier years arising out of an omission in computation of depletion of producing properties and provision for site restoration.

4. Provision for tax

The Company has provided its current income tax liability as per the Income Tax Act, 1961. The Company is entitled for tax deduction under section 80-IB (9) for profits from producing field PY-3. The deduction is available @ 100% for seven years from

the year in which the production commences. Considering this deduction, the Company has provided the current income tax on Book Profit u/s. 115 J B (MAT) @ 7.5% plus surcharge of 2.5% on the rate of 7.5%.

5. Net profit

The net profit after tax of the Company for the current year at Rs. 2,259 lac is higher by 95% as compared to that of previous year's profit at Rs. 1,161 lac.

6. Liquidity

The growth of the Company has been financed largely from proceeds of equity issues and through internal generation. As at 31st March 2004, the Company had cash and cash equivalents of Rs. 9,977 lac. Cash and cash equivalents increased by Rs. 6,383 lac during the year. The Company's treasury policy calls for investing surplus funds only in highly rated banks, financial institutions and companies for short maturities with a limit for individual entities and also liquid as well as income mutual funds.

The Company's policy is to maintain sufficient cash in the balance to fund the ongoing CAPEX requirements for various work programme, operational expenses and other strategic initiatives.

C. Outlook : Issues and risks

These have been discussed in detail in the Risk Management Report in this Annual Report.

RISK MANAGEMENT REPORT

The report sets out the risk management activities taken up by the management of your Company in respect of certain key risks facing the corporation. The management cautions the readers that the risks outlined below are not exhaustive and are for information purposes only. The report contains statements, which are forward-looking in nature. Such statements are subject to uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are requested to exercise their own judgement in assessing various risks associated with the Company.

Introduction

Exploration and Production (E&P) business has several inherent risks, including commodity price movements. The Company is in the process of setting in place an integrated risk management framework which will help the management to analyse the risk-return tradeoff and effectively evaluate the strategic options, so as to form the basis of de-risking efforts. The management has identified some key factors which will drive the basis of the risk management structure and have initiated steps as enumerated below.

Environment and Market

1. Macro Economic Factors

The oil price uncertainty has been and will continue to be a dominant risk impacting the Company's revenue & profitability till such time oil continues to be the only commodity driving the Company's sales. Once the PY-1 gas goes on stream, the impact of fluctuation in crude oil price on overall Company financials may be reduced.

2. Competition

The domestic E&P market has become highly competitive spurred by successful oil & gas discoveries made by various JV's in the recent past, latest being the significant oil discovery by CAIRN Energy in Rajasthan. Competitors include international E&P companies, downstream oil & gas PSU's diversifying into upstream, as well as other domestic companies diversifying into oil & gas business. The domestic E&P industry is therefore experiencing rapid changes including intense competition for new acreages entailing significant upfront risk capital commitment.

Your Company has been prudent in valuation of new exploration ventures as well as acquisition opportunities and shall continue to be driven by the inherent core asset values.

3. Concentration of Revenues & Reserves

High dependence on any single E&P asset exposes your Company to the risk inherent to that asset.

To manage this, your Company has been making concerted efforts to prevent undue concentration in any one single producing asset or basin.

3.1. Producing Properties

Your Company is currently dependent on PY-3 oil producing property, which accounted for 97.5% of petroleum revenues in the year, balance being contributed by Asjol oil field revenues in Cambay basin.

Your Company has however made significant progress in diversifying the producing property portfolio by undertaking appraisal and development of existing oil & gas discoveries in Cambay onshore with the objective of adding new oil & gas producing properties in the current fiscal.

Most important has been the progress on PY-1 gas field wherein your Company decided to drive the project in the role of an Operator thereby exercising its pre-emptive right to acquire MIL's stake. Once this asset is put on production, the producing property portfolio will be adequately derisked.

3.2. Basins

High dependence on any single basin exposes your Company to the risk inherent in that basin.

To manage this, your Company has been systematically diversifying its oil & gas reserves across different basins. Today the Company has interest in three basins namely Assam onshore, Cauvery offshore and Cambay. All these basins are producing which effectively enhances the probability of success in finding new reserves within well defined quantity range.

Your Company will continue to seek new ventures in these existing basins and apply similar principles when addressing new basins.

3.3. Geography

A high geographical concentration could lead to volatility in business because of political & economic factors.

At this stage of Company's growth, we have consciously limited our focus to the domestic market with a view to build a critical mass of

HOEC operated onshore and offshore assets in the home market. This would then provide the necessary springboard for us to address in future international E&P opportunities leveraging on the technical competencies and operating best practices successfully built and deployed while maturing existing E&P portfolio.

4. Political Environment

Recognising that there is a huge demand supply gap in the domestic oil and gas industry, successive governments in India have accorded a special status to the industry as visioned in the Government policy paper “Hydrocarbon Vision 2025”. We expect continued focus by the Government to encourage private sector investment in the upstream sector.

Organisation Management

Your Company has grown significantly over the last year, notably in Cauvery offshore basin wherein it has emerged as one of the dominant private sector operating player in the country, post acquisition of MIL’s participating interest in PY-1 & CY-OSN-97/1. This growth has placed significant demand on our management and other resources. It requires us to significantly improve our financial, operational and other internal controls. This section of the report details the risks associated with organization management and our response to the same.

5. Finance

5.1. Exchange Rate

100% of our crude sale revenues are dollar denominated, representing the petroleum offtake agreements entered into with Government nominees and/or other buyers.

At the same time a significant portion of your Company’s expenses are in dollars thereby having a natural hedge against all Dollar-denominated accounts.

5.2. Liquidity

An essential part of the financial strategy of your Company is to have a liquid balance sheet so as to allow the Company to quickly respond to rapid changes in the environment, as demonstrated by our acquisition of MIL’s interest in two of the Cauvery projects.

5.3. Leverage

Your Company has been a debt-free Company. Your Company is adopting a capital policy

structure including leveraging for funding several growth initiatives currently underway, notably PY-1 gas field development.

6. Regulatory and Legal Compliance

6.1. Contractual Commitments

As a result of enhanced E&P activities, your Company has been involved in significantly higher number of commercial transactions than ever before, including farm-in farm-out agreements, contracts with independent consultants & third party goods & service providers.

Accordingly, the management is in the process of strengthening review and documentation process for contracts which will be firmly in place in the current year. Wherever required, the management will actively seek support of specialist legal counsel and tax experts so as to derisk Company’s position in all such contracts.

6.2. Statutory Compliance

The Company believes that as a part of effective corporate governance practices, compliance with the applicable laws and rules is of prime importance. The expectations of the people have become multifold on account of increased insight in the governance norms of Corporations. From your Company’s perspective, following the change in the organization form from a functional to asset centric structure, the respective Business Unit Heads shall be furnishing a certificate as to the status of the compliance of various regulations applicable to their Business Unit. Likewise the respective Support Services Group Head shall be responsible for compliance and submit with exceptional reporting, if any. The Managing Director issues a certificate to the Board of Directors at every Board meeting a statutory compliance certificate based on the certificates received from the concerned officials.

The Company is evolving a structured programme for the Compliance Officers to enable them to update their knowledge through participation in training, seminars/conference, and subscription to periodicals.

7. Systems and Processes

7.1. Human Resource Management

People are your Company’s key resource. Our ability to continuously enhance value of our core E&P assets depends largely on our ability to

attract, train, motivate and retain the best and brightest professionals. We believe that there is significant domestic competition for E&P professionals, specifically in the technical area, with skills necessary to execute various E&P programmes. This poses an inherent risk associated with our ability to hire and retain skilled and experienced E&P professionals.

Your Company has over the year taken concrete steps to create a favourable work environment that creates performance ethic, putting people at the core. For the first time your Company introduced variable pay linked to Company performance, business unit performance and individual performance.

Your Company also participated in an industry compensation survey and has reorganized its compensation structure to reflect prevailing market conditions.

Overall, with an aim to improve the understanding of individual roles and reinforce the assignment of responsibilities, your Company has initiated transition to a role-based organization. The organization has been modelled to identify role requirements across different levels and facilitate rapid scalability. This approach also identifies specific competency requirements of individuals so that your Company can ensure competency development of employees in relation to the role that they are performing.

The number of employees as at 31st March 2004 is 56.

7.2. Process and Project Management

Robust processes reduce the risk and uncertainty in executing E&P work programmes within budgeted time & cost. Your Company is in the process of setting up detailed risk management guidelines in various areas of activity, leveraging on the knowledge & experience of experts as well as the JV partners.

We expect effective processes and standard operating procedures to be in place in the current year so as to form the basis for project execution in most of our E&P activities.

7.3. Internal Control Systems

Along with process orientation and role based work environment, your Company has to have well defined roles, responsibilities

and authorities at various levels. This has to be necessarily aided by a robust internal information system, ensuring appropriate information flow to facilitate effective monitoring. Adherence to these processes will then need to be monitored through frequent internal audits. As Company's business is run through joint venture, we have taken the steps to assess the internal control systems and compliances at joint venture level by initiating internal audits of joint ventures.

Accordingly, your Company has embarked on initiative to automate all financial transactions, including employee time writing, which will be put in place in the current year.

This will be supported by a robust budgeting exercise currently being put in place.

7.4. HSE Process

Health Safety and Environment (HSE) is at the core of E&P business and it is critical for any operating E&P Company to make HSE processes as part of its central strategy.

Considering that your Company has now positioned itself as an offshore Operator, the management is in the process of setting up HSE systems and processes and their effective deployment both at the corporate level as well as at the asset level.

There were no accidents during the year at any of the Company's offices or site.

7.5. Technology enablement

E&P professionals can effectively deliver only if they are enabled by cutting edge technologies which will help them to integrate work across functional disciplines and interpret same with a view to effective valuation of risk and return associated with each and every E&P activity.

Accordingly, the management took the first steps of investing in and highgrading the subsurface technologies so as to enable teams perform high quality subsurface work in an integrated manner. Further initiatives in this direction will be undertaken in the current year so that the teams can deliver technology leveraged E&P solutions.

REPORT ON CORPORATE GOVERNANCE

The Company believes that fairness, transparency, accountability and responsibility are the basic tenets of effective Corporate Governance. The Company endeavours to strive for attaining the optimum standards of maximizing its stakeholders value, adopting effective measures towards attaining its overall long term objectives discharging its social responsibilities, risk management/mitigation policies, disclosure practices, people processes, independent oversight, robust internal control systems and fairness in its dealings.

The requirements of Corporate Governance adhered to during the year has been given under the relevant parameters as set out below.

BOARD OF DIRECTORS

The Company has a Non-Executive Chairman and the number of Independent Directors is more than one-third of the total number of Directors. The number of Non-Executive Directors (NEDs) is more than 50% of the total number of Directors. The Managing Director is the only Executive Director on the Board. The details are given hereunder:

Name of Director	Category	No. of attendance at the Board Meetings	Whether last AGM attended	Memberships on Board of other Co's#	Committee Chairmanship/ Membership of other Co's@
Dr. I. G. Patel	Chairman Non-Executive & Independent Director	3	Yes	1	Nil
Mr. Rakesh Jain ¹	Managing Director Executive Director	5	Yes	1	Nil
Mr. Ajit C. Kapadia ²	Managing Director Executive Director	2	—	5 (till 31st July 2003)	Nil
Mr. Rasesh N. Mafatla ³	Non-Executive & Independent Director	1	No	3	Nil
Mr. Deepak S. Parekh	Non-Executive & Independent Director	5	Yes	14	5-Chairmanships 4-Memberships
Mr. Vimal Bhandari	Non-Executive & Independent Director	5	Yes	12	8-Memberships
Mr. B. R. Sule ⁴	Non-Executive & Independent Director	Nil	No	6	Nil
Mr. C. K. Mehta	Non-Executive & Independent Director	3	Yes	2	Nil
Mr. Hasumukh Shah	Non-Executive & Independent Director	4	Yes	10	2-Chairmanships 3-Memberships
Mr. R. Vasudevan	Non-Executive & Independent Director	3	Yes	4	3-Memberships
Mr. Manu R. Shroff	Non-Executive & Independent Director	5	Yes	3	1-Chairmanship 3-Memberships

Name of Director	Category	No. of attendance at the Board Meetings	Whether last AGM attended	Memberships on Board of other Co's#	Committee Chairmanship/ Membership of other Co's@
Mr. Ronald S. Somers ⁵	• Non-Executive & Non-Independent Director - up to 23rd January '04.	5	Yes	Nil	Nil
	• Non-Executive & Independent Director - w.e.f. 29th January '04.				
Mr. Andrew Fawthrop*	Non-Executive & Non-Independent Director	1	Yes	Nil	Nil

1. Appointed as an additional director of the Company on 29th July 2003 and Managing Director w.e.f. 1st August 2003.
2. Ceased to be a Director of the Company w.e.f. 1st August 2003.
3. Ceased to be a Director of the Company w.e.f. 15th June 2004.
4. Ceased to be a Director of the Company w.e.f. 23rd September 2003.
5. Ceased to be the Nominee Director of Unocal Bharat Limited w.e.f. 23rd January 2004. The Board of Directors at its meeting held on 29th January 2004 appointed Mr. Somers as a Non-executive Member of the Board.

* Nominee Director of Unocal Bharat Limited, Mauritius (Equity Investor).

Excludes Directorships in Indian Private Limited Companies, Foreign Companies, memberships of Managing Committees of various Chambers/Bodies and Alternate Directorships.

@ Represents Memberships/Chairmanships of Audit Committee/Shareholders/Investors Grievance Committee and Remuneration Committee, across all public limited companies, whether listed on the stock exchange(s) or not.

BOARD MEETINGS

During the year under review, 6 Board Meetings were held and the gap between any two meetings did not exceed four months. The dates on which the Board Meetings were held are as follows:

19th June 2003, 29th July 2003, 25th August 2003, 23rd September 2003, 17th October 2003, and 29th January 2004.

The Company did not have any pecuniary relationship with NEDs during the year under review.

DIRECTORS SEEKING APPOINTMENT/ RE-APPOINTMENT

The Directors seeking appointment are Mr. Ronald Somers and Mr. M.N. Khan and also seeking re-appointment are Mr. C.K. Mehta, Mr. Deepak S. Parekh and Mr. Manu R. Shroff. Their brief resume and nature of expertise in specific areas, their directorships and memberships of committees are given in the Notes to the Notice of the Annual General Meeting.

AUDIT COMMITTEE

The broad terms of reference of the Audit Committee are to review financial reporting process, reports of the Internal Auditors and discussion with them periodically, to meet Statutory Auditors to discuss their findings,

suggestions and other matters, internal control systems and quarterly financial statements. The scope of the activities of the Audit Committee is as prescribed by Section 292A of the Companies Act, 1956 as well as Clause 49II (C) & (D) of the Listing Agreement entered into with the Stock Exchanges.

During the year under review, 5 Committee Meetings were held. The dates on which the Committee Meetings were held are as follows:

19th June 2003, 29th July 2003, 13th October 2003, 23rd January 2004 and 29th January 2004.

The composition of the Audit Committee and the details of meetings attended by the Directors are given below. All the members of the Committee are non-executive directors and majority of them being independent directors.

Sr. No.	Name of Member	No. of Committee Meetings attended
1	Mr. Manu R. Shroff (Chairman)	5
2	Mr. Vimal Bhandari	5
3	Mr. R. Vasudevan	3
4	Mr. C. K. Mehta ¹	1
5	Mr. Ronald Somers ²	—
6	Mr. Andrew Fawthrop ³	—

1. Mr. C. K. Mehta ceased to be a member of the Audit Committee w.e.f. 6th October 2003.
2. Mr. Ronald Somers was appointed as a Member of the Audit Committee w.e.f. 17th October 2003. Mr. Somers ceased to be a nominee of Unocal Bharat Limited w.e.f. 23rd January 2004. He is presently not a member of the said Committee.
3. Mr. Andrew Fawthrop is appointed as a member of the Audit Committee w.e.f. 29th January 2004.

All the members possess good knowledge of finance, accounts and basic elements of Company Law.

REMUNERATION COMMITTEE

The broad terms of reference of the Remuneration Committee are to decide the terms of services and compensation payable to Whole-time/Managing Director(s) and to discharge such other functions as may be referred by the Board.

The composition of the Remuneration Committee and the details of meetings attended by the Directors are given below. The Committee comprises of three non-executive directors and majority of them being independent directors.

During the year under review, one Remuneration Committee meeting was held on 29th July 2003.

Sr. No.	Name of Member	No. of Committee Meetings attended
1	Mr. Vimal Bhandari (Chairman)	1
2	Mr. Ronald Somers #	1
3	Mr. R. Vasudevan	1
4	Mr. Andrew Fawthrop @	—

Mr. Ronald Somers has ceased to be a member of the Committee.

@ Mr. Andrew Fawthrop is appointed as a member of the Remuneration Committee w.e.f. 29th January 2004.

REMUNERATION POLICY

The Company while deciding the remuneration package, takes into consideration, the following:-

(A) Employment scenario.

(B) Remuneration package of the industry/other industries for the requisite managerial talent.

Managing Director of the Company has been appointed on a contractual basis based on the approval of the shareholders for a period of 3 years.

The remuneration package of the Managing Director comprises of salary, allowances, perquisites and bonuses as approved by the shareholders at the last Annual General Meeting. The ceiling on perquisites and allowances as a percentage of salary is as stipulated by the approval of the shareholders.

During the year, the managerial remuneration paid to the Managing Directors has amounted to Rs. 4,078,970.

During the year, the Company has not paid any commission to its Directors.

REMUNERATION PAID TO THE MANAGING DIRECTOR DURING THE YEAR 2003-04

Name	Salaries (Rs.)	Contribution to Provident Fund (Rs.)	Contribution to Superannuation Fund (Rs.)	Other Perquisites	Total (Rs.)
Mr. Ajit C. Kapadia*	280,000	33,600	42,000	1,100,633	1,456,233
Mr. Rakesh Jain @	1,200,000	144,000	180,000	1,098,737	2,622,737

* upto 31st July 2003.

@ from 1st August 2003.

Period of Contract with Managing Director

- 3 years from 1st August 2003.
- The Contract may be terminated by either party giving the other party three months' notice.



Non-Executive Directors of the Company are paid remuneration by way of sitting fees only for attending the meetings of the Board of Directors and its Committees. The details of sitting fees paid during the year 2003-04 to the Non-Executive Directors is given below:

Sr. No.	Name of Director	Amount (Rs.)
1.	Dr. I. G. Patel	6,000
2.	Mr. Deepak S. Parekh	10,000
3.	Mr. Rasesh N. Mafatlal	2,000
4.	Mr. Vimal Bhandari	24,000
5.	Mr. R. Vasudevan	14,000
6.	Mr. Manu Shroff	22,000
7.	Mr. Hasmukh Shah	8,000
8.	Mr. C. K. Mehta	8,000

The Company does not have an Employees' Stock Option Scheme.

SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE (SIGC)

The SIGC was constituted to specifically look into the shareholders/investors complaints pertaining to transfer of shares, non-receipt of balance sheet, non receipt of declared dividends etc. Mr. R. Vasudevan, a non-executive and independent director is the Chairman of the Committee.

SIGC meetings are attended by Assistant Company Secretary, Compliance Officer.

NAME, DESIGNATION AND ADDRESS OF COMPLIANCE OFFICER :

Mr. Ketan Thaker
Assistant Company Secretary
Hindustan Oil Exploration Company Limited
'HOEC House'
Tandalja Road,
Off Old Padra Road,
Vadodara - 390 020
Gujarat (India)
Email: hoecshare@hoec.com
Phone : 91 (265) 2330 766
Fax : 91 (265) 2333 567

Details of number of grievances received and resolved is as under:-

Particulars	Total Grievances/ Complaints received during the year	Total Grievances/ Complaints resolved	Pending Grievances/ Complaints as on 31-03-2004
Received from Investors	13	7	6
Referred by SEBI	7	7	0
Referred by Stock Exchanges	3	3	0
RBI/Govt. Authorities	0	0	0

There were six unresolved grievances/complaints from shareholders as at 31st March 2004 (since resolved), except disputed, court cases etc., as every effort is maintained to immediately redress investors' grievances/complaints without loss of time. There were 105 pending share transfer requests as on 31st March 2004, which were effected in April 2004.

SHARE TRANSFER COMMITTEE

Board of Directors delegated the powers to the Share Transfer Committee to attend to share transfer/ transmission approvals etc. The Committee meets twice a month. The constitution of Share Transfer Committee comprises of Mr. Rakesh Jain, Managing Director, Mr. Amit Shah, Accounts Controller and Mr. Manish Maheshwari, Head Business Development and Commercial Services. Mr. Ketan Thaker, Assistant Company Secretary is an invitee.

OTHER COMMITTEES

In addition to the above committees, the Board has constituted an Executive Committee with a view to consider and approve the terms and conditions of all the Production Sharing Contracts with the Government, proposal for change of Participating Interest in the blocks, to issue/revise guidelines for the investment of the surplus funds of the Company etc.

The Board has also constituted a Funds Mobilisation Committee consisting of Mr. Manu Shroff, Mr. Ajit C. Kapadia (ceased to be a Director w.e.f. 1st August 2003), Mr. Ronald Somers, Mr. Vimal Bhandari, Mr. Rakesh Jain, (appointed w.e.f. 1st August 2003) and Mr. Andrew Fawthrop (appointed as a member w.e.f. 29th January 2004).



DETAILS OF GENERAL BODY MEETINGS

Location and Time where last three Annual General Meetings were held

Year	Location	Date	Time
2000-2001	Holiday Inn, Hotel & Convention Centre, Vadodara- 390 020	17th September 2001	10.30 a.m.
2001-2002	Tropicana Hotel & Convention Centre, Vadodara-390 020	17th September 2002	10.30 a.m.
2002-2003*	TAJ RESIDENCY Vadodara Akota Gardens, Vadodara-390 020	23rd September 2003	3.00 p.m.

***NOTES**

- No special resolutions were put through postal ballot. The details of the special resolutions passed at the AGM for the last 3 years are as under:
 - Substitution of Article 3 of the Articles of Association of the Company on account of increasing the Authorised Share Capital of the Company from Rs. 100 crore to Rs. 200 crore (19th AGM on 23rd September 2003).
- The postal ballot exercise shall be conducted from time to time in terms of the provisions of Section 192A of the Companies Act, 1956.

DISCLOSURES

- Related Party Transactions are disclosed in the Notes to Accounts forming part of this Annual Report. None of the transactions with any of the related parties were in conflict with the interest of the Company.
- There are no penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority for non-compliance by the Company, on any matter related to capital markets, during the last three years.

MEANS OF COMMUNICATION

The quarterly, half yearly/annual financial results are normally published in the Economic Times, Ahmedabad edition and Vadodara Samachar, Vadodara edition. The results along with official news release are promptly

displayed on the Company’s web site at www.hoec.com. Half-yearly reports are not sent to the shareholders. The Company has also posted information relating to its financial results, shareholding patterns, corporate governance report etc., on Electronic Data Information Filing and Retrieval System (EDIFAR) at www.sebidifar.nic.in.

Management Discussion & Analysis forms part of this Annual Report.

GENERAL SHAREHOLDERS INFORMATION

1. Day, Date, Time and Venue of 20th Annual General Meeting	Friday, 17th September 2004 at 11.30 A.M. at “Tropicana Hall”, TAJ RESIDENCY Vadodara, Akota Gardens, Vadodara-390 020
2. Financial Year Calendar	Results for the quarter ending on : 30th June 2004 : July 2004 30th September 2004 : October 2004 31st December 2004 : January 2005 31st March 2005 : June 2005
3. Book Closure Dates	Thursday, 2nd September 2004 to Friday, 17th September 2004 (both days inclusive)
4. Dividend Payment Date	Dividend, if declared by the members shall be paid from 22nd September 2004 onwards

EQUITY SHARES OF THE COMPANY ARE LISTED AT FOLLOWING STOCK EXCHANGES

- The Stock Exchange Ahmedabad
- Bangalore Stock Exchange Limited
- The Calcutta Stock Exchange Association Limited
- The Delhi Stock Exchange Association Limited
- Madras Stock Exchange Limited
- The Stock Exchange, Mumbai (BSE)
- National Stock Exchange of India Limited (NSE)

The Company has paid listing fees to the above-mentioned Stock Exchanges for FY- 2004-05.

Stock Code:

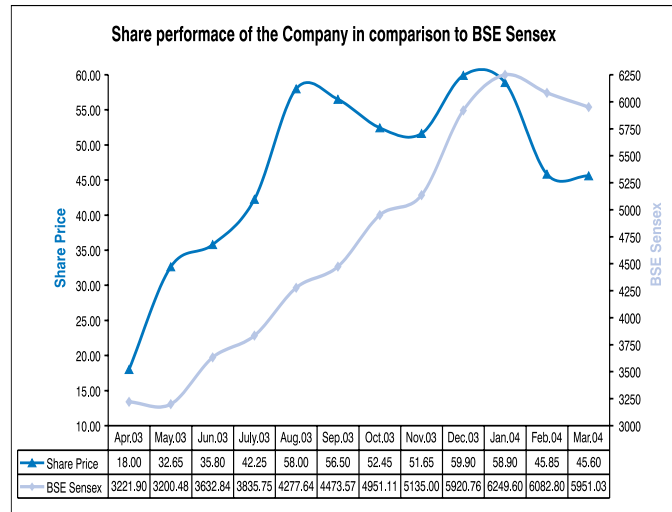
The Stock Exchange, Mumbai (BSE) : **500186**

National Stock Exchange (NSE) : **HINDOILEXP**



STOCK MARKET DATA: BSE – B1 GROUP

Period	High Rs.	Low Rs.	BSE Sensex (High)
April-2003	18.00	14.95	3221.90
May-2003	32.65	16.50	3200.48
June-2003	35.80	27.05	3632.84
July-2003	42.25	29.15	3835.75
August-2003	58.00	33.50	4277.64
September-2003	56.50	36.80	4473.57
October-2003	52.45	39.25	4951.11
November-2003	51.65	40.70	5135.00
December-2003	59.90	48.00	5920.76
January-2004	58.90	41.10	6249.60
February-2004	45.85	39.55	6082.80
March-2004	45.60	30.50	5951.03



REGISTRARS AND SHARE TRANSFER AGENT

Intime Spectrum Registry Limited
Unit : Hindustan Oil Exploration Company Limited
201, Sidcup Towers, Race Course
Vadodara-390 007 (India)
Tele-Fax: 91-265-2332474
E-mail: vadodara@intimespectrum.com

SHARE TRANSFER & DEMAT SYSTEM

- Share Transfer in physical form are presently registered and returned within a period of 20 days from the date of receipt; if documents are complete in all respect.
- As on 31st March 2004, Company has dematerialised **3,82,08,376** equity shares which is **65%** of the total equity shares.

DISTRIBUTION OF SHAREHOLDING AS ON 31ST MARCH 2004

CATEGORY	PHYSICAL		NSDL		CDSL		TOTAL	
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares
1 to 5000	24,559	47,85,296	27,014	1,12,36,413	3,663	16,26,789	55,236	1,76,48,498
5001 to 10000	7	48,150	207	15,53,969	24	1,66,803	238	17,68,922
10001 to 20000	1	10,100	89	13,23,797	9	1,18,334	99	14,52,231
20001 to 30000	2	41,700	27	6,52,128	0	0	29	6,93,828
30001 to 40000	0	0	13	4,55,842	1	32,100	14	4,87,942
40001 to 50000	2	99,700	11	5,18,849	0	0	13	6,18,549
50001 to 100000	1	70,000	18	13,45,763	0	0	19	14,15,763
above 100000	2	1,54,81,633	20	1,90,13,552	1	1,64,017	23	3,46,59,202
TOTAL	24,574	2,05,36,579	27,399	3,61,00,313	3,698	21,08,043	55,671	5,87,44,935

ADDRESS FOR CORRESPONDENCE

SECRETARIAL DEPARTMENT
HINDUSTAN OIL EXPLORATION COMPANY LIMITED
‘HOEC HOUSE’, TANDALJA ROAD,
OFF OLD PADRA ROAD,
VADODARA - 390 020 (GUJARAT) INDIA
PHONE : 91-265-2330766 • FAX : 91-265-2333567
E-mail : hoecshare@hoec.com



AUDITORS' CERTIFICATE

TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

We have examined the compliance of conditions of corporate governance by **HINDUSTAN OIL EXPLORATION COMPANY LIMITED** for the year ended on 31st March, 2004 as stipulated in clause 49 of the Listing Agreement of the Company with the stock exchanges.

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

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

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that according to the information and explanations given to us, no investor grievance is pending for a period exceeding one month against the Company, as per the records maintained by the Shareholders'/Investors' Grievance Committee.

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

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : 26th July 2004

Nalin M. Shah
Partner



AUDITORS' REPORT

TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

1. We have audited the attached Balance Sheet of **HINDUSTAN OIL EXPLORATION COMPANY LIMITED** as at March 31, 2004, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order. Our comments exclude matters relating to the Company's joint ventures, which are not subject to audit under the Companies Act, 1956.
 4. (a) The Accounts have been drawn up in accordance with the statement of Significant Accounting Policies (Schedule 12). Accounting Policy 2 relating to the "Successful Efforts Method" and treatment of exploration and development costs are significant to the oil and gas exploration and production industry.
 - (b) Categorisation of wells as exploratory and producing and the depletion of producing wells on the basis of proved developed hydrocarbon reserves and accrual of estimated site restoration liability on the basis of proved hydrocarbon reserves are made according to technical evaluation by the Management, on which we have placed reliance.
5. (a) The accounts include assets aggregating Rs. 85,192,966, liabilities aggregating Rs. 77,593,026, income aggregating Rs. 10,294,400 and expenditure aggregating Rs. 145,059,405 relating to the Company's share in four joint ventures, which have been incorporated on the basis of accounts audited by other auditors.
 - (b) *In respect of five non-producing joint ventures, exploration expenditure aggregating Rs. 147,033,216, development expenditure aggregating Rs. 304,622,859, other assets aggregating Rs. 10,142,480 and liabilities aggregating Rs. 129,475,536 have been incorporated on the basis of the information available, in the absence of audited accounts.*
6. Further to our comments in the Annexure referred to in paragraph 3 above:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit, *except for audited financial information relating to the five joint ventures for the year ended March 31, 2004 referred to in paragraph 5(b) above.*
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - (c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.
 - (d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956.
 - (e) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, subject to non-disclosure of the amounts payable to Small Scale Industrial undertakings and particulars of stores consumption as stated in Note 5 and 16(b), respectively, of Schedule 13, give the



information required by the Companies Act, 1956, in the manner so required and, *subject to our comments in paragraph 5(b) to the extent of the unaudited amounts relating to the joint ventures referred to therein*, give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2004;
- (ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date and
- (iii) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

7. According to the information and explanations given to us and on the basis of the written representations from the directors, taken on record by the Board of Directors, none of the directors is disqualified as at March 31, 2004 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : 16th June 2004

Nalin M. Shah
Partner
(Membership No.15860)

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1. The nature of the Company's business/activities during the year is such that clauses (i)(c), (x), (xi), (xii), (xiii), (xiv), (xvi), (xvii), (xviii), (xix) and (xx) of the CARO are not applicable.
2. In respect of its fixed assets:
 - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) Certain assets have been physically verified by the Management during the year in accordance with a programme of verification, which in our opinion provides for verification of the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.
3. The Company carries out its business activity through joint ventures, whose accounts are not subject to audit under the Companies Act, 1956. Under the circumstances, we are unable to comment on the procedures relating to physical verification and maintenance of records of inventory.
4. According to the information and explanations given to us, the Company has not taken any loans from Companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. In respect of the loans granted by the Company to companies or parties covered in the Register maintained under Section 301 of the Companies Act, 1956, according to the information and explanation given to us:
 - (a) The Company has granted during the year loans aggregating to Rs. 80,000,000 to one party. At the year-end, the outstanding balances of such loans granted aggregated Rs. 120,000,000 from one party and the maximum amount involved during the year was Rs. 440,000,000 for loans granted.
 - (b) The rate of interest and other terms and conditions of such loans are, in our opinion, *prima facie* not prejudicial to the interests of the Company.
 - (c) The recovery of principal amounts and interest has been regular during the year.
5. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of goods.
6. In respect of transactions entered in the Register maintained in pursuance of Section 301 of the Companies Act, 1956:
 - (a) To the best of our knowledge and belief and according to the information and explanations given to us, transactions that needed to be entered into the Register have been so entered.
 - (b) According to the information and explanations given to us, a transaction (excluding loans reported under paragraph 4 above) in excess of Rs 5 lakhs in respect of one party relates to payments made for certain services wherein comparative rates are not available owing to their nature.
7. The Company has not accepted deposit from the public.
8. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and nature of its business.
9. We have broadly reviewed the books of account and records maintained by the Company relating to crude oil and gas extraction, pursuant to an order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that *prima facie* the prescribed accounts and records have been made and maintained to the extent such records are maintained by the Company. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete.
10. According to the information and explanations given to us in respect of statutory dues:
 - (a) The Company has been regular in depositing undisputed statutory dues, including Provident Fund, Income-tax, Sales-tax, Wealth Tax, Cess and any other material statutory dues with the appropriate authorities during the year.

(b) According to the information and explanations given to us, details of the disputed dues which have not been deposited as on March 31, 2004 are as follows:

Name of statute	Nature of the dues	Amount (Rs.)	Forum where dispute is pending
Income-tax Act	Tax and Interest	213,412	Income-tax Appellate Tribunal
		40,606,020	Commissioner of Income-tax (Appeals)

11. In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans

taken by others from a financial institution, are *prima facie* not prejudicial to the interests of the Company.

12. To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : 16th June 2004

Nalin M. Shah
Partner
(Membership No.15860)



Balance Sheet as at March 31,

		in Rupees	
	Schedule	2004	2003
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	587,609,465	587,609,465
Reserves and Surplus	2	1,398,280,068	1,243,336,703
		1,985,889,533	1,830,946,168
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block	3	1,650,830,774	1,355,731,409
Less : Depreciation and Depletion		848,134,646	813,826,050
NET BLOCK		802,696,128	541,905,359
INVESTMENTS	4	184,300,934	35,812,558
DEFERRED TAX ASSET		121,431,000	99,476,000
CURRENT ASSETS, LOANS AND ADVANCES	5	1,331,156,545	1,431,687,483
Less : CURRENT LIABILITIES AND PROVISIONS	6	454,765,908	279,501,899
NET CURRENT ASSETS		876,390,637	1,152,185,584
MISCELLANEOUS EXPENDITURE			
(to the extent not written off or adjusted)			
Share Issue Expenses		862,500	1,150,000
Deferred Revenue Expenditure		208,334	416,667
		1,070,834	1,566,667
		1,985,889,533	1,830,946,168
Accounting Policies	12		
Notes forming part of the Accounts	13		

Schedules 1 to 13 annexed hereto form part of the Accounts.

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Dr. I.G. Patel
Chairman

Rakesh Jain
Managing Director

Andrew Fawthrop
C.K. Mehta
M.N. Khan

Nalin M. Shah
Partner

Amit Shah
Accounts Controller

Ketan Thaker
Asst. Company Secretary

Ronald S. Somers
Vimal Bhandari
Directors

Place : Mumbai
Date : 16th June 2004

Place : Mumbai
Date : 16th June 2004

**Profit and Loss Account for the year ended March 31,**

		in Rupees	
	Schedule	2004	2003
INCOME			
Sales	7	383,395,357	515,822,158
Increase/(Decrease) in stock of Crude Oil (See Note 14)		35,263,158	(32,553,920)
Other Income	8	77,811,059	95,032,461
		496,469,574	578,300,699
EXPENDITURE AND CHARGES			
Field Operating Expenses	9	156,831,049	177,388,659
Depletion of Producing Properties		34,139,459	139,237,803
Corporate Expenses	10	61,224,402	39,786,264
Depreciation and Amortisation		11,478,780	4,960,089
Provisions and write offs	11	12,207,152	165,446,643
		275,880,842	526,819,458
Profit before tax and Prior period adjustment		220,588,732	51,481,241
Prior period adjustment (See Note 15)		5,248,737	0
PROFIT BEFORE TAX		215,339,995	51,481,241
Less : Provision for Current Income Tax		16,000,000	19,000,000
Add : Provision for Deferred Tax		21,955,000	83,667,000
Less : Provision for Wealth Tax		80,000	69,740
PROFIT AFTER TAX		221,214,995	116,078,501
Profit brought forward		237,701,665	174,640,468
PROFIT AVAILABLE FOR APPROPRIATION		458,916,660	290,718,969
APPROPRIATIONS			
Proposed Dividend		58,744,935	46,995,948
Tax thereon		7,526,695	6,021,356
Balance carried to Balance Sheet		392,645,030	237,701,665
		458,916,660	290,718,969
Earning per share of Rs. 10 face value (basic and diluted)		Rs. 3.77	Rs. 1.98
Earning per share of Rs. 10 face value (before prior period adjustment)		Rs. 3.86	Rs. 1.98

Schedules 1 to 13 annexed hereto form part of the Accounts.

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Dr. I.G. Patel
Chairman

Rakesh Jain
Managing Director

Andrew Fawthrop
C.K. Mehta
M.N. Khan

Nalin M. Shah
Partner

Amit Shah
Accounts Controller

Ketan Thaker
Asst. Company Secretary

Ronald S. Somers
Vimal Bhandari
Directors

Place : Mumbai
Date : 16th June 2004

Place : Mumbai
Date : 16th June 2004



Cash Flow Statement for the year ended March 31,

	in Rupees	
	2004	2003
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax	215,339,995	51,481,241
Adjustments for :		
Provision for :		
Loss/(Gain) on revaluation of current investments	8,282,864	(5,043,517)
Doubtful claims / loans	(8,642,000)	(4,300,000)
Site Restoration	5,919,646	11,487,540
Leave Encashment	(184,000)	648,000
Provision for Contingencies	4,127,000	0
Depreciation/Depletion	48,906,701	144,197,892
Exploration Expenses written off	1,285,687	162,223,839
Other Miscellaneous Expenses written off	495,833	495,833
Investment / Interest Income	(77,625,333)	(85,693,982)
(Profit)/Loss on sale of Assets	265,487	(341,965)
(Profit)/Loss on sale of Investment	43,075	(3,301,315)
Exchange Loss	190,667	1,194,705
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	198,405,622	273,048,271
Adjustments for:		
Trade and Other Receivables	744,462,154	(189,708,245)
Inventories	(30,115,253)	36,995,361
Payables	135,133,245	(71,570,812)
CASH FROM OPERATIONS	1,047,885,768	48,764,575
Taxes paid	28,310,079	(28,744,713)
Miscellaneous Expenses Incurred	0	(625,000)
NET CASH FROM OPERATING ACTIVITIES	1,076,195,847	19,394,862
B. CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(255,567,764)	(82,108,485)
Fixed Assets sold	29,483,447	1,022,700
Exploration Expenses Incurred	(85,164,327)	(113,642,910)
Purchase of Investments	(498,722,784)	(35,762,603)
Sale of Investments	341,908,469	275,262,161
Dividend/Interest received	82,428,445	86,864,572
Increase in term deposit with bank	(365,303,261)	(181,650,000)
NET CASH USED IN INVESTING ACTIVITIES	(750,937,775)	(50,014,565)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Dividend Paid (including tax thereon)	(52,053,582)	(68,993,645)
Exchange Loss	(190,667)	(1,194,705)
NET CASH USED IN FINANCING ACTIVITIES	(52,244,249)	(70,188,350)
NET INCREASE/(DECREASE) IN CASH OR CASH EQUIVALENTS	273,013,823	(100,808,053)
Cash, Cash Equivalents :		
Opening Balance	177,760,193	278,568,246
Closing Balance	450,774,016	177,760,193
	273,013,823	(100,808,053)
Cash and Bank balance as per Schedule 5	717,727,277	309,410,193
Less : Bank Deposit placed for more than 90 days	546,953,261	181,650,000
	170,774,016	127,760,193
Inter Corporate Deposits as per Schedule 5	330,000,000	787,500,000
Less : Inter Corporate Deposits placed for more than 90 days	50,000,000	737,500,000
	280,000,000	50,000,000
Total Cash or Cash equivalents as at 31st March, 2004	450,774,016	177,760,193

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : Mumbai
Date : 16th June 2004

Dr. I.G. Patel
Chairman

Amit Shah
Accounts Controller

Place : Mumbai
Date : 16th June 2004

Rakesh Jain
Managing Director

Ketan Thaker
Asst. Company Secretary

Andrew Fawthrop
C.K. Mehta
M.N. Khan
Ronald S. Somers
Vimal Bhandari
Directors

AUDITORS' CERTIFICATE

We have verified the Cash Flow Statement of HINDUSTAN OIL EXPLORATION COMPANY LIMITED for the year ended 31st March, 2004, which has been derived from the audited accounts of the Company for the years ended 31st March, 2004 and 31st March, 2003 and have found the same to have been drawn up in accordance therewith and with the requirements of Clause 32 of the listing agreement with the stock exchanges.

For S. B. BILLIMORIA & CO.
Chartered Accountants
Nalin M. Shah
Partner
(Membership No.15860)

Place : Mumbai
Date : 16th June 2004



Schedules to the Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED		
200,000,000 (as at 31.03.03: 100,000,000) Equity Shares of Rs.10 each	2,000,000,000	1,000,000,000
ISSUED		
58,777,910 Equity Shares of Rs.10 each	587,779,100	587,779,100
SUBSCRIBED AND PAID-UP		
58,744,935 Equity Shares of Rs.10 each fully paid	587,449,350	587,449,350
Add : Amount paid-up on shares forfeited	160,115	160,115
	587,609,465	587,609,465
SCHEDULE 2		
RESERVES AND SURPLUS		
Share Premium	1,001,765,038	1,001,765,038
General Reserve	3,870,000	3,870,000
Balance in Profit and Loss Account	392,645,030	237,701,665
	1,398,280,068	1,243,336,703

Schedules to the Balance Sheet as at March 31,
**SCHEDULE 3
FIXED ASSETS**
in Rupees

Name of the Assets	GROSS BLOCK			DEPRECIATION, DEPLETION and AMORTISATION			NET BLOCK		
	As at March 31, 2003	Additions during the year	Deductions during the year	As at March 31, 2004	For the Year	Deductions during the year	As at March 31, 2004	As at March 31, 2003	
Producing Properties	892,458,003	7,408,471	29,205,197	870,661,277	37,427,921	0	740,534,520	130,126,757	189,351,404
OTHER FIXED ASSETS :									
Land-Freehold	3,444,512	0	0	3,444,512	0	0	0	3,444,512	3,444,512
Buildings	44,074,580	476,744	0	44,551,324	1,674,891	0	18,645,657	25,905,667	27,103,814
Office Equipments	12,320,102	1,171,276	1,250,287	12,241,091	841,532	945,301	7,894,704	4,346,387	4,321,629
Computers	11,032,160	3,652,576	5,597,316	9,087,420	1,769,808	5,360,602	6,570,439	2,516,981	870,927
Office Furniture	7,294,976	2,335,017	30,744	9,599,249	971,631	28,707	7,133,891	2,465,358	1,104,009
Plant & Machinery	65,470,340	23,863,214	15,973,833	73,359,721	7,185,208	15,973,833	56,594,235	16,765,486	87,480
Vehicles	4,224,654	1,796,517	0	6,021,171	1,172,955	0	2,663,601	3,357,570	2,794,008
Software	4,284,198	12,173,045	0	16,457,243	5,573,093	0	8,097,599	8,359,644	1,759,692
Total (A)	1,044,603,525	52,876,860	52,057,377	1,045,423,008	56,617,039*	22,308,443	848,134,646	197,288,362 [@]	230,777,475 [@]
Capital Work in Progress									
Development Expenditure	206,787,968	210,644,427	0	417,432,395	0	0	0	417,432,395	206,787,968
Exploration Expenditure	104,014,247	85,246,811	1,285,687	187,975,371	0	0	0	187,975,371	104,014,247
Others	325,669	0	325,669	0	0	0	0	0	325,669
Total (B)	311,127,884	295,891,238	1,611,356	605,407,766	0	0	0	605,407,766	311,127,884
GRAND TOTAL (A + B)	1,355,731,409	348,768,098	53,668,733	1,650,830,774	56,617,039	22,308,443	848,134,646	802,696,128	541,905,359
Previous year	1,324,336,447	217,045,095	185,650,133	1,355,731,409	144,721,694	1,975,661	813,826,050	541,905,359	653,256,430
Fixed Assets include the Company's share in Joint Venture Assets	1,274,193,470	327,825,663	46,790,386	1,555,228,747	45,138,259	15,973,833	800,837,547	754,391,200	502,520,349

* including Rs. 7,408,471 (previous year: Rs. 268,722) charged to Producing Properties and Rs. 219,383 (previous year: Rs. 154,720) to Development Expenditure and Rs. 82,484 (previous year: Rs. 100,360) charged to Exploration Expenditure and Rs. 3,288,462 (previous year: Nil) charged to Prior Period expenses.

@ including Rs. 18,347,447 (previous year : Rs. 1,652,531) considered for depletion of Producing Properties.

Schedules to the Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 4		
INVESTMENTS (FULLY PAID)		
TRADE		
LONG TERM		
IN SUBSIDIARY COMPANY		
50,002 Equity Shares of Rs. 100 each of HOEC Bardahl India Ltd.	5,000,200	5,000,200
QUOTED		
318 Equity Shares of Rs. 10 each of Reliance Industries Ltd.	49,953	49,953
UNQUOTED		
100,000 Equity Shares of Rs. 10 each of Gujarat Securities Ltd.	1,000,000	1,000,000
CURRENT		
UNQUOTED		
9,842,150.798 Units of Rs. 10 each of HDFC Income Fund Premium Plan	105,886,780	0
1,220,591.377 Units of Rs. 10 each of IL&FS Bond Fund Institutional Plan	13,526,838	0
2,801,707.620 (31.03.03 : 1,888,404.96) Units of Rs. 10 each of HDFC – Liquid Fund	28,212,891	19,138,133
3,392,352.933 (31.03.03 : 1,584,067.36) Units of Rs. 10 each of JM Short Term Fund	36,624,470	16,624,470
	190,301,132	41,812,756
Less : Provision for Diminution in value of Investments	6,000,198	6,000,198
	184,300,934	35,812,558
Aggregate cost of quoted investments	49,953	49,953
Market value of quoted investments	171,100	87,911
Aggregate carrying cost of unquoted investments	184,250,981	35,762,605
SCHEDULE 5		
CURRENT ASSETS, LOANS AND ADVANCES		
CURRENT ASSETS		
Interest accrued on Deposits	6,853,375	11,460,134
INVENTORIES		
Crude Oil (See Note 14)	53,733,616	18,470,458
Stores and Spares	7,326,682	12,474,587
SUNDRY DEBTORS (Unsecured, considered good)		
Due for more than six months	2,534,305	2,075,616
Others	1,694,867	34,916,997



Schedules to the Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 5 (Contd.)		
CASH AND BANK BALANCES		
Cash and Cheques on hand	105,786	111,933
With Scheduled Banks		
Current Accounts	9,755,364	11,906,698
Deposit Accounts (See Note 1)	706,248,746	297,157,592
With Non-scheduled Banks		
Current Accounts (See Note 2)	1,617,381	233,970
	717,727,277	309,410,193
	789,870,122	388,807,985
LOANS AND ADVANCES		
Considered good (See Note 3)		
Loans and Advances to the subsidiary [including interest accrued Rs. Nil (Previous Year : Rs. 196,353)]	10,851,500	11,496,020
Advances recoverable in cash or in kind or for value to be received (See Note 4)	31,957,082	46,647,072
Claims Recoverable	6,037,941	6,456,497
Inter Corporate Deposits	330,000,000	787,500,000
Advance Taxes	162,439,900	190,779,909
	541,286,423	1,042,879,498
Considered doubtful		
Less : Provision for Doubtful Claims/Loans [including for loan to subsidiary Rs. Nil (Previous Year: Rs. 8,642,000)]	4,064,809	12,706,809
	4,064,809	12,706,809
	0	0
	1,331,156,545	1,431,687,483
SCHEDULE 6		
CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors (See Note 5)	205,134,363	62,205,112
Investor Education and Protection Fund		
Unpaid Dividend #	3,217,396	2,253,674
Other Liabilities	3,714,658	11,510,664
	212,066,417	75,969,450
PROVISIONS		
Provision for Contingencies	14,627,000	10,500,000
Provision for Leave Encashment	2,472,000	2,656,000
Provision for Site Restoration	42,613,229	36,693,583
Provision for Taxation	116,715,632	100,665,562
Proposed Dividend (including tax thereon)	66,271,630	53,017,304
	242,699,491	203,532,449
	454,765,908	279,501,899

This does not include any amount due and outstanding, to be credited to the Investor Education and Protection Fund.

Schedules to the Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 7		
SALES		
Sale of Crude Oil	398,541,823	540,652,647
Less : Profit Petroleum surrendered to Government of India	15,146,466	24,830,489
	383,395,357	515,822,158
SCHEDULE 8		
OTHER INCOME		
Interest Income (Gross) (See Note 6)	61,327,854	77,769,200
Tax deducted at source Rs. 12,105,402 (Previous Year : Rs. 14,736,309)		
Dividend from Current Investments	16,295,889	7,786,627
Tax deducted at source Rs. Nil (Previous Year : Rs. 752,941)		
Dividend from Long Term Investments	1,590	138,155
Tax deducted at source Rs. Nil (Previous Year : Rs. 28,854)		
Net Profit on Sale of Assets	0	341,965
Profit on Sale of Current Investments	0	3,301,315
Miscellaneous Income	185,726	5,695,199
	77,811,059	95,032,461
SCHEDULE 9		
FIELD OPERATING EXPENSES		
Hire Charges	121,468,563	147,045,910
Insurance	9,908,650	9,659,620
Fuel, Water and Others	6,208,481	5,474,434
Production Expenses	6,459,790	3,279,213
Other Expenses	8,268,400	9,197,697
Royalty, Cess & Processing Charges	4,517,165	2,731,785
	156,831,049	177,388,659



Schedules to the Profit and Loss Account for the year ended March 31,

		in Rupees	
		2004	2003
SCHEDULE 10			
CORPORATE EXPENSES			
(A) STAFF EXPENSES			
Salaries, Allowances and Bonus		21,824,722	15,333,341
Contribution to Provident and Other Funds		3,668,923	2,542,879
Welfare Expenses (including provision for leave encashment : Rs. 184,000) (Previous Year : Rs. 648,000)		3,865,319	3,027,693
		29,358,964	20,903,913
(B) ESTABLISHMENT EXPENSES			
Rates and Taxes		194,009	427,346
Repairs and Maintenance		1,795,762	999,272
General Office Expenses		1,009,067	317,461
Electricity		1,481,861	1,001,126
		4,480,699	2,745,205
(C) OTHER EXPENSES			
Advertisement and Publicity		921,693	1,127,212
Auditors' Remuneration #			
Audit Fees	780,000		
Tax Matters	112,500		
Other Matters	61,340		
Reimbursement of Expenses	89,247		
Service Tax	78,310		
		1,121,397	739,480
Bank Charges and Commission		1,668,691	1,324,724
Books and Periodicals		92,680	55,202
Computer Expenses		1,043,662	382,902
Directors' Fees		94,000	98,000
Stamp Duty and Filing Fees		5,004,500	5,000
Insurance		141,349	123,696
Travelling and Conveyance		5,674,063	4,874,421
Communication Expenses		2,378,009	2,058,787
Legal and Professional Expenses		18,836,867	21,390,161
Membership and Subscription		625,816	453,723



Schedules to the Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 10 (Contd.)		
Printing and Stationery	1,373,565	1,083,551
Loss on Foreign Exchange Fluctuation	190,667	1,194,705
Loss on Sale/Discard of Assets	265,487	0
Loss on Sale of Investments	43,075	0
Miscellaneous Expenses (Includes interest on Income tax refund Rs. 2,619,245)	4,559,298	4,228,563
	44,034,819	39,140,127
(D) TOTAL CORPORATE EXPENSES (A+B+C)	77,874,482	62,789,245
(E) Less : RECOVERY OF EXPENSES	16,650,080	23,002,981
	61,224,402	39,786,264
# Auditors' Remuneration excludes Company's share of fees paid by Joint Ventures in which partners of the audit firm are partners.	0	278,988
The Auditors were also paid Rs. 778,066 by Company's strategic investor for restating its financial statements as per International Financial Reporting System for earlier years		
SCHEDULE 11		
PROVISIONS AND WRITE OFFS		
Provision for loss on revaluation of current investments	8,282,864	(5,043,517)
Provision for Contingencies	4,127,000	0
Provision for Site restoration	6,657,768	12,070,488
Excess Provision for doubtful claims/loans written back	(8,642,000)	(4,300,000)
Exploration Expenses written off (See note 2 of Schedule 12)	1,285,687	162,223,839
Share Issue Expenses written off	287,500	287,500
Signature Bonus written off	208,333	208,333
	12,207,152	165,446,643



Schedules to the Financial Statements for the year ended March 31, 2004

SCHEDULE – 12

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The Accounts of the Company have been prepared using the accrual concept on a going concern basis consistently.

2. Exploration and Development Costs

The Company generally follows the “Successful Efforts” method of accounting for its exploration and production activities as explained below:

- (i) Cost of exploratory wells, including survey costs, is expensed in the year when determined to be dry/abandoned or is transferred to the producing properties on attainment of commercial production.
- (ii) Cost of temporary occupation of land, successful exploratory wells, development wells and all related development costs, including depreciation on support equipment and facilities, are considered as development expenditure. These expenses are capitalised as producing properties on attainment of commercial production.
- (iii) Producing properties, including the cost incurred on dry wells in development areas, are depleted using “Unit of Production” method based on estimated proved developed reserves. Any changes in Reserves and/or Cost are dealt with prospectively. Hydrocarbon reserves are estimated and/or approved by the Management Committees of the Joint Ventures, which follow the International Reservoir Engineering Principles.

3. Site Restoration

Estimated future liability relating to dismantling and abandoning producing well sites and facilities whose estimated producing life is expected to end during next ten years is provided in proportion to the production for the year and remaining estimated proved reserves of hydrocarbons based on latest technical assessment available with the Company.

4. Joint Ventures

The financial statements of the Company reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations which are accounted on the basis of available information on line by line basis with similar items in the Company's accounts to the extent of the participating interest of the Company as per the various joint venture agreements.

5. Fixed Assets

Fixed Assets are stated at cost inclusive of all incidental expenses.

6. Depreciation

- (i) Depreciation is provided on the “Written Down Value” method at the rates specified in Schedule XIV of the Companies Act, 1956.
- (ii) In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/disposal.

7. Intangible Assets (Software)

Software are stated at cost of acquisition less accumulated amortisation and are included in fixed assets. Computer software is amortised on the “Written Down Value” method at 40% per annum.

8. Investments

Investments are capitalised at cost plus brokerage and stamp charges. Long term investments are valued at cost. Provision is made for other than temporary diminution in the value of long-term investments. Current investments are valued at the lower of cost and market value on individual scrip basis.

9. Inventories

- (i) Closing stock of crude oil in saleable condition is valued at Net Realisable Value.
- (ii) Stores and spares are valued at cost on FIFO basis or market price, whichever is lower.

10. Miscellaneous Expenditure

- (i) Share issue expenses are written off over a period of ten years commencing from the year of issue.
- (ii) “Signature Bonus” paid upon signing of Production Sharing Contract is considered as deferred revenue expense to be written off over three to five years commencing from the year of payment, depending on the size of the field.

11. Revenue Recognition

- (i) Revenue from the sale of crude oil net of Government's share of Profit oil, is recognised on transfer of custody to refineries/ others.
- (ii) Sale is recorded at the invoiced price, which is subject to the approval of the Government of India, Ministry of Petroleum & Natural Gas (MoP&NG). The difference between the invoiced price and the final approved price, if any, is adjusted in the year in which the aforesaid approval is received.

12. Retirement Benefits

The Company has defined contribution plan for Provident Fund and benefit-defined Superannuation Fund and the Company's contributions thereto are charged to the Profit and Loss Account.

The Company has participated in Group Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and is charged to the Profit and Loss Account determined based on an actuarial valuation.

Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.

13. Foreign Currency Transactions

- (i) Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction.
- (ii) Monetary items denominated in foreign currencies at the year end and not covered by forward exchange contracts are translated at the year end rates and those covered by forward exchange contracts are translated at the rate ruling at the date of transaction as increased or decreased by the proportionate difference between the forward rate and exchange rate on the date of transaction, such difference having been recognised over the life of the contract.
- (iii) Any gain or loss arising on account of exchange difference on settlement or translation is recognised in the Profit and Loss Account except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying costs of such assets.

14. Taxation

The Company adopts full provision basis for deferred tax without discounting, in accordance with the Accounting Standard 22 on Accounting for Taxes on Income. Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future.

SCHEDULE – 13
NOTES FORMING PART OF THE ACCOUNTS

1. Deposit with scheduled banks includes deposit of Rs. 20,897,963 (As at 31.03.03: Rs. 19,157,800) placed as "Site Restoration Fund" under Section 33 ABA of the Income Tax Act, 1961.
2. The balances with non-scheduled banks represent the balances with Barclays Bank, London. The maximum amount outstanding at any time during the year in respect of this account is Rs. 33,522,983 (As at 31.03.03: Rs. 30,611,771).
3. Out of the total Loans and Advances, amounts aggregating Rs. 303,033 (As at 31.03.03: Rs. 292,113) are secured.
4. Advances receivable in cash or kind or for value to be received includes Rs.1,354,621 (As at 31.03.2003: Rs. 1,354,621) paid towards capital commitment.
5. Sundry Creditors include Rs. 153,900 (As at 31.03.03: Rs. 12,071) due to small-scale industrial undertakings to the extent such parties have been identified by the Management from available information. This does not include information of Joint Ventures, as the same is not applicable to the Joint Ventures.
6. Interest Income includes interest on:

in Rupees

	Year ended	
	March 31, 2004	March 31, 2003
Deposits	60,186,948	70,633,424
Loan to Subsidiary	614,508	1,008,000
Staff Loans	35,313	27,791
Income Tax refund	491,085	6,099,985
Total	61,327,854	77,769,200



7. Remuneration to the Managing Director:

in Rupees

	Year ended	
	March 31, 2004	March 31, 2003
Salary	1,480,000	820,000
Contribution to Provident and Superannuation Funds	399,600	221,400
Perquisites	2,199,370	556,273
Total	4,078,970	1,597,673

The above figures do not include contribution to Gratuity Fund and liability for leave encashable, as separate figures are not available.

8. Expenditure in Foreign Currency (on cash basis, excluding share in Joint Ventures):

in Rupees

	Year ended	
	March 31, 2004	March 31, 2003
Travelling	468,116	118,346
Membership & Subscription	7,730	5,967
Consultancy services	7,149,158	0
Insurance	0	19,605,241
Others	19,928	16,772

9. CIF value of Imports (Excluding share in Joint ventures):

in Rupees

	Year ended	
	March 31, 2004	March 31, 2003
Computer Softwares	10,201,603	0

10. Contingent Liabilities:

in Rupees

	As at March 31,	
	2004	2003
In respect of Bank Guarantees	43,347,357	25,520,894
In respect of Guarantee for Housing Loan to employees	5,839,257	6,296,856
Estimated amount of contract remaining to be executed on capital account and not provided for (excluding Company's share of Joint Ventures' commitments and including Rs. 464,310,000 in respect of a farm-in consideration for acquisition of participating right, which is subject to government approval)	469,602,721	3,110,859
Others	0	1,300,000

	As at March 31,	
	2004	2003
11. Claims against the Company not acknowledged as debt	Rs. 125,835,898	Rs. 112,506,530

12. The Government had encashed the Performance Bank Guarantee of Rs. 101.49 lac for PG Block abandoned by the Consortium under the *force majeure* clause of the Production Sharing Contract (PSC). The Government has also raised an additional demand of Rs. 1,931.84 lac (including interest) (As at 31.03.03: Rs. 1,708.76 lac). The Company has been legally advised that the said actions of the Government are not justified. The Company has initiated legal proceeding as per the provisions of the PSC in the matter. Pending the outcome of this, provision has been made in this regard to the extent of Rs. 105 lac (As at 31.03.03: Rs.105 lac).

13. The Company has issued letter of indemnity to the Government of India towards claims or damages, if any, arising due to the withdrawal of M/s. Amec Process & Energy Ltd., U.K. (AMEC) from Consortium of North Balol, Unawa, North Kathana, Kanawara, Dholasan and Allora originally awarded to the Company alongwith Gujarat State Petroleum Corporation Ltd. and AMEC/Heritage, U.K. [Refer Note 17].

Due to the nature of the indemnification, its financial impact is not ascertainable.

14. Till the last year, the Company had been following the accounting policy under which, Closing stock of crude oil in saleable condition was valued at cost or net realisable value, whichever is lower.

The Company has changed the accounting policy during the year as discussed in para 9 of the Significant Accounting Policy (Schedule 12). Had the Company not changed the Accounting Policy the profit for the year before taxes would have been lower by Rs. 33,773,015.

15. Prior period adjustments, in accordance with Accounting Standard 5 represent short provision of Rs. 5,248,737 in earlier years arising out of an omission in computation of depletion on producing properties Rs. 3,288,462 and provision for site restoration Rs. 1,960,275.
16. (a) The Company is not a manufacturing company but is a partner in various Consortiums engaged in the prospecting, exploring and producing of oil and gas. The information given below as required under items 4-C and 4-D of Part II of Schedule VI to the Companies Act, 1956 represents the Company's share in the Joint Ventures.

(i) **SALES TURNOVER**

Description	Unit	Quantity	Value (Rs.)
Crude Oil	Bbl.	309,819	398,541,823
		(409,677)	(540,652,647)
Less: Profit petroleum surrendered to Government of India			15,146,466
			(24,830,489)
Net		309,819	383,395,357
		(409,677)	(515,822,158)

(ii) **OPENING AND CLOSING STOCK OF GOODS PRODUCED**

Description	Unit	Quantity	Value (Rs.)
Opening Stock			
Crude Oil	Bbl.	21,701	18,470,458
		(69,363)	(51,024,378)
Closing Stock			
Crude Oil	Bbl.	36,402	53,733,616
		(21,701)	(18,470,458)

(iii) **LICENSED CAPACITY, INSTALLED CAPACITY AND ACTUAL PRODUCTION**

Description	Unit	Licensed Capacity Per Annum	Installed Capacity Per Annum	Actual Production for the year
Crude Oil	Bbl.	N.A.	N.A.	324,520 (362,043)

Figures in the brackets relate to previous year.

- (b) Particulars relating to consumption of stores and spares have not been given in the absence of information in the Joint Ventures' accounts.
17. Details of the Partners and their shares in the respective Joint Ventures entered into by the Company as on March 31, 2004 are as follows :

Joint Ventures#	Partners	Share (%)
Licensed Production Sharing Contracts:		
CY-OS/90-1 (PY -3)	Hardy Exploration & Production (India) Inc.	18
	Oil and Natural Gas Corporation Ltd.	40
	Hindustan Oil Exploration Company Ltd.	21
	Tata Petrodyne Ltd.	21



Contd..

Joint Ventures#	Partners	Share (%)
Asjol Block	Hindustan Oil Exploration Company Ltd.	50
	Gujarat State Petroleum Corporation Ltd.	50
PY -1*	Hindustan Oil Exploration Company Ltd.	100
CB-OS-1 (Cambay)*	Oil and Natural Gas Corporation Ltd.	32.89
	Hindustan Oil Exploration Company Ltd.	57.11
	Tata Petrodyne Ltd.	10.00
Pranhita Godavari **	Hindustan Oil Exploration Company Ltd.	75
	Mafatlal Industries Ltd.	25
AAP-ON-94/1	Premier Oil North East India BV	38
	Indian Oil Corporation Ltd.	27
	Hindustan Oil Exploration Company Ltd.	25
	Oil India Ltd.	10
CB-ON-7 (Palej)	Hindustan Oil Exploration Company Ltd.	50
	Gujarat State Petroleum Corporation Ltd.	50
CY-OSN-97/1*	Hindustan Oil Exploration Company Ltd.	80
	Mosbacher (India) LLC	20
North Balol	Hindustan Oil Exploration Company Ltd.	25
	Gujarat State Petroleum Corporation Ltd.	45
	Heramec Ltd.	30

Note: Above does not include participating interests in respect of Unawa, North Kathana, Kanawara, Dholasan and Allora, which were farmed out during the year, subject to Government approval.

All the Joint Ventures are for the blocks awarded within the territorial limit of India.

* Revised share in respect of these Joint Ventures, as indicated above, is subject to the approval of the Ministry of Petroleum and Natural Gas (MoP&NG), Government of India.

** Approval of MoP&NG, Government of India, for the closure of this Joint Venture under *force majeure* clause of the Production Sharing Contract is awaited (See note 12).

18. As per the Accounting Standard on 'Related Party Disclosures' (AS 18) issued by the Institute of Chartered Accountants of India, the related parties of the Company are as follows:

(A) Subsidiary Company : HOEC Bardahl India Ltd.

(B) Joint Ventures : As per details given in Note 16.

As stated in item 4 of Significant Accounting Policies (Schedule 12), the financial statements of the Joint Ventures are incorporated in the Company's accounts. Hence, particulars of transactions with the Joint Ventures have not been separately disclosed.

(C) Key Management Personnel : Mr. Rakesh Jain, Mr. Ajit C. Kapadia

The Nature and volume of transactions of the Company during the year with the above parties were as follows:

in Rupees			
Particulars	Subsidiary Company	Joint Ventures' Partners	Key Management Personnel
INCOME			
– Interest	614,508		
EXPENDITURE			
– Remuneration			4,078,970
– Recovery of Expenses		6,101,977	
– Rates & Taxes	(79,754)		
– Repairs & Maintenance	(50,310)		
ASSETS			
– Unsecured Loan repaid	9,241,667		
– Unsecured Loan outstanding	10,700,000		
– Current Account	151,500		
– Writeback of Provision for Doubtful Claims/Loans	8,642,000		

19. As stated in item 13 of Significant Accounting Policies (Schedule 12), deferred tax asset and liability has been calculated as under:

	As at March 31,	
	2004	2003
Deferred tax asset		
Exploration Expenses	155,085,000	155,105,000
Provisions for Contingencies and Doubtful Loans	6,705,000	8,395,000
Site Restoration	7,790,000	6,292,000
Leave Encashment	194,000	363,000
Sub total (A)	169,774,000	170,155,000
Deferred tax liability		
Depreciation on Fixed Assets	1,660,000	2,740,000
Producing Properties	46,683,000	67,939,000
Sub total (B)	48,343,000	70,679,000
Net deferred tax asset (A – B)	121,431,000	99,476,000

20. Particulars of Dividend paid to non-resident shareholders (including Foreign Institutional Investors) are as under:

Year to which the dividend relates	2002-03	2001-02
Number of non-resident shareholders	876	961
Number of equity shares held by them	20,882,779	20,966,899
Gross amount of dividend	Rs. 16,706,223	Rs. 25,160,279

21. Earning Per Share (EPS):

The basic/diluted earning per equity share is calculated as stated below:

	Year ended	
	March 31, 2004	March 31, 2003
Net Profit after tax	Rs. 221,214,995	Rs. 116,240,501
Weighted average numbers of equity shares	58,744,935	58,744,935
Basic/Diluted Earnings Per Share (EPS)	Rs. 3.77	Rs. 1.98
Before Prior Period Adjustment	Rs. 3.86	Rs. 1.98
Nominal Value per share	Rs. 10	Rs. 10

22. Previous year's figures have been regrouped wherever necessary.



Statement Pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary

NAME OF THE SUBSIDIARY	HOEC BARDAHL INDIA LIMITED
1. The Financial Year of the subsidiary ended on	March 31, 2004
2. (a) Number of Shares held by Hindustan Oil Exploration Company Ltd. (holding company) as on March 31, 2004	50,002 Equity Shares of Rs. 100/- each fully paid
(b) Extent of interest of the holding company at the end of the financial year of the subsidiary	100%
3. Date from which it became a subsidiary	March 30, 1992
4. The net aggregate amount of Profit/(Loss) of the subsidiary so far as it concerns the members of the holding company:	
(a) not dealt with in the holding company's accounts:	
(i) for the financial year of the subsidiary	NIL
(ii) for the previous financial years of the subsidiary since it became the holding company's subsidiary	NIL
(b) dealt with in the holding company's accounts:	
(i) for the financial year of the subsidiary	Rs. 8,261,699
(ii) for the previous financial year of the subsidiary since it became the holding company's subsidiary	Rs. (13,640,833)

Dr. I.G. Patel Chairman	Rakesh Jain Managing Director	Andrew Fawthrop C.K. Mehta M.N. Khan
Amit Shah Accounts Controller	Ketan Thaker Asst. Company Secretary	Ronald S. Somers Vimal Bhandari Directors

Place : Mumbai

Date : 16th June 2004

Disclosure as required under Clause 32 of Listing Agreement:

A. Loans and Advances in the nature of loans to Subsidiaries and Associates.

Name of the Subsidiary	Amount outstanding as at 31st March 2004# Rs.	Maximum Amount outstanding during the year Rs.	Investments in Company's Shares (Nos.)
HOEC Bardahl India Limited	10,700,000	11,541,667@	Nil
HOEC Bardahl India Limited	0	8,400,000*	Nil

@ Interest Free.

* Interest @ 12% p.a.

Due for repayment on 31st March 2004.

Note: The outstanding loan of Rs. 107 lac has been extended for a period of 2.5 years on an interest of 6% per annum.

B. Inter Corporate Deposits with firms/companies in which directors are interested.

Name	Amount outstanding as at 31st March 2004 (Rs. lac)	Maximum Amount outstanding during the year (Rs. lac)
Housing Development Finance Corporation Ltd.	1,200	2,000
Infrastructure Leasing & Financial Services Ltd.	Nil	2,400
Total	1,200	4,400



Balance Sheet Abstract and Company's General Business Profile

(I) Registration Details	
Registration No.	29880
State Code	04
Balance Sheet Date	31.03.2004
(II) Capital raised during the year	(Rs. in Thousand)
Public Issue	NIL
Rights Issue	NIL
Bonus Issue	NIL
Private Placement	NIL
(III) Position of Mobilisation and Deployment of Funds	(Rs. in Thousand)
Total Liabilities	2,440,655
Total Assets	2,440,655
Sources of Funds	
Paid-up Capital	587,609
Reserves and Surplus	1,398,280
Secured Loans	NIL
Unsecured Loans	NIL
Application of Funds	
Net Fixed Assets	802,696
Investments	184,301
Deferred Tax Asset	121,431
Net Current Assets	876,390
Miscellaneous Expenditure	1,071
Accumulated Losses	NIL
(IV) Performance of the Company	(Rs. in Thousand)
Turnover	496,469
Total Expenditures (including Prior Period Adjustments)	281,129
Profit Before Tax	215,340
Profit After Tax	221,215
Earning Per Share (in Rs.)	Rs. 3.77
Dividend rate %	10%
(V) Generic Names of Three Principal Products/Services of the Company (as per monetary terms)	
Item Code No. (ITC Code)	270900
Product Description	CRUDE OIL



**HOEC BARD AHL
INDIA LIMITED**

BOARD OF DIRECTORS

Mr. Rakesh Jain	<i>Chairman</i>
Mr. Haren D. Parekh	<i>(upto 25.02.2004)</i>
Mr. Manish Maheshwari	<i>(from 03.06.2004)</i>
Mr. Mohammad N. Khan	<i>(from 03.06.2004)</i>
Dr. Vipul D. Desai	

AUDITORS

M/s. H. R. Lalka & Company
Chartered Accountants, Mumbai

BANKERS

HDFC Bank Limited

REGISTERED OFFICE

'HOEC House', Tandalja Road
Off Old Padra Road
Vadodara-390 020 (India)

CORPORATE OFFICE

Anand House, Khatwari Darbar Road
Off Linking Road, Khar (West)
Mumbai 400 052 (India)



DIRECTORS' REPORT

TO THE MEMBERS OF HOEC BARD AHL INDIA LIMITED

The Directors have pleasure in giving their Report and the Audited Accounts for the Financial Year ended on March 31, 2004.

ANNUAL RESULTS

We are happy to report a successful year with a growth in sales of 17% over the previous year. The profit before tax was Rs. 63.97 Lacs as compared to a profit of Rs. 37.12 Lacs in the previous year.

FINANCIAL RESULTS

	(Rs. in Lacs)	
	2003-2004	2002-2003
Turnover	311.60	265.44
Profit/(Loss) Before Tax	63.98	37.12
Less : Provision for Tax	4.00	3.05
Add : Provision for Deferred Tax	22.64	0
Profit After Tax	82.62	34.07
Add : Loss brought forward from Previous year	(136.41)	(170.21)
Add : Prior Period Adjustments	0	(0.27)
Loss carried forward to Balance Sheet	(53.79)	(136.41)

OPERATIONS REVIEW

Keeping the trend of positive and controlled growth, your Company has achieved considerable growth in the profits boosted by the much-needed Hyundai approval, which added a large customer base to the existing Maruti users. Even the 2-wheeler segment has shown an excellent growth, while the Industrial segment for bulk sales proves to be an ideal opportunity for large volumes. We see the new year as conversion of these opportunities to sales. Your Company has repaid over Rs. 92 Lacs during this year, against loan from Hindustan Oil Exploration Company Limited [HOEC] (the Holding Company), which is an indicator of the Company's positive growth.

DIRECTORS

Mr. Rakesh Jain, was appointed on the Board of the Company during the year. In accordance with the provisions of Articles of Association of the Company and provisions of the Companies Act, 1956, Dr. Vipul Desai, will retire by rotation at the ensuing Annual General Meeting and he, being eligible offer himself for re-appointment. During the year Mr. Ajit C. Kapadia, Chairman and Mr. Haren D. Parekh, have ceased to be Directors. The Board places on record its appreciation for the guidance and valued contribution during their tenure.

The Directors seeking appointment are Mr. Manish Maheshwari and Mr. M. N. Khan.

EMPLOYEES

During the year, there was no employee in respect of whom information as per Section 217(2A) of the Companies Act, 1956, is required to be given in the Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

- that in the preparation of the annual accounts for the financial year ended 31st March 2004 the applicable accounting standards had been followed and that no material departures have been made from the same;
- that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the directors had prepared the annual accounts on a going concern basis.

LOAN FROM THE HOLDING COMPANY

Hindustan Oil Exploration Company Limited [HOEC] (the Holding Company) has accorded their approval for extension of the validity of outstanding interest free loan of Rs. 107 lac as at 31st March 2004, on following terms:

- Interest @ 6% p.a. payable half-yearly.
- Loan to be repaid half-yearly by 30th September 2007 in five installments.

AGREEMENT WITH BARD AHL MANUFACTURING CORPORATION

The Company has a renewed Agreement with M/s. Bardahl Manufacturing Corporation upto November 2007.

COMPLIANCE CERTIFICATE

As per the requirements of Section 383A of the Companies Act, 1956, the Company has obtained a certificate from a Secretary in the whole time practice confirming that the Company has complied with all the provisions of the Companies Act, 1956. The certificate is attached herewith.

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

Since the Company has no manufacturing facility, the requirements of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable. As such, the products line of your Company is to make use of any engine



to work efficiently, conserving energy as well as putting out exhaust which would be ecofriendly. Particulars with respect to foreign exchange appear in Schedule 11 of the accounts.

AUDITORS

The Auditors M/s. H. R. Lalka & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting. As recommended by the Board at its Meeting held on 3rd June 2004, proposed their appointment as Statutory Auditors to audit the accounts of the Company for the financial year 2004-2005. You are requested to consider their appointment.

ACKNOWLEDGEMENT

Your Directors are pleased to place on record their appreciation for the hard work and dedication of all the employees. Directors would also like to thank HOEC Ltd., the customers, bankers and M/s. Bardahl Manufacturing Corporation for the support given by them to the Company.

On behalf of the Board of Directors

Place : Vadodara
Date : 3rd June 2004

Rakesh Jain
Chairman

ANNEXURE TO DIRECTORS' REPORT

Registration No. of the Company 04-11536

Nominal Capital Rs. 1,00,00,000/-

To
The Members
HOEC Bardahl India Ltd.

I have examined the registers, records, books, forms and papers of **HOEC Bardahl India Ltd.** (the Company) as required to be maintained under the Companies Act, 1956, ("the Act") and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March, 2004 ("financial year"). In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in **Annexure 'A'** to this certificate as per the provisions of the Companies Act, 1956 and the rules made thereunder and entries therein have been duly recorded.
2. The Company has duly filed the forms and returns as stated in **Annexure 'B'** to this certificate with the Registrar of Companies within the time prescribed under the Companies Act, 1956 and the rules made thereunder. However, no forms or returns were required to be filed with the Regional Director, Central Government, Company Law Board or other authorities.
3. The Company, being a public limited company, the restriction clauses as provided in Section 3(1)(iii) of the Companies Act, 1956 is not applicable.

4. The Board of Directors duly met **six** times on **9th April 2003, 6th June 2003, 1st August 2003, 15th September 2003, 21st November 2003 and 9th February 2004** in respect of which meetings proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.
5. The Company has not closed its Register of Members during the financial year under review.
6. The Annual General Meeting for the financial year ended on **31st March 2003** was held on **23rd September 2003** after giving due notice to the members of the Company and the resolutions passed thereat were duly recorded in Minutes Book maintained for the purpose.
7. Extraordinary General Meeting was held on **17th April 2003** during the financial year.
8. The Company had not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Companies Act, 1956.
9. The Company had not entered into any contracts to which the provisions of Section 297 of the Companies Act, 1956 applies.
10. No entries have been required to be made in the register under Section 301 of the Companies Act, 1956.
11. The provisions of Section 314 of the Companies Act, 1956 have not been attracted and therefore no approval were required to be taken.
12. The Company has not issued any duplicate share certificates during the financial year under review.
13. The Company has:
 - (i) Delivered all the certificates on lodgement thereof for transfer in accordance with the provisions of the Companies Act, 1956.
 - (ii) Not declared any dividend/interim dividend during the financial year under review.
 - (iii) Duly complied with the requirements of Section 217 of the Companies Act, 1956.
14. The Board of Directors of the Company is duly constituted and the appointment of directors has been duly made.
15. The Company's paid up capital being less than the prescribed Rs. 5 crores, it is not required to appoint a Managing Director/Whole-Time Director/Manager and accordingly the provisions of Section 269 of the Companies Act, 1956 to that extent are not applicable.
16. The Company has not appointed any sole-selling agents during the financial year under review.
17. During the said financial year, no approvals have been required from the specified authorities under the Companies Act, 1956.
18. The Directors have disclosed their interest in other firms/companies to the Board of Directors pursuant to the provisions of the Companies Act, 1956 and the rules made thereunder.



19. The Company has not issued any shares, debentures or other securities during the financial year.
20. The Company has not bought back any shares during the financial year.
21. The Company has not issued any redeemable preference shares/debentures.
22. During the year under review the Company has not declared any dividend, rights shares & bonus shares and hence the question of keeping in abeyance right to dividend, rights shares and bonus shares pending registration of transfer of shares does not arise.
23. The Company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A of the Companies Act, 1956, during the financial year.
24. The Company has not made any borrowing during the financial year ended **31st March 2004**.
25. The Company has not made any loans or advances or given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.
26. The Company has not altered the provisions of the memorandum with respect to situation of the Company's registered office from one state to another during the year under scrutiny.
27. The Company has not altered the provisions of the memorandum with respect to the objects of the Company during the year under scrutiny.
28. The Company has not altered the provisions of the memorandum with respect to name of the Company during the year under scrutiny.
29. The Company has not altered the provisions of the memorandum with respect to share capital of the Company during the year under scrutiny.
30. The Company has not altered its articles of association during the financial year.
31. There was no prosecution initiated against or show cause notices received by the Company during the financial year, for offences under the Companies Act, 1956.
32. The provisions of Section 417(1) of the Companies Act, 1956 is not applicable.
33. The Company has deposited both employees' and employer's contribution to Provident Fund with prescribed authorities pursuant to Section 418 of the Act.

Place : Vadodara
Date : 2nd June 2004

KANU M. GANDHI
Practising Company Secretary
C.P. No. 3089

Annexure – A

Registers as maintained by the Company

1. Register of Members u/s. 150 of the Companies Act, 1956
2. Register of Transfers.
3. Register of Directors u/s. 303
4. Register of Directors' shareholders u/s. 307
5. Register of Contracts, Companies and Firms in which Directors of the Company are interested u/s. 297, 299, 301 and 301(3).
6. Minutes of the Annual General Meeting/Extraordinary General Meeting & Board Meetings u/s. 193 along with the Attendance Register.

Annexure – B

Forms and Returns as filed by the Company during the financial year ended 31st March 2004.

1. Form 32 in respect of;
 - Cessation of Mr. Ajit C. Kapadia (filed on 29.08.2003) and Mr. Haren D. Parekh (filed on 23.03.2004)
 - Appointment of Mr. Rakesh Jain (filed on 29.08.2003 and 22.10.2003)
 - Re-appointment of Dr. Vipul D. Desai (filed on 22.10.2003)
2. Form No. 29 for Appointment of Mr. Rakesh Jain as Director (filed on 29.08.2003).
3. Form No. 23 for Authority to borrow money in excess of paid up capital and free reserve of the Company under Section 293(1)(d) (filed on 02.05.2003).
4. Balance Sheet as on 31st March 2003 and Profit and Loss Account for the period 1st April 2002 to 31st March 2003 was filed on 22.10.2003.
5. Annual Return for the financial year was filed on 19.11.2003.

Place : Vadodara
Date : 2nd June 2004

KANU M. GANDHI
Practising Company Secretary
C.P. No. 3089



AUDITORS' REPORT

To the members of HOEC BARDAHL INDIA LIMITED

We have audited the attached Balance Sheet of HOEC BARDAHL INDIA LIMITED, as at 31st March 2004 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Our audit includes an examination on a test basis, of evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates and judgements made by the management in the preparation of financial statements and evaluating the overall financial statement presentation.

We planned and performed our audit, so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements and to provide a reasonable basis for our opinion.

We further report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of audit;
 2. In our opinion, proper Books of Account as required by law have been kept by the Company so far as appears from our examination of those books;
 3. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the Books of Account;
 4. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the requirements of the Accounting Standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956;
 5. On the basis of the written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2004 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts and read together with the notes to accounts thereon, give the information required by the Companies Act, 1956 in the manner so required and also give a true and fair view, in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March 2004,
 - (b) in the case of the Profit and Loss Account, of the Profit for the year ended on that date, and
 - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.
7. As required by the Companies (Auditor's Report) Order, 2003 and according to the information and explanations given to us during the course of the audit and on the basis of such checks as were considered appropriate, we report that:
- (i)
 - (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
 - (b) As explained to us, the assets have been physically verified by the management, which in our opinion is reasonable, considering the size and the nature of its business. No material discrepancies have been noticed on such physical verification.
 - (ii)
 - (a) The inventories have been physically verified by the management during the year at reasonable intervals, except materials lying with third parties, where confirmations are obtained;
 - (b) The procedures of physical verification of the inventories followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business;
 - (c) The Company has maintained proper records of inventories and discrepancies noticed on physical verification of inventories as compared to book records were not material.
 - (iii)
 - (a) The Company has neither granted nor taken any loans to and from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956;
 - (b) The rate of interest and other terms and conditions in respect of unsecured loans given by the Company to its employees and others, are in our opinion, prima facie not prejudicial to the interest of the Company;
 - (c) In respect of such loans given by the Company, where stipulations have been made, they have repaid the principal amounts as stipulated and have been regular in payment of interest, where applicable;
 - (d) In respect of such loans given by the Company, there are no overdue amounts more than Rs. 1,00,000;



**HOEC BARD AHL
INDIA LIMITED**

- (e) In respect of Loan taken from the Holding Company, the Company is regularly paying the interest and is making reasonable efforts to repay the principal amount by making some payments towards principal during the year.
- (iv) There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventories, fixed assets and for the sale of goods.
- (v) (a) According to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements, that need to be entered into the register maintained under Section 301 of the Companies Act, 1956;
- (b) There are no transactions of purchase and sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 aggregating during the year to Rs. 5,00,000 or more in respect of each party.
- (vi) The Company has not accepted any deposit from the public during the year.
- (vii) The internal audit is done by a firm of Chartered Accountants appointed by the Management is commensurate with the size of the Company and nature of its business.
- (viii) We are informed that the Central Government has not prescribed the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956.
- (ix) (a) According to the records of the Company, the Company is regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Customs Duty, Cess and other statutory dues with appropriate authorities. According to the information and explanations given to us, there are no undisputed amounts payable in respect of such statutory dues, which have remained outstanding as at 31st March 2004 for a period more than six months from the date they became payable;
- (b) Disputed Income Tax and Customs Duty not deposited, have been disclosed in note 5(b) under the head "Contingent Liabilities not provided for" in the accounts.
- (x) The Company has accumulated losses of Rs. 5,379,134/- which is more than 50% of its net worth, however Company has not incurred cash losses in the current financial year and in the immediately preceding financial year.
- (xi) The Company has not taken any loans from any financial institutions nor defaulted for repayments of Bank dues and has not issued any Debentures.
- (xii) The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other securities.
- (xiii) The provisions of any Special Statute applicable to Chit Fund, Nidhi or Mutual Benefit Fund/Societies are not applicable to the Company.
- (xiv) The Company is not dealing or trading in shares, securities, debentures or other investments and hence the requirements of Para 4(xiv) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions.
- (xvi) The Company has not availed any term loan during the year.
- (xvii) On the basis of our examination of the Cash Flow Statement, the Company has not raised funds on short term basis hence use of such funds for long term investments, does not arise.
- The Company has not raised long-term funds during the year and hence the use of such funds for short-term investments does not arise.
- (xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956 during the year.
- (xix) The Company has not issued any debentures hence the requirements of Para 4(xix) are not applicable to the Company.
- (xx) The Company has not raised any money by way of Public issues during the year.
- (xxi) On the basis of our examination and according to the information and explanations given to us, no fraud, on or by the Company, has been noticed or reported during the year.

For H. R. LALKA & CO.
Chartered Accountants

Place : Mumbai
Date : 4th June 2004

Hiren Lalka
Proprietor
M. No. 40242



**HOEC BARDAHL
INDIA LIMITED**

Balance Sheet as at March 31,

			in Rupees	
	Schedule		2004	2003
FUNDS EMPLOYED				
SHAREHOLDERS' FUNDS				
Share Capital	1		5,000,200	5,000,200
LOANS FUNDS				
Unsecured Loans	2		10,700,000	19,941,667
			15,700,200	24,941,867
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross block	3	779,176		762,887
Less: Depreciation		490,842		436,210
NET BLOCK			288,334	326,677
DEFERRED TAX ASSETS			2,264,251	0
CURRENT ASSETS, LOANS & ADVANCES				
Less: CURRENT LIABILITIES AND PROVISIONS	4	13,203,182		16,345,739
	5	5,434,701		5,371,382
NET CURRENT ASSETS			7,768,481	10,974,357
PROFIT AND LOSS ACCOUNT				
			5,379,134	13,640,833
			15,700,200	24,941,867
Accounting Policies	13			
Notes Forming Part of Accounts	14			

Schedules 1 to 14 annexed hereto form part of the Balance Sheet and Profit and Loss Account

In terms of our report of even date attached.

For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : 4th June 2004

Rakesh Jain
Chairman

Manish Maheshwari
M.N. Khan
Vipul D. Desai
Directors

Place : Vadodara
Date : 3rd June 2004



Profit & Loss Account for the year ended March 31,

		in Rupees	
	Schedule	2004	2003
INCOME			
Sales		31,159,792	26,544,252
Other Income	6	1,951,343	330,501
		33,111,135	26,874,753
EXPENDITURE AND CHARGES			
Cost of goods for resale	7	10,599,699	10,765,012
Staff Expenses	8	3,728,119	3,315,213
Establishment Expenses	9	611,196	494,388
Other Expenses	10	1,137,866	887,210
Marketing & Distribution Cost	11	8,681,153	6,538,403
Provisions and Write offs	12	1,233,853	21,012
Interest Cost		645,538	1,046,340
Depreciation		76,263	95,049
		26,713,687	23,162,627
Profit for the year before tax		6,397,448	3,712,126
Less: Provision for Taxation		400,000	305,000
Add: Provision for Deferred Tax		2,264,251	0
Profit for the year after tax		8,261,699	3,407,126
Add: Loss – Brought forward from previous year		(13,640,833)	(17,020,525)
Add: Prior Period Adjustments		0	(27,434)
Balance carried to Balance Sheet		(5,379,134)	(13,640,833)

Schedules 1 to 14 annexed hereto form part of the Balance Sheet and Profit and Loss Account.

In terms of our report of even date attached.

For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : 4th June 2004

Rakesh Jain
Chairman

Manish Maheshwari
M.N. Khan
Vipul D. Desai
Directors

Place : Vadodara
Date : 3rd June 2004



Cash Flow Statement for the year ended March 31,

	in Rupees	
	2004	2003
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax	6,397,448	3,712,126
Adjustments for :		
Depreciation	76,263	95,049
Interest Expense	645,538	1,046,340
Provision for Doubtful Debtors	5,987	21,012
Bad Debts Written off	(1,227,866)	0
Loss on Sale/discard of assets	7,733	50,723
Exchange Gain	(88,489)	(38,882)
Provision for leave encashment	64,000	76,000
Provision for gratuity	0	68,000
Interest Income	(348,466)	(226,143)
Excess Provisions written back	(1,464,591)	(11,905)
Recovery of doubtful debts	(202,000)	0
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	3,865,557	4,792,320
Adjustment for:		
Trade Debtors	2,455,141	(641,209)
Other Receivables	(53,892)	(187,959)
Inventories	1,416,495	233,963
Payables	(400,681)	2,409,430
CASH FROM OPERATIONS	7,282,620	6,606,545
Income Tax paid	(280,000)	(160,000)
Excess Provisions written back	1,464,591	11,905
Prior Period Item	0	(27,434)
NET CASH FROM OPERATING ACTIVITIES	8,467,211	6,431,016
B. CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(47,661)	(79,949)
Fixed Assets sold	2,008	181,131
Interest received	279,211	179,021
NET CASH (USED)/RAISED FROM INVESTING ACTIVITIES	233,558	280,203
C. CASH FLOW FROM FINANCING ACTIVITIES		
Interest paid	(645,538)	(1,046,340)
Secured Loan repaid	0	(78,585)
Unsecured Loan	(9,241,667)	0
Exchange Gain	88,489	38,882
NET CASH (USED)/RAISED FROM FINANCING ACTIVITIES	(9,798,716)	(1,086,043)
NET (DECREASE)/INCREASE IN CASH OR CASH EQUIVALENTS	(1,097,947)	5,625,176
Cash Equivalents:		
Opening Balance	7,166,990	1,541,814
Closing Balance	6,069,043	7,166,990
	(1,097,947)	5,625,176

In terms of our report of even date attached.

For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : 4th June 2004

Rakesh Jain
Chairman

Manish Maheshwari
M.N. Khan
Vipul D. Desai
Directors

Place : Vadodara
Date : 3rd June 2004



Schedules to the Balance Sheet as at March 31,

		in Rupees	
		2004	2003
SCHEDULE 1			
SHARE CAPITAL			
AUTHORISED			
1,00,000 Equity Shares of Rs. 100 each		10,000,000	10,000,000
ISSUED SUBSCRIBED AND PAID-UP			
50,002 Equity Shares of Rs. 100 each (All the above Shares are held by Hindustan Oil Exploration Co. Ltd., Holding Co., & its nominees)		5,000,200	5,000,200
		5,000,200	5,000,200
SCHEDULE 2			
UNSECURED LOANS			
Hindustan Oil Exploration Company Limited (Holding Company)		10,700,000	19,941,667
		10,700,000	19,941,667

SCHEDULE 3										
FIXED ASSETS										
in Rupees										
Name of the Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2003	Additions during the year	Deductions during the year	As at March 31, 2004	As at March 31, 2003	For the year	Deductions during the year	As at March 31, 2004	As at March 31, 2004	As at March 31, 2003
Office Equipments	109,942	14,446	1,750	122,638	53,632	10,257	542	63,347	59,291	56,310
Computers	114,500	4,100	0	118,600	78,123	18,651	0	96,774	21,826	36,377
Office Furniture	77,038	12,106	16,627	72,517	52,059	5,994	12,648	45,405	27,112	24,979
Plant & Machinery	319,224	17,009	12,995	323,238	175,826	21,678	8,441	189,063	134,175	143,398
Dies & Moulds	142,183	0	0	142,183	76,570	19,683	0	96,253	45,930	65,613
TOTAL	762,887	47,661	31,372	779,176	436,210	76,263	21,631	490,842	288,334	326,677
Previous Year	1,162,784	79,949	479,846	762,887	589,153	95,049	247,992	436,210	326,677	573,631

		in Rupees	
		2004	2003
SCHEDULE 4			
CURRENT ASSETS, LOANS AND ADVANCES			
CURRENT ASSETS			
Interest accrued on Deposits		58,859	70,745
INVENTORIES			
Materials unpacked		1,459,887	1,769,003
Materials packed		1,971,935	2,040,802
Packing Material		195,805	142,757
GOODS IN TRANSIT		0	1,091,560
SUNDRY DEBTORS			
Due for more than six months			
Considered Good		29,092	32,505
Considered Doubtful		1,859,112	3,282,991
Others			
Considered Good		2,178,520	3,206,369
		4,066,724	6,521,865
Less: Provision for doubtful debts		1,859,112	3,282,991
		2,207,612	3,238,874



Schedules to the Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 4		
CURRENT ASSETS, LOANS AND ADVANCES (Contd.)		
CASH & BANK BALANCES		
Cash on hand	16,773	14,145
With Scheduled Bank		
Current Account	752,270	852,845
Deposit Account	5,300,000	6,300,000
	6,069,043	7,166,990
LOANS AND ADVANCES (Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received	541,541	567,590
Insurance Claims Receivable	26,207	21,218
Advance Taxes	672,293	236,200
	1,240,041	825,008
	13,203,182	16,345,739
SCHEDULE 5		
CURRENT LIABILITIES & PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors	3,437,453	3,856,275
Hindustan Oil Exploration Company Limited	151,500	0
Other Liabilities	899,748	688,754
Interest accrued but not due	0	196,353
PROVISIONS		
Provision for Taxation	705,000	305,000
Provision for Gratuity	0	148,000
Provision for Leave Encashment	241,000	177,000
	5,434,701	5,371,382

Schedules to the Profit & Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 6		
OTHER INCOME		
Interest Income (Gross) (See Note 2)	348,466	226,143
Tax deducted at source Rs. 69,255 (Previous Year Rs. 47,122)		
Excess Provision written back	1,464,591	11,905
Exchange Gain	88,489	38,882
Miscellaneous Income	49,797	53,571
	1,951,343	330,501
SCHEDULE 7		
COST OF GOODS FOR RESALE		
MATERIALS PACKED & UNPACKED		
Opening stock	3,809,805	5,119,042
Add: Purchases	6,609,904	6,347,930
Sub-Total	10,419,709	11,466,972
Less: Closing Stock	3,431,822	3,809,805
	6,987,887	7,657,167
PACKING MATERIALS		
Opening stock	142,757	159,043
Add: Purchases	2,012,411	1,567,409
Sub-Total	2,155,168	1,726,452
Less: Closing Stock	195,805	142,757
	1,959,363	1,583,695
Excise Duty	1,377,550	1,389,876
Repacking Expenses	372,332	300,714
Cost of Samples & Replacements	(96,983)	(155,022)
Cost of Damaged Goods	(450)	(11,418)
	10,599,699	10,765,012



Schedules to the Profit & Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 8		
STAFF EXPENSES		
Salaries & Bonus	3,183,217	2,866,735
Contribution to Provident Fund	328,720	261,728
Welfare Expenses (including provision for leave encashment Rs. 64,000) (Previous Year Rs. 76,000).	216,182	186,750
	3,728,119	3,315,213
SCHEDULE 9		
ESTABLISHMENT EXPENSES		
Rent	324,000	324,000
Rates and Taxes	79,754	0
Repairs and Maintenance	78,601	15,315
General Office Expenses	59,898	58,291
Electricity	68,943	96,782
	611,196	494,388
SCHEDULE 10		
OTHER EXPENSES		
Auditor's Remuneration		
Audit Fees	15,000	15,000
Other Matters	4,217	3,800
Reimbursement of Expenses	2,010	1,568
Service Tax	1,537	940
	22,764	21,308
Bank Charges	35,107	28,342
Books and Periodicals	2,132	1,553
Computer Expenses	2,435	450
Insurance	149,743	114,033
Travelling & Conveyance	201,267	91,097
Postage and Telephone	203,181	208,203
Printing and Stationery	79,754	79,338
Professional and Consultancy Fees	244,488	52,450
Loss on sale/discard of assets	7,733	50,723
Miscellaneous Expenses	189,262	239,713
	1,137,866	887,210
SCHEDULE 11		
MARKETING & DISTRIBUTION COST		
Distribution Expenses		
Freight	682,882	537,256
Others	244,295	352,407
	927,177	889,663
Marketing Expenses		
Incentives	443,132	467,904
Product Promotion Expenses	2,056,121	1,149,180
Advertisement	654,746	708,099
Rebates and Cash Discounts	1,178,604	578,973
Sales Promotion	1,220,284	1,090,442
Others	180,128	238,027
	5,733,015	4,232,625
Selling Expenses		
Dealers Commission	678,688	163,911
Field Staff Expenses	1,342,273	1,252,204
	2,020,961	1,416,115
	8,681,153	6,538,403



Schedules to the Profit & Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 12		
PROVISIONS AND WRITE OFFS		
Provision for doubtful debtors	5,987	21,012
Bad Debts	1,227,866	0
	1,233,853	21,012

Schedules to the Financial Statements for the year ended March 31, 2004

SCHEDULE — 13

SIGNIFICANT ACCOUNTING POLICIES

- The Accounts of the Company have been prepared using the accrual concept on a going concern basis consistently.
- Fixed Assets are capitalised at cost inclusive of legal and/or installation expenses.
- Depreciation has been provided on written down value method at the rates and the manner prescribed in Schedule XIV to the Companies Act, 1956. In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/disposal.
- Sales turnover includes sale value of goods (net of Trade Discount) and excludes Sales Tax.
- Inventories are valued at cost or market price whichever is lower, on first in first out basis. Cost of Unpacked Materials includes Freight, Custom Duty, Insurance and Clearing Charges. Cost of Packed Materials includes repacking charges, packing materials etc.
- The Company has participated during the year in Group Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and contribution thereto is charged to the Profit & Loss Account. Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.
- Foreign currency transactions are recorded at the rate of exchange in force at the time of occurrence of transactions. Gains and losses arising out of subsequent fluctuations are accounted for upon actual payment. The Foreign Currency payables are converted at the exchange rates prevailing on the last working day of the accounting period. The net loss or gain arising out of such fluctuation/conversion is adjusted to the Profit & Loss Account.
- The Company adopts full provision basis for deferred tax without discounting, in accordance with the Accounting Standard 22 on Accounting for Taxes on Income. Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future.

SCHEDULE — 14

NOTES FORMING PART OF THE ACCOUNTS

- Out of the balance lying in deposit accounts, Rs. 25 Lacs has been pledged with HDFC bank against overdraft facility of Rs. 20 Lacs and a bank guarantee limit of Rs. 5 Lacs.
- Interest Income includes interest on:

	in Rupees	
	Year ended	
	March 31, 2004	March 31, 2003
Deposits	340,863	225,222
Others	4,226	0
Staff Loans	1,282	921
Sales Tax/Income Tax Refund	2,095	0
	348,466	226,143

- The Company has during the year written off a sum of Rs. 1,227,866/- as bad debts. Provision for which were made in prior years till 31.03.2000 and the effect of write off is credited to Excess Provision written back.
- Based on the current performance and projections for the near future the Management has ascertained that there is virtual certainty of taxable profits in the future to absorb the carried forward depreciation and losses under the tax laws. Accordingly an unrecognised net deferred tax asset has been reviewed and Rs. 2,264,251/- has been recognised during the year. The break-up of deferred tax assets and liabilities as at March 31, 2004 is as under:

	in Rupees
	As at March 31, 2004
Deferred Tax Assets	
Provision for Doubtful Debts	667,050
Disallowances u/s 43B	44,444
Unabsorbed losses and Depreciation	1,571,088
Sub total (A)	2,282,582
Deferred Tax Liability	
Depreciation on Fixed Assets	18,331
Sub total (B)	18,331
Net Deferred Tax Assets (A-B)	2,264,251



5. Contingent Liabilities not provided for:
 (a) In respect of Bank Guarantees: Rs. 40,000/- (Previous Year – Rs. 40,000/-)
 (b) Disputed Statutory Dues:

Particulars	Income Tax	Customs Duty
Nature of Dues	Disallowance of Expenses	Classification of Chapter
Disputed Amount	Rs. 35,070/-	Rs. 540,464/-
Amount Paid	Rs. 20,345/-	NIL
Dispute Pending with	Appellate Tribunal	Appellate Tribunal

6. Sundry Creditors include Rs. 149,808/- (Previous Year Rs. 145,363/-) due to small scale and ancillary undertakings to the extent such parties have been identified by the management from available information. Amounts due to the following Small Scale Industrial Undertakings are outstanding for more than 30 days: Sahaya Print Services Pvt. Ltd. and Raghuvir Packaging Industries.

7. As per the Accounting Standard on 'Related Party Disclosures' (AS 18) issued by the Institute of Chartered Accountants of India, the related parties of the Company are as follows:

Name of the Holding Company: Hindustan Oil Exploration Company Limited.

The Nature and volume of transactions of the Company during the year with the above party are as follows:

in Rupees

Particulars	Year ended March 31, 2004
Expenditure	
Interest on Unsecured Loan	614,508
Office Premises usage charges	130,064
Liabilities	
Unsecured Loans Paid	9,241,667

8. The balances of creditors are subject to their confirmations.
 9. Additional Information pursuant to provisions of paragraphs 3, 4C & 4D of Schedule VI - part II of the Companies Act, 1956.

(A) Turnover	Unit	Year ended			
		March 31, 2004		March 31, 2003	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
Product					
Additives	Litres	62,468.27	31,150,448	53,704.95	26,540,002
Grease	Kgs.	12.34	9,344	6.76	4,250

- (B) RAW MATERIAL CONSUMED: Not Applicable

(C) Stocks	Unit	Opening Stock		Closing Stock	
		Quantity	Value (Rs.)	Quantity	Value (Rs.)
		Product			
Additives	Litres	31,673.18	38,09,534	30,603.58	34,31,582
Grease	Kgs.	446.35	271	434.01	240

- (D) Capacity and Production:
 Capacity — Licensed N. A.
 Capacity — Installed N. A.
 Production N. A.

- (E) Value of Imports on CIF basis in respect of:

	Year ended	
	March 31, 2004	March 31, 2003
(i) Materials	Rs. 3,746,643	Rs. 5,530,967
(ii) Components & Spare parts	Rs. Nil	Rs. Nil
(iii) Capital goods	Rs. Nil	Rs. Nil
(F) Expenditure in foreign currency:		
(i) Business Travelling	Rs. Nil	Rs. Nil
(ii) Others	Rs. Nil	Rs. Nil
(G) The amount remitted in foreign currency during the year on account of dividends	Rs. Nil	Rs. Nil
(H) Earnings in foreign exchange	Rs. Nil	Rs. Nil

10. Figures of the previous year have been regrouped and rearranged wherever necessary.



Balance Sheet Abstract and Company's General Business Profile

I. Registration Details		
Registration No.		11536
State Code		04
Balance Sheet Date		31.03.2004
II. Capital Raised During The Year		
Public Issue		NIL
Rights Issue		NIL
Bonus Issue		NIL
Private Placement		NIL
III. Position of Mobilisation and Deployment of Funds		(In Rupees)
Total Liabilities		21,134,901
Total Assets		21,134,901
Sources of Funds		
Paid-up Capital		5,000,200
Reserves & Surplus		NIL
Secured Loans		NIL
Unsecured Loans		10,700,000
Application of Funds		
Net Fixed Assets		288,334
Investments		NIL
Net Current Assets		7,768,481
Miscellaneous Expenditure		NIL
Accumulated Losses		5,379,134
IV. Performance of the Company		(In Rupees)
Turnover		31,159,792
Total Expenditure		26,713,687
Profit Before Tax		6,397,448
Profit After Tax		8,261,699
V. Generic Names of Three Principal Products/Services of Company		
(as per monetary terms)		
Item Code No. (ITC Code)		38.11
Product Description		Oil Additives
Item Code No. (ITC Code)		38.11
Product Description		Fuel Additives

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED AND ITS SUBSIDIARY

1. We have examined the attached Consolidated Balance Sheet of **HINDUSTAN OIL EXPLORATION COMPANY LIMITED** and its subsidiary ("the Group") as at March 31, 2004, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement of the Group for year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.
3. (a) The Accounts have been drawn up in accordance with the statement of Significant Accounting Policies (Schedule 17). Accounting Policy 2 relating to the "Successful Efforts Method" and treatment of exploration and development costs are significant to the oil and gas exploration and production industry.
(b) Categorisation of wells as exploratory and producing and the depletion of producing wells on the basis of developed hydrocarbon reserves are made according to technical evaluation by the Management, on which we have placed reliance.
4. In respect of five non-producing joint ventures, exploration expenditure aggregating Rs. 147,033,216, development expenditure aggregating Rs. 304,622,859, other assets aggregating Rs. 10,142,480 and liabilities aggregating Rs. 129,475,536 have been incorporated on the basis of the information available, in the absence of audited accounts.
5. The accounts include assets aggregating Rs. 85,192,966, liabilities aggregating Rs. 77,593,026, income aggregating Rs. 10,294,400 and expenditure aggregating Rs. 145,059,405 relating to the Group's share in four joint ventures, which have been incorporated on the basis of accounts audited by other auditors. We did not audit the financial statements of the subsidiary, whose financial statements reflect total assets of Rs.10,321,066 as at March 31, 2004, total revenues of Rs.33,111,135 and net decrease in cash flows amounting to Rs. 1,097,947 for the year ended on that date. These financial statements have been audited by another auditor whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.
6. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements), issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiary included in the consolidated financial statements.
7. Based on our audit and on consideration of reports of other auditors on separate financial statements of the subsidiary and to the best of our information and according to the explanations given to us, we are of the opinion that the aforesaid consolidated financial statements, subject to our comments in paragraph 4 above to the extent of the unaudited accounts relating to the joint ventures referred to therein, give a true and fair view in conformity with the accounting principles generally accepted in India :
 - (a) in the case of Consolidated Balance Sheet, of the consolidated state of affairs of the Group as at March 31, 2004;
 - (b) in the case of Consolidated Profit and Loss Account, of the consolidated profit of the Group for the year ended on that date and
 - (c) in the case of Consolidated Cash Flow Statement of the consolidated cash flows of the Group for the year ended on that date.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Place : Mumbai
Date : 16th June 2004

Nalin M. Shah
Partner
(Membership No.15860)

**Consolidated Balance Sheet as at March 31,**

		in Rupees	
	Schedule	2004	2003
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	587,609,465	587,609,465
Reserves and Surplus	2	1,397,901,133	1,243,338,069
		1,985,510,598	1,830,947,534
APPLICATION OF FUNDS			
FIXED ASSETS			
	3		
Gross Block		1,651,609,950	1,356,494,296
Less : Depreciation and Depletion		848,625,488	814,262,260
NET BLOCK		802,984,462	542,232,036
INVESTMENTS	4	184,300,933	35,812,557
DEFERRED TAX ASSET		123,695,251	99,476,000
CURRENT ASSETS, LOANS AND ADVANCES	5	1,333,508,227	1,436,537,202
Less : CURRENT LIABILITIES AND PROVISIONS	6	460,049,109	284,676,928
NET CURRENT ASSETS		873,459,118	1,151,860,274
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)			
Share Issue Expenses		862,500	1,150,000
Deferred Revenue Expenditure		208,334	416,667
		1,985,510,598	1,830,947,534
Accounting Policies	14		
Notes forming part of the Accounts	15		

Schedules 1 to 15 annexed hereto form part of the Accounts.

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Dr. I.G. Patel
Chairman

Rakesh Jain
Managing Director

Andrew Fawthrop
C.K. Mehta
M.N. Khan

Nalin M. Shah
Partner

Amit Shah
Accounts Controller

Ketan Thaker
Asst. Company Secretary

Ronald S. Somers
Vimal Bhandari
Directors

Place : Mumbai
Date : 16th June 2004

Place : Mumbai
Date : 16th June 2004

**Consolidated Profit and Loss Account for the year ended March 31,**

		in Rupees	
	Schedule	Current Year	Previous Year
INCOME			
Sales	7	414,555,149	542,366,410
Increase/(Decrease) in stock of Crude Oil (See Note 8)		35,263,158	(32,553,920)
Other Income	8	79,059,405	94,265,357
		528,877,712	604,077,847
EXPENDITURE AND CHARGES			
Field Operating Expenses	9	156,831,049	177,388,659
Cost of goods for resale	10	10,599,699	10,765,012
Corporate Expenses	11	66,613,094	44,420,904
Marketing & Distribution Costs	12	8,681,153	6,538,403
Provisions and write offs	13	22,083,005	169,767,655
Interest Expenses		31,030	38,340
Depletion of Producing Properties		34,139,459	139,237,803
Depreciation and Amortisation		11,555,043	5,055,138
		310,533,532	553,211,914
Profit Before Tax and Prior Period Adjustments		218,344,180	50,865,933
Prior Period Adjustment (See Note 9)		5,248,737	0
PROFIT BEFORE TAX		213,095,443	50,865,933
Less : Provision for Current Income Tax		16,400,000	19,305,000
Add : Provision for Deferred Tax		24,219,251	83,667,000
Less : Provision for Wealth Tax		80,000	69,740
PROFIT AFTER TAX		220,834,694	115,158,193
Profit brought forward		237,703,031	175,562,142
PROFIT AVAILABLE FOR APPROPRIATION		458,537,725	290,720,335
APPROPRIATIONS			
Proposed Dividend		58,744,935	46,995,948
Tax thereon		7,526,695	6,021,356
Balance carried to Balance Sheet		392,266,095	237,703,031
		458,537,725	290,720,335
Earning per share of Rs.10 face value (basic and diluted)		Rs. 3.76	Rs. 1.96
Earning Per Share of Rs. 10 Face Value before Prior Period adjustments)		Rs. 3.85	Rs. 1.96

Schedules 1 to 15 annexed hereto form part of the Accounts.

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Dr. I.G. Patel
Chairman

Rakesh Jain
Managing Director

Andrew Fawthrop
C.K. Mehta
M.N. Khan

Nalin M. Shah
Partner

Amit Shah
Accounts Controller

Ketan Thaker
Asst. Company Secretary

Ronald S. Somers
Vimal Bhandari
Directors

Place : Mumbai
Date : 16th June 2004

Place : Mumbai
Date : 16th June 2004



Consolidated Cash Flow Statement for the year ended March 31,

In Rupees

	2004	2003
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax	213,095,443	50,865,933
Adjustments for :		
Interest Expenses	31,030	38,340
Provision for :		
Loss/(Gain) on revaluation of Current Investments	8,282,864	(5,043,517)
Doubtful Debtors	5,987	21,012
Site Restoration	5,919,646	11,487,540
Leave Encashment	(120,000)	724,000
Gratuity	0	68,000
Provision for Contingencies	4,127,000	0
Depreciation, Depletion & Amortisation (including prior period charge)	48,928,964	144,292,941
Other Miscellaneous Expenses written off	495,833	495,833
Exploration Expenses written off	1,285,687	162,223,839
Bad Debts written off	(1,227,866)	0
Investment/Interest Income	(77,359,291)	(84,912,125)
(Profit)/Loss on sale of Assets	273,220	(291,242)
(Profit)/Loss on sale of Investment	43,075	(3,301,315)
Reversal of provision for doubtful debts	(202,000)	0
Exchange (Gain)/Loss	102,178	1,155,823
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	206,191,502	277,825,062
Adjustments for :		
Trade and Other Receivables	735,166,004	(190,537,413)
Inventories	(28,698,758)	37,229,324
Payables	134,732,564	(69,161,382)
CASH FROM OPERATIONS	1,047,391,312	55,355,591
Taxes paid	28,030,079	(28,904,713)
Miscellaneous Expenses Incurred	0	(625,000)
NET CASH FROM OPERATING ACTIVITIES	1,075,421,391	25,825,878
B. CASH FLOW FROM INVESTING ACTIVITIES		
Fixed Assets purchased	(255,615,425)	(82,188,434)
Fixed Assets sold	29,485,455	1,203,831
Exploration Expenses Incurred	(85,164,327)	(113,642,910)
Purchase of Investments	(498,722,784)	(35,762,603)
Sale of Investments	341,908,469	275,262,161
Dividend/Interest received	82,093,148	86,035,593
Increase in term deposit with bank	(365,303,261)	(181,650,000)
NET CASH USED IN INVESTING ACTIVITIES	(751,318,725)	(50,742,362)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Interest Paid	(31,030)	(38,340)
Secured Loan repaid	0	(78,585)
Unsecured Loan repaid	0	0
Dividend Paid (including tax thereon)	(52,053,582)	(68,993,645)
Exchange Gain	(102,178)	(1,155,823)
NET CASH USED IN FINANCING ACTIVITIES	(52,186,790)	(70,266,393)
Net Increase/Decrease in Cash or Cash Equivalents	271,915,876	(95,182,877)
Cash, Cash Equivalents :		
Opening Balance	184,927,183	280,110,060
Closing Balance	456,843,059	184,927,183
	271,915,876	(95,182,877)
Cash and Bank balance as per Schedule 5	723,796,320	316,577,183
Less : Bank Deposit placed for more than 90 days	546,953,261	181,650,000
	176,843,059	134,927,183
Intercompany Deposits as per Schedule 5	330,000,000	787,500,000
Less : Intercompany Deposits placed for more than 90 days	50,000,000	737,500,000
	280,000,000	50,000,000
Total Cash or Cash equivalents as at 31st March 2004	456,843,059	184,927,183

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : Mumbai
Date : 16th June 2004

Dr. I.G. Patel
Chairman

Amit Shah
Accounts Controller

Place : Mumbai
Date : 16th June 2004

Rakesh Jain
Managing Director

Ketan Thaker
Asst. Company Secretary

Andrew Fawthrop
C.K. Mehta

M.N. Khan
Ronald S. Somers
Vimal Bhandari
Directors



Schedules to the Consolidated Balance Sheet as at March 31,

	In Rupees	
	2004	2003
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED		
200,000,000 (as at 31.03.03: 100,000,000) Equity Shares of Rs.10 each	2,000,000,000	1,000,000,000
ISSUED		
58,777,910 Equity Shares of Rs.10 each	587,779,100	587,779,100
SUBSCRIBED AND PAID-UP		
58,744,935 Equity Shares of Rs.10 each fully paid	587,449,350	587,449,350
Add : Amount paid-up on shares forfeited	160,115	160,115
	587,609,465	587,609,465
SCHEDULE 2		
RESERVES AND SURPLUS		
Share Premium	1,001,765,038	1,001,765,038
General Reserve	3,870,000	3,870,000
Balance in Profit and Loss Account	392,266,095	175,562,142
	1,397,901,133	1,181,197,180

Schedules to the Consolidated Balance Sheet as at March 31,
SCHEDULE 3
FIXED ASSETS

in Rupees

Name of the Assets	GROSS BLOCK			DEPRECIATION			NET BLOCK	
	As at March 31, 2003	Additions during the year	Deductions during the year	As at March 31, 2003	For the Year	Deductions during the year	As at March 31, 2004	As at March 31, 2003
Producing Properties	892,458,003	7,408,471	29,205,197	703,106,599	37,427,921	0	740,534,520	189,351,404
OTHER FIXED ASSETS :								
Land-Freehold	3,444,512	0	0	0	0	0	0	3,444,512
Buildings	44,074,580	476,744	0	16,970,766	1,674,891	0	18,645,657	27,103,814
Office Equipments	12,430,044	1,185,722	1,252,037	8,052,105	851,789	945,843	7,958,051	4,377,939
Computers	11,146,660	3,656,676	5,597,316	10,239,356	1,788,459	5,360,602	6,667,213	907,304
Office Furniture	7,372,014	2,347,123	47,371	6,243,026	977,625	41,355	7,179,296	1,128,988
Plant & Machinery	65,931,747	23,880,223	15,986,828	65,635,256	7,226,569	15,982,274	56,879,551	296,491
Vehicles	4,224,654	1,796,517	0	1,490,646	1,172,955	0	2,663,601	2,734,008
Software	4,284,198	12,173,045	0	2,524,506	5,573,093	0	8,097,599	1,759,692
Total (A)	1,045,366,412	52,924,521	52,088,749	814,262,260	56,693,302	22,330,074	848,625,488	231,104,152
Capital Work in Progress:								
Development Expenditure	206,787,968	210,644,427	0	0	0	0	0	206,787,968
Exploration Expenditure	104,014,247	85,246,811	1,285,687	0	0	0	0	104,014,247
Others	325,669	0	325,669	0	0	0	0	325,669
Total (B)	311,127,884	295,891,238	1,611,356	0	0	0	0	311,127,884
GRAND TOTAL (A + B):	1,356,494,296	348,815,759	53,700,105	814,262,260	56,693,302	22,330,074	848,625,488	542,232,036
Previous year	1,325,499,231	217,125,044	186,129,979	671,669,170	144,816,743	2,223,653	814,262,260	653,830,061
Fixed Assets include the Groups share in Joint Venture Assets	1,274,193,470	327,825,663	46,790,386	771,673,121	45,138,259	15,973,833	800,837,547	502,520,349

* including Rs. 7,408,471 (previous year: Rs. 268,722) charged to Producing Properties and Rs. 219,383 (previous year: Rs. 154,720) to Development Expenditure and Rs. 82,484 (previous year: Rs. 100,360) charged to Exploration Expenditure.

@ including Rs. 18,347,447 (previous year : Rs. 1,652,531) considered for depletion of Producing Properties.

includes prior period adjustment Rs. 3,288,462.

Schedules to the Consolidated Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 4		
INVESTMENTS (FULLY PAID)		
TRADE		
LONG TERM		
QUOTED		
318 Equity Shares of Rs. 10 each of Reliance Industries Ltd.	49,953	49,953
UNQUOTED		
100,000 Equity Shares of Rs. 10 each of Gujarat Securities Ltd.	1,000,000	1,000,000
CURRENT		
UNQUOTED		
9,842,150.798 Units of Rs. 10 each of HDFC Income Fund Premium Plan	105,886,780	0
1,220,591.377 Units of Rs. 10 each of IL&FS Bond Fund Institutional Plan	13,526,838	0
2,801,707.620 (31.03.03 :1,888,404.96) Units of Rs. 10 each of HDFC- Liquid Fund	28,212,891	19,138,133
3,392,352.933 (31.03.03 :1,584,067.36) Units of Rs. 10 each of JM Short Term Fund	36,624,470	16,624,470
	185,300,932	36,812,556
Less : Provision for Diminution in value of Investments	999,999	999,999
	184,300,933	35,812,557
Aggregate cost of quoted investments	49,953	49,953
Market value of quoted investments	167,650	87,911
Aggregate carrying cost of unquoted investments	184,250,981	35,762,604
SCHEDULE 5		
CURRENT ASSETS, LOANS AND ADVANCES		
CURRENT ASSETS		
Interest accrued on Deposits	6,912,234	11,530,879
INVENTORIES		
Crude Oil	53,733,616	18,470,458
Stores and Spares	7,326,682	12,474,587
Materials unpacked	1,459,887	1,769,003
Materials packed	1,971,935	2,040,802
Packing Material	195,805	142,757
GOODS IN TRANSIT	0	1,091,560

Schedules to the Consolidated Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 5		
CURRENT ASSETS, LOANS AND ADVANCES (Contd.)		
SUNDRY DEBTORS (Unsecured)		
Due for more than six months		
Considered Good	2,563,397	2,108,121
Considered Doubtful	1,859,112	3,282,991
Others		
Considered Good	3,873,387	38,123,366
	8,295,896	43,514,478
Less: Provision for doubtful debts	1,859,112	3,282,991
	6,436,784	40,231,487
CASH AND BANK BALANCES		
Cash and Cheques on hand	122,559	126,078
With Scheduled Banks :		
Current Accounts	10,507,634	12,759,543
Deposit Accounts	711,548,746	303,457,592
With Non-scheduled Banks :		
Current Accounts	1,617,381	233,970
	723,796,320	316,577,183
	801,833,263	404,328,716
LOANS AND ADVANCES		
Considered good (See Note 1)		
Advances recoverable in cash or in kind or for value to be received (See Note 2)	32,498,623	47,214,662
Claims Recoverable	6,064,148	6,477,715
Inter Corporate Deposits	330,000,000	787,500,000
Advance Taxes	163,112,193	191,016,109
	531,674,964	1,032,208,486
Considered doubtful	4,064,809	4,064,809
Less : Provision for Doubtful Claims/Loans	4,064,809	4,064,809
	0	0
	1,333,508,227	1,436,537,202

Schedules to the Consolidated Balance Sheet as at March 31,

	in Rupees	
	2004	2003
SCHEDULE 6		
CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors	208,571,816	76,317,698
Investor Education and Protection Fund		
Unpaid Dividend #	3,217,396	2,253,674
Other Liabilities	4,614,406	1,943,107
	216,403,618	80,514,479
PROVISIONS		
Provision for Contingencies	14,627,000	10,500,000
Provision for Leave Encashment	2,713,000	2,833,000
Provision for Gratuity	0	148,000
Provision for Site Restoration	42,613,229	36,693,583
Provision for Taxation	117,420,632	100,970,562
Proposed Dividend (including tax thereon)	66,271,630	53,017,304
	243,645,491	204,162,449
	460,049,109	284,676,928

This does not include any amount due and outstanding, to be credited to the Investor Education and Protection Fund.

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 7		
SALES		
Sale of Crude Oil	398,541,823	540,652,647
Less : Profit Petroleum surrendered to Government of India	15,146,466	24,830,489
	383,395,357	515,822,158
Sale of Additives and Grease	31,159,792	26,544,252
	414,555,149	542,366,410
SCHEDULE 8		
OTHER INCOME		
Interest Income (Gross) (See Note 4)	61,061,812	76,987,343
Dividend from Current Investments	16,295,889	7,786,627
Dividend from Long Term Investments	1,590	138,155
Net Profit on Sale of Assets	0	291,242
Profit on Sale of Current Investments	0	3,301,315
Miscellaneous Income	235,523	5,748,770
Excess Provision written back	1,464,591	11,905
	79,059,405	94,265,357

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 9		
FIELD OPERATING EXPENSES		
Hire Charges	121,468,563	147,045,910
Insurance	9,908,650	9,659,620
Fuel, Water and Others	6,208,481	5,474,434
Production Expenses	6,459,790	3,279,213
Other Expenses	8,268,400	9,197,697
Royalty, Cess & Processing Charges	4,517,165	2,731,785
	156,831,049	177,388,659
SCHEDULE 10		
COST OF GOODS FOR RESALE		
Materials Packed & Unpacked		
Opening Stock	3,809,805	5,119,042
Add: Purchases	6,609,904	6,347,930
	10,419,709	11,466,972
Less: Closing Stock	3,431,822	3,809,805
	6,987,887	7,657,167
Packing Materials		
Opening Stock	142,757	159,043
Add: Purchases	2,012,411	1,567,409
	2,155,168	1,726,452
Less: Closing Stock	195,805	142,757
	1,959,363	1,583,695
Packing Cost		
Excise Duty	1,377,550	1,389,876
Repacking Cost	372,332	300,714
Cost of Samples & Replacements	(96,983)	(155,022)
Cost of Damaged Goods	(450)	(11,418)
	10,599,699	10,765,012
SCHEDULE 11		
CORPORATE EXPENSES		
(A) STAFF EXPENSES		
Salaries and Bonus	25,007,939	18,200,076
Contribution to Provident and Other Funds	3,997,643	2,804,607
Welfare Expenses (including provision for leave encashment : Rs. 724,000) (Previous Year : Rs. 422,000)	4,081,501	3,214,443
	33,087,083	24,219,126

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 11		
CORPORATE EXPENSES (Contd.)		
(B) ESTABLISHMENT EXPENSES		
Rent	324,000	324,000
Rates and Taxes	273,763	427,346
Repairs and Maintenance	1,874,363	1,014,587
General Office Expenses	1,068,965	375,752
Electricity	1,550,804	1,097,908
	5,091,895	3,239,593
(C) OTHER EXPENSES		
Advertisement and Publicity	921,693	1,127,212
Auditors' Remuneration		
Audit Fees	795,000	315,000
Tax Matters	112,500	97,500
Other Matters	65,557	249,050
Reimbursement of Expenses	91,257	56,110
Service Tax	79,847	43,128
	1,144,161	760,788
Bank Charges and Commission	1,703,798	1,353,066
Books and Periodicals	94,812	56,755
Computer Expenses	1,046,097	383,352
Directors' Fees	94,000	98,000
Stamp duty and Filing Fees	5,004,500	0
Insurance	291,092	237,729
Travelling and Conveyance	5,875,330	4,965,518
Postage and Telephone	2,581,190	2,266,990
Membership and Subscription	625,816	453,723
Printing and Stationery	1,453,319	1,162,889
Legal and Professional Expenses	19,081,355	21,442,611
Loss on Sale/Discard of Assets	273,220	0
Loss on foreign exchange fluctuation	102,178	1,155,823
Loss on Sale of Investments	43,075	0
Miscellaneous Expenses (Includes interest on Income Tax refund Rs. 2,619,245)	4,748,560	4,500,710
	45,084,196	39,965,166
(D) TOTAL CORPORATE EXPENSES (A+B+C)	83,263,174	67,423,885
(E) Less : RECOVERY OF EXPENSES	16,650,080	23,002,981
	66,613,094	44,420,904



Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

	in Rupees	
	2004	2003
SCHEDULE 12		
MARKETING & DISTRIBUTION COSTS		
Distribution Expenses		
Freight	682,882	537,256
Others	244,295	352,407
	927,177	889,663
Marketing Expenses		
Incentives	443,132	467,904
Royalty	2,056,121	1,149,180
Advertisement	654,746	708,099
Rebates and Discount	1,178,604	578,973
Sales Promotion	1,220,284	1,090,442
Others	180,128	238,027
	5,733,015	4,232,625
Selling Expenses		
Commission	678,688	163,911
Field Staff Expenses	1,342,273	1,252,204
	2,020,961	1,416,115
	8,681,153	6,538,403
SCHEDULE 13		
PROVISIONS AND WRITE OFFS		
Provision for loss on diminution in value of current investments	8,282,864	(5,043,517)
Provision for Doubtful debts	5,987	21,012
Provision for Contingencies	4,127,000	0
Provision for Site restoration	6,657,768	12,070,488
Bad debts	1,227,866	0
Exploration Expenses written off (See note 2 of Schedule 12)	1,285,687	162,223,839
Share Issue Expenses written off	287,500	287,500
Signature Bonus written off	208,333	208,333
	22,083,005	169,767,655

Schedules to the Financial Statements for the year ended March 31, 2004

SCHEDULE - 14

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

The Accounts of the Group have been prepared using the accrual concept on a going concern basis consistently.

2. Basis of Consolidation

The financial statements of the Company and its wholly owned subsidiary ("the Group") have been consolidated on a line by line after eliminating all significant inter-company transactions in accordance with the Accounting Standard 21 'Consolidated Financial Statement' issued by the Institute of Chartered Accountants of India.

3. Exploration and Development Costs

The Group generally follows the "Successful Efforts" method of accounting for its exploration and production activities as explained below:

- (i) Cost of exploratory wells, including survey costs, is expensed in the year when determined to be dry/abandoned or is transferred to the producing properties on attainment of commercial production.
- (ii) Cost of temporary occupation of land, successful exploratory wells, development wells and all related development costs, including depreciation on support equipment and facilities, are considered as development expenses, which are capitalised as producing properties on attainment of commercial production.
- (iii) Producing properties, including the cost incurred on dry wells in development areas, are depleted using "Unit of Production" method based on estimated proven developed reserves. Any changes in Reserves and/or Cost are dealt with prospectively. Hydrocarbon reserves are estimated and/or approved by the Management Committee of the joint ventures, which follow the International Reservoir Engineering Principles.

4. Site Restoration

Estimated future liability relating to dismantling and abandoning producing well sites and facilities whose estimated producing life is expected to end during next ten years is provided in proportion to the production for the year and remaining estimated proved reserves of hydrocarbons based on latest technical assessment available with the Group.

5. Joint Ventures

The financial statements of the Group reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations which are accounted on the basis of available information on line by line basis with similar items in the Group's accounts to the extent of the participating interest of the Group as per the various joint venture agreements.

6. Fixed Assets

Fixed Assets are stated at cost inclusive of all incidental expenses.

7. Depreciation

- (i) Depreciation is provided on the "Written Down Value" method at the rates specified in Schedule XIV of the Companies Act, 1956.
- (ii) In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/disposal.

8. Intangible Assets (Software)

Software are stated at cost of acquisition less accumulated amortisation and are included in fixed assets. Computer software is amortised on the "Written Down Value" method at 40% per annum.

9. Investments

Investments are capitalised at cost plus brokerage and stamp charges. Long term investments are valued at cost. Provision is made for other than temporary diminution in the value of long term investments. Current investments are valued at the lower of cost and market value on individual scrip basis.

10. Inventories

- (i) Closing stock of crude oil in saleable condition is valued at Net Realisable Value. Oil additives are valued at cost or market price whichever is lower on FIFO basis.



- (ii) Stores and spares are valued at cost on FIFO basis or market price, whichever is lower.
- (iii) Cost of unpacked materials includes Freight, Customs Duty and Clearing Charges. Cost of Packed Materials includes repacking charges, packing materials etc.

11. Miscellaneous Expenditure

- (i) Share issue expenses are written off over a period of ten years commencing from the year of issue.
- (ii) "Signature Bonus" paid upon signing of Production Sharing Contract is considered as deferred revenue expense to be written off over three to five years commencing from the year of payment, depending on the size of the field.

12. Revenue Recognition

- (i) Revenue from the sale of crude oil, net of Government's share of Profit oil, is recognised on transfer of custody to refineries/others.
- (ii) Sale of crude oil is recorded at the invoiced price, which is subject to the approval of the Government of India, Ministry of Petroleum & Natural Gas (MoP&NG). The difference between the invoiced price and the final approved price, if any, is adjusted in the year in which the aforesaid approval is received.
- (iii) Sales turnover of oil additives includes sale value of goods (net of discount) and excludes Sales Tax.

13. Retirement Benefits

The group has defined contribution plan for Provident Fund and benefit-defined Superannuation Fund and the group's contributions thereto are charged to the Profit and Loss Account.

The group has participated in Group on Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and is charged to the Profit and Loss Account determined based on an actuarial valuation.

Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.

14. Foreign Currency Transactions

- (i) Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction.
- (ii) Monetary items denominated in foreign currencies at the year end and not covered by forward exchange contracts are translated at the year end rates and those covered by forward exchange contracts are translated at the rate ruling at the date of transaction as increased or decreased by the proportionate difference between the forward rate and exchange rate on the date of transaction, such difference having been recognised over the life of the contract.
- (iii) Any gain or loss arising on account of exchange difference on settlement or translation is recognised in the Profit and Loss Account except in cases where they relate to the acquisition of fixed assets in which case they are adjusted to the carrying costs of such assets.

15. Taxation

The Group adopts full provision basis for deferred tax, without discounting, in accordance with the Accounting Standard 22 on accounting for Taxes on Income. Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future.

SCHEDULE – 15

NOTES FORMING PART OF THE ACCOUNTS

1. Out of the total Loans and Advances, amounts aggregating Rs. 303,033 (As at 31.03.03: Rs. 292,113) are secured.
2. Advances receivable in cash or kind or for value to be received includes Rs.1,354,621 (As at 31.03.03: Rs.1,354,621) paid towards capital commitment.

3. Interest Income includes interest on:

	in Rupees	
	Year ended	
	2004	2003
Deposits	60,527,811	70,858,646
Staff Loans	36,595	28,712
Income Tax refund	491,085	6,099,985
Sales Tax refund	2,095	0
Others	4,226	0
Total	63,061,812	76,987,343

4. Contingent Liabilities:

	As at March 31,	
	2004	2003
In respect of Bank Guarantees	43,387,357	25,560,894
In respect of Guarantee for Housing Loan to employees	5,839,257	6,296,856
In respect of Income-tax matter in which appeal is pending with Appellate Tribunal	35,070	35,000
In respect of Customs Duty in which appeal is pending with Appellate Tribunal	540,464	540,464
Estimated amount of contract remaining to be executed on capital account and not provided for (excluding Company's share of Joint Ventures' commitments)	469,602,721	3,110,859
Others	0	1,300,000

	As at March 31,	
	2004	2003
5. Claims against the Company not acknowledged as debt	125,835,898	113,081,994

6. The Government had encashed the Performance Bank Guarantee of Rs. 101.49 lac for PG Block abandoned by the Consortium under the *force majeure* clause of the Production Sharing Contract (PSC). The Government has also raised an additional demand of Rs. 1,931.84 lac (including interest) (As at 31.03.03: Rs. 1,708.76 lac). The Company has been legally advised that the said actions of the Government are not justified. The Company has initiated legal proceeding as per the provisions of the PSC in the matter. Pending the outcome of this, provision has been made in this regard to the extent of Rs. 105 lac (As at 31.03.03 : Rs.105 lac).
7. The Company has issued letter of indemnity to the Government of India towards claims or damages, if any, arising due to the withdrawal of M/s Amec Process & Energy Ltd., UK (AMEC) from Consortium of North Balol Unawa, North Kathana, Kanawara, Dholasan and Allora originally awarded to the Company alongwith Gujarat State Petroleum Corporation Ltd. and AMEC/Heritage, UK.
Due to the nature of the indemnification, its financial impact is not ascertainable.
8. Till the last year, the Company had been following the accounting policy under which, Closing stock of crude oil in saleable condition was valued at cost or net realisable value whichever is lower.
The Company has changed the accounting Policy during the year as discussed in para 8 of the Significant Accounting Policy (Schedule 14). Had the Company not changed the Accounting Policy the profit for the year would have been lower by Rs. 33,773,015.
9. Prior period adjustments, in accordance with Accounting Standard 5 represent short provision of Rs. 5,248,737 in earlier year arising out of an omission in computation of depletion on producing properties Rs. 3,288,462 and provisions for site restoration Rs. 1,960,275.
10. As per the Accounting Standard on 'Related Party Disclosures' (AS 18), issued by the Institute of Chartered Accountants of India, the related parties of the corporation are as follows:
- (A) Joint Venture Partners
Gujarat State Petroleum Corporation Ltd.
Hardy Exploration & Production (India) Inc.



Heramec Ltd.
 Indian Oil Corporation Ltd.
 Mosbacher (India) LLC
 Oil and Natural Gas Corporation Ltd.
 Oil India Ltd.
 Premier Oil North East India BV
 Tata Petrodyne Ltd.
 Mafatlal Industries Limited

(B) Key Management Personnel:
 Mr. Rakesh Jain, Mr. Ajit C. Kapadia

The financial statements of the Group reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations which are accounted on the basis of available information on line by line basis with similar items in the Group's accounts to the extent of the participating interest of the Group as per the various joint venture agreements.

The Nature and volume of transactions of the Company during the year with the above parties were as follows:

Particulars	in Rupees	
	Joint Ventures' Partners	Key Management Personnel
EXPENDITURE		
— Recovery of Expenses	6,101,977	
— Remuneration		4,078,970

11. Segment reporting in terms of Accounting Standard 17 is as under:

Segment Revenue, Results & Capital employed

Particulars	Year ended March 31,	
	2004	2003
1. Segment Revenue		
— Hydrocarbon	418,844,241	488,963,437
— Oil Additives	32,674,180	26,609,728
— Unallocated	77,359,291	88,504,682
Gross Sales Income From Operations	528,877,712	604,077,847
2. Segment Results		
— Hydrocarbon	137,355,527	(47,037,538)
— Oil Additives	6,694,520	4,555,612
— Unallocated	69,045,397	93,509,859
Total profit Before Tax	213,095,443	50,207,933

Particulars	As at March 31,	
	2004	2003
3. Segment Assets		
— Hydrocarbon	917,459,153	675,199,187
— Oil Additives	7,460,364	10,065,471
— Unallocated	1,232,761,914	1,138,301,029
Total Assets	2,157,681,431	1,823,565,687
4. Segment Liabilities		
— Hydrocarbon	271,778,646	125,857,033
— Oil Additives	4,578,201	4,870,029
— Unallocated	0	0
Total Liabilities	276,356,847	130,527,062

Contd...

in Rupees

Particulars	As at March 31,	
	2004	2003
5. Additions to Tangible and Intangible Fixed Assets		
— Hydrocarbon	348,768,098	217,045,095
— Oil Additives	47,661	79,949
— Unallocated	0	0
Total Additions to Tangible and Intangible Fixed Assets	348,815,759	217,125,044
Particulars	Year ended March 31,	
	2004	2003
6. Depreciation and Amortisation		
— Hydrocarbon	51,362,809	144,197,892
— Oil Additives	76,263	95,049
— Unallocated	0	0
Total Depreciation and Amortisation	51,439,072	144,292,941
7. Non cash expenses other than Depreciation and Amortisation		
— Hydrocarbon	12,070,455	174,294,327
— Oil Additives	1,233,853	21,012
— Unallocated	8,282,864	0
Total non-cash expenses other than Depreciation and Amortisation	21,587,172	174,315,339

in Rupees

Particulars	As at March 31,	
	2004	2003
12. Taxation:		
As stated in item 13 of Significant Accounting Policies (Schedule 15), deferred tax asset and liability has been calculated as under:		
Deferred tax asset		
Exploration Expenses	155,085,000	155,105,000
Provisions for Contingencies and Doubtful loans	7,372,050	8,395,000
Site Restoration	7,790,000	6,292,000
Leave Encashment	194,000	363,000
Disallowance U/s 43 B	44,444	0
Unabsorbed Losses and Depreciation	1,571,088	0
Sub total (A)	172,056,582	170,155,000
Deferred tax liability		
Depreciation on Fixed Assets	1,678,331	2,740,000
Producing Properties	46,683,000	67,939,000
Sub total (B)	48,361,331	70,679,000
Net deferred tax asset (A – B)	123,695,251	99,476,000

Deferred tax asset relates to the unabsorbed losses and depreciation of the wholly owned subsidiary. The asset is recognised by the Management based on review of current performance and projections to ascertain the virtual certainty of taxable profit to absorb the unabsorbed depreciation and the losses under the tax laws.

13. The Group's consolidated financial statement includes those of HOEC Bardahl India Limited, a wholly owned subsidiary, incorporated in India.
14. Previous year's figures have been regrouped wherever necessary.

GLOSSARY

2-D Seismic	Two Dimensional Seismic
3-D Seismic	Three Dimensional Seismic
bbl	barrel of Oil
bcf	billion cubic feet
boe	barrels of oil equivalent
boepd	barrels of oil equivalent per day
bopd	barrels of oil per day
CAPEX	Capital Expenditure
E&P	Exploration and Production
FPSO	Floating production storage and offloading vessel
G&A	General and Administration
GIIP	Gas initially in place
GSTA	Gas Sales and Transportation Agreement
JOA	Joint Operating Agreement
JV	Joint Venture
mcf	thousand cubic feet of gas
ML	Mining Lease
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmscf	million standard cubic feet of gas
mmscfd	million standard cubic feet of gas per day
MoP&NG	Ministry of Petroleum and Natural Gas
NELP	New Exploration Licencing Policy
OEM	Original Equipment Manufacturers
OWC	Oil Water Contact
PEL	Petroleum Exploration Licence
PSC	Production Sharing Contract
STOIIP	Stock tank oil initially in place
TD	Targeted Depth



HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Regd. Office: 'HOEC House', Tandalja Road, Off Old Padra Road, Vadodara - 390 020

ATTENDANCE SLIP

[To be presented at the entrance]

I hereby record my presence at the **20TH ANNUAL GENERAL MEETING** of the Company held on Friday, 17th September 2004 at 11.30 A.M. at "Tropicana Hall", TAJ RESIDENCY Vadodara, Akota Gardens, Vadodara - 390 020.

Folio No. _____ DP ID No. _____ Client ID No. _____

Name of the Shareholder/Proxy : _____

No. of Shares : _____

Date: 17th September 2004

Signature of the Shareholder/Proxy

TEAR HERE



HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Regd. Office: 'HOEC House', Tandalja Road, Off Old Padra Road, Vadodara - 390 020

PROXY FORM

Folio No. _____ DP ID No. _____ Client ID No. _____

No. of Shares : _____

I/We _____ of _____ in the district

of _____ being a Member(s) of Hindustan Oil Exploration Company Limited hereby

appoint _____ of _____ or failing him/her

_____ of _____ as my/our proxy to

attend and vote for me/us and on my/our behalf at the 20th Annual General Meeting of the Company to be held on Friday, 17th September 2004 at 11.30 A.M. and at any adjournment thereof.

Signed this _____ day of _____ 2004.

Affix
15 paise
Revenue
Stamp
(...Signature...)

NOTE: The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.