

17<sup>th</sup>

**ANNUAL REPORT**

**2005-2006**



  
**aarvee**  
DENIMS & EXPORTS LTD.

**AARVEE DENIMS AND EXPORTS LTD.****17TH ANNUAL REPORT  
2005-2006****BOARD OF DIRECTORS :**

Shri Vinod P. Arora	Chairman & Managing Director
Shri Ashish V. Shah	Managing Director
Shri Kalpesh V. Shah	Whole Time Director
Shri Parmanand T. Arora	Director
Shri Rajesh P. Arora	Director
Shri Sanjay S. Majmudar	Director
Shri Ashok C. Gandhi	Director
Shri Arvind D. Sanghvi	Director
Shri Tilak Raj Kapoor	Director
Shri Amol R. Dalal	Director
Shri Rahul S. Chander	Investor Director

Shri Nipun V. Arora	C. O. O. (Administration)
Shri Pankaj V. Arora	C. O. O. (Marketing)
Shri Pankil K. Shah	C. O. O. (Garmenting)
Shri K. K. Mohale	Chief Executive
Shri Bhavik Pandit	Financial Controller
Shri Keyur J. Shah	Company Secretary & Sr. Manager (Legal, HR & Admin)

**BANKERS :**

Bank of Baroda	Punjab National Bank
Bank of India	Export Import Bank of India

**AUDITORS :**

N. C. Shah & Associates	Statutory Auditors
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**REGISTERED OFFICE (UNIT 1):**

188/2, Ranipur Village, Opp. CNI Church, Narol,  
Ahmedabad - 382 405.

**SPINNING UNIT (UNIT 2) :**

S. No. 215-217, Village Sari, Sarkhej Bavla Highway,  
Ta. Sanand, Dist. Ahmedabad.

**GREEN FIELD PROJECT (UNIT 3) :**

191, Moje shavadi, Narol-Sarkhej Highway, Ahmedabad-382 405

**DELHI OFFICE :**

417, Kucha Brijnath, Chandni Chowk, Delhi - 110 006.

**MUMBAI OFFICE :**

102, Techno Residency, Plot No. 84, Junction of L.N. Road  
and Hindu Colony Road No. 2, Dadar (E), Mumbai - 400 014.

**SHARE TRANSFER AGENT :**

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

**AARVEE DENIMS AND EXPORTS LTD.****aarvee****DIRECTORS' REPORT**

To  
The Members  
**Aarvee Denims And Exports Ltd.,**

Your Directors have pleasure in placing before you their 17th Annual Report and Accounts for the year ended March 31, 2006.

**FINANCIAL RESULTS**

The highlights of the Financial Results are given below:

<b>FINANCIAL RESULTS</b>	<b>Current Year 2005-06</b>	(Rs.in Lacs) Previous Year 2004-05
Sales	<b>27704.23</b>	23271.12
Profit Before Depreciation, interest and taxation	<b>6923.68</b>	5121.37
Less : Interest	<b>552.25</b>	502.79
Profit after interest but before Depreciation and Taxation	<b>6371.43</b>	4618.58
Less - Depreciation	<b>1370.24</b>	742.42
<b>Profit After Depreciation</b>	<b>5001.19</b>	3876.16
Less - Provision For Taxation	<b>1376.27</b>	910.00
Less - Provision For Deferred Tax	<b>191.60</b>	285.96
<b>Profit After Taxation</b>	<b>3433.32</b>	2680.20
<b>Appropriations / Adjustments</b>		
Less: short provision for taxation for earlier years	<b>14.62</b>	0.00
<b>PROFIT FOR THE YEAR</b>	<b>3418.70</b>	2680.20
Balance of profit / (loss) brought forward	<b>4105.11</b>	1882.22
Preference Dividend	<b>146.83</b>	0.00
Equity Dividend	<b>449.75</b>	269.85
Corporate Dividend Tax (including cess and surcharge)	<b>83.67</b>	37.45
Capital Redemption Reserve	<b>300.00</b>	0.00
General Reserves	<b>350.00</b>	150.00
<b>Profit carried to Balance Sheet</b>	<b>6193.56</b>	4105.11

**DIVIDEND**

The Company has already declared and paid interim dividend @ 15% on the fully paid-up equity share capital of the Company as recommended by the Board of Directors of the Company in its meetings held on 28.7.2005, 22.10.2005 and 21.1.2006 for the year 2005-06.

In addition to the Interim Dividend declared and paid earlier for the year 2005-06, the Directors in their meeting dated 28.6.2006 recommended the payment of dividend @ 5% per share on 2,24,87,400 equity shares of Rs.10/- each aggregating the total dividend @ 20% per share for the year 2005-06, subject to approval by the Members at the ensuing Annual General Meeting. The Board has also recommended payment of Preference Dividend at 13% per share on 1,49,91,340 Preference Shares of Rs. 10/- each.



**ANNUAL REPORT 2005-2006****PERFORMANCE DURING THE YEAR:**

Turnover of the company for the year is Rs. 27704.23 lacs compared to Rs. 23271.12 lacs showing increase by 19%. The Profit before Interest & Depreciation for the current year is Rs. 6923.68 lacs (Rs. 5121.37 lacs) which is 35% higher than the preceding year. Profit after tax is Rs. 3418.70 lacs. Provision for tax Rs. 1376.27 lacs & Provision for Deferred Tax Rs. 191.60 lacs is made for the current year which was last year Rs.910 lacs and Rs.285.96 lacs respectively.

**CORPORATE GOVERNANCE**

Pursuant to the requirements of Clause 49 of the Listing Agreement with the Stock Exchanges, a report on Corporate Governance and a Certificate from the Auditors of the Company regarding compliance with Corporate Governance guidelines as stipulated and Management Discussion & Analysis report have been attached by way of separate Section as part of this Annual Report.

**DIRECTORS**

Shri Rahul Chander was appointed as an Investor Director representing DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH (Financial Institution of Germany having equity participation in the Company) w.e.f. 28th July, 2005 pursuant to Article 133A of the Articles of Association of the Company

Shri Parmanand T. Arora, Shri Tilak Raj Kapoor and Shri Ashok C.Gandhi retire by rotation as per the provisions of Articles of Association of the Company. Your Directors recommend their reappointment.

**AUDITORS**

Auditors of the Company M/s. N.C. Shah & Associates, Chartered Accountants of Ahmedabad, will retire at the conclusion of the ensuing 17th Annual General Meeting from the office of the Auditors and being eligible offer themselves for re-appointment from the end of the ensuing Annual General Meeting till the conclusion of the next Annual General Meeting.

Pursuant to the terms and conditions of the agreement executed by the Company with the DEG (German Financial Institution), the Company proposes to appoint M/s Deloitte Haskins & Sells, Chartered Accountants along with M/s N.C. Shah & Associates., Chartered Accountants as the joint statutory auditors of the company for the Financial Year 2006-07. Your directors recommend their appointment as joint statutory auditors of the company.

The notes to the accounts referred to in the Auditors' Report are Self-explanatory and therefore do not call for any further comments. The Company has adequate system of internal control procedures commensurate with the size of the Company and the nature of its business to keep check on the activities of the various departments.

**DIRECTORS' RESPONSIBILITY STATEMENT**

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

- (i) in the preparation of the Annual Accounts, the applicable accounting standards have been followed;
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period.
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) the Directors had prepared the annual accounts on a going concern basis.



## AARVEE DENIMS AND EXPORTS LTD.

### COST AUDITORS

M/s. N.D. Birla & Co. a firm of Cost Accountants, have been appointed as Cost Auditors to conduct the cost audit for the year ending March 31, 2007.

### DEPOSITS

For the Financial year ending March 31, 2006 the company has accepted fixed deposits to the tune of Rs.507.69 lacs. The Company repaid the deposits amounting to Rs. 527.20 and the outstanding deposits at the end of the year were amounting to Rs. 346.37 lacs.

### INSURANCE

All properties and insurable interests of the company including building, plant and machinery and stocks wherever necessary and to the extent required have been adequately insured.

### PARTICULARS OF EMPLOYEES

Particulars required by the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, have not been provided since no employee is drawing remuneration in excess of prescribed limits as per above provisions.

### CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY BY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

- Details required to be disclosed under section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 are set out in Annexure of this Report.

### ACKNOWLEDGEMENTS

Your Directors wish to place on record their deep appreciation for the continued co-operation and support given by the Bankers, Financial Institutions, Customers and most importantly, for the services of the devoted staff, workers and executives of the Company.

By Order of the Board,

Place : Ahmedabad

Date : 28/06/2006

VINOD P. ARORA

CHAIRMAN

### ANNEXURE TO DIRECTORS' REPORT

#### CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956

The Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988

#### A. CONSERVATION OF ENERGY

##### I. POWER & FUEL CONSUMPTION

##### Power & Fuel Consumption

Current Year (April, 2005 to March, 2006)

##### 1. Electricity

a) Purchased Unit	KWH (Lacs)	380.22
Total Amount	Rs(Lacs)	1691.80
Rate / Unit	(Rs./KWH)	4.45

**ANNUAL REPORT 2005-2006****b) Own Generation (Through Diesel Generator)**

Power through D.G. Set was generated @3.30 KWH /LITRE for use during emergencies whenever there was power outage to sustain plant operations. Cost per Unit: Rs. 8.24/ KWH

Thermal based Power Plant	KGs (MT)	10,482
	Amount (Lacs)	184.70
	Units KWH (Lacs)	66.12
	<b>Rs./Units</b>	<b>2.79</b>

Wind Turbine 37.69 Unit ( Lacs)

**2. FUEL**

Coal & Lignite Quantity (Kg.): 15773 MT

Total Cost: Rs. 264.19 Lacs

Average Cost (Rs.): 1674/MT

**II. CONSUMPTION PER UNIT OF PRODUCTION:**

	<u>FABRIC (PER MTR)</u>	<u>YARN (PER KG)</u>
1 Electricity( kwh)	1.00	0.93
2 Coal (Kg)	0.49	NIL
3 L D O	0.01	0.30

**B. TECHNOLOGY ABSORPTION**

1. Research & Development Expenditure	NIL
a. Capital	NIL
b. Recurring	NIL
c. Total	NIL
d. Total R&D Expenditure as % of total turnover	NIL

**C. FOREIGN EXCHANGE EARNINGS AND OUTGO**

Foreign Exchange Earnings during the Financial Year was Rs.32,63,47,545/- and total Outgo was Rs15,18,90,334.

By Order of the Board,

Place : Ahmedabad  
Date : 28/06/2006

**VINOD P. ARORA**  
CHAIRMAN

**AARVEE DENIMS AND EXPORTS LTD.****aarvee****REPORT ON CORPORATE GOVERNANCE****1. Brief statement on Company's philosophy on code of governance.**

It is constant endeavor of the Company to have consistent practice of good corporate governance by attaining of the highest levels of transparency and accountability in working of the Company at all levels and in all interactions with its stakeholders, shareholders, bankers, employees, lenders and government etc. and to pursue all efforts to make further improvement in achieving the above goal.

**2. Board of Directors**

During the financial year 2005-2006, the Board met eight times on the dates viz. 9th April 2005, 4th May 2005, 24th May 2005, 23rd June 2005, 30th June 2005, 28th July 2005, 22nd October 2005 and 21st January 2006.

The Board of Directors of the company is having optimum combination of Executive & Non-Executive Directors as suggested in the Corporate Governance norms. The current strength of the Board is eleven comprising three Executive Directors and eight Non-executive Directors. Of these eight Non-Executive Directors, six are independent Directors and two are Non-independent.

Details of Directors, Attendance of Directors at the Board Meetings, at the Annual General Meeting held on 18.06.2005 and number of memberships held by Directors in the Board/Committee of other Companies

Sr. No.	Name	Category	Attendance Particulars		Number of other Directorship and Committee Member/Chairmanship		
			Board Meetings	AGM held on 18.06.05	Other Directorship	Committee Membership	Committee Chairmanships
1.	Shri Vinod P.Arora (CMD)	Promoter Executive	7	Yes	2	-	-
2.	Shri Ashish V.Shah (MD)	Promoter Executive	8	Yes	-	-	-
3.	Shri Kalpesh V.Shah (WTD)	Promoter Executive	8	Yes	-	-	-
4.	Shri Parmanand T.Arora	Promoter Non-Executive	2	-	-	-	-
5.	Shri Rajesh P.Arora	Promoter Non-Executive	-	-	-	-	-
6.	Shri Sanjay S.Majmudar	Independent Non executive	8	Yes	1	2	1
7.	Shri Ashok C.Gandhi	Independent Non executive	7	-	9	8	-
8.	Shri Arvind D.Sanghvi	Independent Non executive	3	-	2	-	-
9.	Shri Tilak Raj Kapoor	Independent Non executive	1	-	-	-	-
10.	Shri Amol R.Dalal	Independent Non executive	7	Yes	1	-	-
11.	Shri Rahul Chander (Nominee -DEG)*	Independent Non executive	1	-	1	-	-

\* Shri Rahul Chander was appointed as Investor Director w.e.f 28.07.2005 representing DEG- Deutsche Investitions- und Entwicklungsgesellschaft mbH (hereinafter referred as DEG), a financial institution having equity participation in the company and incorporated as a limited liability company under the laws of the Federal Republic of Germany.

• Directorship in other companies mentioned above excludes directorships in private limited companies

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- While calculating the number of Chairmanship/Membership in Committees of other Companies, Membership/ Chairmanship of only Audit Committee and Shareholders' Grievance Committee have been considered pursuant to clause 49 of the Listing Agreement. None of the Directors is a member in more than ten committees and act as a chairman in more than five committees across all companies in which he is a Director
- Time gap between dates of Board meeting is not more than four months.

**Appointment/Reappointment of Directors:**

The Directors who retire by rotation and who are eligible for re-appointment or newly appointed are :

- Shri Parmanand T.Arora** aged 79 years is the founder of Arora Group of Companies based at Delhi & has more than 60 years of experience in Textile trading
- Shri Ashok C.Gandhi**, aged 66 years is an practicing Advocate in Civil, Company Law, Banking Law.etc.since last more than 40 years in the High Court of Gujarat at Ahmedabad.Also Director in number of Companies and Trustee of various Public, Educational, Religious and Charitable trusts
- Shri Tilak Raj Kapoor**, aged 73 years is a businessman in textiles based at Delhi having experience in textile trading for more than 50 years.

**3. Audit Committee****(i) Brief Description of terms of reference:**

The broad terms of reference of the Audit Committee include:

- To supervise financial reporting process and to ensure financial and accounting control.
- To ensure compliance with the accounting policies of the Company.
- To interact with the internal and statutory auditors to ascertain the qualify and veracity of Company's transactions and to review the manner in which they are performing their responsibilities.
- To review the internal audit function.
- To review and discuss the financial statements before they are presented to the Board of Directors.

The Company has appointed Shah Narielwala & Co. a firm of Chartered Accountant as Internal Auditor to review the internal control systems of the company and to report thereon. The report of the Internal Auditor is periodically reviewed by the Audit Committee

**(ii) Composition of Audit Committee**

Constitution of Audit Committee meets with the requirements of Corporate Governance guidelines as well as the provisions of section 292 A, of the companies Act, 1956.

Audit Committee constituted by the Board of Directors consists of four Independent Directors, viz. Shri Sanjay S. Majmudar as Chairman of the Committee, Shri Ashok C. Gandhi, Shri Amol R. Dalal and Shri Rahul Chander as members.

Shri Rahul Chander was appointed as member of Audit Committee in the Board Meeting held on 28.07.2005

**(iii) Meetings and Attendance during the year**

Audit Committee met on 24.05.2005, 28.07.2005, 22.10.2005 and 21.01.2006 to consider quarterly/yearly financial results of the Company during the financial year under review.

Detailed Attendance of members of Audit Committee at the Audit Committee meeting held during the year 2005-06:

Sr. No.	Name of Member	Attendance Particulars
1.	Shri Sanjay Majmudar	4
2.	Shri Ashok Gandhi	3
3.	Shri Amol Dalal	4
4.	Shri Rahul Chander (Nominee - DEG)	1





## AARVEE DENIMS AND EXPORTS LTD.

### 4. Remuneration Committee

#### (i) Brief Terms of reference and Remuneration Policy:

The remuneration Committee has been constituted to recommend and review remuneration of Directors and senior management personnel from time to time. The remuneration policy of the Company is to reward the performance and achievements of the Directors periodically.

#### (ii) Composition of the Committee:

Remuneration Committee consists of three Independent Directors viz. Shri Sanjay S. Majmudar as Chairman of the Committee, Shri Ashok C. Gandhi, and Shri Amol R. Dalal as members..

#### (iii) Meetings and Attendance

The meeting of Remuneration Committee was held on 24.05.2005. All members of the Committee were present at that meeting

#### (iv) Details of remuneration of Directors

The aggregate value of salary and perquisites paid to Managing/Whole time Directors for the financial year ended March 31, 2006 is as under:

1. Shri Vinod P. Arora, Chairman & Managing Director	Rs. 10,80,000/-
2. Shri Ashish V. Shah, Managing Director	Rs. 8,70,000/-
3. Shri Kalpesh V. Shah, Wholetime Director	Rs. 5,70,000/-

The sitting fees paid during the financial year 2005-06 for attending the Board & Committee Meetings are as follows:

Shri Sanjay S. Majmudar	Rs. 21,000
Shri Amol R. Dalal	Rs. 19,000
Shri Ashok C. Gandhi	Rs. 18,000
Shri Arvind D. Sanghvi	Rs. 6,000
Shri Parmanand Arora	Rs. 4,000
Shri Rahul Chander (Nominee DEG)	Rs. 3,000
Shri Tilak Raj Kapoor	Rs. 2,000

### 5. Shareholder Committee

#### (i) Share Transfer Committee

The Board has long back constituted a Share Transfer Committee consisting of three executive Directors.

The Committee meets at frequent intervals, to approve inter-alia, transfer/transmission of shares, deletion of names, split/consolidation of shares etc. Details of shares transfer/transmissions approved by the Committee are placed at the Board Meetings from time to time.

Committee consists of Shri Vinod P. Arora, Shri Ashish V. Shah & Shri Kalpesh V. Shah.

#### (ii) Shareholders' Grievance Committee

The Company has constituted the Shareholders' Grievance Committee under the Chairmanship of Shri Amol Dalal, Independent - Non Executive Director of the Company in its Board meeting dated 28.07.2005 with a view to monitor the redressal of Investors' grievances. The other two members of the Committee are Shri Vinod P. Arora, Chairman and Managing Director and Shri Kalpesh V. Shah, Whole time Director. The Committee met two times during the year viz. 08.10.2005, 06.01.2006. All the three members of the Committee were present at the above meetings.

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The details of the Complaint received/solved/pending during the year are as below:

Sr. No.	Nature of Complaint	Complaints received	Complaints solved	Complaints pending
1.	Non receipt of Shares Certificate after transfer etc.	1	1	Nil
2.	Non receipt of Dividend Warrants	19	19	Nil
3.	Query regarding Demat credit	1	1	Nil
4.	Non receipt of Duplicate Share Certificates after issue	1	1	Nil
<b>Total</b>		<b>22</b>	<b>22</b>	<b>Nil</b>

**6. General Body Meetings****(i) Annual General Meetings**

The details of the last 3 Annual General Meetings of the Company held at the registered office of the Company are as under:

Annual General meeting	Date	Time	No. of Special Resolution passed
16th AGM	18th June, 2005	10.00 A.M	9
15th AGM	30th September, 2004	11.00A.M	2
14th AGM	29th September, 2003	11.00 A.M	1

No special resolution was put through postal ballot in the last AGM nor is any resolution proposed for this year.

**(ii) Extra Ordinary General meeting**

Details of Extra Ordinary General Meeting held and resolution passed during the year 2005-06 is as under :

Date	Resolutions passed
28.07.2005	Alteration of the Articles of Association Increase the borrowing powers u/s 293(1)(d) of the Companies Act 1956 Increase the limit for creation of mortgage/charges u/s 293(1)(a) of the Companies Act 1956

All the above Special Resolutions, moved at the Extraordinary General Meeting were passed on a show of hands by the shareholders present at the meeting and the resolutions were not required to be passed by postal ballot.

**7. Code of Business Conduct and Ethics**

The Company has laid down comprehensive Code of Business Conduct and Ethics. The Company's Board of Directors and Senior Management Personnel are responsible for and are committed to setting the standards of Conduct contained in this code and for updating this standards, as appropriate, to ensure their continuing relevance, effectiveness and responsiveness to the needs of local and international investors and all other stakeholders as also to reflect corporate, legal and regulatory developments. This code is being adhered to in letter and in spirit. This Code has posted on the Company's website i.e. [www.aarvee-denims.com](http://www.aarvee-denims.com). The Confirmation of CEO for the Compliance of the Code of Business Conduct and Ethics is as under:

I hereby confirm that:

"The Company hereby affirms that it has complied with the Code of Business Conduct and ethics and received affirmation from Board Members and senior management Personnel of its compliance."

Ashish V.Shah  
Managing Director

**8. Disclosures**

None of the transactions with any of the related parties were in conflict with the interests of the Company.