

*Ambalal Sarabhai Enterprises Limited*

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**Board of Directors****Kartikeya V Sarabhai***Chairman***Anand Sarabhai****A. K. Shukla***Wholetime Director***Bhalchandra R Shah****CVS Narayanan****Govind Das Zalani****Om Dutt Gulati****Vinodchandra C Shah****Vipin N Jikar****Auditors**

Messrs. Sorab S Engineer &amp; Co

Chartered Accountants

Ismail Building

381, Dr. D Naoroji Road

Fort, Mumbai

**Bankers**

Punjab National Bank

State Bank of Saurashtra

Bank of Baroda

UTI Bank Ltd.

**Registered Office**

Dr. Vikram Sarabhai Marg,

Wadi Wadi, Vadodara 390 023.

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**ase Ambalal Sarabhai Enterprises Limited**

Regd. Office : Dr. Vikram Sarabhai Marg, Wadi Wadi, Vadodara 390 023.

**Notice**

The Twentyfourth Annual General Meeting of the Company will be held on Thursday, the 26th September, 2002 at 11.00 A.M. at Mahatma Gandhi Nagar Grih, Near Jubilee Baug, Vadodara to transact the following business :

**Item 1 :**

To receive, consider and adopt the Directors' Report and Audited Profit and Loss Account for the year ended 31.3.2002 and the Balance Sheet as on that date.

**Item 2 :**

To appoint a Director in place of Dr. Anand Sarabhai, who retires by rotation and being eligible offers himself for re-appointment.

**Item 3 :**

To appoint a Director in place of Mr. CVS Narayanan, who retires by rotation and being eligible offers himself for re-appointment.

**Item 4 :**

To appoint a Director in place of Mr. V. N. Jikar, who retires by rotation and being eligible offers himself for re-appointment.

**Item 5 :**

To appoint Messrs. Sorab S. Engineer & Co., Chartered Accountants, Mumbai as Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

**Special Business :**

To consider and if thought fit, to pass, with or without modifications, the following resolution :

**Item 6 - Ordinary Resolution**

"RESOLVED that the Company hereby approves / ratifies / confirms and consents to the action of the Board of Directors of the Company (hereinafter referred to as the "Board") :

- i) in entering into Memorandum of Understanding dated 5th February, 2002 with Swastik Surfactants Limited (SSL), Kalol, Dist. Panchmahals, Gujarat;
- ii) in entering into Deed of Settlement/Agreement dated 5th February, 2002 with SSL;

in furtherance of the negotiations and understandings reached with SSL, concerning the outstanding disputes between the Company and SSL with regard to erstwhile Swastik Division."

"RESOLVED further that consent/approval of the Company be and is hereby accorded to its Board of Directors of the Company to execute the required document/s with SSL embodying therein the terms of settlement of various pending issues relating to erstwhile Swastik Division which has vested in SSL and more particularly relating to discharge of existing liabilities towards FIs, Banks and inter se liability between the Company and SSL, the broad based details of which are explained in the Explanatory Statement annexed to this Notice."

"RESOLVED FURTHER that the Board be and is hereby authorised to settle and execute the documents and to do the acts, matters, deeds and things as it may in its absolute discretion consider deem fit and appropriate and in the business interest of the Company, with a view to settle all the long pending issues with SSL regarding erstwhile Swastik Division."

By Order of the Board of Directors,

Tarang Mehta  
Secretary

30.7.2002

**Notes:**

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 is annexed hereto.
3. Pursuant to Section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will remain closed from 16.9.2002 to 26.9.2002 (both days inclusive).
4. Members who hold equity shares in dematerialised form are requested to bring their DPID and client ID numbers for easy identification of attendance at the meeting.
5. The information relating to Re-appointment of Directors, as required to be given as per Corporate Governance Code are as under :

**Dr. Anand Sarabhai**

Dr. Anand Sarabhai is a Molecular Biologist. He has been very active in the Scientific field and has in the past also held a position of an Advisor (Special Project) to Chiron Corporation, California. Dr. Anand Sarabhai is a Director on the Board of Directors of the Company since September 1995. His association with the Company as a Director on the Board of Directors is of great help and guidance.

Dr. Anand Sarabhai is also a Director on the Board of Directors of -

- i) Sarabhai Electronics Limited; and
- ii) 54 other Private Limited Companies

Dr. Anand Sarabhai is not a member of any Committee of Board of Directors of any Company.

**Mr. CVS Narayanan**

Mr. CVS Narayanan is D.Com., ACMA (London) AICWA (India). He has been associated with Sarabhai Enterprises since 1952. During this tenure, Mr. Narayanan has handled several assignments and has worked in different positions. Mr. Narayanan ceased to be a whole time Director of the Company since 31.3.2002.

Mr. Narayanan is a Director on the Board of Directors of

- i) Sarabhai Electronics Limited
- ii) Synbiotics Limited

- iii) Harayana Containers Limited and

- iv) 4 other Private Limited Companies

Mr. Narayanan is also a member of Committee/s of Directors in 5 aforesaid companies.

**Mr. V.N. Jikar**

Mr. V.N. Jikar is associated with the company as a Director since 1994. He is a technocrat, Ford Foundation Scholar and AMP from Harvard Business School. He held senior positions in the steel, Petrochemicals and Synthetic Yarn Industries in the Country. He was Chairman of Petrofils Co-operative Ltd. and Calico Mills. He has wide and varied industrial and business experiences of different fields. His association with the company as a Director on the Board of Directors is of great help and guidance. Mr. Jikar is a Director of the Board of Directors of-

- i) Yogi Polysters Limited; and

- ii) 4 other Private Limited Companies

Mr. Jikar is also a member of Committee/s of Directors of the Company.

**Explanatory Statement :**

required under Section 173 of the Companies Act, 1956 to accompany the Notice of the Twentyfourth Annual General Meeting of the company.

**Item 6 :**

As the members are aware, the erstwhile Swastik Undertaking of the Company was vested as a going concern in Swastik Surfactants Limited (SSL) (formerly known as Whitco Limited), Kalol, District Panchmahals, by order passed by the Hon'ble High Court of Gujarat on 24.12.1987 whereby the Scheme of Arrangement as proposed by the Company and duly approved by the shareholders was sanctioned.

In terms of the said arrangement, the erstwhile Swastik undertaking, together with all its assets and liabilities had vested in SSL and for which SSL were required to pay to the Company an amount of Rs. 11.66 crore. Subsequently, an Agreement of Sale of 9,38,850 equity shares of Rs. 10/- each held by the Company in SSL for a consideration of Rs. 1 crore and for discharge by SSL of its liability to ASE and Associates aggregating Rs. 30 crore (including Rs. 11.66 crore in terms of the Scheme of Arrangement) was executed by the Company on 2.8.1988 with one Mr. Satish Bhangar and another, the buyers of SSL shares and SSL.

Central Bank of India (CBI) and Bank of Baroda (BOB) subsequently contested the Scheme of Arrangement and filed a Petition in the Gujarat High Court challenging the Order dated 24.12.1987 of the High Court sanctioning the Scheme of Arrangement. In the said appeals, the Division Bench of the Court set aside the Order of the Single Judge sanctioning the Scheme of Arrangement by Order dated 23.2.1997. The Company preferred an appeal against the said Order of the Division Bench in the Supreme Court which is pending hearing and final disposal. The Order of the Division Bench which set aside the Scheme, is in the meanwhile stayed by the Supreme Court till hearing of the company's appeal. CBI and BOB have also filed a suit in the High Court at Bombay against the Company and SSL claiming a sum of Rs. 3.26 crore and 7.90 crore respectively with interest @ 18.5% p.a. with quarterly rests w.e.f. June '89 which suit is pending.

SSL has filed a Suit against the Company in 1993 disputing its liability to pay the sum of Rs. 30 crore to the Company and the said matter is also pending in the High Court of Judicature at Bombay.

As regard dues of the erstwhile Swastik division of Financial Institutions-ICICI, IFCI and IDBI in respect of modernisation loan, the institutions had filed a Suit against the Company in the Bombay High Court in which a Consent Decree was passed in favour of the Institutions. The company has made the payment of its obligations except that part of the Decree of which according to the Company, the primary responsibility is that of SSL. SSL, however, has not paid any amount whatsoever to the Institutions and therefore, the Institutions are pressing the Company for payment.

Considering the above long pending disputes between SSL and the Company and the Banks and FIs, the Board of Directors of the Company thought it worthwhile if some negotiated settlement on a mutually acceptable terms could be reached between the Company and SSL.

With this in mind, negotiations were held with SSL and the following broad based understanding is being reached between the parties :

- 1) SSL shall take-up the liability to pay on the basis of one time settlement the entire dues of CBI and BOB.
- 2) SSL shall settle its part of the outstanding dues of FIs.
- 3) SSL shall out of the sale proceeds of its assets, pay up to a sum of Rs. 3.5 crore, on the basis of the formula agreed to by the Company, to the Company or its designated nominee.
- 4) With the above actions, upon compliance thereof by SSL, SSL would have no further liability or obligation to discharge towards the Company either in terms of Scheme of Arrangement or Agreement for Sale of Shares dated 2.8.1988.

Both SSL and the Company shall jointly apply to the Hon'ble Supreme Court of India for an appropriate order in the pending matters in terms of the aforesaid settlement.

Considering the above and taking an over all view and to avoid unnecessary on going litigation, the Board of Directors of the Company considered it to be expedient in the business interest of the Company to settle and execute an agreement on the aforesaid lines with SSL and for the purpose the said MOU and a Deed of Settlement/Agreement both dated 5th February, 2002 have been executed with SSL.

All the documents referred to in the resolution are available for inspection at the Registered Office of the Company during business hours on all its working days (except Saturday) till the date of meeting.

None of Directors of the Company, is in any way interested in the above resolution.

Your Directors commend the resolution as set out in the Notice for your approval and acceptance.

By Order of the Board of Directors,

Tarang Mehta  
Secretary  
30.7.2002

**Directors' Report**

To the Shareholders,

Your Directors present the report for the year 2001-02. The financial results are as under :

	(Rs. lakh)	
	2001-02	2000-2001
Turnover	17811	19945
Other income	1506	890
Total income	19317	20835
Interest	751	1145
Depreciation	145	149
Profit/(Loss) before non-recurring income/expenditure	(2322)	(2906)
Non Recurring income net of Expenditure	-	2744
Adjustment for past provisions upon settlement of liability	1625	-
Taxation for earlier period	-	32
Net Profit/(Loss)	(697)	(194)

The loss which was Rs. 2906 lakh in 2000-01 has come down to Rs. 2322 lakh during the year under report.

Your Directors regret their inability to recommend payment of any dividend in view of loss during the year.

**Operations :**

During the year under report, your Company continued its process of achieving cost reduction in various areas of operations. This process is continuing.

During the year under report, your Directors decided to set up a Co-generation Plant for generation of electricity and steam with natural gas available to the Company. Accordingly a 4.6 M.W. Plant was installed and has been tested and made operative on a regular basis effective 22nd June, 2002. Utilisation of power and steam generated by this plant would substantially reduce cost of power and fuel.

Your Company has strengthened the marketing efforts of the Speciality products and there has been a substantial increase in turn over of the Speciality products of your Company. Likewise, your Company has also introduced a few more Generic Products during the year under report.

**Project Assem - Engagement of Services of Accenture India :**

During the current year 2002-03, your Directors, with a view to get the various business plans drawn for a total turn-around of the Company validated and also to ensure to develop a road-map for further implementation of composite turn-around strategy aforesaid, have retained the services of "Accenture - India". The name given to the aforesaid project, has been selected as "Project Aseem".

Accenture is the largest management and technology consulting firm globally with established presence in India. Accenture in India has expertise in various industries including Pharmaceuticals and has worked on strategy and business plan development, performance improvement and IT Systems design and implementation related projects with leading Indian Companies.

"Aseem Project" team has recently validated a turn around plan for various business of your Company. This turn around plan includes revenue enhancement, operational performance improvement and investment plans, as well.

**Joint Venture :**

Working of the Joint Venture Company, Sarabhai Piramal Pharmaceuticals Private Limited (SPPPL) for the year ended 31.3.2002 was satisfactory in the context of the low growth in the pharmaceutical industry. SPPPL had declared and paid a dividend of 30% on its equity share capital and your Company's share in the dividend is Rs. 6.75 crore.

The turnover of the Company's another Joint Venture Company, Sarabhai Zydus Animal Health Private Limited was substantially higher (Rs. 78 crore) during the year ended 31.3.2002 as compared to earlier year (Rs. 60 crore).

**Human Health Products :**

The turnover of human health products during the year amounted to about Rs. 102 crore (Rs. 80 crore in the previous year) which includes the products supplied to the Joint Venture Company / Companies of the Company as also its Speciality Products. This shows an increase of about Rs. 22 crore over previous year.

**Bulk Drugs :**

Your Company has achieved the sales volume of Rs. 20 crore in the sale of Vitamin-C during the year under report as compared to Rs. 27 crore in the previous year. The fall in the volume is mainly due to stiff competition in the market and dumping from other countries.

**Electronics :**

Your Company could achieve the sales volume of its Electronics Division of Rs. 16 crore during the year under report as compared to Rs. 13 crore in the previous year. The Company would continue its endeavour to further strengthen its market share in this business segment.

**Exports & Business development :**

The export sales amounted to Rs. 10 crore during the year as compared to Rs. 12 crore in the previous year.

With a view to enable increased utilisation of existing plant/Infrastructure set up at Vadodara campus, the management is negotiating with some overseas parties for technology transfer of some of pharmaceutical products with buy-back arrangements. It is expected that upon these arrangements being concluded and implemented, your Company would be able to substantially increase turnover and improve upon margins.

**Generic Products :**

The sales of Generic products amounted to Rs. 10 crore compared to Rs. 11 crore in the previous year. The Company expects to achieve substantial growth in this business and plans to launch newer products and expanding customer base.

**Corporate Governance :**

As required under the amended Listing Agreement with the Stock Exchanges, the details required to be given in the area of Corporate Governance are attached to this report.

A certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as stipulated in the Listing Agreement is also attached to this report.

**Subsidiaries :**

The Report and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides shareholders with a consolidated position of the Company including subsidiaries, at the first instance, shareholders are being provided with the Report and Accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Shareholders desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

**Swastik Household and Industrial Products :**

The appeal filed by the Company in the Supreme Court against the Order dated 23.2.1997 of the Gujarat High Court setting aside the Scheme of Arrangement by which erstwhile Swastik Division and Electronics Division of the Company vested in Swastik Surfactants Limited (SSL) and Sarabhai Electronics Limited respectively with effect from 1.7.1985 are pending before Hon'ble Supreme Court for final disposal. The Hon'ble Supreme Court has granted Special Leave to the Company to appeal against the said Order of Gujarat High Court and has also granted stay of the operation of the Order till disposal of the appeals. Meanwhile, with a view to settle all the pending issue/s with SSL relating to erstwhile Swastik Division, the management of your Company had initiated a dialogue with the management of SSL. After series of meetings and negotiation/s, MOU and a Deed of Settlement/Agreement is since signed on 5th February 2002 by your Company with SSL detailing therein the understanding reached between SSL and your Company with regard to settlement of various pending issues relating to erstwhile Swastik Division.

An Appropriate resolution for seeking consent/ratification of shareholders of the Company for the understanding aforesaid and consequential actions thereto is included in the notice convening ensuing Annual General Meeting of the shareholders of the Company.

**Directorate :**

Mr. G.D. Zalani and Mr. CVS Narayanan, Directors of the Company, ceased to be "Whole-time Directors" from the close of business hours on 31st March, 2002. However, both of them continue to be Directors on the Board of Directors of the Company.

Pursuant to the provisions of Section 256 of the Companies Act, 1956, Dr. Anand Sarabhai, Mr. CVS Narayanan and Mr. V.N. Jikar retire by rotation but being eligible offer themselves for re-appointment.

**Fixed Deposits :**

As on 31.3.2002 160 depositors with deposits aggregating to Rs. 6.60 lakh had not claimed the deposits after the date on which they became due for payment.

**Energy Conservation, Technology Absorption and Foreign Exchange earnings and outgo :**

Particulars of Energy Conservation, Technology Absorption and Foreign Exchange earnings and outgo required to be given by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in the Annexure "A" to this Report in the prescribed format.

**Particulars of Employees :**

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees Rules 1975) is not given since there was no employee drawing remuneration as prescribed under the said Section.

**Directors' responsibility statement :**

As required under Section 217(2AA) of the companies Act, 1956, we hereby state:

- (i) That in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state affairs of the Company as at 31st March, 2002 and its loss for the year ended on that date.
- (iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) That the Directors have prepared the annual accounts on a going concern basis.

**Insurance :**

Building, Plant and machinery and stocks, have been adequately insured. The Company carries a risk for certain assets like goods in transit in respect of which any loss resulting from non insurance is small.

**Auditor's Report :**

Notes No. B(8) and B(12) forming part of the accounts are self-explanatory and clarify the observations made by the Auditors in sub-para 4 (f) (i) and (ii) of their Report.

As regards their observations in para 4 (f) (iv), by an Agreement dated 2.8.1988 to which Swastik Surfactants Limited (SSL) is party. SSL has acknowledged and confirmed its obligations to pay a sum of Rs. 30 crore in four equal annual instalments commencing from 2001 and the said sum covers dues of SSL and some wholesale buyers of the Company and to its other associates. The Company has also notified particulars of all the payments made by it on behalf of SSL subsequent to 2.8.1988 to the Board for Industrial and Financial Reconstruction (BIFR). The Scheme of Rehabilitation has been kept in abeyance by BIFR in view of the fact that the Division Bench of the Gujarat High Court has allowed an appeal by Central Bank of India and Bank of Baroda against the Scheme of Arrangement sanctioned by Gujarat High Court. As already reported, the Hon'ble Supreme Court has granted Special Leave to the Company to appeal against the said order of Gujarat High Court and has also granted stay on the operations of the said order till disposal of the said appeals.

**Auditors :**

Members are requested to appoint Auditors to hold office until the conclusion of the next Annual General Meeting and to fix their remuneration.

**Acknowledgement :**

Your Directors record their appreciation of the services of employees who have given their full co-operation to the Management in furthering the Company's interest.

For and on behalf of the Board  
Kartikeya V. Sarabhai  
Chairman  
30.7.2002

**AUDITORS' CERTIFICATE**

To the Members of

Ambalal Sarabhai Enterprises Limited  
Vadodara

We have examined the compliance of conditions of Corporate Governance by Ambalal Sarabhai Enterprises Limited, for the year ended 31st March, 2002, as stipulated in clause 49 of the Listing Agreement with 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 the 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, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that no investor grievances are 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 and on behalf of  
Sorab S. Engineer & Co.  
Chartered Accountants  
M. P. Antia  
Partner

Place : Vadodara  
Date : 25.6.2002

**Annexure 'A' to the Directors' Report**

Disclosure of additional particulars as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, forming part of the Directors' report for the year ended 31st March, 2002.

**A. Conservation of Energy :**

- i) Energy conservation measures taken :  
The Company has undertaken various measures for conservation and savings energy in critical areas including :  
1. Power factor improvement.  
2. Quicker heat transfer.  
3. Monitoring of combusting efficiency.  
4. Reuse of steam condensate as boiler feed water.  
5. Repairing of damaged insulation on steam line.  
6. Stopping of machines during idle hours.  
7. Optimum use of utility depending upon process requirement.
- ii) Additional investments and proposals :  
Gradually some of the existing refrigeration equipment would be replaced with more modern ones to reduce energy consumption. The Co-generation plant based on natural gas has been installed by the Company.
- iii) Impact of measures :  
Though economies in consumption for comparable level of operations over previous year was achieved, the increase in tariffs had minimised the absolute benefits.
- iv) Total energy consumption and energy consumption per unit of production :  
The required information is given in the enclosed prescribed Form A.

**B. Technology absorption :**

- v) Efforts made in Technology absorption :  
Efforts made in Technology absorption are as per enclosed Form B.

**C. Foreign exchange earnings and outgo :**

- vi) The Company is putting all efforts to boost up the exports of various basic drugs and formulations and also to export third party products, including non-pharmaceutical products. In this direction, the Company is endeavouring to identify and improve the quality of various products for export market. The Company is also forging tie ups with various parties abroad to strengthen the exports.
- vii) Total foreign exchange earned and used :  
Earnings from export of goods,  
commission etc. : Rs. 1055.12 lakh  
Import of raw materials,  
foreign travel expenses etc. : Rs. 1774.45 lakh

**FORM A****(DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY)****A. Power and fuel consumption**

	Unit	Current year	Previous year
1. Electricity			
a) Purchased (kwh)	'000	11,385	12,168



Total amount	Rs. lakh	663	719
Rate/Unit	Rs./Kwh	5.82	5.91
b) Own generation			
(i) Through diesel generator (Kwh)	'000	Nil	Nil
Units per ltr. of diesel oil	Kwh/Ltr.	Nil	Nil
Cost/Unit	Rs./Kwh	Nil	Nil
(ii) Through steam turbine/generator			
Units per Ltr. of fuel oil/gas		Nil	Nil
Cost/Unit			
2. Coal		Nil	Nil
3. Furnace oil			
Quantity	K.Ltrs.	170	4
Total amount	Rs. lakh	19	0.2
Average rate	Rs./K.Ltrs.	11261	5600
4. Others - Natural Gas			
Quantity	1000 M <sup>3</sup>	4538	4242
Total cost	Rs. lakh	187	178
Rate/Unit	Rs./1000 M <sup>3</sup>	4121	4199

**B. Consumption per unit of production :**

Products	Standards	Current Year	Previous Year
<b>Electricity</b>	The Company produces a wide range of bulk drugs, pharmaceutical preparations and electronic instruments etc. It is not practicable to establish each productwise energy consumption since bulk of electricity is used for services like water supply, cooling water, steam, airconditioning, refrigeration, etc. which are common to all products. The Company is therefore not in a position to give the productwise information.		
<b>Furnace Oil</b>			
<b>Coal</b>			
<b>Others</b>			

**FORM B****(DISCLOSURE OF PARTICULARS WITH RESPECT TO TECHNOLOGY ABSORPTION)****Research and Development (R & D)**

- Specific areas in which R & D has been carried out by the Company :
  - Process development for the bulk drugs and intermediates.
  - Development of new pharmaceutical formulations.
  - Development and standardisation of product packages.
  - Establishing the standards, specifications and analytical procedures of new products and intermediates.
  - Blood level studies of the new and existing formulations.
  - Chronic and acute toxicity studies for new product formulations.
  - Updating the specifications and analytical procedures for existing formulations.
  - Conducting clinical trials for the new drugs.
  - Improvement in product design and increased applications.
- Benefits derived as a result of the above R&D :
  - Development of economical processes for the manufacture of bulk drugs for captive consumption.
  - Development of formulations for new products and improvement in the existing formulations.
  - Cost reduction in existing formulations.
  - Blood level studies of new formulations.
  - Enlarged market.
  - Better productivity/increased applications.
- Future plan of Action :
  - Development of formulations for new drugs.
  - Blood level studies for the new formulations.
  - Clinical trials for new drugs.
  - Process improvement in bulk drugs and formulations.
  - Study and development of genetically engineered products.
- Expenditure on R&D
 

a) Capital	Rs. 0.18 lakh
b) Recurring	Rs. 83.27 lakh
c) Total	Rs. 83.45 lakh
d) Total R&D expenditure as a percentage of total turnover	0.53%

**Technology absorption, adaptation and innovation :**

- The Company has in-house R&D Centres recognised by the Department of Science & Technology, Government of India. One of the centres cater to R&D activities in the area of Drugs & Pharmaceuticals while another operates in the area of Electronics. The Research and Development Department keeps itself abreast of the latest technical development and innovations relating to the Company's line of products and brings about improvements in the products of the Company for better quality, process improvement, cost effectiveness and import substitution. The Electronics Research Centre has developed and produced analytical and testing instruments based on in-house research. The Centre has also obtained technology transfer from Central Scientific Instruments Organisation, and the Department of Science and Technology for manufacture of Spectrophotometers.
- Benefits derived as a result of the above efforts :
 

The Research on drugs and pharmaceuticals have contributed to product improvement and cost reduction. The technology developed and absorbed in the field of electronic instruments has served scarce foreign exchange resources for the country by developing import substitution.
- Information regarding technology
 

imported during the last 5 years	Technology to manufacture anti-cancer formulation
Year of Import	1997
- Has Technology been fully absorbed. Yes

**ANNEXURE-B TO THE DIRECTORS' REPORT****MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT****a) Industry structures and developments :**

The Indian Pharmaceutical Industry has been a fast growing industry having a compounded annual growth rate of around 15%. However, during 2001 the domestic pharmaceutical market registered a growth of 9.7% in value and 8.8% in volume as per ORG report.

The Government has recently announced a new Drug Policy. However the Drugs Price Control Order giving effect to the said policy is yet to be announced.

The year under report witnessed the consolidation process through mergers and acquisitions of various Pharmaceutical Companies largely on the expectation of product patent protection from the year 2005.

In this scenario, an attempt is being made to introduce necessary changes in the various areas of operations so as to optimise the operating results.

**b) Opportunities and Threats :**

Your Company operates in an area where a large market exists and offers ample opportunities for growth. Your Company's products are well-received in the market.

**c) Sector wise performance :**

Sector wise performance has been enumerated in the Directors' Report.

**d) Outlook :**

In view of slow down in the market, your Directors feel the performance of the Company has been reasonably good. Your Directors are also aware of those fact that Indian pharmaceutical industry is highly competitive and fragmented.

The management is conscious about the changing scenario in pharmaceutical industry and reviews take place regularly.

**e) Risks and concerns :**

The external factors such as slow down in the market, natural calamities, poor monsoon and competition are common to all the industrial sectors. It is therefore necessary to address urgently to the effects of those risks on the business of the Company. Risks which are Internal on which the Directors and the management would have control, are being taken care of.

Diversified portfolio of products, focus on financial disbursement, introduction of new products, achieving optimum usage of available infrastructure and deriving maximum possible cost reduction in its operations are some of the inbuilt strategies which are identified by the Company to manage business risks.

**f) Internal control systems and their adequacy :**

The internal control systems are continuously being fine tuned in line with the changing requirements in the industry. The management regularly reviews the internal control systems in the areas of finance, procurement, sales and distribution and marketing and new products launches. Thus emphasis on internal control system is spread over across all major functions and processes.

With regular review of the systems by the Audit Committee of the Board, the internal control within the organisation would be further strengthened.

**g) Financial performance :**

Financial performance of the Company has been indicated in the Directors' Report.

**h) Human resources/Industrial relations :**

Your Directors believe that employees are the most valued assets of the organisation. Thus, all the human resources practices are directed towards enhancing the value of these assets. The focus of the management is on the organisational development and to imbibe new organisation values - entrepreneurship, team work achievement and commitment. Several work shops and/or communication meetings, were organised and would be continued to be so organised by the Company with a view to achieve these organisational values.

The relations between the management and workmen have remained cordial. Total employees strength of the Company is 3599 at the end of the year under review.

## ANNEXURE-C TO THE DIRECTORS' REPORT REPORT ON CORPORATE GOVERNANCE

### I. Corporate Governance Philosophy:

The company has put in place an appropriate structure of Corporate Governance by implementing relevant provisions of Corporate Governance Code of Securities and Exchange Board of India (SEBI) as also Companies Act, 2000.

Your Company has been practising the broad principles of Corporate Governance over the years by placing strong emphasis on transparency, empowerment, accountability and integrity so as to continuously enhance the stakeholders value - the shareholders, the customers, the employees and the creditors.

### II. Board of Directors (Board)

Presently, the Board, comprises of 9 Directors of whom 2 are Executive, and 7 are Non-Executive Directors. The Non-Executive Directors are eminent industrialists and/or professionals with experience in over-all management, pharmaceuticals, finance, law, commerce, taxation and accounts who bring a wide range of skills and experience to the Board.

#### a) Number of Board Meetings :

During the financial year ended on 31st March, 2002, the Board of Directors met 9 times on the following dates :

3.5.2001	27.6.2001	26.7.2001
30.8.2001	20.9.2001	30.10.2001
21.11.2001	4.12.2001	30.1.2002

#### b) Composition of the Board :

Name of Directors	Category Executive/ Non-Executive/ Independent	No. of other Directorships held @	No. of Committee Member ships in other companies @	No. of Board Meetings attended during 2001-2002	Attendance at last AGM held on 20.9.2001
Kartikeya V Sarabhai	Chairman/ Executive	36	4	9	Yes
Anand Sarabhai	Non-Executive Independent	55	-	4	Yes
A.K. Shukla	Executive/ Independent	5	-	7	Yes
B.R. Shah	Non-Executive/ Independent	3	-	7	No
CVS Narayanan	Non-Executive/ Independent	7	5	8	Yes
G.D. Zalani	Non-Executive/ Independent	-	-	6	No
O.D. Gulati	Non-Executive/ Independent	-	-	9	Yes
V.C. Shah	Non-Executive/ Independent	6	-	9	Yes
V.N. Jikar	Non-Executive/ Independent	5	-	9	Yes

@ Includes private Companies and Alternate Directorship.

### III. Committee of Directors :

The Involvement of non-executive Directors in providing guidance on policy matters to the operating management is formalised through constitution of committees of the Board. These committees provide periodical and regular exchange of information and ideas between the Non-Executive Directors and the Operating Management.

The Board, has accordingly as required under Code of Corporate Governance, constituted following Committees :

### A) Audit Committee comprises of following independent Directors of the Board :

Dr. V.C. Shah  
Mr. V.N. Jikar  
Mr. B.R. Shah  
Mr. CVS Narayanan

The broad terms of reference specified by the Board to the Audit Committee are as contained under Clause 49 of the Listing Agreement and under the Companies Act.

During the financial year ended 31st March, 2002, three meetings of the committee were held and were attended to by all the committee members.

### B) Investors/Shareholders Grievance Committee comprises of following Directors from the Board :

Mr. V.N. Jikar  
Dr. V.C. Shah  
Mr. B.R. Shah  
Mr. CVS Narayanan  
Mr. Kartikeya V. Sarabhai

The Committee met once during the financial year ended 31st March, 2002 which was attended to by all the members thereof. Matters attended to by Investors/Shareholders Grievance Committee :

- |   |     |
|---|-----|
| i) No. of complaints received during the - year                   | 38  |
| ii) Outstanding complaints for reply as on - 31.3.2002            | Nil |
| iii) Pending share transfer cases for - approvals as on 31.3.2002 | Nil |
| iv) Pending Demat cases as on - 31.3.2002                         | 113 |
- (Since processed on 10.4.2002)

### C) a) Remuneration Committee :

The function of deciding remuneration of the Executive Directors is attended to by the entire Board of Directors.

#### b) Details of Remuneration paid to Directors :

Sr. No.	Director	Relationship with other Directors	Sitting fees for Board & Committee Meetings (2001-02) Rs.	Salaries & perquisites (including P.F., Super Annuation & Gratuity (2001-02) Rs.	Commission (2001-02) Rs.	Total (2001-02) Rs.
1	Kartikeya V. Sarabhai	None	Nil	6,10,000.00	Nil	6,10,000.00
2	Anand Sarabhai	None	4,000.00	Nil	Nil	4,000.00
3	A. K. Shukla	None	Nil	12,25,654.00	Nil	12,25,654.00
4	B. R. Shah	None	10,000.00	Nil	Nil	10,000.00
5	CVS Narayanan	None	Nil	6,22,015.63	Nil	6,22,015.63
6	G. D. Zalani	None	Nil	5,79,617.05	Nil	5,79,617.05
7	O. D. Gulati	None	9,000.00	Nil	Nil	9,000.00
8	V. C. Shah	None	13,000.00	Nil	Nil	13,000.00
9	V. N. Jikar	None	13,000.00	Nil	Nil	13,000.00

### c) Details of Terms of Contracts of Whole time Directors :

The contracts of Mr. Kartikeya V. Sarabhai and Dr. A.K. Shukla, Whole-time Directors are for 5 years and 2 years from 1.4.2001 and 3.5.2001 respectively and the terms of their remuneration are as approved by the shareholders at the Annual General Meeting of the company held on 20.9.2001.

### IV. General Meetings :

The last three Annual General Meetings (AGM) and two Extra-ordinary General Meetings (EGM) of the Company were held at Mahatma Gandhi Nagar Greh, Near Jubilee Baug, Vadodara on the following dates and time.

- |             |                      |            |
|-------------|----------------------|------------|
| 1. 21st AGM | 28th September, 1999 | 11.00 A.M. |
| 2. 22nd AGM | 21st September, 2000 | 11.00 A.M. |
| 3. 23rd AGM | 20th September, 2001 | 11.00 A.M. |
| 4. EGM      | 25th November, 1999  | 11.00 A.M. |
| 5. EGM      | 20th March, 2000     | 11.00 A.M. |

All the resolutions set out in the respective Notices of the meetings aforesaid were passed by the shareholder/s of the Company at the meetings and as such there was no occasion for the Company to put any resolution through postal ballot on any of the matter/s as mandated by Section 192A of the Companies Act/Clause 49 of the Listing Agreement.

At this AGM, there is no Special Resolution for which postal ballot is mandated under Section 192A of the Companies Act/Clause 49 of the Listing Agreement.

#### V. Disclosures :

- As required under the Companies Act, the Directors disclose the name of the Companies/parties in which they are interested and accordingly the Register of Contracts Under Section 301 of the Companies Act, 1956 is tabled and signed at the Board Meeting/s.
- Transactions with the "related parties" are disclosed in detail in note No. 24 in Schedule 13 Notes forming part of Accounts annexed to the financial statements for the year ended 31st March, 2002. Adequate care was taken by the Board to ensure that the potential conflict of interest did not harm the interest of the Company.
- There was no non-compliance during the last three years by the Company on any matter related to Capital Market.

#### VI. Means of Communications :

- Quarterly/Half Yearly Financial Results of the Company are forwarded to the Stock Exchanges at Ahmedabad, Mumbai and New Delhi and published in following news papers :  
Sandesh/Loksatta - Gujarati language  
The Indian Express/Business Standard - English language
- The Company has not made any presentations to any Institutional Investors/Analyst during the year.
- Management Discussion & Analysis Report is covered in Directors' Report to the Members. (Ref. Annexure - B).

#### VII. General Shareholder Information :

##### a) Annual General Meeting

Date : 26th September, 2002  
Time : 11.00 A.M.  
Venue : Mahatma Gandhinagar Grih,  
Near Jubilee Baug, Vadodara.

##### b) Date of Book Closure : 16.9.2002 to 26.9.2002 (Both days inclusive)

##### c) Financial Calendar : 2002-2003

Event	Board Meeting	
(i) Unaudited Results-	Qtrly. June '02	July '02
Unaudited Results-	Qtrly. Sep '02	Oct. '02
Unaudited Results-	Qtrly. Dec. '02	Jan. '03
Audited Accounts-	March '03	June '03
(ii) Annual General Meeting-	Sept. 2003	

##### d) Stock Exchanges where securities are listed :

	Stock Code
1. The Stock Exchange, Ahmedabad	: 5450
2. The Stock Exchange, Mumbai	: 6779
3. The Stock Exchange, New Delhi	: 3974

##### e) Listing fees for the year 2002-2003 have been paid to each of the above Stock Exchanges.

##### f) Stock Price Data :

MONTH	HIGH (BSE)(Rs.)	LOW (BSE)(Rs.)
April-2001	5.45	4.00
May-2001	5.50	4.00
June-2001	5.25	3.10
July-2001	4.90	3.10
August-2001	4.10	3.50
September-2001	4.40	3.25
October-2001	4.15	3.50
November-2001	7.75	3.75
December-2001	6.70	4.30
January-2002	5.20	4.10
February-2002	5.20	3.45
March-2002	4.65	3.50

#### g) Share Transfer System :

The shares of the Company are compulsorily to be trade in dematerialisation form, w.e.f. 28.8.2000, as per SEBI's directive. The Company has already appointed MCS Ltd., Vadodara as its RTA for dematerialisation purposes and also has set up the requisite facilities for dematerialisation of shares with National Securities Depositories Ltd. (NSDL) and Central Depository Securities (India) Ltd. (CDSL).

For physical Share Transfer, if the share transfer documents are otherwise in order, share transfers are registered upon approval by the Share Transfer Committee of Directors the meetings of which Committee of Directors are generally held at regular intervals of about 15 days, demat option letters cum share transfer intimations are sent to the transferees and thereafter, duly transferred share certificates are despatched after giving stipulated/reasonable time to the investors to exercise demat options.

The total number of shares transferred in the Non-Dematerialised segment during year 2001-2002 was 278226.

#### h) Distribution of Shareholding - as on 31st March, 2002 :

Category	No. of Shares		%
	Physical	Demat	
Promoters	62,01,011	1,03,64,333	25.517
FII/NRI	2,55,492	1,26,377	0.588
Public Financial	3,61,065	3,11,591	1.036
Institutions & Nationalised Banks			
Mutual Funds/UTI	650		0.001
Bodies Corporate	1,82,83,636	21,95,396	31.546
Public	1,99,99,429	68,19,735	41.312
Total	4,51,01,283	1,98,17,432	100.000

#### Distribution of Shareholding as on 31st March, 2002 :

Shareholding Nominal Value of	No. of Shares in Physical Form	No. of Shares in Demat Form	Total No. of Shares
1 to 5000	1,42,94,670	55,34,488	1,98,29,158
5001 to 10000	62,30,728	6,03,960	68,34,688
10001 to 20000	28,98,191	3,19,981	32,18,172
20001 to 30000	5,21,650	1,06,850	6,28,500
30001 to 40000	3,21,092	1,84,164	5,05,256
40001 to 50000	2,98,771	93,471	3,92,242
50001 to 100000	4,44,760	1,45,557	5,90,317
Over 100000	2,00,91,421	1,28,28,961	3,29,20,382
Total	4,51,01,283	1,98,17,432	6,49,18,715

#### i) Dematerialisation of Shares :

During the year under review, 1,38,26,361 shares were dematerialised in the following depositories.

NSDL	1,36,86,947
CDSL	1,39,414
ISIN No.	E432A01017

#### j) Plant Locations :

- Dr. Vikram Sarabhai Marg, Wadi Wadi, Vadodara-390 023 and Village Ranoli, Dist. Vadodara.
- Naroda Industrial Estate, Ahmedabad.

#### k) Address for Correspondence :

Shareholders can correspond at the Registered Office of the Company at Vadodara and/or at Company's Share services Centre located at 12/3, Asaf Ali Road, New Delhi-110 002. The Company Secretary and Manager (Secretarial Services) are designated by the Company as "Compliance Officer".



**Auditors' Report****To the Members of Ambalal Sarabhai Enterprises Limited**

1. We have audited the attached Balance Sheet of Ambalal Sarabhai Enterprises Limited as at 31st March, 2002 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto. These financial statements are the responsibilities 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 auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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 Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the annexure referred to in paragraph 3 above, we report that :
  - (a) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (b) in our opinion, proper books of account as required by law have been kept by the Company, so far as appears from our examination of those books;
  - (c) the Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
  - (d) in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the applicable accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - (e) on the basis of written representations received from the Directors, as on March 31, 2002 and taken on record by the Board of Directors, we report that none of the Directors of the Company are disqualified as on March 31, 2002 from being appointed as a Director in terms of clause (g) of sub-section (i) of Section 274 of the Companies Act, 1956;
  - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the notes thereon, subject to:
    - i) Note No. B8 regarding non-provision of future liability in respect of leave encashment to employees amounting to Rs. 275.49 lakh;
    - ii) Note No. B 12 regarding adjustment in 1992-93 of debit balance in Profit and Loss Account amounting to Rs. 2519.31 lakh against revaluation reserve which was not in accordance with the accounting practice recommended by the Institute of Chartered Accountants of India.
    - iii) The Company continues to value its investments in Subsidiaries/erstwhile Subsidiaries at cost as per its accounting policies, though some of these companies show a negative net worth.
    - iv) The Company has to receive amounts as under from Subsidiary/erstwhile Subsidiary Companies :
 

i) Swastik Surfactants Ltd.	Rs. 3009.56 lakh
ii) Sarabhai Machinery Ltd.	Rs. 611.93 lakh
iii) Harayana containers Ltd.	Rs. 26.73 lakh
iv) Synbiotics Ltd.	Rs. 2347.56 lakh

Sundry Debtors and Loans and Advances considered good also include Rs. 3569.27 lakh due from erstwhile Wholesale Buyers as well as other Companies. Out of this amount, Rs. 209.03 lakh is due from a Company in liquidation. No provision is made for the possible loss, if any, which may arise in respect of the recovery of the above dues.

give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India :

  - a) in the case of the Balance Sheet of the state of affairs of the Company as at March 31, 2002; and
  - b) in the case of Profit and Loss Account, of the loss for the year ended on that date :

For Sorab S. Engineer & Co.  
Chartered Accountants  
M. P. Antia  
Partner

Baroda  
25.6.2002

**Annexure to the Auditors' Report**

Referred to in paragraph 3 of our report of even date on the accounts for the year ended on 31st March, 2002 of Ambalal Sarabhai Enterprises Limited.

1. Proper records of fixed assets other than furnitures and vehicles have

- been maintained by the Company. Physical verification of major items of Plant and Machinery have been conducted by the management during the year. No material discrepancies were noticed on such verification.
2. None of the fixed assets were revalued during the year.
3. Physical verification has been conducted by the management at reasonable intervals in respect of finished goods, stores, spare parts and raw materials.
4. Procedures of physical verification of stock followed by management are reasonable and adequate in relation to the size and the nature of its business.
5. No material discrepancies have been noticed on physical verification of stocks as compared to book records.
6. On the basis of our examination, we are satisfied that valuation of stocks is fair and proper and in accordance with normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company has not taken loans from companies or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
8. The Company has not granted any loans to companies or other parties listed in the register maintained under Section 301 of the Companies Act, 1956.
9. Employees to whom loans have been given are repaying the principal amount and interest, if any, as stipulated. In respect of advances in the nature of loans to some of the Subsidiaries/erstwhile Subsidiaries, there is no stipulation for recovery of principal amount.
10. 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 stores, raw materials, plant and machinery, equipment and other assets and sale of goods.
11. According to the information and explanations given to us, there were no purchases and sale of goods and services in excess of Rs. 50,000/- in value during the year to firms or companies or other parties in which Directors are interested, as listed in the register maintained under Section 301 of the Companies Act, 1956.
12. As explained to us, the Company has a regular procedure for determination of unserviceable or damaged stores, raw materials and finished goods and adjustment for loss on such items, wherever necessary, has been made in the accounts.
13. In respect of the deposits accepted from the Public, the provisions of Section 58A of the Companies Act, 1956, and the rules framed thereunder have been complied with.
14. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap and by-products.
15. The Company has an internal audit system commensurate with the size and nature of its business.
16. We have broadly reviewed the cost accounts and records maintained by the Company in respect of such products as prescribed by the Central Government under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the same have been made and maintained. We have not, however, made a detailed examination of the records with a view to determine whether they are accurate or complete.
17. Provident Fund and Employees' State Insurance dues have been generally regularly deposited by the Company with delays in few cases in depositing the same. Total outstanding dues as on 31st March 2002 in respect of Provident Fund was Rs. 147.30 lakh and Employees' State Insurance was Rs. 87.74 lakh.
18. There were no undisputed amounts payable in respect of Wealth Tax, Customs Duty and Excise Duty outstanding as at 31st March, 2002 for a period of more than six months from the date they became payable. As regards Sales-Tax an amount of Rs. 49.49 lakh pertaining to period of more than six months is not paid.
19. Personal expenses have not been charged to revenue account.
20. The Company is not a sick industrial company within the meaning of Clause (o) of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
21. In respect of trading activity, the Company has regular procedure for determination of the damaged goods. Adequate provision has been made in the accounts for the loss arising on the goods so determined which is not significant.
22. In respect of the service activities of the Company, in our opinion and according to the information and explanations given to us - (i) the Company has a reasonable system of recording receipts, issues and consumption of materials and stores commensurate with its size and nature of its service activities and the system provides for a reasonable allocation of the materials and labour consumed to the relative jobs and (ii) there is a reasonable system of authorisation at proper levels with necessary control on the issue of stores and allocation of stores and labour to jobs and there is a system of internal control commensurate with the size of the Company and nature of its service activities.

For Sorab S. Engineer & Co.  
Chartered Accountants  
M. P. Antia  
Partner

Baroda  
25.6.2002