

ARVIND PRODUCTS LIMITED



ANNUAL REPORT 2002-03

Directors

| | |
|------------------------|------------------------------|
| Mr. Arvind N. Lalbhai | Chairman & Managing Director |
| Mr. Anang A. Lalbhai | Managing Director |
| Mr. Samveg A. Lalbhai | |
| Mr. Naishadh I. Parikh | |
| Mr. Darshan R. Mehta | |
| Dr. V. L. Mote | |
| Ms. Smita S. Gune | (ICICI Bank Nominee) |

Company Secretary

Mr. R. V. Bhimani

Bankers

Bank of Baroda
State Bank of India

Auditors

Sorab S. Engineer & Co.
Chartered Accountants
381, Dr. D. Naoroji Road,
Fort, Mumbai-400 023.

Registrars and Transfer Agents

Pinnacle Shares Registry Pvt. Ltd.
(Security Registry Division)
Near Asoka Mills,
Naroda Road,
Ahmedabad-380 025.

Registered Office

Arvind Mills Premises,
Naroda Road,
Ahmedabad-380 025.

CONTENTS

| | |
|--|-----------|
| Notice | 1 |
| Directors' Report | 2 |
| Management Discussion and Analysis | 3 |
| Corporate Governance Report | 5 |
| Auditors' Report | 13 |
| Balance Sheet | 14 |
| Profit & Loss Account | 14 |
| Schedules forming part of the Balance Sheet & Profit & Loss Account | 15 |
| Balance Sheet Abstract & Company's General Profile | 22 |

Arvind

**For Shareholders' Coupon,
See Last Page**

EXCHANGE OF SHARE CERTIFICATES

Arvind Polycot Ltd., Arvind Index Ltd., and Arvind Cotspin Ltd. have been amalgamated with ARVIND PRODUCTS LTD. with effect from 1st October, 1988 and shares of ARVIND PRODUCTS LTD. have been allotted to the Shareholders of Arvind Polycot Ltd. Arvind Index Ltd. and Arvind Cotspin Ltd. as per the scheme approved by Honourable Gujarat High Court.

Attention is drawn to the erstwhile Shareholders of Arvind Polycot Ltd. and Arvind Index Ltd. who have not yet exchanged their old shares are requested to send their certificates to Registrar & Transfer Agent for getting the shares of ARVIND PRODUCTS LTD.

NOTICE is hereby given that the Annual General Meeting of the Members of the Company will be held on Wednesday, the 10th September, 2003 at 10.00 a.m. at Thakorebhai Desai Hall, Nr. Law Garden, Ellisbridge, Ahmedabad-380 006 to transact the following Business :

ORDINARY BUSINESS

- (1) To receive, consider and adopt the Audited Profit & Loss Account for the financial year ended on 31st March, 2003 and Balance Sheet as at that date and the Report of the Board of Directors and the Auditors thereon.
- (2) To appoint a Director in place of Mr. Samveg A. Lalbhai who retires by rotation in terms of Article 135 of the Articles of Association of the Company, and being eligible, offers himself for reappointment.
- (3) To appoint a Director in place of Mr. Naishadh I. Parikh, who retires by rotation in terms of Article 135 of the Articles of Association of the Company, and being eligible, offers himself for reappointment.
- (4) To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

- (5) To consider and, if thought fit, to pass with or without modifications, the following resolution as an Ordinary Resolution :

RESOLVED that Mr. Darshan R. Mehta, who was appointed as a Director of the Company by the Board of Directors pursuant to Section 262 of the Companies Act, 1956 in the casual vacancy caused by the resignation of Mr. Sanjay S. Lalbhai, Director of the Company and who holds the office upto the date of this Annual General Meeting and in respect whom the Company has received a notice in writing from a member proposing his candidature for the office of Director U/s. 257 of the Companies Act, 1956, be and is hereby appointed a Director of the Company liable to retire by rotation.

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.

By Order of the Board

Registered Office :
Arvind Mills Premises,
Naroda Road,
Ahmedabad - 380 025
28th May, 2003

Arvind N. Lalbhai
Chairman & Managing Director

NOTES:

- (1) Members are requested to notify promptly any change in their addresses to our Registrars viz., Pinnacle Shares Registry Pvt. Limited, Nr. Asoka Mills, Naroda Road, Ahmedabad - 380 025. Any other correspondence relating to Shares may also please be addressed to the said Registrars.
 - (2) The Register of Members and Share Transfer Books of the Company will remain closed from 7th July, 2003 to 10th July, 2003 (Both days inclusive).
 - (3) Members are requested to bring their copies of the Annual Report to the Meeting.
 - (4) The members/proxies should bring the Attendance Slip sent herewith duly filled in for attending the Meeting.
 - (5) Proxies in order to be effective must be received at the Company's Registered Office not less than 48 hours before the commencement of the Meeting.
 - (6) Members are requested to note that as per Section 205A of the Companies Act, 1956, dividends not encashed or claimed within 7 years from the date of transfer to the Company's unpaid dividend account shall be transferred by the Company to the Investor Education and Protection Fund of the Central Government. In the month of October, 2003, unclaimed dividends for the financial year 1995-96 will be transferred to this fund.
- Shareholders who have so far not encashed the dividend warrant(s) for

the financial year 1995-96 are requested to approach the Company for payment thereof. Kindly note that once unclaimed/unpaid dividend is transferred to the Investor Education and Protection Fund, members will not be entitled to claim such dividend.

- (7) Requisition of information on accounts and operations of the Company, if any, may please be sent to the Company seven days in advance of the meeting so that the information may be readily available at the meeting.
- (8) Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 is annexed to this Notice and forms part of the same.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 5

The Board of Directors, at their meeting held on 19th November, 2002 appointed Mr. Darshan R. Mehta as a Director of the Company in the casual vacancy caused by the resignation of Mr. Sanjay S. Lalbhai, Director of the Company. The said appointment was in pursuance of the provisions of Section 262 of the Companies Act, 1956 and accordingly the said Director holds office only upto the date of this Annual General Meeting i.e. upto the date to which Mr. Sanjay S. Lalbhai would have held office if it had not been vacated by his resignation. The Company has received a notice in writing alongwith the necessary amount as deposit from a member proposing candidature of Director in accordance with the requirements of Section 257 of the Companies Act, 1956.

The Board commends the resolution at Item No. 5 for approval of members. Mr. Darshan R. Mehta may be deemed to be concerned or interested in the said resolution relating to his appointment. No other Directors are in any manner concerned or interested in the said resolution.

By Order of the Board

Registered Office :
Arvind Mills Premises,
Naroda Road,
Ahmedabad - 380 025
28th May, 2003

Arvind N. Lalbhai
Chairman & Managing Director

Dear Shareholder,

Sub : abstract pursuant to Section 302 of the Companies Act, 1956

Mr. Arvind N. Lalbhai was appointed as Managing Director of the Company for a period of 5 years w.e.f. 1.7.2000 with the approval of the Shareholders. The shareholders had authorised the Board of Directors to vary the terms of his appointment. The Board of Directors of the Company, pursuant to the said powers have varied the terms of his appointment w.e.f. 1st April, 2003.

Variation in Terms :

1. Mr. Arvind Lalbhai will not be entitled to any remuneration and perquisites effective from 1st April, 2003.
2. All other terms and conditions in the Agreement dated 4th January, 2001 executed between the Company and Mr. Arvind N. Lalbhai will remain unchanged.

Memorandum of Interest :

None of Directors of your Company except Mr. Arvind N. Lalbhai and Mr. Samveg A. Lalbhai are interested in respect of the above resolution.

Copies of the Resolution passed by the Board of Directors in respect of the above may be inspected at the Registered Office of your Company between 10.30 a.m. and 12.30 p.m. on all working days except Saturday.

By Order of the Board

Dated : 28th May, 2003

Arvind N. Lalbhai
Chairman & Managing Director

**To the Members,**

Your Directors are pleased to present the Annual Report alongwith the Audited Financial Statements for the period from April 1, 2002 to March 31, 2003.

FINANCIAL RESULTS :

The highlights of the financial results are :

| | (Rs. in Lac) | |
|---|--------------------------|-------------------------|
| | 2002-2003 (12 months) | 2001-2002 (6 months) |
| Turnover and other income | 38660.76 | 16469.48 |
| Profit/(Loss) before depreciation, interest, taxation and Extraordinary items | 6436.76 | 1702.60 |
| Less : Interest & Finance Cost (Net) | 3141.99 | 2142.44 |
| Less : Depreciation | 3249.96 | 1955.42 |
| Profit/(Loss) before tax and extraordinary items | 44.81 | (2395.26) |
| Less : Extraordinary Items - Income/(Expenses) | - | (15.66) |
| Less : Taxation (including deferred tax Rs. 1105.25 Lacs) | - | 1202.11 |
| Profit/(Loss) for the year | 44.81 | (3613.03) |
| Transferred from Investment Allowance (Utilised) Reserve | 91.00 | - |
| Balance as per last year Balance Sheet | (3613.03) | - |
| Balance carried to Balance Sheet | (3477.22) | (3613.03) |

The period under review is of 12 months from April 1, 2002 to March 31, 2003, against period of 6 months from October 1, 2001 to March 31, 2002 for the previous year. Hence the figures of the financial year under review are not comparable with those of the previous year.

DIVIDENDS :

Your Directors do not recommend dividend on Preference Shares or Equity Shares for the period under review, considering the inadequacy of profits for the year under review and carried forward losses of the Company.

OPERATIONS :

Sales and Operating Income for the 12 months period ended 31st March, 2003 were Rs. 35158.79 Lac as compared to Rs. 16317.16 Lac for the 6 months ended on 31st March, 2002. Operating Profit (EBIDTA) for period ended 31st March, 2003 is Rs. 6436.76 Lac as compared to Rs. 1702.60 Lac for 6 months period ended on 31st March, 2002.

The Company's net profit is Rs. 44.81 Lac for the period ended 31st March, 2003 as compared to net loss of Rs. 3613.03 Lac in the period ended 31st March, 2002. Interest & Finance Charges were Rs. 3141.99 Lac and Depreciation was Rs. 3249.96 Lac for the period ended 31st March, 2003. The Company has made a Cash Profit of Rs. 3294.77 Lac during this period.

The Bottomweights Division is the highest revenue earner for the Company which contributes 40% to the total revenue aggregating to Rs. 15271.66 Lac. Demand for Bottomweights has shown slight improvement during the year under review. Company has continued its efforts to increase the exports with differentiated product-mix. The Company is adding to its list of customers internationally established brands and improving the customer-mix.

Arvind Intex and Arvind Cotspin are Divisions manufacturing yarn, which is largely supplied to The Arvind Mills, Parent Company to meet their requirements of yarn. The revenue for the year of Arvind Intex is Rs. 5474.05 Lac, contributing 14% to the total revenue of our Company and that of Arvind Cotspin is Rs. 4746.09 Lac at 12% of Company's revenue.

Ankur Textiles, a composite mill an another Division of the Company which manufactures Voiles and has a share of 27% at Rs. 10385.04 Lac in the total revenue of the Company. This Division's performance has been consistently good and continuing improvements are expected.

As a strategy for future growth, Company is focussing on vertical integration i.e. Garmenting. This Division in its initial year has earned revenue of Rs. 2782.44 Lac forming 7% to total revenue of the Company.

DIRECTORS :

During the year under review, Ms. Smita S. Gune has been appointed as Nominee Director on the Board of the Company at the meeting of the Board of Directors held on 16th January, 2002.

Mr. Samveg A. Lalbhai and Mr. Naishadh I. Parikh, the Directors of the Company retire by rotation at the ensuing Annual General Meeting and they, being eligible, offer themselves for re-appointment.

Mr. Darshan R. Mehta who has been appointed by the Board as a Director of the Company at the meeting of the Board of Directors held on 19th November, 2002 in the casual vacancy caused by the resignation of Mr. Sanjay S. Lalbhai, as a Director of the Company is proposed to be appointed as Director pursuant to the Provisions of Section 257 of the Companies Act, 1956.

The Board of Directors of the Company have decided that with effect from 1st April, 2003, no remuneration and perquisites shall be payable to Mr. Arvind N. Lalbhai, Managing Director of the Company who was hitherto drawing remuneration from the Company.

RESPONSIBILITY STATEMENT :

The Directors confirm that :

1. In the preparation of the annual accounts, the applicable accounting standards have been followed. There are no material departures from the applicable accounting standards.
2. Such accounting policies have been selected and applied consistently and such judgements and estimates have been made as 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 profits of the Company for the year.
3. Proper and sufficient care had been taken 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; and
4. The attached statements of accounts for the period ended on March 31, 2003 have been prepared on a going concern basis.

INFORMATION REGARDING CONSERVATION OF ENERGY ETC. AND EMPLOYEES :

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and under Section 217(2A) of the Companies Act, 1956 read with Companies [Particulars of Employees] Rules, 1975, as amended from time to time, form part of this report. However, as per the provisions of Section 219(1)(b)(iv), the report and accounts are being sent to all shareholders of the Company excluding the information relating to conservation of energy, technology absorption and foreign exchange earning and outgo, and the statement of particulars of employees. Any shareholder interested in obtaining such particulars may inspect the same at the Registered Office of the Company or write to the Secretary for a copy.

AUDITORS :

The Auditors, Sorab S. Engineer & Co., retire and offer for re-appointment. It is proposed that Sorab S. Engineer & Co., be re-appointed as Auditors of the Company. You are requested to appoint the Auditors and fix their remuneration.

The specific notes forming part of the Accounts referred to in the Auditors' Report are self-explanatory and give complete information.

ACKNOWLEDGEMENT :

Your Directors are sincerely thankful to the Company's lenders, Indian financial institutions, commercial banks, overseas banks and financial institutions for their continued support, especially in making its Debt Restructuring programme successful. Your Directors also place on record their appreciation for the services rendered by the employees of the Company.

By Order of the Board

Place : Ahmedabad
Date : 28.05.2003

ARVIND N. LALBHAI
Chairman & Managing Director

DISCLAIMER

Readers are cautioned that this discussion and analysis contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words "anticipate," "believe," "estimate," "intend," "will," and "expected" and other similar expressions as they relate to the Company or its business are intended to identify such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements and risks and opportunities could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their date. The following discussion and analysis should be read in conjunction with the Company's financial statements included herein and the notes thereto.

OVERVIEW

The Company is a subsidiary company of The Arvind Mills Limited, which is the largest cotton textiles manufacturer and exporter in India and a leading player in the branded garments in the domestic markets through its subsidiaries. The Company's principal businesses consist of manufacturing and marketing of voiles fabric, bottomweights fabric and yarn. The yarn manufactured is mainly consumed by the parent Company, Arvind Mills.

The Company has turnaround during the current year and has reported Net Profit of Rs. 45 lacs in FY 2002-03 compared to Net Loss of Rs. 2395 lacs for the six month period ended 31st March, 2002.

The Company benefited from the improved performance of voiles business and reduction of interest cost on account of debt restructuring. The bottomweight business, which did not perform and led to losses in recent past, has shown improvement in the later part of the year and is expected to do better in the coming year.

FINANCIAL PERFORMANCE AND REVIEW

The summarised profit and loss account is given in following table :

| | Rs. Lacs |
|----------------------------------|--------------|
| Sales & Operating Income | 38159 |
| Other income | 502 |
| TOTAL INCOME | 38661 |
| Raw Material | 14959 |
| Finished Goods | 2138 |
| Employees Emoluments | 2779 |
| Power & Fuel | 5656 |
| Stores Consumed | 2570 |
| Others | 3666 |
| Decrease in stock | 456 |
| TOTAL EXPENSES | 32224 |
| PBIDT | 6437 |
| Interest & Finance Charges (Net) | 3142 |
| PBDT | 3295 |
| Depreciation | 3250 |
| Net Profit | 45 |

Sales and Operating Income for the period ended 31st March, 2003 were Rs. 38159 lacs as compared to Rs. 16317 lacs for six month period ended 31st March, 2002 with an annualised growth of 17%.

Ankur contributed 27% of total revenue and grew at 9% in revenue over last year on an annualised basis. The division was successful in consolidating its product groups with more value added products and deeper penetration

into existing markets. This has helped in registering 60% growth in Operating Profit and 137% growth in Net Profit over last year on an annualised basis. Additionally the voiles business enjoyed lesser competition from organised markets. Ankur, in voiles market, enjoys the leadership position. The Sales volume increased by 10% on annualised basis at 21.65 million meters for the period ended 31st March, 2003, compared to 9.86 million meters for six month period ended 31st March, 2002.

Bottomweights business was passing through a rough patch because of internal and macro environment of the business. The Company has put significant efforts on operational efficiency, which resulted into improved performance in later part of the year. Demand of bottomweights fabrics, which was lower due to resurgence of denim, is again expected to increase. The division contributed 40% of total revenue. The revenue has grown by 35% with the increase in sales volume by 32% over the last year on an annualised basis. During the year the management structure is reorganised so as to create synergies with Denim business of Arvind Mills Ltd. The management reorganisation coupled with improved product mix and customer mixed changes, the division has registered Operating Profit of Rs.1387 lacs.

Yarn divisions, which supply yarns to Arvind Mills, contributed 26% of total revenue. The strategy of captive consumption of its output is giving synergy and benefiting both the companies.

Company initiated garmenting from bottomweights fabric at Bangalore a year ago. These operations are contributing 7% in the total revenue. This division is Company's driver for future growth, post 2005, once quantitative restrictions are removed.

The Company managed its supply side well with raw material cost and other major cost keeping under control, which enhanced the operational performance.

Interest and finance cost decreased by 27% on an annualized basis from Rs. 2142 lacs for six month period ended 31st March, 2002 to Rs. 3142 lacs for the period ended 31st March, 2003. The reduction in interest and finance cost is mainly on account of debt restructuring and internal efforts to manage working capital optimally. The Company benefited significantly from it and registered a net profit of Rs. 45 lacs for the period ended 31st March, 2003 compared to net loss of Rs. 2411 lacs for the six months period ended 31st March, 2002.

The depreciation is Rs. 3250 lacs for the year 2002-03 compared to Rs. 1955 lacs for the six months period ended on 31st March, 2002.

The Company intends to continue its efforts to improve its contribution in Ankur and bottomweights business by introducing more value added products in the portfolio. The management reorganisation so as to create synergies with Denim Business of Arvind Mills Ltd. Will give further impetus to bottomweights business with improved utilisation of its processing capacity. The Company is eyeing its future growth from garmenting operations of bottomweights.

Abolition of quota will be a turning point for the textile industry in India, as being one of the most cost efficient producer of garments in the world. The company has established itself as a quality supplier of fabrics to the leading brands of the world. It is planning to move up the value chain and supply garments to international customers. To this effect, it has already vertically integrated itself partially. Going forward, it plans to increase its vertical integration over next few years.

Under its textiles segment, the Company has three major product groups - Voiles, Bottomweights and Yarns. The Company manufactures above products as well as has facilities for manufacturing garments from bottomweights



fabric. As Yarn manufacturing is captive for its parent company, Arvind Mills, the discussion on industry structure, prospects and competition is hence done for Voiles and Bottomweights.

INDUSTRY

Product Group - Voiles

Voiles are specialised fabrics made from mostly High Twist 2 ply yarns, which is used in India for ladies blouse (popularly known as 2x2 rubia) sarees and dress materials. Fine Cotton voiles are also used in the Middle East countries for Guthras (head gears for Men) and Thobes (similar to Indian Saree for women).

Ankur Textiles focuses itself on various kinds of voiles in Cottons, Polyester Cotton Blended as well as 100% polyester. Out of these product groups, Ankur has a unique presence in the 2x2 rubia market which is estimated to be a 30 million meters market/annum. The Company enjoys a good 30% market share in the 2x2 rubia segment and is acknowledged as the market leader, both in terms of quality and quantity. The organised sector i.e. the composite mill segment enjoys about 55 to 60% of the market share and the balance 40% is catered to by the unorganized sector (power loom sector).

The Company derives its strength from the product quality, customer service, and strong distribution network spread across the length and breadth of the country. The Company is particularly focusing on still strengthening its existing dealer network to increase its market share. It is also looking at increasing its presence in Sri Lanka, Nepal, and Middle East as an extra avenue for business.

Since the blouse material industry overall, including all kinds of products, is fairly large, the Company is also focusing its attention of occupying the lower market segments by introducing second line products, so that it equips itself to fight the ever-increasing competition from the decentralized sector. The company is also working on product innovation, value addition, to create niche among the existing products. These innovations are in the form of anti-microbial treatments, stretch fabrics, fancy woven borders etc. It is expected that the Company will get a tremendous response since this is a pioneering effort of bringing in such innovations in the given market segment.

Apart from the voile products, the Company deals in various kinds of long cloths, plain shirting, seasonal products etc.

It is also planning to introduce newer product lines like School uniform fabrics, bed sheets in Than as well as made ups to enhance the current turnover and increase its overall market presence.

The Company has always believed in the best of Product Quality and market driven approach which has always helped to achieve consistent growth over the years and expects the same pattern to continue in the coming years.

Product Group - Bottomweights

Bottomweights is a fabric which is having similar characteristics of denim with difference in yarn characteristics and flexible dyeing. The invention of wrinkle-free treatment with other value added finishes gives it semi-formal look, as multicolors are possible.

World market for Bottomweights is estimated at about 3 billion meters with an estimated growth rate of 4-5%. USA and EU are major consumers with almost 60% of the consumption. Major competition comes from players based at Turkey, Latin America, USA and Far East.

Indian market for Bottomweights consists of organised and unorganised players. Total Indian capacities are estimated at around 75 million meters with market size of approx. 30-35 million meters. Competition from organised sector mainly comes from players like Vardhman and Ashima but unorganised sector competes equally.

The Company is having all required capabilities for manufacturing wide range of fabrics. The Company, has focused on product developments, which has helped it in enhancing its product/customer mix and achieve better realisations. The Company has a dedicated R&D team comprising of textile professionals including international consultants working on ongoing product development. Recent development includes products with count ranges from 16s to 2/100s, fibres containing cotton, polyesters blends, linen, lycra, tencel etc., finishes of water repellent, wrinkle free, peach etc., weaves containing Bedford cord, herringbone, ribstop, ottoman etc. With significant efforts, Company could come out with unique and differentiated products such as PU coated, slubby, sulphur dyed, yarn dyed, blotch printing and combinations weaves.

This has resulted into richer customer mix with key brands such as GAP, Sears, Polo Ralph etc. Company is supplying to all major brands in domestic market, which includes Color Plus, Wills sport, Park Avenue, Parx, Madura Brands, Zodiac and Major Arvind Brands also.

The Company is planning to leverage its performance by reorganisation of management structure so as to create synergies with Denim business which will not only enhance the utilisation of resources but will gradually improve the customer relationships also. The garmenting operations expansions plan, with opportunity available post 2005, will boost the profitability of the company with improved margins.

INTERNAL CONTROL SYSTEMS

The Company has well defined and institutionalised business processes with effective control systems to ensure that assets and interests of the company are safeguarded.

The Company has a dedicated task force working on budgetary controls. Each business division is responsible for preparation of the budget, which is reviewed along with the performance on monthly basis and corrective actions, wherever needed, are taken to ensure compliance. Considering the size and nature of operations of the company, the overall control systems are adequate to meet the need and the purpose.

The Company also has its own internal audit team comprising of qualified professionals that monitors and check the efficiency of the system and compliance. The company has retained an external audit firm to monitor business processes and risks associated with them.

DEVELOPMENTS ON HUMAN RESOURCES AND INDUSTRIAL RELATIONS

The Company has always valued its human resources and believes in unlimited potential of individual employee. The year under review has seen a change in the policies and procedures, necessitated by the need to make the organisation high performing with growth.

The company has introduced performance linked group incentive scheme. The basic purpose of the scheme, to create a performance and profit driven culture and simultaneously create an environment to enhance teamwork and build business focus, is being served. The scheme has given positive results and hence teamwork is accepted as a concept within the company. Variable compensation has been also accepted and various divisions, to attain targets, have put great amount of efforts. The company has planned to modify the scheme to make it more challenging by introducing stretched target with additional rewards and recognition to further enhance the profitability by optimum utilisation of resources and ultimately sustain competitive advantage within the industry to emerge as a leader.

Industrial relations at the company continue to be cordial.

The Company had about 2200 employees as on March 31 2003.

Company's Philosophy on Code of Governance

The Company has been practicing the principles of good corporate governance over the years. Corporate governance does not only mean ensuring the compliance with regulatory requirements, but also means being responsive to aspirations of customers and expectations of the society. The Company believes, a customer has never been defined as a purchaser, but has always included every constituents that interacts with it including its shareholders and other stakeholders. The Company always strives for excellence in quality of goods and services with the twin objectives of enhancing customer satisfaction and shareholder value. The Board of Directors supports the broad principles of Corporate Governance and lays strong emphasis on transparency, accountability, and integrity. Given below is the report on corporate governance of the Company.

Board of Directors**Composition of the Board**

The Board of the Company consists of 7 Directors comprising of 2 Executive and 5 Non-Executive Directors.

The following is the composition of the Board as at 31st March, 2003 :

| Sr. No. | Name of Director | Executive/Non-Executive/Independent | No. of Other Directorships in Public Ltd. Cos. | No. of Other Board Committees of which Member/Chairman |
|---------|------------------------|--|--|--|
| 1. | Mr. Arvind N. Lalbhai | Executive - Chairman & Managing Director | 5 | 1 as Member |
| 2. | Mr. Anang A. Lalbhai | Executive - Managing Director | 2 | Nil |
| 3. | Mr. Samveg A. Lalbhai | Non-Executive | 6 | 1 as Member |
| 4. | Mr. Naishadh I. Parikh | Non-Executive, Independent | 7 | Nil |
| 5. | Dr. V. L. Mote | Non-Executive, Independent | 2 | Nil |
| 6. | Mr. Darshan R. Mehta | Non-Executive, Independent | 4 | Nil |
| 7. | Ms. Smita S. Gune | Nominee of ICICI Bank Ltd. | Nil | Nil |

Meetings and Attendance

During the year the Board of Directors met 5 times on 30th April, 2002, 30th August, 2002, twice on 19th November, 2002 and 16th January, 2003.

The Attendance of Directors at these Board Meetings and at the last Annual General Meeting was as under :

| Sr. No. | Name of Director | No. of Board Meetings attended during the financial year ended on 31st March, 2003 | Whether present at the last AGM |
|---------|-------------------------|--|---------------------------------|
| 1. | Mr. Arvind N. Lalbhai | 5 | Yes |
| 2. | Mr. Anang A. Lalbhai | 5 | Yes |
| 3. | Mr. Sanjay S. Lalbhai * | 2 | No |
| 4. | Mr. Samveg A. Lalbhai | 5 | No |
| 5. | Mr. Naishadh I. Parikh | 5 | Yes |
| 6. | Dr. V. L. Mote ** | 2 | NA |
| 7. | Mr. Darshan R. Mehta ** | 2 | NA |
| 8. | Ms. Smita S. Gune *** | 1 | NA |

* Mr. Sanjay S. Lalbhai, has ceased to be Director w.e.f. 19th November, 2002.

*** Ms. Smita S. Gune, Nominee Director of ICICI Bank Limited, was appointed w.e.f. 30th September, 2002.

** Dr. Vasant L. Mote was appointed as Additional Director w.e.f. 19th November, 2002 whereas Mr. Darshan R. Mehta was appointed as a Director w.e.f. 19th November, 2002 in the casual vacancy caused due to resignation of Mr. Sanjay S. Lalbhai.

Committees of the Board

The Board of Directors has constituted 3 Committees of the Board viz.

- Audit Committee
- Remuneration Committee
- Investors' Grievance Committee

The Board determines the terms of reference of these Committees from time to time. Meetings of these Committees are convened by the respective Chairman/ Company Secretary. At each Board Meeting, Minutes of these Committees are placed before the Directors for their perusal and noting.

1. Audit Committee

The Audit Committee was formed by the Board of Directors on 16th January, 2003, Mr. Naishadh I. Parikh, Mr. Darshan R. Mehta and Ms. Smita S. Gune Non-Executive Directors of the Company are its members.

**Role**

1. Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending the appointment and removal of external auditor and internal auditor, fixation of audit fee and also approval for payment for any other services.
3. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on :
 - Any changes in accounting policies and practices.
 - Major accounting entries based on exercise of judgement by management
 - Qualifications in draft audit report.
 - Significant adjustments arising out of audit.
 - The going concern assumption.
 - Compliance with accounting standards.
 - Compliance with Stock Exchange and legal requirements concerning financial statements.
 - Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc., that may have potential conflict with the interests of company at large.
4. Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
5. Reviewing the adequacy of internal audit function including the structure of the internal audit function, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
6. Discussion with internal auditors any significant findings and follow up there on.
7. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
8. Discussion with external/internal auditors before the audit commences on nature and scope of audit as well as to have post-audit discussions to ascertain any area of concern.
9. Reviewing the Company's financial and risk management policies.
10. To look into any other matter which may be referred to it by the Board.
11. Seek external assistance of professionals, lawyers, accountants, etc. whenever necessary.

In addition to the above, the Committee shall have such functions/role/powers as may be specified in the Companies Act, Listing Agreement with Stock Exchanges or any other applicable law.

Since the constitution of Audit Committee, no Meeting was held hence the Chairman will be elected by the Members when they meet.

2. Remuneration Committee

The Board of Directors of the Company at its meeting held on 19th November, 2002 constituted Remuneration Committee comprising of 3 Non-Executive Independent Directors. Mr. Naishadh I. Parikh, an Independent Director acts as Chairman of the Committee. The Remuneration Committee met once during the year.

Role

Its terms of reference are as under :

- > To frame company's policies for compensation and benefits for Executive Directors.
- > To review and recommend compensation payable to the Executive Directors.
- > To administer and supervise Employee Stock Option Schemes (ESOS) including framing of policies related to ESOS and reviewing grant of ESOS.
- > To Review HR Policies and initiatives.

Meetings and Attendance

During the year, 1 meeting was held on 19th November, 2002.

| Sr. No. | Name | Position | No. of Meetings held | No. of Meetings Attended |
|---------|------------------------|----------|----------------------|--------------------------|
| 1. | Mr. Naishadh I. Parikh | Chairman | 1 | 1 |
| 2. | Mr. Darshan R. Mehta | Member | 1 | 1 |
| 3. | Dr. V. L. Mote | Member | 1 | 1 |

Remuneration of Directors :

The Remuneration Committee recommends the payment of remuneration of Executive Directors and same is being approved by the Board of Directors and Shareholders.

The terms of remuneration of Managing Directors were fixed by the Remuneration Committee of Director and the same were approved by the shareholders at the Annual General Meeting held on 30th December, 2002, The Company has entered into agreement with each of them laying down their respective tenures, remuneration, and other terms.

The Board of Directors at its meeting held on 16th January, 2003 has enhanced the sitting fees from Rs. 2,000/- to Rs. 5,000/- for attending the meeting of Board of Directors or Committee thereof by Non-Executive Directors.