



ANNUAL REPORT - 2006



BIRLA VXL LIMITED
DIGJAM

BIRLA VXL LIMITED**SHAREHOLDER INFORMATION**

We try hard to be attentive to our Shareholders by having a policy of being readily accessible to them. We emphasize the importance of responding promptly in a friendly, helpful way when our Shareholders have questions or need assistance. If you need normally available information about your holding, please do not hesitate to call us on Telephone No. (033) 2213 1680 or (033) 2248 0135 and ask Mr. B.B. Nayak (Extn. 1017) or write to Secretarial Department at Birla VXL Limited, Birla Building, Kolkata 700001, E-mail: birlacal@cal.vsnl.net.in

Registrars & Share Transfer Agents (Physical & Demat)

MCS Limited, 77-2A, Hazra Road, 3rd & 5th Floor, Kolkata 700 029, Tel, (033) 2476 7350 to 54, 2454 1892-3, Fax – (033) 2454 1961, 2474 7674 E-mail : mcscal@cal2.vsnl.net.in E-mail : mcscal@rediffmail.com

Stock Exchange Listings**Bombay Stock Exchange Limited**

Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 023

National Stock Exchange of India Ltd. "Exchange Plaza", Bandra Kurla Complex, Bandra (E), Mumbai 400 051

Note on Depository

It may be noted that the Shares of the Company have been included in the list of securities for compulsory trading in dematerialized form for all investors wef **8.5.2000**. Shareholders are therefore advised to dematerialize their shareholding to avoid inconvenience in future. The Company has entered into necessary arrangements with National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL), to enable the Shareholders to dematerialise their shareholding in the Company, for which they may contact the depository participants of either of the above Depositories.

CONTENTS

BIRLA VXL LIMITED - Annual Report & Accounts	Page No.
1. Notice	02 - 04
2. Report of the Directors	05 - 06
3. Management Discussions & Analysis Report	06 - 07
4. Report of the Directors on Corporate Governance	07 - 10
5. Annexure regarding Particulars of Employees	10 - 10
6. Annexure regarding Conservation of Energy etc.	10 -11
7. Auditors' Report	12 - 13
8. Balance - Sheet	14 - 14
9. Profit & Loss Account	15 - 15
10. Schedules forming part of the Accounts	16 - 27
11. Business Profile	28 - 28
12. Cash Flow Statement	29 - 29
13. Statement regarding Subsidiary Companies	30 - 30
14. Financial Information of Subsidiary Companies	30 - 30
15. Consolidated Financial Statements	31 - 46
Information for Shareholders and other Information	2 nd Cover
Proxy Form	

REGISTERED OFFICE

Aerodrome Road,
Jamnagar 361 006
(Gujarat)

CORPORATE OFFICE

801, Bhikaji Cama Bhawan,
11- Bhikaji Cama Place,
New Delhi 110 066

REPRESENTATIVE OFFICE

509, Madison Avenue,
Suite 1110, New-York
New-York 10022. U.S.A.

PRINCIPAL OPERATING DIVISIONS**BIRLA VXL LIMITED**

Aerodrome Road,
Jamnagar 361 006 (Gujarat)

UNIVERSAL CLOTHING

14/5, Mathura Road,
Faridabad 121 003

BOARD COMMITTEES**Audit Committee**

A.C. Mukherji - Chairman
Dr. G. Goswami
G. Momen

**Share Transfer and Shareholders/
Investors Grievance Committee**

A.C. Mukherji - Chairman
R.K. Choudhury
C.L. Rath

Directors Committee

S.K. Birla - Chairman
Sidharth Birla
R.K. Choudhury
A.C. Mukherji
C.L. Rath

Remuneration Committee

A.C. Mukherji - Chairman
R.K. Choudhury
Dr. G. Goswami
G. Momen

**REGISTRARS & SHARE
TRANSFER AGENTS**

MCS Ltd.
77/2A, Hazra Road,
3rd & 5th Floor,
Kolkata 700 029

BOARD OF DIRECTORS

S.K. Birla - Chairman
A.N. Lalbhai
Sidharth Birla - Vice Chairman
Arvind Agarwal
R.K. Choudhury
Dr. G. Goswami
N.L. Hamirwasia
G. Momen
A.C. Mukherji
P.K. Pujari
C.L. Rath - Managing Director
Rajeev Surana - Executive Director
& Chief Operating
Officer

Secretary

Girish Bhatia

BANKERS

UCO Bank
State Bank of Saurashtra

Auditors

Khimji Kunverji & Co.
Chartered Accountants
Suite No. 53.
Bombay Mutual Building,
Sir P.M. Road, Fort,
Mumbai 400 001

BIRLA VXL LIMITED

NOTICE TO THE MEMBERS

NOTICE is hereby given that the Fifty-sixth Annual General Meeting of the Members of the Company will be held on Monday, the 10th July, 2006 at 10.30 a.m. at the Registered Office of the Company at Aerodrome Road, Jamnagar 361 006 (Gujarat), to transact the following business:

1. To consider and adopt the Directors' Report and audited Balance Sheet and Profit & Loss Account as at and for the period ended 31st March, 2006.
2. To appoint Directors in place of Sri A.N. Lalbhai, Sri G. Momen and Sri N.L. Hamirwasia, who retire from Office by rotation and being eligible, offer themselves for re-election.
3. To appoint Auditors and fix their remuneration and for the purpose, to consider and if thought fit, to pass with or without modification the following resolution, which will be proposed as Special Resolution :

"RESOLVED that pursuant to the provisions of Section 224A of the Companies Act, 1956, M/s. Khimji Kunverji & Co., Chartered Accountants, Mumbai, be and are hereby appointed Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and the Board of Directors of the Company be and are hereby authorized to fix their remuneration."

Special Business

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

4. AS A SPECIAL RESOLUTION

"RESOLVED THAT pursuant to section 81, 81(1A) and other applicable provisions of the Companies Act, 1956 and the applicable rules, regulations and guidelines issued by Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and other concerned authorities and relevant provisions of the Memorandum and the Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the equity shares of the Company are listed and subject to any other approval, consent, permission or sanction, if any, that may be required from any other authority, institution or body and subject to such conditions as may be prescribed by any of them while granting such approval, consent, permission or sanction and which may be agreed to by the Board of Directors of the Company or any committee thereof constituted for this purpose (hereinafter referred to as "Board"), consent of the Company be and is hereby accorded to the Board to offer, issue and allot equity shares at par or at such premium as may be decided by the Board (herein after referred to as 'the Securities') through offer letter and/or circular and/or information memorandum and/or such other documents/writings, on rights basis in the ratio and in such manner to be decided by the Board to the existing shareholders of the Company on such date (hereinafter referred to as "Record Date") to be fixed by the Board, or to such person(s) who may or may not be shareholders of the Company being renouncee(s) in whose favour the rights as aforesaid may be renounced by any of the shareholders provided that the Board may in its absolute discretion reject any such application without assigning any reason whatsoever in such manner and on such terms and conditions as Board may deem appropriate at its absolute discretion, and provided further that the total amount of the securities to be issued

shall not exceed Rs. 25 Crores (Rupees twenty five Crores) inclusive of premium, if any, that may be payable on the equity shares at such time(s) and at such price as the Board in its absolute discretion may deem fit.

RESOLVED FURTHER THAT the offer aforesaid be made with option to the shareholders to apply for Additional Securities, provided that a shareholder who has renounced his right in whole or in part shall not be entitled to apply for Additional Securities and the allotment of Additional Securities to the applicants shall be made on an equitable basis in consultation with the Designated Stock Exchange as may be appointed by the Board for the said purpose. If Additional Securities applied for are not allotted, the amount paid on application thereof shall be refunded as per the applicable provisions of Companies Act, 1956, SEBI Act, 1992 and the Listing Agreement.

RESOLVED FURTHER THAT for the purpose of giving effect to the above, fractional entitlement, if any, shall be rounded off to the next higher integer.

RESOLVED FURTHER THAT the allotment to Non-resident shareholders shall be subject to the sanction/approval of the Reserve Bank of India (required if any) and such conditions that may be imposed in this regard.

RESOLVED FURTHER THAT the Securities issued in pursuance of this resolution shall rank pari passu in all respects, including dividend declared, if any, for the concerned financial year, with the existing fully paid-up equity shares in the equity share capital of the Company.

RESOLVED FURTHER THAT for the purpose of giving effect to the above Resolution, the Board of Directors/Committee of Board of the Company, be and is hereby authorized to finalise the Terms of Issue including ratio of entitlement, price, the Draft & Final Letter of Offer, to fix and announce the Record date and give such directions, as they may from time to time, think fit and proper and to do all such acts, deeds and things including settlement of any questions, doubt or difficulty that may arise in regard to the offer, issue and allotment of the said 'securities' and execute such documents as the Board of Directors/Committee of Board in their absolute discretion consider necessary/desirable.

Notwithstanding the above and more particularly with regard to the extant guidelines/rules/regulations in respect of issue of securities, the Board shall be entitled to increase or decrease the size of the issue, numbers of Equity Shares, face value thereof, and to vary, modify and/or alter ratio of rights offer and other terms and conditions, including timing and premium thereon as it may deem fit and expedient in the interest of the Company to make such offer to subscribe to the shares of the Company in consonance with such change in the guidelines."

The Register of Members of the Company will remain closed from 3.7.2006 to 10.7.2006 (both days inclusive).

Registered Office:

Aerodrome Road
Jamnagar 361 006
(Gujarat)
Dated, 3rd June, 2006

BY ORDER OF THE BOARD

GIRISH BHATIA
Secretary

NOTES:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member.
2. The instrument appointing a proxy has to be deposited at the Company's Registered Office at Aerodrome Road, Jamnagar 361006 (Gujarat), not less than 48 hours before the time for holding the aforesaid meeting.
3. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed Dividends upto the Financial Year 1994-95 have been transferred to the General Revenue Account of the Central Government. Shareholders who have not encashed the Dividend Warrants upto the said period are requested to claim the amount from the Registrar of Companies, Gujarat, Ahmedabad, by submitting an application in the prescribed form. In terms of the provisions of Section 205A of the Companies Act, 1956, the unclaimed Dividends for the Financial Year 1995-96, 1996-97 and 1997-98 have been transferred to the Investor Education and Protection Fund ("the Fund") established by the Central Government in accordance with Section 205C of the Companies Act, 1956 after the expiry of 7 years from the date of transfer of Dividend to the Unpaid Dividend Account of the Company. It may be noted that no claims shall lie against the Company or the Fund in respect of individual amounts which were unclaimed and unpaid for a period of 7 years and transferred to the Fund and no payment shall be made in respect of any such claim.
4. Members attending the meeting are requested to complete the enclosed slip and deliver the same at the entrance of the Meeting Hall.
5. Persons attending the Annual General Meeting are requested to bring their copies of Annual Report as the practice of distribution of copies of the Annual Report at the meeting has been discontinued.
6. For any further information regarding the said Accounts, advance intimation be given and the members should ensure that it reaches Birla Building, 9/1, R.N. Mukherjee Road, Kolkata 700 001, atleast 10 days before the date of the ensuing meeting.
7. The Company has entered into necessary arrangements with National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSIL), to enable the Shareholders to dematerialise their shareholding in the Company, for which they may contact the depository participants of either of the above Depositories. It may be noted that the shares of the Company have been included in the list of securities for compulsory trading in dematerialised form for all investors wef 8.5.2000. The present ISIN No. INE471A01015 allotted to the Company is under revision for the reasons mentioned under Point No. 8 below.
8. **The Board of Directors of the Company at their meeting held on 4th April, 2006 has fixed 5th May, 2006 as the Record Date for the purpose of implementing the Scheme of Arrangement, which has become effective from 30th March, 2006, which inter alia provides for re-organisation of the existing Equity Share Capital of the Company in terms of the Scheme. The notice relating to the said Record Date has been published in Financial Express, all editions and Business Standard, Ahmedabad edition. National Stock Exchange of India Ltd. had informed on April 13, 2006 to the members of the Exchange that trading in Equity Shares of the Company shall be suspended with effect from**

April 27, 2006 (i.e. closing hours of trading on April 26, 2006) on account of the Scheme of Arrangement and National Securities Depository Ltd. (NSDL) vide its Circular dated April 29, 2006 had informed to all the participants that as per Scheme, Shareholders of the Company are entitled to receive 2 new Equity Shares of Rs. 10/- each of the Company for every 10 Equity Shares of Rs. 10/- each held as on the Record Date. NSDL also informed that ISIN INE471A01015 pertaining to Equity Shares of the Company will be suspended with effect from the beginning of the day of May 6, 2006. Thus, now the trading will resume on NSE and BSE once new Equity Shares in lieu of old Equity Shares are delivered to the members and new Equity Shares are listed on the said Stock Exchanges. The Company is now in the process of completing the following formalities :

- Allotment of 2 new Equity Shares of Rs. 10/- each for every 10 Equity Shares of Rs. 10/- each held as on May 5, 2006, the Record Date, as original Share Certificates held in physical form shall be deemed to be cancelled and non-est and not tradeable on any Stock Exchange or otherwise from and after the Record Date;
- Allotment of new ISIN by NSDL and CDSIL pertaining to new Equity Shares;
- Listing of new Equity Shares on NSE and BSE in lieu of the old Equity Shares which stands cancelled and non-est and non-tradeable;
- Intimating allotment of new ISIN by NSDL and CDSIL to the Depository Participants of the members who are holding the shares in Demat form for crediting new Equity Shares in lieu of old shares; and
- Despatching new Share Certificates in lieu of deemed cancelled old Share Certificates to the members holding old shares in physical form.

9. Shareholders who continue to hold Shares in physical form are requested to intimate the Company's Registrars and Transfer Agents – M/s. MCS Ltd., 77/2A, Hazra Road, Kolkata 700 029, changes, if any, in their registered addresses including PIN CODE Number. Members holding Shares in dematerialized form are required to get their change of address recorded with the Depository Participant (DP).
10. **EXPLANATORY STATEMENT** pursuant to Section 173 of the Companies Act, 1956 ('the Act')/SEBI Code for Corporate Governance:

Item No. 2 : A brief resume of the Directors offering themselves for re-election is given below:

Sri A.N. Lalbhai, aged 88 years, is a Science Graduate. He has been associated with business and industry for the last 63 years and is the Chairman of reputed Lalbhai group – well known in textile industry. He is former President of the Federation of Indian Chamber of Commerce and Industry.

Sri Lalbhai is on the Board of Directors of Arvind Mills Ltd., J.K. Industries Ltd., Arvind Products Ltd., Atul Ltd., Lok Prakashan Ltd., and Arvind Overseas (M) Ltd.

Sri Lalbhai holds 20,588 Equity Shares in the Company.

Except for Sri Lalbhai, no other Director is interested in the aforesaid resolution.

Sri G. Momen, aged 73 years is a businessman of repute and is well known in Tea Trade Industry. He holds expertise in marketing

BIRLA VXL LIMITED

of Teas for over two decades and holds general expertise in marketing of products, besides expertise in packaging of teas for purposes of marketing. He is Chairman of White Cliff Holdings Pvt. Ltd., White Cliff Tea Pvt. Ltd., White Cliff Properties Pvt. Ltd. and Dover Tea Pvt. Ltd. He is Director on the Board of Appejay Tea Ltd., Baghmari Tea Co. Ltd., Bengal Tea & Fabrics Ltd., Empire & Singlo Tea Ltd., Jutlibari Tea Co. Ltd., Kanco Enterprises Ltd., Scottish Assam (India) Ltd., Harrison's Malayalam Ltd., Williamson Magor Co. Ltd. and OCM India Ltd.

Sri Momen is member of Audit Committee, Committee of Directors/Officers (Investments/Assets) and Remuneration Committee of the Company. He is also member of Share Sub-division and Audit Committee of Appejay Tea Ltd. He is also a member of Remuneration Committee of Empire & Singlo Tea Ltd., member of Audit Committee/Share Transfer and Remuneration Committee of Bengal Tea & Fabrics Ltd., member of Audit Committee of Scottish Assam (India) Ltd. and Chairman of Shareholders/Investors Grievance Committee of Bengal Tea & Fabrics Ltd.

Except Sri Momen, no other Director is interested in the aforesaid resolution.

Sri N.L. Hamirwasia, aged 70 years, is a professional manager and is presently Managing Director of Mysore Cements Ltd.. He has held senior position in management of various companies and has over 50 years of experience in the industry.

Sri N.L. Hamirwasia is a Director of OCM India Ltd.

Sri N.L. Hamirwasia is a member of Committee of Directors and Share Transfer and Shareholders/Investors Grievance Committee of Mysore Cements Ltd.

Sri N.L. Hamirwasia holds 1,000 shares in the Company.

Except Sri Hamirwasia, no other Director is interested in the aforesaid resolution.

The Board recommends the proposed resolution for your approval.

Item No. 4

As the members/shareholders are aware that the Scheme of Arrangement in terms of Sections 391 to 394 of the Companies Act, 1956 as approved by shareholders, lenders, creditors and sanctioned by Hon'ble High Courts, which has become effective from March 30, 2006 (Appointed Date July 1, 2004) Inter-alia envisages infusion of Rs. 20 Crores in the Company. Accordingly, the Board of Directors of the Company at its meeting held on June

3, 2006 proposed to make offer of and issue equity shares on rights basis to the Equity Shareholders of the Company, subject to a maximum issue amount of Rs. 25 Crores in the aggregate to comply with the above and also to meet various business requirements of the Company, including augmentation of the working capital resources and meeting the issue expenses.

In the event of under subscription between the issue/offer amount and the minimum subscription amount, the unsubscribed portion of the issue/offer may be issued to persons other than the shareholders. Accordingly, approval of the shareholders of the Company under Section 81(1A) of the Companies Act, 1956 is also being sought. The Company has made arrangement of standby underwriting to the extent of an amount of Rs. 20 Crores and has also received full advance there against. The advance, after adjusting the amount of devolvement, if any, upon the standby underwriter, would be refunded out of the proceeds of the aforesaid issue.

Your Directors recommend the resolution as set out in the notice for approval of the members.

None of the Directors are concerned or interested in the resolution, except to the extent of their respective equity shareholding in the Company and the undertaking of the Promoter Directors to acquire additional shares beyond their entitlement if the issue is undersubscribed.

Registered Office:

Aerodrome Road,
Jamnagar 361 006
(Gujarat)
Dated, 3rd June, 2006

BY ORDER OF THE BOARD

GIRISH BHATIA
Secretary

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

We present herewith our Report together with the Audited Accounts of the Company for the 3 month period ended March 31, 2006.

GENERAL REVIEW AND KEY OPERATIONAL MATTERS

Net Sales for the three month period amounted to Rs. 2,994 lacs including exports of Rs. 1,515 lacs. The Company recorded a positive operating cash profit of Rs. 461 lacs and Net Profit of Rs. 18 lacs (after providing for exceptional items amounting to Rs. 62 lacs). These figures pertain to only Digjam Woollen Mills and RMG unit and are not comparable to previous period figures, as the OCM Division has been divested from the Company.

The Indian economy after recording an impressive GDP growth of 7.5% in 2004-05 continued to witness a broad based and creditable growth of 8.4% during 2005-06 as well. Apart from the manufacturing sector which continues to show significant growth, the agriculture sector has also shown remarkable growth. Overall business confidence has improved, stock markets are buoyant and the engines of the economy are running at nearly full speed. The economy has managed to maintain this growth momentum in spite of hardening international prices of oil and steel.

Union Budget for 2006-07 was favourable for the textile industry. Excise duty on all man-made fibres & yarns and filament yarn has been reduced from 16% to 8%. Budgetary allocation for Technology Upgradation Fund Scheme was enhanced by Rs. 100 Crores and a sum of about Rs. 190 Crores provided for development of integrated textile plants.

The Indian textile industry has an overwhelming presence in the economic life of the country. Apart from providing one of the basic necessities of life, the textile industry plays a pivotal role through its contribution to industrial output, employment generation and export earnings of the country. Currently, it contributes about 14% to industrial production, 4 per cent to GDP and 16 per cent to the country's export earnings. Besides, it provides direct employment to about 35 million people.

As against the declining exports of woollen textiles upto 2002-03, there has been significant improvement in export of textile products from India thereafter, particularly post January 2005 after dismantling of the quota regime. Readymade garments account for approximately 44 per cent of the country's total textile exports. The new textile policy endeavors to achieve a target of textile and apparel exports to US\$ 50 billion by 2010 of which the share of garments will be US\$ 25 billion. There has been an upward global trend towards formals and after a long gap there has been an upward swing in the domestic market too, particularly among the younger consumer that dominates the Indian market.

The Management Discussion & Analysis Report, as required by the corporate governance code, is annexed hereto and repetition has been avoided here.

COMPLETION OF THE SCHEME OF ARRANGEMENT

The Scheme of Arrangement ("Scheme"), under Sections 391 to 394 of the Companies Act, 1956, between the Company and its Existing lenders, Creditors and Shareholders and OCM India Ltd ("OIL") and its Shareholders, has been approved by the Hon'ble High Courts of Gujarat and Punjab & Haryana vide their orders dated February 20, 2006 and February 23, 2006 respectively. The Scheme (the Appointed Date of which is July 1, 2004) has become effective upon filing of the certified copy of the order of the respective High Courts with the respective Registrar of Companies on March 30, 2006. Accordingly, the effect of the Scheme has been incorporated in the accounts for the period ended March 31, 2006.

In terms of the Scheme, the OCM Division of the Company was transferred to and vested in OCM India Limited (OIL), its wholly owned subsidiary, with effect from July 1, 2004 and restructured loans aggregating to Rs. 16,000 lacs have been transferred to OIL. OIL has since allotted 1,30,91,383 equity shares of Rs. 10 each as fully paid up aggregating to Rs. 1,309 lacs to the Company as net consideration. The Company carried on the business of OCM Division upto the Effective Date, in trust for and on account of OIL. The profit/loss, income, expenses, etc pertaining to OCM Division for this period have been transferred to OIL.

As specified in the Scheme, the investments/non-core assets and liabilities have been allocated to Investment Division ("ICo") of the Company. Net proceeds, from sale of these shall be utilised for full and final settlement of the restructured loans, aggregating to Rs. 5,000 lacs, allocated to ICo. The aggregate value of these assets, net of liabilities,

as at June 30, 2004 have been aligned with the outstanding amount of ICo loans; and the balance i.e. Rs. 51.17 Crs. (which includes net loss of Rs. 40.44 Crs. on sale of investments which crystallised during the previous period) has been transferred to Reconstruction Reserve as Provision for diminution in value of investments/assets, which was further realigned as at the Balance Sheet date.

Share Capital

Pursuant to vesting of OCM Division in OIL and as a part of the revised debt and capital structure, the Share Capital of the Company has been reorganised as under, in accordance with the terms of the Scheme:

- The existing paid up Equity Share Capital of the Company comprising of 6,50,71,465 equity shares of Rs. 10 each aggregating to Rs. 6,507 lacs stands reorganised. The paid up value of Rs. 8 per equity share of Rs. 10 each stands cancelled and the balance paid up value of Rs. 2 per equity share stands consolidated by consolidating 5 such fully paid up equity shares of Rs 2 each into 1 fully paid up equity share of Rs 10 each. The Board fixed May 5, 2006 as Record Date for this purpose. With this, the existing 6,50,71,465 equity shares of Rs. 10 each stand reorganised to 1,30,14,293 equity shares of Rs. 10 each.
- The Preference Share Capital of Rs. 4,125 lacs stood reduced and consolidated to an amount of Rs. 1,031.25 lacs and has since been converted into 61,60,394 equity shares of Rs. 10 each as fully paid at a price of Rs. 16.74 per share (including premium of Rs. 6.74 per equity share) determined in accordance with SEBI Guidelines for Preferential Issue. The equity shares have been allotted on April 12, 2006.
- The lenders have been allotted, on April 12, 2006, 2,45,70,000 equity shares of Rs. 10 each fully paid up at a price of Rs. 16.74 per share (including premium of Rs. 6.74 per equity share) determined in accordance with SEBI Guidelines for Preferential Issue by conversion of their loan amount.

The effects of the various elements of the Scheme, including the effect of reduction in capital, net reduction of loans, movement of reserves, etc. have been fully presented in the accounts and the notes thereto.

Rights Issue

As envisaged in the Scheme for infusion of funds, the Board proposes to issue equity shares on rights basis upto a sum of Rs. 25 Crores. A resolution in terms of Section 81 of the Companies Act, 1956, seeking shareholders' approval for the said issue, is proposed to be moved at the ensuing Annual General Meeting. The ratio and pricing of the issue will be decided after the resolution is approved by the shareholders.

FINANCE & ACCOUNTS

	(Lac Rs.) March 31, 2006
Working for the period yielded a Gross Profit/(Loss) of	276.62
From which deducted provisions for :	
– Depreciation	191.37
– Exceptional items (net)	61.56
– Taxation	6.07
Making a total of	17.62
To which are added :	
– Balance brought forward (after adjustments pursuant of the Scheme)	(9,534.52)
Leaving a Balance of which is carried forward	(9,516.90)

The Directors are, therefore, unable to recommend any dividend.

SUBSIDIARY COMPANIES

The Company has applied to the Central Government in pursuance of Section 212(b) of the Companies Act, 1956 to exempt the Company from attaching Annual Report and Accounts of the subsidiaries of the Company, as required under Section 212(1) of the Companies Act, 1956 to the Company's Accounts for the financial year ended on 31.3.2006, as the information relating to the Subsidiaries is available to the Shareholders of the Company from the consolidated financial statements, which are prepared in accordance with the Accounting standard and Listing Agreement and are duly audited

BIRLA VXL LIMITED

by the Statutory Auditors and published by the Company and the Company is also attaching a statement showing financial highlights of the Subsidiaries with the Annual Report of the Company, with an undertaking that the Company shall make available on request the Annual Accounts of Subsidiaries without cost to the Company's/Subsidiary Company's investors/members seeking such information at any point of time and that the Annual Accounts of the Subsidiaries will also be kept for inspection by any investor/member in its and Subsidiaries' Registered Offices. If the exemption is not granted, the Annual Report and Accounts of the Subsidiaries will be circulated to the Shareholders of the Company.

OCM India Limited, to whom the OCM Division of the Company ("OCM") has been transferred effective July 1, 2004, in terms of the Scheme as stated above, recorded turnover of Rs. 4,369 lacs and gross loss Rs. 102 lacs for the six months period ended March 31, 2006 and further, considering the effect of the Scheme during the period, accounted loss of Rs. 786 lacs for the period from July 1, 2004 to September 30, 2005 pertaining to OCM. Pursuant to the Scheme, the restructured loans transferred to them as part of OCM are to be settled in full by the net proceeds from the disposal of the said division, the process for which has been initiated.

VXL Technologies Limited recorded a gross turnover of Rs. 3,020 lacs (previous year Rs. 2,790 lacs) during the year ended March 31, 2006. Profit before tax for the year was Rs. 125 lacs (previous year Rs. 123 lacs).

As reported, Masuzawa Punjab Silk Limited (MPSL), a 'sick company' in terms of Section 3(i)(o) of SICA on account of continued default by the collaborator, to whom notice has been served for due performance. The liabilities towards Export Import Bank of India (Exim Bank), for which the Company had furnished corporate guarantee, was resolved through One-time Settlement. In terms of the settlement, the Exim Bank took possession of movable and immovable assets of MPSL and is in the process of disposal of the same.

DIRECTORS

Sarvashri A.N. Lalbhai, G. Momen and N.L. Hamirwasia, retire from the Board by rotation and being eligible, offer themselves for re-election.

AUDITORS' OBSERVATIONS

Observations to the Auditors when read together with the relevant notes to the accounts and accounting policies are self-explanatory.

STATUTORY INFORMATION AND OTHER MATTERS

Statutory information and our report on corporate governance, forming part of this report as per requirements of the Companies Act and Clause 49 of the Listing Agreement, are annexed hereto, Statutory statements in respect of Subsidiary Companies are also given in separate Annexures and form part of this Report. The Company has not accepted any Fixed Deposits during the period and there are no Fixed Deposits outstanding as on March 31, 2006. Relations with employees were on the whole cordial and we appreciate the contribution made by all dedicated employees during the year.

As per our governance practices, the management's statement on the integrity and fair presentation of financial statements is provided to the Board as an integral part of the account approval process. However, as per Section 217(2AA) of the Companies Act the Directors indicate that they have taken reasonable and bona fide care (a) that in the preparation of the annual accounts the applicable accounting standards had been followed and proper explanations relating to material departures, if any, have been furnished; (b) that such accounting policies were selected and applied consistently and judgements and estimates that are reasonable and prudent made so as to give a true and fair view of the state of affairs of the Company at the end of the period and of the profit of the Company for the period; (c) that proper and sufficient care had been taken for the maintenance of adequate accounting records in accordance with provisions of the Companies Act for safeguarding the Company's assets and for preventing and detecting fraud and other irregularities; (d) that these annual accounts have been prepared on a Going Concern basis.

AUDITORS

M/s. Khimji Kunverji & Co., Chartered Accountants, retire as Auditors and being eligible, offer themselves for re-election.

ACKNOWLEDGEMENT

We place on record our sincere appreciation to Arcil, Banks, other stakeholders, concerned Government Departments and other authorities, channel partners and employees and

are grateful to our shareholders for the continued support and guidance and to our customers for their posing faith and confidence in us.

FOR AND ON BEHALF OF THE BOARD

New Delhi
June 3, 2006

C.L. RATHI
Managing Director

SIDHARTH BIRLA
Vice Chairman

MANAGEMENT DISCUSSIONS & ANALYSIS REPORT

We submit herewith the Management Discussions and Analysis Report on the business of the Company for 3-months period ended March 31, 2006. In this, we have attempted to include discussion on all the specified matters to the extent relevant or within limits that in our opinion are imposed by the Company's own competitive position.

COMPANY & INDUSTRY STRUCTURE

The Company operates in the worsted textile segment and has a modern composite mill (ISO 9002 certified) for manufacturing high quality suiting fabrics at Jamnagar, and Universal Clothing (UC), the garment manufacturing unit at Faridabad. The worsted industry in the country comprises of few mills in organized sector and a large number of mills in unorganized sector. The Company has been a significant player in this industry in India and has been in this business for more than 50 years. Its commitment to quality and strong customer orientation reflects in its strong national brand - Digiam, supported by national distribution channels, while the Company's international marketing is supported by representative offices and network abroad. Operating Divisions are kept self sufficient managerially to perform their own duties and functions with support provided at a Corporate level as required.

The period under review saw continuation of growth momentum and buoyancy in the Indian economy, with pronounced improvement in consumers confidence. The economy moved to a higher GDP growth from 7.5% in 2004-05 to creditable growth of 8.4% in 2005-06, despite high level of crude oil prices. The Union Budget for 2005-06 was favourable for the Textile industry, including our segment. Excise duty on all man-made fibres & yarns and filament yarn has been reduced from 16% to 8%. Budgetary allocation for Technology Upgradation Fund Scheme was enhanced by Rs.100 Crores and a sum of about Rs.190 Crores has been provided for development of integrated textile plants. Wool prices showed consistent hardening during the period registering 15% increase on an average with finer microns registering steeper increase. The Australian dollar however weakened towards the end of the period, partially setting off the hike in wool prices in Australian dollar terms. Polyester prices more or less remained unchanged.

REVIEW OF OPERATIONS

A summary of major performance indicators is given below, while the detailed financial and physical performance may be viewed from the Balance Sheet and Annexures thereto in the Annual Report.

	Units	2006 (3 months)	2004-05* (18 months)
Production :			
Cloth	Lac Mtrs.	11.70	62.96
Garments**	Lac Pcs.	1.45	6.49
Sales:***			
Cloth	Lac Mtrs.	11.02	66.98
Garments	Lac Pcs.	0.92	5.71
Total Sales value*	Lac Rs.	3263	18,811

** excluding OCM Division transferred w.e.f. 1.7.2004 ** including for others

*** including inter-unit sales

Production of fabric as well as garments have shown considerable improvement in the current period as compared to previous period. Similarly, per unit realisation has also shown remarkable improvement. Consistent efforts to improve product mix and thereby improve realisations as well as profitability margins have started bearing results. Whereas exports during the current period have shown improvement, domestic sales quantity showed a marginal decline mainly because of greater focus on higher value added products. The domestic markets, during later half of January, February & March were unprecedentedly slack particularly due to early onset of summer. Many competitors resorted to either preponing despatches scheduled for April/May or offering heavy discounts in order to effect sales. The company's garment division has shown improvement in production as well as sales. Overall sales of the company have shown improvement over previous period.

SCHEME OF ARRANGEMENT

The Scheme of Arrangement ("Scheme"), under Sections 391 to 394 of the Companies Act, 1956, between the Company and its Existing lenders, Creditors and Shareholders and OCM India Ltd ("OIL") and its Shareholders, has been approved by the Hon'ble High Courts of Gujarat and Punjab & Haryana and has become effective on March 30, 2006 upon filing of the orders of the High Courts with the respective Registrar of Companies. In terms of the Scheme, the OCM Division of the Company was transferred to and vested with OCM India Limited (OIL), its wholly owned subsidiary, with effect from July 1, 2004 i.e. Appointed Date. The Company carried on the business of OCM Division, from the Appointed Date upto the Effective Date, in trust for and on account of OIL. The profit/loss, income, expenses including common allocated expenses, etc pertaining to OCM Division for this period has been transferred to OIL.

OUTLOOK

The liberal government policies, freer international trade post removal of quota regime after January 2005 and healthy growth of Indian Economy has opened up great opportunities for the Indian Textiles Industry. The outlook for our segment has further taken a positive turn with shift in preference in favour of formal wear, particularly among the young consumers that dominate the domestic market. Another growth driver will be use of worsted fabrics in women's formal wear, which has shown encouraging trend and is expected to grow fast in times to come.

There are good opportunities to offer enriched and innovative product-mix which will improve realisations and profitability. Several major international groups and brands are sourcing fabrics as well as garments from India aggressively. With vertically integrated operations for fabrics and garments, quick response for design interaction, very competitive lead times, consistency in reproduction will help us to a very great extent in the export market.

The woollen worsted industry has been facing the challenge of Polynosics and other cheap materials. Of late, the position has changed with lesser presence of Polynosics at the retail counters. However, these materials are still in demand in the readymade sector.

The Company achieved a noticeable improvement in exports, specially in Europe and Middle East and some premium customers have also placed orders on us. Broad basing of the customer network is a priority for exports, keeping an eye on premium markets. The Company is gearing up for expanding its customer base, particularly in Europe and Southeast Asia and tapping tender business. With the recent initiatives, the Company expects to continue its growth momentum in the export markets.

ENVIRONMENT & SAFETY

Company is conscious of the need for environmentally clean and safe operations. Our industry is not a polluting one. The Company's policy requires that all operations are conducted in such a way as to ensure safety of all concerned, compliance of statutory and industrial requirements for environment protection and conservation of natural resources.

HUMAN RESOURCES

Management recognises that employees represent our greatest assets and it is only through motivated, creative and committed employees that we can achieve our aims. Hence, the Company takes full care for the welfare and betterment of employees.

OTHER MATTERS

There are no further or typical areas of risks or concerns outside the usual course of business foreseeable at this time. Internal control systems have been found to be adequate and are continuously reviewed for further improvement. Our team is committed to the Board's dictates on standards of conduct as well as good governance and exercise of due diligence including compliance of all relevant laws and regulations. Our appreciation is due to all employees; gratefulness to our Shareholders, Financial Institutions/Banks, ARCIL and other stakeholders, concerned Government and other authorities and our channel partners for their continued support and guidance and to customers for their reposing faith and confidence in us.

CAUTIONARY STATEMENT

Statements in this "Management Discussion & Analysis" which seek to describe the Company's objectives, projections, estimates, expectations or predictions may be considered to be "forward looking statements" within the meaning of applicable securities laws or regulations. However, actual results could or may differ materially from those expressed or implied. Important factors that could make a difference to the Company's

operations also include global and Indian demand-supply conditions, finished goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's markets, changes in Government regulations, tax regimes, economic developments within India and countries with which the Company conducts business besides other factors, such as litigation and labour negotiations.

FOR AND ON BEHALF OF THE MANAGEMENT TEAM

	RAJEEV SURANA <i>Executive Director & Chief Operating Officer</i>	C.L. RATHI <i>Managing Director</i>
June 3, 2006 New Delhi		

REPORT OF THE DIRECTORS ON CORPORATE GOVERNANCE

The Board has always followed best principles of good governance and emphasises transparency, integrity and accountability. We believe that good governance is voluntary and self-disciplining with the strongest impetus coming from Directors and the management itself. The management and organisation at Birla VXL endeavours to be progressive, competent and trustworthy, for customers and stakeholders, while reflecting and respecting the best of Indian values in its conduct.

THE BOARD OF DIRECTORS

The Board presently consists of 12 Directors, of which 10 are non-Executive. The Chairman's position is basically non-Executive and non-managerial in character and the Vice-Chairman officiates in his absence. Sri C.L. Rathi is the Managing Director of the Company and as Corporate Head contributes to the Company's overall management, particularly in the policy sphere and in addressing correlated priority issues, including mobilisation of resources & resolution of debts and is responsible for corporate level activities including Board and Committee Meetings, corporate accounts, statutory audit, corporate governance and related compliances, subject to the overall general supervision, control and direction of the Board.

Sri Rajeev Surana is the Executive Director and Chief Operating Officer (ED & COO), for the core (textile) business and as Business Head is accountable to the Board through the Managing Director for profitable, day-to-day and overall operations of the textile business, holding prime responsibility to achieve strategic, financial and operational goals and objectives of the textile business. He is also responsible for ensuring timely compliance with all relevant rules, laws and regulations including inter alia various Industrial and Labour Laws, as may be applicable, industrial relations, appropriate liaison with local administration(s), utilities, State and Central Governments pertaining to the textile business and its divisions. The ED and COO reports to the Board through the Managing Director and discharges his functions subject to the overall superintendence, control and direction of the Board. Each unit of the Company is headed by senior and experienced officers, who report to the ED and COO and attend to the day-to-day working of the units.

The SEBI Code requires that in the case of a non-executive chairman, at least one-third of the Board should comprise of independent directors. Out of 12, our Board has 4 Independent Directors, viz. Sri Arvind N. Lalbhai (noted Industrialist), Sri G. Momen (Businessman of repute) and Sri A.C. Mukherji (retired CMD of New India Assurance Co. Ltd.) and Dr. G. Goswami (ex-Banker). Sri P.K. Pujari, Secretary (EA) and Sri Arvind Agarwal, Industries Commissioner, are the nominees of Government of Gujarat. Sri R.K. Choudhury (senior Advocate) is a Senior Consultant to Khaitan & Co., a reputed firm of Advocates and Notaries. Sri S.K. Birla, Chairman (Industrialist with wide experience), Sri Sidharth Birla, Vice-Chairman (MBA, B.Sc. (Hons)) & Sri N.L. Hamirvasia (Professional Manager) represent the promoters. Sri C.L. Rathi and Sri Rajeev Surana are two Executive Directors. None of the Directors (except Sri S.K. Birla and Sri Sidharth Birla) are related to each other or to promoters.

The Independent Directors play an important role in deliberations at the Board level and bring to the Company their wide experience in fields of industry, banking and finance, law and administration and contribute significantly to Board Committees. Their independent role vis-à-vis the Company means that they add a broader perspective, help ensure that interests of all stakeholders are kept in acceptable balance and can also provide an objective view in a potential conflict of interest between stakeholders.

As required by law, the appointment(s) and remuneration(s) of any Executive Director(s) require the approval of the shareholders, the period of such appointments are not more than

BIRLA VXL LIMITED

five years and, when eligible, they qualify for re-appointment at the end of their term. One-third of the rotational Directors retire every year and, when eligible, qualify for re-appointment. Nominees of the Govt. of Gujarat do not usually retire by rotation. Specified details are provided in the notice for appointment or re-appointment of a Director. Details are given below by category, attendance and total Directorships besides Memberships and Chairmanships of Board Committees. Details of shares held by Directors is also given.

Director	Category*	Board attendance**	Attendance at last AGM	B/C/Ch***	Sitting Fees Paid Rs.	No. of Equity Shares (of Rs.10/- each) held
Sri S.K. Birla	P	1/1	No	7/-	4,000	1,19,600
Sri A.N. Lalbhai	I	1/1	No	7/-	4,000	20,588
Sri Sidharth Birla	P	1/1	No	6/-	4,000	6,000
Sri R.K. Choudhury	NI	1/1	No	11/2/-	24,000	—
Dr. G. Goswami	I	1/1	No	10/5/-	16,000	—
Sri N.L. Hamirwasia	P	1/1	No	3/1/-	4,000	1,000
Sri G. Momen	I	1/1	No	15/7/1	16,000	—
Sri A.C. Mukherji	I	1/1	Yes	9/5/5	32,000	560
Sri Arvind Agarwal	N/N	1/1	No	8/-	4,000	—
Sri P.K. Pujari	N/N	0/1	No	14/-	Nil	—
Sri C.L. Rath	E	1/1	Yes	3/1/-	—	—
Sri Rajeev Surana	E	1/1	NA	5/1/-	—	—

* P = Promoter, I = Independent, N = Nominee, E = Executive, NI = Non-Independent,

** For the year under review (attendance date relates to relevant meetings while a Director)

*** B = Board Memberships, C/Ch = membership/Chairmanship of SEBI specified Board Committees, including private companies

RESPONSIBILITIES

The Board's principal focus is on strategic issues and approval, policy and control and delegation of powers and it has specified a schedule of major matters (covering those required under law or SEBI Code) that are reserved for its consideration and decision, besides review of performance and reporting to shareholders. The respective roles of the Board and the Management are clearly demarcated. The management is required to (a) provide necessary inputs and basis to support the Board in its decision making process in respect of the Company's strategy, policies, performance targets and code of conduct (b) manage day-to-day affairs of the Company to best achieve targets and goals approved by the Board (c) implement all policies and the code of conduct, as approved by the Board (d) provide timely, accurate, substantive and material information, including on all financial matters and exceptions, if any, to its Board and/or its Committees (e) be responsible for ensuring faithful compliance with all applicable laws and regulations and (f) implement sound, effective internal control systems. The Board requires that the organisation conducts business and develops relationships in an honest and responsible manner. To establish a policy framework to promote and adhere to the spirit, a Code of Conduct for all employees of the Company has been instituted. The Board has also adopted Code of Conduct for Directors and Senior Executives of the Company and a declaration has been obtained from the Managing Director about its compliance.

BOARD MEETINGS AND COMMITTEES

Board Meetings are held at varying locations and are usually scheduled reasonably in advance. The Board generally meets at least once a quarter to, inter-alia, review quarterly financial results. The Agenda for meetings is prepared by the Secretary, in consultation with the Chairman and papers are circulated to all Directors in advance. Directors have access to the Secretary's support and all information of the Company and are free to suggest inclusion of any matter in the Agenda. Senior Officers are called to provide clarifications and make presentations whenever required. During the period the Board met once on 16th February. To enable fuller attention to the affairs of the Company, the Board delegates specified matters to its committees, which also prepare the groundwork for decision-making and report to the Board. However, no matter is left to the final decision of any committee, which under law or the Articles may not be delegated by the Board or may require its explicit approval.

AUDIT COMMITTEE

The terms of reference of the Audit Committee, as specified by the Board in writing, include the whole specified in the SEBI Code and the Companies (Amendment) Act, 2000, including a review of audit procedures and techniques, financial reporting systems, internal control systems and procedures besides ensuring compliance with regulatory guidelines. The committee members are all Independent Directors collectively having requisite knowledge of finance, accounts and company law. The committee recommends the appointment of external Auditors and their fees/payments and also takes an overview of the financial reporting process to ensure that financial statements are correct, sufficient and credible. The reports of the statutory and internal auditors are reviewed along with management's comments and action-taken reports. The committee has explicit authority to investigate any matter within its terms of reference and has full access to the information, resources and external professional advice which it needs to do so. The committee comprises Sri A.C. Mukherji (as its Chairman), Sri G. Momen and Dr. G. Goswami and is mandated to meet at least four times in a year; to assess the final audited accounts and to review each quarter, the limited review report before they are put up to the Board. The committee met twice on February 15, 2006 and March 29, 2006 during the period attended by Sri A.C. Mukherji (2/2) Sri G. Momen (2/2), and Dr. G. Goswami (2/2). Sri Girish Bhatia, Company Secretary, acts as the Secretary to the Committee.

REMUNERATION COMMITTEE

The Remuneration Committee comprises of non-executive Directors, majority of whom are independent. Presently the committee comprises of Sri A.C. Mukherji, Sri G. Momen and Dr. G. Goswami all independent non-executive directors and Sri R.K. Choudhury, non executive director. The committee would make recommendation to the Board for induction of any new Director in the Board and also helps ensure that non-executive Directors make decisions on appointment, remuneration, assessment and progression of Executive Directors; any compensation of non-executive directors is a subject only for the whole Board. The Directors other than executive directors are paid sitting fees of Rs. 4,000/- for each meeting of the Board or its committees attended by them. No commission is paid to any Director.

The Committee met on February 16, 2006 during the period, attended by Sri R.K. Choudhury (1/1), Sri A.C. Mukherji (1/1), Dr. G. Goswami (1/1) and Sri G. Momen (1/1).

As approved by the Shareholders and the Central Government, Sri C.L. Rath, Managing Director, is presently, paid by way of salary Rs. 1.75 lac per month, housing facility/allowance upto 60% of salary and perquisites (which in aggregate fall within the overall limit laid down in Schedule XIII to the Companies Act, 1956) from September 1, 2004. The term of Sri C.L. Rath as Managing Director has expired on 31.5.2006. The Remuneration Committee and the Board of Directors at their respective meetings held on February 16, 2006 have reappointed Sri C.L. Rath as Managing Director with effect from June 1, 2006 for a period of three years on the same remuneration as being paid to him now. The Members at their 55th Annual General Meeting held on 28th March, 2006 approved the said reappointment and remuneration proposed to be paid to Sri C.L. Rath, subject to approval of the Central Government. The Company has applied to the Central Govt. for its approval to the said reappointment and remuneration proposed to be paid to Sri C.L. Rath.

As approved by the Shareholders, Sri Rajeev Surana, Whole time Director designated as Executive Director & Chief Operating Officer, is presently paid by way of Salary Rs. 1 lac per month, housing facility/Allowances upto Rs. 35,000 per month, Special Allowance of Rs. 25,000 per month and other perquisites (which in aggregate fall within the overall limit laid down in schedule XIII to the Companies Act, 1956) from 1st November, 2005. The approval from the Central Government in respect of Sri Rajeev Surana is awaited.

For both of them, there is no severance fees, other benefits, bonus or stock options. The details of remuneration of Sri C.L. Rath and Sri Rajeev Surana has been given appropriately in this Annual Report.

The Company does not have any pecuniary relationship or transactions with any non-executive Director other than Sri R.K. Choudhury, who was a partner of Khaitan & Co., a reputed firm of Advocates and Notaries, to whom the Company has paid Rs.57,207.50 during the period towards retainer fee and reimbursement of expenses on different matters.

SHARE TRANSFER & SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

The committee reviews, records and helps expedite transfer of shares. The Company has about 88,000 shareholders and the committee meets quite frequently throughout the year to minimise any delays in the transfer process. Any shareholders grievance is referred to this