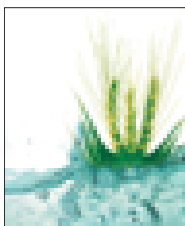


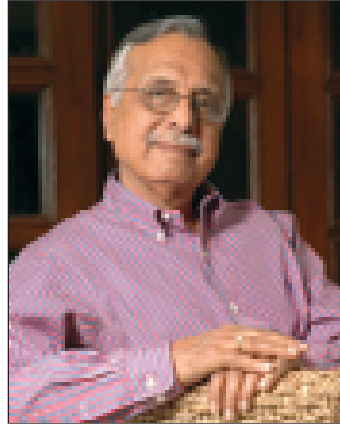
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The cover design is a graphic depiction that water is the core of prosperity.

Chairman's Message



Dear Stakeholders,

It gives me a great pleasure in presenting to you the performance of your Company for the financial year ended 31st March, 2007.

The mood is that of high optimism and aspirations. Your Company has registered an impressive performance in the year 2006-07 with 65% growth in profit after tax. Your Company, India's second largest Poly Vinyl Chloride (PVC) manufacturer is well placed to face competition from domestic as well as international players. PVC producers in India are currently in a sweet-spot as there has been a shift from excess supply to shortages in the last few years. These positive developments in the PVC industry would bode well for the business.

While your Company is the largest manufacturer of PVC pipes, there is still opportunity in the market in the form of unfulfilled demand waiting to be tapped. Your Company is gearing up to make the best of this situation.

A dedicated power plant, all weather jetty and other infrastructure is on the anvil. All this would go on to tap the demand in the future.

I am confident, with your support, the Company shall cross further milestones in quality, innovation and returns.

P.P. CHHABRIA
Chairman

BOARD OF DIRECTORS

Mr. P.P. Chhabria

Non-executive Chairman

Mr. K.N. Atmaramani

Independent Director

Mr. M.G. Bhide

Independent Director

Mr. Prashanto Banerjee

Co-opted effective 29th January, 2007

Independent Director

Mr. S.N. Inamdar

Independent Director

Dr. N.A. Kalyani

Resigned effective 5th April, 2007

Independent Director

Mr. S.S. Marathe

Independent Director

Mr. K.P. Chhabria

Managing Director

Mr. Prakash P. Chhabria

Deputy Managing Director

Mr. S.S. Dhanorkar

Asst. Managing Director &

Chief Operating Officer

Mr. P. Subramaniam

Asst. Managing Director &

Chief Financial Officer

Mr. J.S. Arora

Director (Projects)

Company Secretary

Mr. Anil Atre

Asst. Vice President (Legal & Admn.)

& Company Secretary

Bankers

Bank of India

ICICI Bank Limited

Bank of Baroda

Citibank N.A.

Bank of Maharashtra

The Bank of Nova Scotia

Corporation Bank

BNP Paribas

Auditors

B.K. Khare & Co.

Chartered Accountants

Solicitors & Advocates

Crawford Bayle & Co.

PVC, Pipes & Fittings Plants

Ranpar - Pawas Road,

Ratnagiri 415 616,

Maharashtra, India

Tel: 02352-238027-31

Fax: 02352-238045

E-mail:ssmath@finolexind.com

**Registered Office and
Pipes & Fittings Plant**

D1/10, M.I.D.C., Chinchwad,

Pune 411 019, Maharashtra, India.

Tel: 020-27408200

Fax: 020-27477217

E-mail:aa@finolexind.com

Management Discussion and Analysis

Introduction

The year under review has seen the Company continue to march forward on the path of growth. The gross income has shown a healthy growth of 39%. The net profit for the year has jumped up by 65%.

Financial Review

The year under review has been of steady growth from quarter to quarter. Each successive quarter has shown a growth in top line as well as in net profit as compared to the corresponding quarter of the previous year. Overall, both the divisions of the Company i.e. PVC Resin and PVC Pipes and Fittings have delivered excellent results.

Indian Economy And Its Effect On The Company

Your Company contributes to some of the core sectors of the Indian economy viz Agriculture, Water distribution, Construction and Telecom, each one playing a vital role in the health of the economy.

While the GDP is expected to cross 9% in 2006-07 from 8.1% in 2005-06, the per capita income of the Indians has risen three times in the last 20 years.

In this optimistic scenario, each of the above mentioned sectors has gained increasing importance and earned special attention from both Government and the consumer. For instance, water management has emerged as a focus area, with the Government promoting widespread irrigation and rural water supply schemes, some with international funding.

Of 142.6 million hectares of net cultivated area, 57 million hectares (40%) is irrigated. The remainder 85.6 million hectares (60%) is rainfed. In the coming two decades and a half, there will still be about 65 million hectares to irrigate calling for extensive piping systems and a role for your company to play.

The Union Government has increased the outlay for irrigation by 54%. Further, the raising of the Farm Credit target to Rs. 225,000 crores would add 5 million new farmers to the banking system. The Government's focus will be on achieving a more "inclusive" growth encompassing the rural population. These initiatives are expected to give a boost to the demand for your Company's products in the coming years.

Construction sector on the other hand is riding a boom with fast paced urbanization and industrialization that augur well for the company's business. According to a CRISIL study, total expenditure on housing is estimated at over Rs. 300,000 crores. RBI Monetary Policy 2007-08, seeking to reduce risk

weightage on housing loan upto Rs. 20 lacs, is making it easier for the middle class to avail of housing loan.

Freedonia Group, a renowned International Consultancy Firm, has projected the overall demand for PVC pipes to grow to 185 million meters in 2012 as compared to 101 million meters in 2002.

Industry Outlook

PVC Resin Business

The demand supply mismatch for PVC in the domestic market continues to grow. Despite your Company's expansion, completed during previous year, the domestic demand for PVC is still far in excess of the domestic capacity. The gap is being met by imports. In this situation the Company has been able to maintain the domestic prices of PVC Resin at a level equal to or slightly higher than import parity through most of the year. This position is expected to continue in the near future.

The availability and prices of raw material continue to be a matter of concern. With the fluctuations in price of Crude Oil in the International market there is a similar effect on the prices of Company's raw material, though, with a time lag. Availability of one of the raw materials, Vinyl Chloride Monomer [VCM], has been extremely tight in the International market as a result of which your Company has not been in a position to fully utilize expanded capacity. The Company expects to sign a Long Term Contract for supply of VCM during the current financial year to overcome this difficulty.

PVC Pipes Business

Your Company continues to be India's largest manufacturer and market leader for PVC Pipes in India.

The PVC Pipes segment saw a volume growth of 23% during the year under review. Traditionally PVC Pipes were used mainly for agriculture and irrigation. Over the past few years the Company has adopted a conscious strategy of increasing its share in the construction related market of PVC Pipes. This policy has paid off with the share of this segment increasing from 15% in 2003-04 to almost 35% in the year under review. PVC Pipes are now increasingly used for drinking water as well as sewer applications in the new buildings. The boom in the Construction Industry has thrown open many new opportunities for the Company's PVC Pipes business.

The Company has expanded its PVC Pipes capacity from 65,000 MT in the previous year to 85,000 MT during 2006-07. The Company has acquired 20 acres of land at Urse for setting up of a new plant for manufacturing of PVC

Pipes. After commissioning of the new plant at Urse, the total installed capacity for manufacturing of PVC Pipes would be 100,000 MT per annum. Your Company continues to spread its distribution network to more and more areas all across the country. This growing family of Finolex Dealers ensures that the Company's product reaches the remotest corner of India from Kashmir to Kanyakumari and Churu to Guwahati.

Risks And Concerns

Your Company has a well documented Risk Management Policy. This policy is reviewed periodically by the Management and appropriately modified wherever necessary. Based on the operations of the Company, new risks, if any, are identified and steps taken to mitigate the same. Your Company continues to import its main raw materials viz. Ethylene Di-Chloride [EDC], Ethylene and Vinyl Chloride Monomer [VCM]. None of these raw materials are traded in futures market and there is no opportunity to hedge the price risks. However, the price of the finished product i.e. PVC Resin generally follows similar trend in the International market. The prices of PVC Resin in the Domestic market are based on the import parity and as such there is a natural hedge mechanism in place. The Company is also exposed to Foreign Exchange risks and Interest risks on its imports. The Company makes use of hedge/derivative products to manage these risks.

The surplus cash generated during the course of business is invested in financial instruments from time to time. The detailed guidelines for investment of such surplus have been laid down and which are adhered to by the management and also reviewed regularly by the Board.

Your Company continues to accord highest priority for safety in all its operations. All the manufacturing facilities and processes are subject to regular inspections. A Safety Audit is carried out meticulously at the PVC Resin plant in Ratnagiri and preventive measures are taken to ensure high standards of safety.

Your Company has taken adequate insurance cover for its plant and machinery as well as for third party liabilities.

Transparency In Sharing Information

Transparency refers to sharing information and acting in an open manner. Processes, instructions and information are directly accessible by those concerned with them, and enough information is provided to understand and monitor them. Your Company believes in total transparency in sharing information about its business operations with all its stakeholders. Your Company strives to provide maximum possible information in the Management Discussion and Analysis in the Annual Report to keep the stakeholders informed

about the business performance. As an open channel of communication between stakeholders and officials, and to make a wide range of information available, your Company holds regular meetings with institutional investors in India and abroad.

Internal Control Systems

The Company has instituted adequate internal control procedures commensurate with the nature of its business and the size of its operations for the smooth conduct of its businesses.

Internal audit is conducted at regular intervals at all the plants concerning the key areas of operations. It is an independent, objective and assurance function responsible for evaluating and improving the effectiveness of risk management, control, and governance processes.

An Audit Committee consisting of five independent directors is in place. The Audit Committee monitors performance of Internal Audit on a periodic basis through review of the audit plans, audit findings and promptness of issue resolution through follow ups.

Human Resources

The dedicated team of employees at FIL, earns credit for the company's performance. Industrial relations have been harmonious and morale and efficiency high. Sound human resource development policies ensure that each employee, an asset, grows as an individual and contributes to the performance of the company. Regular in-house training programs for employees at all levels help in this objective.

All in all, the company's management policies and functioning is amply reflected in its encouraging financial indicators with the help of dedicated and able workforce, the company is well poised to take on higher goals and tougher targets.

The employee strength of your company is currently 941.

Cautionary statement

Estimates and expectations stated in this Management Discussion and Analysis may be "forward-looking statement" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to your Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and international markets, changes in the Government regulations, tax laws, other statutes and other incidental factors.

Directors' Report

To the Members

Your directors have pleasure in presenting their twenty-sixth annual report and audited accounts for the year ended 31st March, 2007.

Financial Results

	(Rs. in million)	
	2006-2007	2005-2006
Profit before depreciation & finance charges	1700.552	1308.684
Finance charges	137.320	189.498
Profit before depreciation	1563.232	1119.186
Deductions for:		
(i) Depreciation	546.081	468.207
(ii) Provision for taxation	318.324	227.893
Profit after depreciation and taxation	698.827	423.086
Add :		
Surplus of profit and loss account of earlier year	389.366	540.580
Appropriations		
(i) General reserve	100.000	100.000
(ii) Debenture redemption reserve	50.000	50.000
(iii) Proposed dividend	372.100	372.100
(iv) Tax on dividend	63.300	52.200
(v) Balance carried over to balance sheet	502.793	389.366

Operations

The operational performance is summarized below:

	2006-2007	2005-2006
Income (Rs. million)	12525.213	9007.603
Profit before tax (Rs. million)	1017.151	650.979
Profit after tax (Rs. million)	698.827	423.086
Cash earnings (Rs. million)	1225.497	894.836

PVC Resin

Production (MTs)	182134	145064
Sale (excluding interdivisional):		
– in MTs	133951	93813
– in (Rs. million)	5597.848	3756.978

PVC Pipes and Fittings

Production (MTs)	72497	62433
Sale (MTs)	74211	60364
Sale (Rs. million)	4006.752	3177.454

Dividend

Your directors have recommended a dividend on equity shares @ 30% (Rs. 3 per equity share) for the financial year ended 31st March, 2007. The proposed dividend (including corporate dividend tax) will absorb Rs. 435.400 million.

Finance

The interest and finance charges for the year were Rs. 137.320 million as against Rs. 189.498 million for the previous year.

Corporate governance

Pursuant to clause 49 of the listing agreements with the stock exchanges, a separate section on corporate governance and a certificate obtained from the auditors of the Company regarding compliance with the conditions of corporate governance are forming part of this annual report.

Power project

The capacity of power plant is 43 MW. It is expected that a part of the power so generated can be marketed and sold. Given the current power deficit in the State, this is an opportunity for your Company to generate additional revenue. The power plant at an estimated cost of Rs. 185 crore is progressing as per schedule. The estimated completion time is November 2007.

Special Economic Zone (SEZ) at Chinchwad, Pune

During the year, SEZ policy has undergone frequent changes resulting into uncertainty in the real estate market. In spite of the best efforts on the part of your

Company, finality for setting up of SEZ could not be given during the year under review. However, various options such as setting up of SEZ as a developer or outright sale of the property to a developer are under active consideration and your Company is hopeful of concluding the proposal shortly.

Setting up of new PVC pipes plant and shifting of registered office of the Company at Urse

The Company has acquired 20 acres of land at Urse for setting up of a new plant for manufacturing of PVC pipes. After commissioning of the new plant at Urse in December, 2007, the total installed capacity for manufacturing of PVC pipes would be 1,00,000 M.T. per annum.

As a measure of rationalisation, it is proposed to shift the registered office of the Company from Chinchwad, Pune to village Urse, Taluka Maval, District Pune 410 506. The Directors recommend shifting of registered office for members' approval by postal ballot.

Sammanpatra from Customs Commisionerate

The Government of India, Ministry of Finance, Department of Revenue, Customs Commissionerate, Pune vide its certificate dated 20th March, 2007 has conferred on the Company being one of the highest payers of Customs Duty for the financial year 2006-2007.

Fixed deposits

The Company has not accepted any fixed deposits during the year.

Disclosure regarding Employee stock option scheme

Pursuant to the applicable requirements of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999, disclosures concerning stock options granted under the Finolux Industries Limited Employee Stock Option Scheme/Plan ("FIL ESOS") in terms of the approval of the shareholders accorded at the extraordinary general meeting of the company held on 3rd April, 2001 are annexed hereto.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the directors confirm that:

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (ii) the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at 31st March, 2007 and of the profit of the Company for the year ended on that date;