



## FLEX FOODS LIMITED

### NOTICE

Notice is hereby given that the 16<sup>th</sup> Annual General Meeting of the members of Flex Foods Limited will be held on Saturday, the 16<sup>th</sup> Day of September, 2006 at 3:00 P.M. at the Registered Office of the Company at Lal Tappar Industrial Area, P.O. Resham Majri, Haridwar Road, Dehradun, Uttaranchal to transact the following business:

#### ORDINARY BUSINESS

- To receive, consider and adopt the Audited Balance Sheet of the Company as at 31<sup>st</sup> March, 2006 and the Profit & Loss Account for the year ended on that date together with the Reports of Auditors and Directors thereon.
- To appoint a Director in place of Shri S.K. Kaushik, who retires by rotation and being eligible offers himself for re-appointment.
- To appoint a Director in place of Shri G.N. Gupta, who retires by rotation and being eligible offers himself for re-appointment.
- To appoint Statutory 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 at a remuneration to be decided by the Board of Directors. M/s Jain Singhal & Associates, Chartered Accountants, New Delhi retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.
- The Register of Members and Share Transfer Books of the Company will remain closed from 10<sup>th</sup> September, 2006 to 16<sup>th</sup> September, 2006 (both days inclusive).
- Members holding shares in physical form are requested to notify change in address, if any, to the Company's new Registrar & Share Transfer Agent (RTA), **M/s. Beetal Financial & Computer Services Pvt. Ltd., Beetal House, 3<sup>rd</sup> Floor, 99, Madangir, Near Dada Harsukh Dass Mandir, Behind Local Shopping Centre, New Delhi – 110062** quoting correct Folio Number(s) and in case of shares held in dematerialized form to the concerned Depository Participant.
- Members seeking further information about the Accounts are requested to **write at least one week before the date of Meeting**, so that it may be convenient to get the information ready at the Meeting.
- Trading in the shares of the Company has been made compulsory in dematerialized form w.e.f. 28.05.2001. The ISIN No. for the shares of the Company is INE 954B01018. Members who desire to have their holding of shares dematerialized are requested to approach the Registrar through a Depository Participant.
- Consequent upon the introduction of Section 109A of the Companies Act, 1956, Shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Company's Registrar and Share Transfer Agents, M/s. Beetal Financial & Computer Services Pvt. Ltd.
- The Company has paid the Annual Listing fees for the year 2006-2007 to the following Stock Exchanges viz., The Delhi Stock Exchange Association Ltd., The Bombay Stock Exchange Limited at which the Company's Securities are presently listed. The application of the Company with The Calcutta Stock Exchange Association Ltd. for delisting of its equity shares is still pending.
- The Company has transferred all unpaid/unclaimed first instalment of redemption of Debenture amount due on 11.06.1999 to the Investor Education And Protection Fund (IEPF) established by the Central Government. Debenture-holders are requested to note that no claims shall lie against the Company or IEPF in respect of amount which were unclaimed and unpaid for a period of seven years from the date that they first became due for payment and no payment shall be made in respect of any such claims.

By Order of the Board

Place : NOIDA

Dated : 28<sup>th</sup> July, 2006

**RAJESH DHEER**

Company Secretary

#### Regd. Office:

Lal Tappar Industrial Area P.O. Resham Majri,  
Haridwar Road, Dehradun, Uttaranchal

#### NOTES:

- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ANOTHER PERSON AS HIS PROXY TO ATTEND AND ON A POLL, TO VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. A BLANK FORM OF PROXY IS ENCLOSED AND IF INTENDED TO BE USED, IT SHOULD BE RETURNED, DULY COMPLETED, TO THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE SCHEDULED TIME OF THE MEETING.

#### DETAILS OF DIRECTORS SEEKING RE-APPOINTMENT AT THE FORTHCOMING ANNUAL GENERAL MEETING (Pursuant to Clause 49 of the Listing Agreement)

<b>Name of the Director</b>	Shri S.K. Kaushik	Shri G. N. Gupta
<b>Date of Birth</b>	20.11.1939	23.07.1931
<b>Date of Appointment</b>	11.08.2000	28.07.1999
<b>Experience in specific functional area</b>	A professional having more than 42 years of experience particularly in the field of Finance, Marketing, Production Planning, etc.	Mr. G.N. Gupta is a retired Indian Revenue Services Officer. He has vast and varied experience and has held several important positions in the Income Tax Department during his illustrious career with the Central Government and retired as Chairman of Central Board of Direct Tax in 1989. Currently, he is acting as a Consultant on income tax matters.
<b>Qualification</b>	FCA	M.Sc. (Maths), LL.M.
<b>Directorship in other Public Limited Companies</b>	Flex Industries Limited	Flex Engineering Limited Manoj Housing Finance Co. Limited Yash Papers Limited Asian Fertilizers Limited Alpha Drug India Limited
<b>Members/Chairman of Committee of the Board of the Public Limited Companies on which he is Director</b>	<b>Audit Committee</b> Nil  <b>Shareholders'/Investors' Grievances Committee</b> Flex Foods Limited	<b>Audit Committee</b> Flex Foods Limited Flex Engineering Limited (Chairman) Yash Papers Limited (Chairman) Alpha Drug India Limited (Chairman) <b>Shareholders'/Investors' Grievances Committee</b> Nil

None of the Non-executive Director of the Company holds any share/convertible instrument except Shri Ashok Chaturvedi (Non-executive Chairman), who holds 10 equity shares of the Company.



## FLEX FOODS LIMITED

### DIRECTORS' REPORT

To the Members,

Your Directors are pleased to present the 16<sup>th</sup> Annual Report together with the Audited Accounts of the Company for the year ended 31<sup>st</sup> March 2006.

### FINANCIAL RESULTS

The financial results for the year ended 31<sup>st</sup> March, 2006 and for the previous year ended 31<sup>st</sup> March 2005 are as follows:

	(Rs. In lacs)	
	Year Ended 31.03.2006	Year Ended 31.03.2005
Sales	2380.58	2492.80
Other Income	144.21	167.80
<b>Profit before Interest, Financial Charges &amp; Depreciation</b>	<b>872.36</b>	<b>1091.19</b>
Interest & Financial Charges	193.92	45.66
Depreciation	251.39	161.78
<b>Profit before Tax</b>	<b>427.05</b>	<b>883.75</b>
Provision for Taxation	35.94	69.30
Provision for Deferred Tax	(35.82)	12.06
Wealth Tax	0.30	—
Fringe Benefit Tax	3.70	—
<b>Profit after Tax</b>	<b>422.93</b>	<b>802.39</b>
Add : (Short)/ Excess provision of the Earlier Year		
- For Income Tax	(0.58)	(0.20)
- For Wealth Tax	(0.32)	—
<b>Profit for the Year</b>	<b>422.03</b>	<b>802.19</b>

Your Company achieved a turnover of Rs.2524.79 lacs including other income of Rs.144.21 lacs in comparison to turnover of Rs.2660.60 lacs including other income of Rs.167.80 lacs in the previous year ended 31<sup>st</sup> March 2005. During the year the Company made export of manufactured/traded goods on FOB basis to the tune of Rs.1736.85 lacs which is approximately 72.96% of the total sales. Your company earned a net profit of Rs.422.03 lacs for the year ended 31<sup>st</sup> March 2006 compared to profit of Rs.802.19 lacs for the previous year ended 31<sup>st</sup> March 2005.

The lower profit during the year was due to additional depreciation and interest cost on account of expansion programme and also due to compressed international prices of freeze dried and frozen products.

To improve the performance of the Company and to overcome the pressure on the margins, your Company took up a major expansion programme during the year under review. The Company has successfully commissioned Air dried (Dehydrated-DHD) and Frozen (Individually quick frozen-IQF) facilities at the existing site at Dehradun for production of the DHD and IQF products, comprising of mushrooms, herbs, fruits and vegetables, thus widening the product categories and its range and expanding the scope to increase the turnover.

After careful consideration of the overall situation and keeping in view the requirement of funds for future needs of the Company, the Board of Directors regret their inability to recommend any dividend for the Financial Year ended 31<sup>st</sup> March, 2006.

The operational aspects of the Company's working have been covered in the Management Discussion and Analysis Report and the same is deemed to be part of this Directors' Report.

### DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri S.K. Kaushik and

Shri. G.N. Gupta, Directors of the Company retire by rotation and being eligible offer themselves for re-appointment.

Shri S.K. Kaushik resigned from the Whole-time Directorship of the Company w.e.f. 1<sup>st</sup> August, 2005; however, he continues to be a Director of the Company.

Brief resume of the Directors seeking re-appointment, nature of their expertise in specific functional areas and the name of the Public Companies in which they hold Directorship and Chairman/Membership of the Committee of the Board, as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges, are given as Annexure to the Notice convening the Annual General Meeting.

None of the Directors of the Company is disqualified as per provisions of Section 274(1)(g) of the Companies Act, 1956. The Directors have made necessary disclosures as required under various provisions of the Companies Act, 1956 and Clause 49 of the Listing Agreement.

### MANAGER

Shri M.K. Tyaagi, who was appointed as 'Manager' under the Companies Act, 1956 resigned from the services of the Company.

### FIXED DEPOSITS

During the year under review, your Company did not accept any Fixed Deposits from the Public.

### AUDITORS

The Auditors of the Company, M/s Jain Singhal & Associates, Chartered Accountants, New Delhi retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. The Company has received a letter from them to the effect that their appointment, if made, would be within the prescribed limit under Section 224(1B) of the Companies Act, 1956.

The observations of the Auditors and the relevant notes on the accounts are self-explanatory and therefore do not call for any further comments.

### CORPORATE GOVERNANCE

Your Company has taken adequate steps to ensure compliance with the provisions of Corporate Governance as prescribed under the Listing Agreement with the Stock Exchanges.

A separate Report on Corporate Governance along with Report on Management Discussion and Analysis is enclosed as part of the Annual Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

On the basis of compliance certificates received from the Internal Auditors and Executives of the Company, subject to the disclosures in the Annual Accounts and also on the basis of the discussion with the Statutory Auditors of the Company from time to time, we state as under:-

- 1) that in the preparation of the Annual Account for the Financial Year ended 31<sup>st</sup> March, 2006, the applicable Accounting Standards have been followed and there has been no material departure.
- 2) that the Directors have selected such Accounting Policies and applied them consistently and made judgment and estimates that were 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 under review.
- 3) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding



## FLEX FOODS LIMITED

the assets of the Company and for preventing and detecting fraud and other irregularities.

- 4) that the Directors have prepared the Annual Accounts on a going concern basis.

The Company's Internal Auditors have conducted periodic audit to provide reasonable assurance that the Company's established policies and procedures have been followed. The Audit Committee constituted by the Board reviews the internal control and financial reporting issues with the Internal Auditors.

### PARTICULARS OF EMPLOYEES

There has been no employee during the year, whose particulars are required to be given under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

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

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of the particulars in the Report of

Board of Directors) Rules, 1988 is given in Annexure 'A' forming part of this Report.

### PERSONNEL

Relations with the Employees remain cordial and harmonious throughout the year, thereby strengthening the commitment of the Employees at all level to the growth of the Company.

### ACKNOWLEDGEMENT

The Directors acknowledge with gratitude the co-operation extended by various agencies of the Central Government, Government of Uttaranchal/ Uttar Pradesh, National Horticulture Board, Banks and Customers during the year under review. The Board also takes this opportunity to express its deep gratitude for the continuous support received from the Shareholders and wholehearted cooperation given by the employees of the Company working at various levels.

For and on behalf of the Board

Place : NOIDA

Dated : 28<sup>th</sup> July, 2006

**ASHOK CHATURVEDI**

Chairman

## ANNEXURE 'A' TO DIRECTORS' REPORT

Information regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings & Outgo pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, forming part of Directors' Report.

### 1. CONSERVATION OF ENERGY

#### A) Energy Conservation Measures Taken

During the year, Company focused on energy conservation through regular audits & MIS. Better control on machine running hours, rationalization of farm, Effluent Treatment Plant operations and judicious use of cold/frozen storage facilities resulted in significant energy savings. The Company has in Environment, Health and Safety (EHS) policy with a high focus on optimizing of energy consumption alongwith other material resources including water. Measures that were initiated/adopted are as follows:

- a. EHS initiatives amongst all its workers/staff members to conserve power, fuel & water by elimination of wastages.
- b. Preventive maintenance of machines to reduce frictional losses and thereby maximizing efficiency.
- c. Reducing use of water by treatment, recycling & conservation techniques.
- d. Innovative measures like reduction of cooling loss & motors rating rationalization adopted for conservation of energy.

#### B) Additional Investments & proposals being implemented for reduction of energy consumption

The Company is reviewing continuously the ratings of lighting & power motors to save the energy and related resources.

#### C) Impact of the above measures

The implementation of energy conservation measures have resulted in significant cost savings and increased level of awareness amongst the employees. The energy conservation measures have also resulted in improvement of power factor and consequential tariff benefit.

### 2. TECHNOLOGY ABSORPTION

#### A) Research & Development (R&D)

##### 1) Specific areas in which R&D carried out by the Company

The Company prioritized and carried out R&D work in the process & product development in various types of herbs & vegetables etc. besides a new product range of health care products.

##### 2) Benefits derived as a result of the above R&D

- a. During the year, processing & freeze-drying technology

was standardized for new vegetables and herbs (Fenugreek, Leek, Spring Onion, Chives etc.) successfully. Commercial samples/trial consignments were sent to the foreign buyers & the same met their quality specifications successfully.

- b. Oregano cultivation practices were standardized and commercial volumes were grown and processed as a product range expansion.
- c. Contract research on essential oil crops & their commercial feasibility was progressed through IHB, Palampur to assess the compositional and commercial feasibility of various herbs.
- d. The Company developed nutraceutical products through herbal & other functional ingredients. Plans are underway to ensure the high efficacy of the product & tap their market potential.

#### 3) Future plan of action

Steps are continuously being taken for innovation and renovation of products including new products development and enhancement of product quality/profile, to offer better products at relatively affordable prices to the customers.

#### 4) Expenditure on R&D

During the year, the Company spent Rs.46.65 lacs. This is equivalent to 1.84% of the turnover.

#### B) Technology absorption, adaptation and innovation

The Company progressed and focused on the energy efficient & environment friendly technology & efficiently assimilated the same in regular operations by standardizing and de-bottlenecking the operations.

### 3. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports: Initiatives taken to increase exports; development of new export markets for products and services.

The Company is at present exporting its products to USA & Europe. The Company is continuously exploring possibilities of exporting more of its products to different markets.

2. During the year the Company has exported manufactured goods on FOB basis amounting to Rs.1736.85 lacs. The expenditure incurred in Foreign Exchange (including value of imports) during the year amounted to Rs. 620.32 lacs.

For and on behalf of the Board

Place : NOIDA

Dated : 28<sup>th</sup> July, 2006

**ASHOK CHATURVEDI**

Chairman



## FLEX FOODS LIMITED

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Forward Looking Statements

Despite tough competition in the international market and increased pressure on unit price realization per kg of product, Company has performed satisfactorily. Management is conscious of the increased customer requirements for superior quality systems, hygiene standards and strict adherence to product specifications and has made consistent efforts to ensure that there is no laxity in these matters.

In spite of the best care and improved business practices it cannot be taken for granted that all the assumptions and expectations for forward looking statements of the Company operations will be realized "*in toto*". Depending upon the dynamic business scenario the assessments and assumptions are subject to amendments and modifications as per the prevailing and future business conditions.

#### Industry Scenario and Developments

India is world's second largest producer of foods next to China and has the potential of being the biggest in the World. The total processed food production in India is likely to double in the next ten years. There is an opportunity for large investments in food and food processing technologies, skills and equipments especially in areas of canning, dairy and food processing, packaging, refrigeration and thermo-processing, fruits and vegetables etc.

Food Processing Industry sector in India is one of the largest in terms of production, consumption, export and growth prospects. The Government has accorded it a high priority with a number of fiscal relief and incentives, to encourage commercialization and value addition to agricultural produces for generating employment, export growth and minimizing pre/post harvest wastage, even the partial reductions in wastages can improve the income levels of farmers quite significantly. India's food processing sector covers fruits and vegetables processing, fish-processing, milk processing, meat & poultry processing, packaged/convenience foods, alcoholic beverages & soft drinks and grain processing etc. However fruits & vegetable processing has the largest volumes and employment potential.

Mushroom industry, especially cultivation of white button mushrooms in India is developing fast. In India, during the last decade, the production has increased manifolds and total mushroom production at present is about 50000 tons per annum out of which about 90% is button mushrooms. Based on the growth estimates, it is projected that mushroom production will cross six lacs tons per annum by 2020. On the other hand domestic demand of mushrooms in India is limited mainly to the cities. It is the spurt in the overseas demand that propelled most of the Indian producers to increase capacities. During the year, Flex Foods Ltd. had focused on the all round quality improvement in operations and mushroom unit improved the process grade output from 91% last year to above 99% in 2005-06.

Flex Foods Ltd. operates in the agri products cultivation, processing and export sector involving the primary production activity like mushroom, herbs growing and processing which is highly labour & power intensive. However the value addition is quite significant. As a major step towards balancing the product mix and to become a single point source of supplier of Frozen / IQF (Individually Quick Frozen), Air Dried as well as Freeze Dried products to the customers as per their requirements, the Company has undertaken a major expansion project involving the freezing & cold storage facilities for herbs, fruits & vegetables which has been successfully completed during the year.

Flex Foods Limited is a major producer of freeze dried & frozen products in the Country playing significant role in this unique industry segment. To compare its performance with other companies within the Country is not possible. Such comparison at international level also is not possible as the published annual results of similar companies in this business are not readily available.

During the year under review, the sales forgone on account of Air Dried and IQF products coupled with the crisis of good quality gypsum availability adversely impacted the overall performance of the Company resulting in lower sales and net profit as compared to that of the previous financial year. However, through in-house R&D, the new compost formulations using ammonium sulphate was successfully standardized to offset the impact of gypsum quality in future.

#### Product-wise performance

##### Sale of Finished Goods

Description	Current Year		Previous Year	
	Qty. (in kgs.)	Value (Rupees)	Qty. (in kgs.)	Value (Rupees)
Freeze dried Mushroom, Herbs, Vegetables & Fruits	1,50,343	16,45,78,560	1,51,843	18,39,56,575
Processed Food Viz. Mushroom Fresh & Processed (including Canned & Green Pepper in Brine)	12,50,499	6,53,87,788	11,87,623	5,91,45,935
Frozen/Individually Quick Frozen Fruits, Vegetables, Mushroom & Herbs	15,856	80,91,279	47,767	61,77,151
<b>TOTAL</b>	<b>14,16,698</b>	<b>23,80,57,627</b>	<b>13,87,233</b>	<b>24,92,79,661</b>

#### Opportunities and Threats

The Country's share in the world trade of processed fruits and vegetables is still less than one percent. As such, abundant investment opportunities are there in the expanding domestic market and export arena. The market development efforts have witnessed an increasing trend for acceptance of new products. Further, to have a better presence in the ever growing international market, the Company has expanded its product line both horizontally as well as vertically by establishing two new facilities of IQF and Air drying.

Changes in export-import policies and exchange rate adjustments may also help the Company in improving the export potential.

During the current Financial Year, the Company has achieved ISO: 9001 : 2000 and HACCP certification for its manufacturing operations as well as the facilities and compliance on Eurepgap and BRC quality systems is also being ensured. This will further add to the competitive



## FLEX FOODS LIMITED

strength of the Company in international market. Since competition is fierce, the goodwill and product quality gives the Company a definite edge on the competitors. Freeze Dried products market has also become highly competitive with the entry of China which has managed to gain substantial market shares for certain products owing to competitive prices and an acceptable level of quality in many cases.

Freeze dried products are also facing consistent pressure due to the abundant availability of cheaper substitute products manufactured by the air dehydration process. In order to expand the customer base and cater to the untapped lower end segment of customers, the Company has undertaken the expansion project by installing, "state of art" facilities for production of air dried as well as frozen / IQF (Individually Quick Frozen) of mushrooms, herbs, fruits and vegetables.

### Future Outlook

Due to the liberal and other developmental measures being taken by Government, the future of the Industry looks bright. The production base is being enlarged, modern methods of cultivation are being adopted thus improving the productivity and reducing per unit cost. Cold Chain facilities are being strengthened which will help in retaining quality, freshness and reduce post-harvest losses. With the new varieties of products being added the production season is also being extended.

These developments shall result in the greater availability of quality raw materials to the industry resulting in better capacity utilization and producing a wider range of products of international quality. The quality is now the watchword for success in the Company.

With the rise in the per capita income particularly of the middle class, a drastic change in the food habits has been noticed. This will lead to an increased domestic consumption of processed food stuffs.

The Company has put continuous thrust and tremendous importance to Research and Development activities. The Company's R&D efforts help the Company in developing new and improved products. Presently extensive research work is in progress in development of a Natural Food supplement/ Dietary supplement as a product for domestic and export market.

The area of Health Care, Nutraceuticals, Biotechnology, Natural and Herbal preparations have a very promising future. The margins of profit in healthcare and biotechnology areas are substantially higher as compared to other sectors. It is planned to undertake Research and Development work on some selected single and poly herbal formulations, aromatic oils, herbal sweeteners, biodegradable polymers etc. after due market assessment of demand of such products. Entering into healthcare sector will also benefit the Company.

Management is constantly keeping a close watch on the changing market scenario and the business strategy is reviewed regularly for achieving a consistent growth by meeting the tough international competition successfully. The Company has also introduced the new range of frozen and freeze dried culinary herbs for export market which will improve the Companies turnover and profits.

High focus on R&D has resulted in the successful addition of new culinary herbs. Besides the overall quality improvement in products & processes, Company's new manufacturing facilities for IQF & Air Dried products will give a definite boost to the overall business volumes & profitability.

### Risks & Concerns

Every business has inherent risks involved in its operations, which may be either external or internal. The external factors are market competition, availability of cheaper substitute products, Government policies regarding power tariffs and on-going political and economic changes in the importing country. The Company may not have much control over such factors, however it is important to address these risks & concerns to mitigate their overall impact on the business. Formal risk assessment and Management approach along with the regular monitoring mechanism in the Company ensures that these risks are duly addressed and well managed. High focus on safety of plant, its premises and people continuity of vital supplies and proactive Management of related business environment are essential for the risk management in the overall supply chain and business in general.

### Internal Control System & Their Adequacy

The Company has an adequate system of internal controls to ensure that all activities are monitored and controlled as well as transactions are authorized, recorded and reported correctly. The Company has effective budgetary control system and the actual performance is reviewed with reference to the budget periodically by the Management. The Company ensures adherence to all internal control policies and procedures as well as compliance with all regulatory guidelines, which are supplemented by internal audit regularly.

The Audit Committee of the Board meets on quarterly basis and reviews the internal control systems as well as financial statements.

### Human Resources/Industrial Relations

The Company lays due emphasis on sound Human Resource Management practices and appraisal systems with focus on cordial employee relations to ensure higher level of productivity and operational efficiency. Adequate efforts have been made to strengthen and develop its human resources as a key strength through continuous training inputs and focused development plan. As on 31<sup>st</sup> March 2006, the total number of permanent employees in the Company were 462.

### ANALYSIS OF FINANCIAL PERFORMANCE AND OPERATIONAL PERFORMANCE

The accompanying financial statements have been prepared in accordance with the requirements of the Companies Act, 1956 and generally Accepted Accounting Principles and Accounting Standards prevailing in India.

#### A. FINANCIAL CONDITIONS

##### Fixed Assets

At the end of the year, Company's investment in fixed assets was as under:

Year ended March 31 <sup>st</sup>	2003	2004	2005	2006
Gross Block (Rs. in Lacs)	3370	3452	5248	6494





## FLEX FOODS LIMITED

The composition and growth of assets was as under:

[Rs. in lacs]

Particulars March 31, 2006	March 31, 2005	Growth %	
Land	99.70	99.70	—
Buildings	1159.19	977.78	18.55
Plant & Machinery	4940.74	3888.15	27.07
Electrical Fittings & Installations	141.59	141.12	0.33
Equipments	63.17	53.32	18.47
Furniture & Fixtures	7.66	6.05	26.61
Vehicles	81.96	81.96	—
<b>Total</b>	<b>6494.01</b>	<b>5248.08</b>	<b>23.74</b>
Less: Acc. Depreciation	1869.99	1618.61	15.53
Add: CWIP	—	23.77	—
Net Fixed Assets	4624.02	3653.24	26.57

**CURRENT ASSETS LOANS & ADVANCES****Inventories**

Inventories include stock of raw material, consumables, work-in-progress, finished goods and packing material. Total inventories were Rs.627.29 lacs, representing 9.66% of the fixed assets.

**Sundry Debtors**

Sundry debtors were Rs.523.31 lacs as at 31<sup>st</sup> March, 2006 as against Rs.492.40 lacs as at 31<sup>st</sup> March, 2005. Debtors as a percentage of total operating revenue were 21.98% for the Current Year as against 19.75% for the Previous Year.

**Cash and Bank Balances**

Cash and Bank Balances were 5.65% of total assets as on 31<sup>st</sup> March, 2006 as against 14.62% as on 31<sup>st</sup> March, 2005.

**Loans & Advances**

Loans & Advances mainly comprise of loans to staff, advances recoverable in cash or kind, advance taxes and security deposits. Advances recoverable in cash or kind or for value to be received are mainly towards amount paid in advance for value and services to be received in future. Security deposits mainly represents deposit for electricity.

**Net Deferred Tax Assets**

Deferred Tax Liabilities of Rs.417.02 lacs represent closing balance of net deferred tax liabilities after adjusting total deferred tax assets and deferred tax liabilities as on 31.03.2006. It has been calculated in accordance with Accounting Standard -22 "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India.

**CURRENT LIABILITIES & PROVISIONS****Current Liabilities**

Sundry Creditors include amount payable to vendors for supply of goods and services. Advances from customers represent amount for which material has not yet been delivered. Other liabilities include amounts payables to staff/workers for earned leave, bonus, salary and overtime besides taxes.

**B. RESULTS OF OPERATIONS**

The summary of operating performance for the year is given below:

(Rs. in lacs)

Particulars	Year ended March 31, 2006		Year ended March 31, 2005		Growth %
	Amount	%	Amount	%	
<b>INCOME</b>					
Income from Operations	2380.58	85.10	2492.80	93.71	—
Other Income	144.21	5.16	167.80	6.30	—
Increase/(Decrease) in Stock	272.53	9.74	(0.35)	(0.01)	—
Total Income	2797.32	100.00	2660.25	100.00	5.15
<b>EXPENDITURE</b>					
Raw Material Consumed	444.96	15.91	273.87	10.29	62.47
Other Manufacturing Expenses	649.06	23.20	545.31	20.50	19.03
Payment & Benefit to Employees	380.32	13.60	350.87	13.19	8.39
Administrative, Selling & Other Expenses	450.62	16.10	399.01	15.00	12.93
OPERATING EXPENSES	1924.96	68.81	1569.06	58.98	22.68
EBDIT	872.36	31.19	1091.19	41.02	—



## REPORT ON CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) stipulated Corporate Governance standards for listed companies through Clause 49 of the Listing Agreement of the Stock Exchanges. SEBI, through Circulars dated 29.10.2004 and 29.03.2005 has revised the existing Clause 49 and has mandated listed companies to comply with revised Clause 49 by 31.12.2005. Accordingly, the Company has already put in place systems and procedures and is fully compliant with revised Clause 49 of the Listing Agreement. In compliance of the revised Clause 49 of the Listing Agreement with the Stock Exchanges, the Company submits the Report on the matters mentioned in the said Clause and practice followed by the Company.

#### 1. Company's Philosophy on Code of Governance

The Company's philosophy on Corporate Governance is to ensure the best possible management team with considerable professional experienced people. The Company firmly believes that sound practices adopted in the governance of its affairs based on openness, transparency, capability and accountability is *sine-que-non* for long term success, building the confidence of its stakeholders, its functioning and conduct of business.

#### 2. Board of Directors

##### (a) Composition of the Board (As on March 31, 2006)

The Board of Directors of the Company comprises of six Directors. All Directors including Chairman of the Company are Non-executive Directors with three Directors being Independent Directors. The composition of the Board is in conformity with revised Clause 49 of the Listing Agreement. The Board consists of eminent persons with considerable professional experience in business, industry, finance and law. None of the Directors on the Board is a member of more than ten Committees or Chairman of more than five Committees across all the Companies in which they are Directors. All the Directors have made disclosures regarding their directorship and memberships on various Committees across all Committees in which they are directors and/or members. The composition and category of Directors as on 31.03.2006 is as follows:

Name of Director	Designation	Category
Mr. Ashok Chaturvedi	Chairman	Non-executive
Mr. G.N. Gupta	Director	Independent, Non-executive
Mr. T.N. Pandey	Director	Independent, Non-executive
Mr. M.G. Gupta	Director	Independent, Non-executive
Mr. R.K. Jain	Director	Non-executive
Mr. S.K. Kaushik*	Director	Non-executive

\* Shri S.K. Kaushik resigned from the Whole-time Directorship of the Company w.e.f. 1<sup>st</sup> August 2005, however, he continues to be a Director of the Company.

None of the Director of the Company has any pecuniary relationship with the Company except to the extent of receipt of sitting fees for meetings of the Board/Committee(s) of Directors attended by them.

As mandated by the revised Clause No.49, all the Independent Directors on the Company's Board are Non-Executive and:

- Apart from receiving Director's remuneration, do not have any material pecuniary relationships or transactions with the Company, its Promoters, its Directors, its Senior Management and Associates, which may affect independence of the Directors.
- Are not related to Promoters or person occupying management positions at the Board level or at one level below the Board.
- Have not been an executive of the Company in the immediately preceding three financial years of the Company.
- Are not Partner or Executive or were not Partner or Executive of the Statutory Audit Firm or the Internal Audit Firm and Legal Firms, Consulting Firms, which have association with the Company.
- Are not material suppliers, service providers or Customers or Lessors or Lessees of the Company, which may affect independence of the Directors.
- Are not substantial shareholders of the Company i.e. do not own two percent or more of the block of voting shares.

#### Information supplied to the Board

The Board has complete access to all information with the Company, *inter-alia*, the information as required under the revised Clause 49 of the Listing Agreement is regularly provided to the Board as a part of the agenda.

#### Compliance reports of all applicable laws to the Company

The periodical reports submitted by the Internal Auditors and reports of concerned executives of the Company with regard to compliance of all laws applicable to the Company including steps taken by the Company to rectify instances of non-compliances, if any, are being reviewed by the Board.

#### Code of Conducts

The Company's Board has laid down code of conduct for all Board Members and Sr. Management of Company. As required under revised Clause 49 of the Listing Agreement, the Code of Conduct is available on the web site of the Company i.e. flexfoods.net. All Board



## FLEX FOODS LIMITED

Members and senior Management Personnel have affirmed compliance with Code of Conduct. A declaration signed to this effect is annexed to this report.

### Risk Management

The Company has established robust risk assessment and minimization procedures, which are reviewed by the Board periodically. The Company has a structured place to identify and mitigate the various risk faced by the Company from time to time.

#### (b) Board Meetings and attendance record of each Director

Five Board Meetings were held during the financial year 2005-2006. The dates on which the meetings were held are, 27<sup>th</sup> April, 29<sup>th</sup> June, 27<sup>th</sup> July, 24<sup>th</sup> October in the year 2005 and 28<sup>th</sup> January in the year 2006. The gap between two meetings was not more than four months.

Attendance of each Director at the Board Meetings, last Annual General Meeting and number of other Directorship and Chairmanship/ Membership of Committees of each Director in various Companies is as follows:

Name of the Director	Attendance Particulars		No. of other Directorship and Committee Member/Chairmanship		
	Board Meetings	Last AGM	Other Directorship (in Public Co.)	Total No. of Committee Membership	Committee Chairmanship
Mr. Ashok Chaturvedi	3	No	6	1	1
Mr. S.K. Kaushik	4	Yes	1	1	—
Mr. T.N. Pandey	5	No	2	4	4
Mr. G.N. Gupta	4	Yes	5	4	3
Mr. R.K. Jain	5	No	5	6	—
Mr. M.G. Gupta	5	No	4	6	2

### 3. Audit Committee

Presently, the Audit Committee comprises of four Member Directors viz. Mr. T.N. Pandey, Mr. G.N. Gupta, Mr. M.G. Gupta and Mr. R.K. Jain. All the members of the Audit Committee are Non-executive Directors out of which three are independent. Mr. T.N. Pandey is the Chairman of Audit Committee. All the members of the Audit Committee have accounting and financial management expertise.

The terms of reference and role of the Audit Committee as revised and stipulated by the Board of Directors from time to time are in conformity and in line with the statutory and regulatory requirements as prescribed under Section 292A of the Companies Act, 1956 and revised Clause 49 of the Listing Agreement, which include the following:

- Overseeing of the Company's financial reporting process and the disclosures of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and if required the replacement or removal of the Statutory Auditor and the fixation of audit fees.
- Approval of payment to Statutory Auditors for any other services rendered by the Statutory Auditors.
- Reviewing, with the Management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report.
  - Changes, if any, in Accounting Policies and practices and reasons for the same.
  - Major accounting entries involving estimates based on the exercise of judgment by Management.
  - Significant adjustments made in the financial statements arising out of audit findings.
  - Compliance with listing and other legal requirements relating to financial statements.
  - Disclosure of any related party transactions.
  - Qualifications in the draft audit report.
- Reviewing with the Management, the quarterly financial statements before submission to the Board for approval.
- Reviewing, with the Management, performance of Statutory and Internal Auditors, adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with Internal Auditors any significant findings and follow up thereon.
- 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.
- Discussion with Statutory Auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.





## FLEX FOODS LIMITED

11. To look into the reasons for substantial defaults in the payments to the depositors, debenture holders, share holders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower Mechanism, in case the same is existing.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

- i) During the year, the Audit Committee met five times on 27.04.2005, 29.06.2005, 27.07.2005, 24.10.2005 & 28.01.2006. The attendance of each Committee Members is as under:

Name of Director	No. of Meetings held	Meetings attended
Mr. T.N. Pandey	5	5
Mr. G.N. Gupta	5	4
Mr. R.K. Jain	5	5
Mr. M.G. Gupta	5	5

- ii) The head of Finance, Internal Auditors and Statutory Auditors are permanent invitees to the Audit Committee Meetings. Further, representatives from various departments of the Company also attend the meetings as and when desired by the members of the Committee to answer and clarify questions raised at the Audit Committee. The Company Secretary acts as the Secretary of the Committee.

### 4. Remuneration Committee

The Remuneration Committee constituted by the Board of Directors presently consists of four members out of which three are Independent Directors and one is Non-Executive Director. Mr. G.N. Gupta is the Chairman and Mr. T.N. Pandey, Mr. M.G. Gupta and Mr. R.K. Jain are the other Members. The Company Secretary acts as the Secretary to the Committee.

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing/Whole-time Directors/Manager based on performance and defined criteria.

Further, the remuneration policy of the Company is to bring about objectivity in determining the remuneration package while striking a balance between the interest of the Company and the Shareholders.

During the year the Remuneration Committee had met once on 24.10.2005. All the Members of the Remuneration Committee were present.

Details of Remuneration paid to Managing/Whole-time Directors/Manager for the year ended 31.03.2006 is given below:

Name	Salary (Rs.)	Perquisites (Rs.)	Commission (Rs.)	Total (Rs.)	Service Contract
Mr. S.K. Kaushik *	4,58,000	4,91,031	-	9,49,031	Resigned
Mr. M.K. Tyaagi	4,25,754	99,182	-	5,24,936	3 Years

\* Shri S.K. Kaushik resigned from the Whole-time Directorship of the Company w.e.f. 1<sup>st</sup> August 2005, however, he continues to be a Director of the Company.

Details of Sitting Fees paid to the Directors during the Financial Year are as follows:

(Figures in Rupees)

Name of Directors	Board Meetings	Committee Meetings	Total
Mr. Ashok Chaturvedi	15000	5000	20000
Mr. T.N. Pandey	25000	40000	65000
Mr. G.N. Gupta	20000	25000	45000
Mr. M.G. Gupta	25000	30000	55000
Mr. R.K. Jain	25000	45000	70000
Mr. S.K. Kaushik	10000	15000	25000

### 5. Shareholders'/Investors' Grievance Committee

The Board of Directors of the Company has constituted a Shareholders'/Investors' Grievance Committee comprising of Mr. T.N. Pandey (Chairman), Mr. R.K. Jain and Mr. S.K. Kaushik. The Committee, *inter-alia*, approves issue of duplicate certificates and oversees & reviews all matters connected with the securities transfers. The Committee also looks into redressal of shareholders'/investors' grievances. The Committee oversees the performance of the Registrar and Transfer Agent and recommends measures for overall improvement in the quality of investor services. The Company Secretary acts as the Secretary to the Committee.

In order to expedite the process of share transfers, the Board of Directors have nominated a Committee of two officers, who normally attend to the transfer and other related matters within a period of 10 – 12 days. The Committee of Officers operates subject to overall supervision and directions of Shareholders'/Investors' Grievance Committee of Directors.

During the year, the Shareholders'/Investors' Grievance Committee had met on 26.08.2005 and 17.03.2006.