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MAFATLAL FINANCE COMPANY LIMITED

**MAFATLAL
FINANCE**

BOARD OF DIRECTORS

SHRI J. A. PATEL
SHRI P. R. MERCHANT (*Ceased w.e.f. 07.07.2003*)
SHRI V. J. QJHA
SHRI R. R. PATEL
SHRI JAGDISH PAI
(*w.e.f. 30.04.2003 Nominee of Debenture Trustee*)

**VICE PRESIDENT - RESOURCES AND
COMPANY SECRETARY**

SHRI K. CHANDRAMOULI

BANKERS

DENA BANK
STATE BANK OF INDIA
CENTRAL BANK OF INDIA
UNION BANK OF INDIA
BANK OF BARODA
BANK OF INDIA
STATE BANK OF INDORE
STATE BANK OF HYDERABAD
DHANALAXMI BANK LTD.
SUMITOMO MITSUI BANKING CORPORATION LTD.
BANK OF PUNJAB LTD.
SOUTH INDIAN BANK LTD.
ICICI BANK LTD.
FEDERAL BANK LTD.
UNITED BANK OF INDIA
ORIENTAL BANK OF COMMERCE

MANAGEMENT TEAM

SHRI J. A. PATEL Chairman
SHRI N. R. DIVATE President & CEO
SHRI K. CHANDRAMOULI Vice President - Resources
& Company Secretary

AUDITORS

C. C. CHOKSHI & CO.
Chartered Accountants

REGISTERED OFFICE

407, DIMPLE ARCADE, ASHA NAGAR,
OFF WESTERN EXPRESS HIGHWAY,
THAKUR COMPLEX,
KANDIVLI (EAST),
MUMBAI - 400 101.

REGISTRARS & SHARE TRANSFER AGENTS

BIG SHARE SERVICES PRIVATE LTD.
E-2, Ansa Industrial Estate,
Saki Vihar Road, Sakinaka,
Andheri (East),
Mumbai 400 072.

**MAFATLAL
SECURITIES**

BOARD OF DIRECTORS

SHRI H.A. MAFATLAL Chairman
SHRI N. R. DIVATE Director
SHRI BIPIN K. GHIYA Director
SHRI P. KARUNAKAR RAO Wholetime Director

AUDITORS

C. C. CHOKSHI & CO.
Chartered Accountants

REGISTERED OFFICE

RUSTOM BUILDING,
4TH FLOOR,
29, VEER NARIMAN ROAD,
MUMBAI - 400 023.

NOTICE

Notice is hereby given that the **SIXTEENTH ANNUAL GENERAL MEETING** of the Members of **MAFATLAL FINANCE COMPANY LIMITED** will be held at A-52 All India Plastic Manufacturers Association, MIDC, Andheri East, Mumbai 400 093 on **Monday, 29th of December, 2003** at 10.00 a.m. to transact the following BUSINESS :

ORDINARY BUSINESS

1. To consider and adopt the Audited Profit and Loss Account for the year ended March 31, 2003 and the Balance Sheet as at that date and the Reports of Directors and the Auditors thereon.
2. To appoint a Director in place of Mr. Jagdish A. Patel who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Vinod Ojha who retires by rotation, and being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and fix their remuneration.

SPECIAL BUSINESS

De-listing of shares on Stock Exchanges

5. To consider, and if thought fit, to pass with or without modification/s, the following resolution as a Special Resolution :-

"RESOLVED THAT pursuant to the Clause 5.1 of the Securities & Exchange Board of India (delisting of securities) guidelines 2003 and other applicable provisions if any, of the Companies Act, 1956, the consent of the company be and is hereby given for delisting of the equity shares (voluntarily) of the company from the Delhi Stock Exchange Association Limited, The Stock Exchange, Ahmedabad and The National Stock Exchange of India Limited."

By Order of the Board
For MAFATLAL FINANCE COMPANY LIMITED

K. CHANDRAMOULI
Company Secretary

Registered Office:

407 Dimple Arcade, Asha Nagar
 Off. Western Express Highway
 Thakur Complex, Kandivli (East)
 Mumbai 400 101

Date : 21st November, 2003

NOTES :

- a) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THAT A PROXY NEED NOT BE A MEMBER.
- b) The proxy form duly completed and signed by the shareholder should be deposited at the registered office of the company atleast 48 hours before the commencement of the meeting.
- c) The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, 22nd December, 2003 to Wednesday, 24th December, 2003 (both days inclusive).
- d) Members are requested to notify any change in their address to the Company's Registrars & Transfer Agents, M/s. Big Share Services Pvt. Ltd., E-2 Ansa Industrial Estate, Sakivihar Road, Sakinaka, Andheri (E), Mumbai 400 072, quoting their folio nos. immediately, so as to ensure that all communications / reports reach the Members promptly.
- e) Shareholders seeking any information with regard to the Accounts of the Company are requested to write to the Company at an early date so as to enable the Management to keep the information ready.
- f) The Explanatory Statement pursuant to sections 173 (2) of the Companies Act, 1956, in respect to Item No. 2, 3 & 5 mentioned in the above Notice is annexed hereto.

ANNEXURE TO THE NOTICE

Notes on directors seeking appointment/re-appointment as required under Clause 49 of the Listing Agreement entered into with Stock Exchanges.

PROFILE OF DIRECTORS BEING APPOINTED/RE-APPOINTED

ITEM NO. 2

Name : Jagdish A Patel
 Age : 61 years
 Qualifications : Chartered Accountant
 Experience : 30 years experience in corporate finance and internal audit.
 His Directorships and Committee Memberships of other Companies are as follows:

Company	Position	Committee Membership
Eye Global.Com India Pvt. Ltd.	Director	—
Gayatri Pestichem Mfg. Pvt. Ltd.	Director	—
Pamil Investments Ltd.	Director	—
Suremi Investments Ltd.	Director	—
Sumangala Investments Pvt. Ltd.	Director	—

ITEM NO. 3

Name : Vinod Ojha
 Age : 65 years
 Qualifications : Chartered Accountant
 Experience : 34 years experience in corporate finance, internal audit and sales.

His Directorships and Committee Memberships of other Companies is NIL

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

For Item No. 5

The company's equity shares are presently listed in The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE), The Delhi Stock Exchange Association Limited and The Ahmedabad Stock Exchange. As per Clause 5.1 of the Securities & Exchange Board of India (delisting of securities) guidelines 2003, a company is permitted to voluntarily delist the equity shares subject to the following conditions:

- (a) The securities of the company have been listed for a minimum period of 3 years in any Stock Exchange.
- (b) Obtain approval of shareholders by way of a special resolution.
- (c) An exit opportunity has been given to the investors. The guidelines further provided with an exit opportunity need not be given in case where the securities continue to be listed in Stock Exchanges having nation-wide terminals (namely NSE/BSE).

The company's equity shares have been listed for 3 years and accordingly the company is entitled to seek voluntary delisting subject to approval of the shareholders. Hence the proposed resolution seeking approval of the shares holders.

None of the Directors of the Company are interested in this Resolution.

Your Directors recommend all the above resolutions for your approval.

By Order of the Board
For MAFATLAL FINANCE COMPANY LIMITED

K. CHANDRAMOULI
Company Secretary

Registered Office:

407 Dimple Arcade, Asha Nagar
 Off. Western Express Highway
 Thakur Complex, Kandivli (East)
 Mumbai 400 101

Date : 21st November, 2003

Annual Report 2002-2003

DIRECTORS' REPORT

To,
The Members

Maafatal Finance Company Limited

Your Directors present the Sixteenth Annual Report with the Audited Statement of Accounts of the Company for the year ended 31st March 2003.

1. FINANCIAL RESULTS

The Financial results of the company for the year under review as compared to the previous year are summarised below for your consideration:

	Year ended 31.03.2003 (Rs. in lacs)	Year ended 31.03.2002 (Rs. in lacs)
Gross Income	350.11	1380.75
Gross Profit / (Loss) before depreciation and Income tax	(4777.85)	(4513.16)
Depreciation	119.06	926.26
Provision for Tax	—	—
Net Loss After Tax	(4896.91)	(5439.42)
Add : Amount brought forward from previous year	(19727.60)	(14288.18)
Amount available for appropriation	—	—
Transferred to Debenture Redemption Reserve	—	—
Transferred to Statutory Reserve under RBI Act	—	—
Balance carried forward	(24624.51)	(19727.60)

2. OPERATIONS

The financial year 2002-2003 has ended with the Company declaring a loss of Rs. 4896.91 lacs.

The focus of the Company continues to be that of reducing its liabilities, controlling costs of operations and maximising receivable collections from assets deployed in the previous years. While the Company has been gradually winding down its Balance Sheet size, it has also simultaneously focused its role as a service provider as a new business opportunity. During the year under review, the Company has suffered a loss (after provision) of Rs. 48.97 crores mainly on account of the requirement of provisions and interest charges to the banks. Most of the non-performing assets have been fully provided. The company has also aggressively pursued its recovery and instituted a number of legal cases although the expected amount of recovery from the above actions are uncertain and also have a bearing on the costs on account of the statutory fees payable.

The company is in dialogue with its bankers and financial institutions to work out one time negotiated settlements but under the current situation, the progress has been slow. The extent of reliefs and concessions which are currently being discussed if it is finally arrived as a basis of settlement shall be more than sufficient to cover the under provisioning and shall also substantially reduce the accumulated losses.

3. LITIGATIONS AGAINST THE COMPANY

Most of the banks have initiated litigation under Debt Recovery Tribunal for recovery of their dues. Bank of Baroda has since obtained a decree against the company and the company is in the process of filing an appeal. The company had entered into an understanding in the winding up petition filed by Union Bank of India which terms however, the company could not carry through as regards the last instalment payment although it complied with the same in the first two years.

The debenture trustees have filed a civil suit in the Honourable Mumbai High Court for recovery of the dues under the various debentures issued by the company and the company is seeking appropriate directions from the Court. In this regard, the company had held meeting of the holders of public issue of debentures and certain resolutions have been passed. In addition, there are certain cases filed under the Consumer Courts and other Civil Courts for recovery of dues and the same are being attended to.

The company is also contesting a disputed demand of income tax in the Income Tax Appellate Tribunal, Mumbai in respect of certain demands of income tax and interest tax on account of disallowance of depreciation by the department.

4. REJECTION OF COMPANY'S APPLICATION AS AN NBFC

The Company's application for registration as a non banking finance company made in the year 1998 was rejected by the Reserve Bank of India on 24/10/2002 mainly on account of erosion of network. After the finalisation of the various settlement proposals, the company expects that its network would become positive and also shall be upto the level required under the guidelines for registration and your company shall then consider approaching RBI for fresh registration, if necessary.

5. COMMENTS ON AUDITOR'S OBSERVATIONS & MANAGEMENT'S RESPONSES

The qualification of the auditors can be broadly classified into the following:

- Under provisioning for bad and doubtful debts.

- Reconciliation differences in respect of fixed deposits, fixed assets, debentures and certain other assets and liabilities including updation of secretarial records.
- The company's capacity to continue as on ongoing concern due to the rejection of its application for registration.
- Non receipt of confirmations from banks, debtors etc.
- Provisioning in respect of interest payable in respect of certain borrowings.
- Inadequate documentation in respect of certain lendings.

RESPONSE OF THE MANAGEMENT:

The management is of the view that having regard to the totality of the reconstruction envisaged including substantial remission in the liabilities and the fact that the underlying securities are likely to provide necessary realisations, further provisioning of the impaired asset may be considered later. Similarly, the reduced/non-provisioning of certain financial outlays as quantified by the auditors are with reference to those where the management is of the opinion that such liabilities may not eventually fall or shall become due and payable.

Reconciliation differences in respect of fixed deposits are exactly not quantifiable in view of the fact that the outstanding dues as per books are not supported with adequate validation. Further, the outstanding recoverable balance in the fixed deposit repayment account exceeds the value of fixed deposit outstanding. Attempt to reconcile the fixed deposits is likely to be time consuming and cost ineffective. Reconciliation of fixed assets and other balances are being undertaken. Due to frequent changes in staff members, certain secretarial records need updation and are being attended to.

The rejection of the application for registration, no doubt inhibits the operation as a non-banking finance company. But taking into account the fact that the anticipated restructuring programme, the management is of the opinion that the company's network shall become positive and fresh process can be initiated either under the non banking finance company's regulations or under the provisions of the Companies Act, 1956.

The company shall forward letters of confirmation to banks, creditors, debtors, debenture holders and others only to the extent it does not affect the litigations filed for or against the company as the company shall be exposed to risk of acknowledgements detrimental to its interest.

There are certain liabilities, which the company had contracted at certain prescribed rates of interest. The management is of the view that having regard to the various factors, it is unlikely that the company shall be required to pay any interest and accordingly the same have not been provided. The management is also of the opinion that there should be no further liability in this regard.

In respect of the comments regarding certain lendings, the documentation in respect of which is yet incomplete shall require assessment of the amounts actually due and payable on account of certain contra obligations and hence shall be completed after assessment of the same.

6. PUBLIC FIXED DEPOSITS

Subsequent to the rejection by RBI of the company's application for registration, the company has secured the entire unclaimed deposit of Rs. 19.12 lacs covering 171 cases and the company has taken steps to become a non-public deposit taking company.

7. MAFATAL SECURITIES LIMITED (MSL) - SUBSIDIARY COMPANY

The Company has posted a net profit of Rs. 8.85 lacs for the financial year ended 31st March, 2003, after writing off Rs. 6.85 lacs towards bad debts. Notwithstanding the present adverse conditions in stock market, the Subsidiary Company is exploring various options to fare better in the current financial year. Statement pursuant to Section 212 of the Companies Act, 1956 in respect of Maafatal Securities Limited are separately given in this Report.

8. OUTLOOK

The outlook continues to be uncertain in view of the slow process of recovery and difficulties arising out of borrowers taking shelter under the provisions of sick companies. The focus of the company however is to control cost and enhance the recovery by aggressive follow up.

In addition, the future visibility is to a significant extent clouded in view of the numerous litigations filed against the company and the possibility of the winding up process initiated coupled with disputed tax liabilities striking at the root of the very existence of the company. Efforts however are continuously on to mitigate these eventualities through a continuous process of dialogues and deliberations and having regard to the circumstances the current year shall be the year of reckoning for the company besides defending itself appropriately.

9. ACTION UNDERTAKEN BY SEBI AGAINST THE COMPANY

SEBI in May 2003 had forwarded a list of investor grievances unattended by the company with directions to resolve the same within one month, most of which related to the non-payment of redemption of debentures. Though the company has since attended the said grievances as per the revised terms approved by the debenture holders, SEBI in its own judgement has indicated imposition of penalty which shall be appropriately responded as

and when received. Adjudication proceedings have commenced and are being appropriately responded. The company has also suitably secured the repayment obligations of the debenture holders as per the revised terms.

10. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGOING

The Company is not engaged in manufacturing activities therefore there is no information to submit in respect of conservation of energy and absorption of technology.

Foreign exchange earnings : Nil ; Foreign exchange outgoings : Nil

11. DIRECTORATE

Mr. P.R. Merchant resigned from the Board of Directors with effect from 07/07/2003. The Board of Directors would like to record their appreciation of the services rendered by aforesaid director.

In accordance with the provision of the Articles of Association of your company, Mr. Vinod J. Ojha & Mr. Jagdish A. Patel are retiring by rotation and being eligible, have offered themselves for reappointment. The Board of Directors recommends their reappointment. Mr. Jagdish Pai has been nominated by Bank of India, Trustees for debenture holders w.e.f. 30.04.2003.

12. DEPOSITORIES

Effective October 30, 2000, the equity shares of your Company have been mandated by Securities and Exchange Board of India for delivery only in dematerialised form for all investors.

Your Company has already entered into arrangements with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) for custody and dematerialisation of shares in accordance with the Depositories Act, 1996.

13. PARTICULARS OF EMPLOYEES

There are no employees in the company attracting the requirements of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

14. DELISTING OF SHARES FROM STOCK EXCHANGES AT AHMEDABAD & DELHI

Due to low trading volumes, the company proposes to Delist its shares from The Delhi Stock Exchange Association Limited, The Ahmedabad Stock Exchange and The National Stock Exchange of India Limited.

15. DIRECTOR'S RESPONSIBILITY STATEMENT

As required under section 217 (2AA) of the Companies Act, 1956, the Directors hereby confirm that :

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the Directors had 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 the end of the financial year and of the loss of the Company for the period;
- the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the Directors had prepared the annual accounts on a going concern basis notwithstanding the rejection of the company's application for registration by RBI and complete erosion of networth on account of the anticipated restructuring process.

16. CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, management discussion analysis, and corporate governance report are made a part of the annual report.

17. AUDITORS

The Company's Auditors M/s. C.C. Chokshi & Co., Chartered Accountants retire at the ensuing Annual General Meeting. They being eligible have given their consent to act as Auditors of the Company if reappointed. Members are requested to consider their reappointment as Auditors of the Company for the current year and fix their remuneration.

18. ACKNOWLEDGEMENTS

Your Directors wish to thank and place on record their appreciation of the valuable support given by Company's Customers, Shareholders, Bankers, Deposit holders, Financial Institutions, Mutual Funds and Debentureholders.

The Directors would also like to thank the employees for their contribution in Company's operation.

For and on behalf of the Board

J. A. PATEL
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

The company was primarily in the business of financial services. The company's application for registration as an NBFC has been rejected by RBI mainly on account of erosion of networth due to which, further operations as a NBFC is currently not possible.

There has been a major upheaval in the NBFC industry with most of the NBFCs's witting under the onslaught credibility of investor confidence with the weaker ones unable to bear the brunt and the balance surviving either by transfer of ownership or amalgamations or weathering the storm by strong deterrence. There were serious mismatches in tenure of assets and liability and large number of defaults. Added to the discomfiture, were the claims by the Income Tax Department by disallowance of depreciation and consequent raising of disputed income tax.

Your company's management as a first measure of survival withdrew its lending operation and addressed the issue of payment of fixed deposits. It's a matter of satisfaction that fixed deposits have been fully paid and adequately secured. Your company's management is continuously focussing its energies in a amicable settlement of the liabilities thereby enhancing the shareholders value and also put the company in a path of recovery and carry on activities in an orderly manner. Based on the event which are unfolding, your company's management is of the opinion that the current financial year would be very crucial and in all probability a year of reckoning for the turn of events in a satisfactory manner would lead the company to the path of survival.

FINANCIAL REVIEW

As the company discontinued its leading operations, most of the revenues arose from past lending and disbursements. The company's income was Rs. 350.11 lacs and loss was Rs. 4896.91 lacs.

Income from operations contracted by 72.88% due to winding down of the operations. The company continued to make losses after provision of interest. During the year the company written off / provided Rs. 2331.57 lacs towards bad and doubtful debts and diminution in the value of investments.

BUSINESS ANALYSIS OUTLOOK

Financial services as a business priority is no longer applicable to the company in view of the rejection of the application for registration by RBI. Even assuming the availability of such opportunities, it is unlikely that the management shall pursue the same due to poor operating margins. The company would now be focusing on fee based activities and shall undertake activities of a service provider for various banks/insurance companies etc.

The company had been acting as a sales associate to banks and has plans to pursue aggressively, stock broking activities through its subsidiary. The company also has plans to engage itself in insurance agency business and also undertake real estate development, should any need arise.

RISK AND CONCERNS

The company faces the following trends and risks:

- Risk associated with rejection by RBI, its application for registration as NBFC and thereby impinging on the company's core area of operations.
- Results of the litigations filed against by the company by banks, debenture holders, financial institutions and other creditors.
- Risk of the company saddled with further liability of the disputed amount of income and interest tax, should the company's appeal in the tribunal fail.
- Risk of winding up on account of the petitions filed against the company.
- Contingent risks which the company is not currently facing but may be exposed off.

Your company's management has been proactively dealing with each of the above risk and has been in continuous dialogue. Although initial indications available give a fair level of confidence that the company shall overcome the same, the numerality of litigation is a big challenge. The company is confident that notwithstanding the non-conducive environmental conditions, it shall be in a position to come through present difficult conditions unscathed.

INTERNAL CONTROL AND THEIR ADEQUACY

The company has appropriate and adequate internal control system which are sufficient for the level of activities carried by it. The internal audit is being carried out by an external firm of Chartered Accountants and their findings are reviewed at reasonable intervals. The Board is of the opinion that the internal control system is adequate to size of the Company's business.

The company has fully computerised and integrated financial and accounting function.

INDUSTRIAL RELATIONS

The Company as on 31.03.2003 has 35 employees on its payroll. The relationship where cordial and the Company had performance based incentive scheme for all its officer cadres.

CAUTIONARY STATEMENTS

Statement in the Management Discussion and Analysis describing the Company's position and expectations may be "forward looking statements" within the meaning of applicable securities laws and regulation. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting demand/supply and price conditions in the market in which the Company operates, changes in the Government Regulations, tax laws and other statutes and incidental factors.

Place : Mumbai

Date : 21st November, 2003

Annual Report 2002-2003

CORPORATE GOVERNANCE REPORT

The detailed report on corporate governance as per the format prescribed by SEBI and incorporated in Clause 49 of the Listing Agreement is set out below:

1. CORPORATE GOVERNANCE PHILOSOPHY

The philosophy of Corporate Governance is aimed at assisting the top management of the Company in the efficient conduct of its business and in meeting its obligations to its shareholders.

2. BOARD OF DIRECTORS

(a) Composition and Category of Directors

The Company has a non-executive Chairman and the numbers of independent directors are more than one-third of the number of directors. The numbers of non-executive directors are more than 50% of the total number of Directors.

(b) Attendance of each Director at the Board of Director's Meetings held during 2002-2003 and the last Annual General Meeting is as follows

Director	No. of Meetings held	Attended	Last Annual General Meeting Attended (Held on 26/09/2002)
Mr. J.A. Patel	4	4	Attended
Mr. R.R. Patel	4	3	Attended
Mr. P.R. Merchant	4	4	
Mr. Vinod Ojha	4	3	

(c) Details of Directorships/Committee Memberships held by the existing Directors in other companies are given hereunder:

Name of the Director	Category	Directorships held in other Companies		Committee Memberships held in other Companies	
		As Director	As Chairman	As Member	As Chairman
Mr. J.A. Patel	Not Independent, Non-Executive	5	Nil	Nil	Nil
* Mr. R.R. Patel	Not Independent, Non-Executive	Nil	Nil	Nil	Nil
** Mr. P.R. Merchant	Independent, Non-Executive	Nil	Nil	Nil	Nil
Mr. Vinod Ojha	Independent, Non-Executive	Nil	Nil	Nil	Nil
*** Mr. Jagdish Pai	Independent, Nominee Director	1	Nil	Nil	Nil

* Independent director till 07/07/2003.

** Resigned with effect from 07/07/2003.

*** Mr. Jagdish Pai is appointed as an Additional Director with effect from 30/4/2003 as a nominee director for the debenture holders as per Section 15(M) of SEBI (Debenture Trustees) regulations 1993 in conjunction with the provisions of the Trust Deed.

(d) Number of Board Meetings held and the dates on which held:

Four Board Meetings were held during the year 2002-2003. The dates on which meetings were held were as follows:

27th June 2002, 30th July 2002, 22nd October 2002 and 31st January 2003.

3. AUDIT COMMITTEE

Mr. Vinod Ojha	...	Chairman
Mr. R.R. Patel*	...	Director
Mr. J.A. Patel	...	Director (Inducted w.e.f. 31.10.2003)
Mr. N.R. Divale	...	President & Chief Executive Officer

* Mr. R.R. Patel ceased to be the Chairman of the Audit Committee w.e.f. 30th July 2003.

The terms of reference stipulated by the Board to the Audit Committee, as contained in Clause 49 of the Listing Agreement as well as Section 292A of the Companies Act, 1956 are as follows:

(a) To over see of the Company's financial reporting process and the disclosure of its financial information.

(b) Recommending the appointment/removal of external auditor, internal auditor and branch auditors and fixing of audit fees.

(c) Reviewing with management the annual financial statements before submission to the board, focussing primarily on:

- Any changes in accounting policies and practices.
- Major accounting entries based on exercise of judgement by management.
- Qualifications in draft audit report.
- Significant adjustments arising out of audit.
- The going concern assumption.
- Compliance with accounting standards.
- Compliance with Stock Exchange and legal requirements concerning financial statements.

(d) Reviewing the adequacy of Internal Audit, reporting structure coverage and frequency of Internal Audit.

(e) Reviewing the finding of any Internal Investigation 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.

(f) Reviewing the Company's financial and risk management policies.

Three meetings were held (30th July 2002, 22nd October 2002 and 31st January 2003). The attendance for the said meetings is as follows:

Name of the Director	Category	Attendance Particulars
Mr. R.R. Patel	Chairman	3
Mr. P.R. Merchant	Director	3
Mr. Vinod Ojha	Director	2

4. REMUNERATION OF DIRECTORS

The company does not have formal Remuneration Committee. No remuneration is paid to Non-Executive Directors including sitting fees for attending the meetings of the Board of Directors or Committees thereof.

5. SHARE/DEBENTURE TRANSFER-CUM-INVESTOR'S GRIEVANCE COMMITTEE

The company has a Share/Debtenture Transfer Committee, constituting the following members:

Mr. R.R. Patel	...	Chairman
Mr. P. R. Merchant	...	Director *
Mr. Vinod Ojha	...	Director **
Mr. J.A. Patel	...	Director **
Mr. N.R. Divate	...	President & Chief Executive Officer

* (Resigned with effect from 07/07/2003)

** (Inducted with effect from 07/07/2003)

The Committee oversees and approves transfer/transmission of equity shares and debentures. The Committee also oversees complaints received from investors for appropriate redressal. The minutes of the Committee meetings are placed at the Board Meetings from time to time. The Board has designated Mr. K. Chandramouli, Vice President & Secretary of the company as the Compliance Officer. All valid shares transfers received during the year have been acted upon.

Complaint Status: 01/04/2002 to 31/03/2003

Number of shareholder's complaints received so far	: 490
Number of complaints solved	: 450
Number of pending complaints	: 40

The company had received a list of 412 pending complaints from SEBI vide its letter dated 29th April, 2003 consisting mostly of redemption of debentures and 372 complaints have been redressed till 07/10/2003. For the balance 40 complaints the 38 are unresolved because of insufficient details provided and 2 are sub-judice and shall be resolved on disposal by the judicial authorities. SEBI has however commenced adjudication for imposition of penalty on 29th August, 2003 for failure to redress the aforesaid grievances within 30 days from the date of original order, as per Section 4(3) of SEBI (Procedure for holding inquiry and imposing penalties by Adjudication Officer) Rules, 1995.

One meeting was held on 31st January 2003. Three members were present for the meeting.

6. DIRECTORS

Mr. Jagdish A. Patel and Mr. Vinod Ojha, Directors of the company are retiring by rotation at the ensuing Annual General Meeting. Mr. Jagdish Pai has been nominated as a Nominee Director by Bank of India, Trustees for debenture holders. The brief resume of the above directors are as under:

Name of Director	Mr. Jagdish A. Patel	Mr. Vinod J. Ojha	Mr. Jagdish Pai
Date of Birth	17.01.1942	01.01.1938	30.06.1951
Date of original Appointment	08.06.2001	08.06.2001	30.04.2003
Expertise in specific functional areas	Financial Management Practising Chartered Accountant	Financial Matters Practising Chartered Accountant	Banking
List of public limited Companies in which the person holds the directorship	Mafatlal Finance Co. Ltd. Eye Global.Com India Pvt. Ltd. Gayatri Pesticides Mfg. Pvt. Ltd., Pamil Investments Ltd. Suremi Investments Ltd. and Sumangala Investments Pvt. Ltd.	Nil	Graham Firth Steel Products of India Ltd.

7. GENERAL BODY MEETINGS

Venue and time where the last three Annual General Meetings were held are given below:

Date	Venue	Time
18 th August, 2000	M.C. Ghia Hall, Bhogilal Hargovindas Building, 18/20, K. Dubash Marg, Fort, Mumbai 400 001.	4.00 P.M.
21 st December, 2001	"Sasmira", Sasmira Marg, Worli, Mumbai 400 025.	4.00 P.M.
26 th September, 2002	Babasaheb Dahanukar Sabhagriha, Maharashtra Chambers of Commerce & Industry, Orion House, 12 K. Dubhash Marg, Fort, Mumbai 400 001.	2.30 P.M.

There were no special resolutions passed by the company through postal ballots in any of the above meetings. In the ensuing Annual General Meeting, there is no resolution required to be passed through postal ballot.

8. DISCLOSURES

(a) The details of related party transaction are given in Point 18 of the notes to the account.

(b) The company's shares were suspended from trading by NSE since 03/09/2001 and BSE since December 2002 on account of failure of the company to redress the complaints of investors relating to redemption of public issue of non convertible debentures. SEBI had issued a notice of adjudication for its failure to redress the investor grievances and non-compliance of the provisions of corporate governance under Clause 49 V of the Listing Agreement, which have been responded. There are no other penalties or strictures by any other authority during the last three years on any matter relating to capital market.

9. MEANS OF COMMUNICATION

- | | |
|---|--|
| a) Half-yearly Report sent to each household of shareholders | : No |
| b) Quarterly Results | : Quarterly results are taken on record by the Board of Directors and submitted to the Stock Exchanges as per the requirements of the Listing Agreement. |
| * In which newspapers normally published in | : Navshakti and Free Press Journal |
| * Websites where displaced | : No |
| * Whether it also displays official news releases and presentations made to institutional investors/analysis. | : No |
| c) Whether Management Discussions and Analysis is a part of the Annual Report | : Yes |

10. GENERAL SHAREHOLDER INFORMATION

10.1 Annual General Meeting

Date, Time & Venue : Monday, 28th of December, 2003 at 10.00 a.m. at A-52 All India Plastic Manufacturers Association, MIDC, Andheri (East), Mumbai 400 093

10.2 Financial Calendar(2003-2004) (tentative)

Quarterly Results	
Quarter ending June 30, 2003	: Last week of July 2003
Quarter ending September 30, 2003	: Last week of October 2003
Quarter ending December 31, 2003	: Last week of January 2004
Quarter ending March 31, 2004	: Last week of April 2004

10.3 Book Closure date(s) : Between Monday, 22nd December, 2003 to Wednesday, 24th December, 2003 (both days inclusive)

10.4 Dividend payment date(s) : Not applicable

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- 10.5 Listing of Equity shares/debentures on Stock Exchanges : The Stock Exchange, Mumbai (BSE)
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.
National Stock Exchange of India Ltd.(NSE), Exchange Plaza C-1 Block G, Bandra Kurla Complex, Bandra (E), Mumbai 400 051
The company's shares were also listed in the Ahmedabad Stock Exchange and Delhi Stock Exchange.
The company has not paid the listing fees for any of the Stock Exchanges for the financial year 2003-04 and to the National Stock Exchange of India Ltd., Ahmedabad Stock Exchange & Delhi Stock Exchange for the year 2002-2003 also. The company's shares are currently suspended for trading in both the Exchanges namely BSE and NSE.

- 10.6 Stock Code
Physical Segment — BSE : 262
Demat Segment — BSE : INE965b01014

10.7 Market Price Data:

Monthly high and low quotations of shares and Volume of Equity Shares traded on the Stock Exchange, Mumbai (BSE) is as follows.

There were no trading in the National Stock Exchange of India Ltd. (NSE) as the shares of the company were suspended for trading with effect from 3/9/2001.

Month	April, 2002	May, 2002	June, 2002	July, 2002	Aug., 2002	Sept., 2002	Oct., 2002	Nov., 2002	Dec., 2002	Jan, 2003	Feb., 2003	March, 2003
High (Rs.)	1.55	2.10	3.50	3.65	1.95	1.45	1.30	1.40	1.60	-	-	-
Low (Rs.)	0.60	0.95	1.20	1.30	1.20	1.05	0.90	0.95	0.80	-	-	-

- 10.8 Registrar & Transfer Agents : M/s. Big Share Services Private Ltd.
E-2, Ansa Industrial Estate, Saki Vihar Road, Saki Naka, Andheri (East), Mumbai - 400 072
Tel: 28523474/28560652 Fax: 08525207

- 10.9 Share & Transfer agents (for Electronic Transfers) : M/s. Big Share Services Private Ltd.
E-2, Ansa Industrial Estate, Saki Vihar Road, Saki Naka, Andheri (East), Mumbai - 400 072
Tel: 28523474/28560652 Fax: 08525207

10.10 (a) Distribution of Shareholding as on 31st March, 2003

No. of Equity Shares held (Rs.)	No. of Shareholders	% of Shareholders	No. of Shares held	% of Shareholding
Upto - 5000	51,289	95.97	58,76,167	14.73
5001 - 10000	890	1.85	8,38,527	2.10
10001 - 20000	512	0.96	7,90,316	1.98
20001 - 30000	182	0.34	4,73,555	1.19
30001 - 40000	97	0.18	3,51,721	0.88
40001 - 50000	83	0.16	3,94,851	0.99
50001 - 100000	153	0.29	11,14,571	2.79
100001 and above	137	0.26	3,00,41,992	75.34
GRAND TOTAL	53,443	100.00	3,98,81,700	100.00

(b) Category of Shareholding as on 31st March, 2003

Sr. No.	Category	Shareholding	Percentage
1.	Promoters	1,59,20,000	39.92
2.	Financial Institutions & Nationalised Banks	91,10,253	22.84
3.	Bodies Corporate	15,96,944	4.00
4.	Directors & their relatives	2,400	0.01
5.	Non-Resident Individuals	33,200	0.08
6.	General Public	1,32,18,903	33.15
TOTAL		3,98,81,700	100.00

- 10.11 Dematerialisation of shares : The Company has arrangements with NSDL and CDSL for demat facility.
30.89% of the total equity shares is held in dematerialised form with NSDL and CDSL as at 31st March 2003.
Members can hold shares in electronic forms and trade the same in Depository system. However, they may hold the same in physical form also.
- 10.12 Outstanding GDRs/ADRs/Warrants or any Convertible Instruments. Conversion date and likely impact on equity. : NIL
- 10.13 Registered Office & Address for Correspondence : 407 Dimple Arcade, Asha Nagar, Off Western Express Highway, Thakur Complex, Kandivli (East), Mumbai 400 101

AUDITOR'S CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT (S)

To the Members of
Mafatlal Finance Company Ltd.

We have examined the compliance of the conditions of Corporate Governance by Mafatlal Finance Company Ltd. for the year ended 31st March 2003 as stipulated in clause 49 of the Listing agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company.

In our opinion and to the best of our information and explanation given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

The Company has in addition to non-executive director also nominated the President and CEO, who is not a director, to be the member of the Audit Committee and Investors Grievance Committee.

We have been informed that 412 investor grievances from debenture holders were pending for a period exceeding one month against the company as per list received from SEBI vide its letter dated 29th April 2003 and that 372 grievances have been subsequently redressed by the company. Adjudication proceedings have been commenced by SEBI for imposition of penalty.

Subject to above, as required by the Guidance Note issued by The Institute of Chartered Accountants of India, we have to state that no investor grievance is pending for a period exceeding one month against the Company as confirmed by the Registrar and Transfer Agent, as per the records maintained by the Investors Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For, C.C.Chokshi & Co.
Chartered Accountants

R.Salivati
Partner

Place : Mumbai
Dated : 21st November, 2003.

AUDITORS' REPORT TO THE SHAREHOLDERS OF MAFATLAL FINANCE COMPANY LIMITED

1. We have audited the attached Balance Sheet of **MAFATLAL FINANCE COMPANY LIMITED**, as at 31st March 2003, and also the Profit and Loss Account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit:
 2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
 3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Central Government in terms of Section 227 (4A) of the Companies Act, 1956, we give in the Annexure a Statement on the matters specified in paragraphs 4 and 5 of the said Order.
 4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books; except for non-provision of interest expense of Rs.21,88,69,857/- (including Rs. 5,02,71,750/- for the year) and non provision of leave encashment of an unascertained amount as explained in the Note No. 9(b), 13(a), 13(b) and 17 of Schedule 17.
 - c) The Balance Sheet, Profit and Loss Account and Cash flow statement dealt with by this Report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash flow statement comply with accounting standards referred to in sub-section 3 (c) of Section 211 of the Companies Act, 1956 subject to Note Nos. 9(b), 13(a), 13(b) and 17 of Schedule 17 for non-provisioning of interest of Rs.21,88,69,857/- (including Rs. 5,02,71,750/- for the year) on borrowings and non provision of an unascertained amount for leave encashment, which is not in compliance with Accounting Standard - 1.
 - e) On the basis of written representations received from the Directors as on 31st March 2003, and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on 31st March 2003, from being appointed as a Director in terms of Clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 by virtue of being a Director in any other public company. The Company has failed to redeem its debentures as on 31st March 2003. Accordingly the directors are disqualified from being reappointed as director or being appointed as director in another company.
- f) **Attention is invited to the following notes in Schedule No. 17:**
 - i. Note No.2 (b) regarding managerial remuneration of Rs.11,29,000/- subject to approval from Central Government.
 - ii Note No.5 (a) regarding the unreconciled difference of Rs. 4,16,67,000/- between public deposit as per General ledger and as per subsidiary register and the provision of interest on the lower balance. The impact of the reconciliation on the accounts is not ascertainable at present.
 - iii Note No.5 (b)(i) regarding depositing of fixed depositors' balances in escrow account on the basis of subsidiary register which is under reconciliation with the general ledger.
 - iv Note No. 5(b)(ii) regarding non submission of certain returns and other non compliances required by Reserve Bank vide its letter dated 24th October, 2002 rejecting application for registration as NBFC, as well as under NBFC Directions as explained in the note.
 - v Note No.6 (b) regarding the unprovided diminution of Rs. 5,06,54,109/- in investment in equity shares of NOCIL including share of diminution in the market value of equity shares held by a partnership firm where Company is the partner. We are unable to express an opinion on the shortfall likely on realisation of these investments.
 - vi Note No.8 regarding treatment of difference of Issue Price and Redemption Value of Deep Discount Debentures resulting in lower charge of Rs.6,50,933/-. Consequently loss for the year is lower by Rs. 6,50,933/- and accumulated losses are lower by Rs.12,34,24,110/-.
 - vii Note No.9 (a) regarding loans of Rs.20,65,69,717/- given to two companies in 1995-96. As against the provision of Rs.20,65,69,717/- required to be made as per the prudential norms, the Company has made provision of Rs.18,69,95,797/-. Consequently there is under-provisioning of Rs. 1,95,73,920/- and loss for the year is lower by Rs. 1,95,73,920/- and loans & advances to Companies are higher by the like amount.
 - viii Note No.9 (b) for non- provisioning of interest on ICD taken from a company for reasons stated in the note. Consequently loss for the year is understated by Rs. 3,69,28,000/-, and debit balance of profit and loss account in the balance sheet as well as current liabilities are understated by Rs. 14,78,13,173/- each.

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- ix Note No.10 regarding short provision of Rs. 9,24,90,000/- as per RBI prudential norms. Consequently loss for the year is under-stated by Rs. 9,24,90,000/- and current assets and loans and advances are over-stated by the same amount.
- x Note no. 11(a) regarding Balance of advance of Rs. 5,20,48,402/- made to two companies in connection with the scheme for redemption of the company's debentures. In view of the erosion of the net worth of the two companies we are unable to express an opinion on the short fall if any in realisation / adjustment of these balances.
- xi Note no. 11(b) regarding opinion of legal counsel awaited in respect of the arrangement made with the two companies in connection with the scheme of redemption for debentures.
- xii Note No.12 regarding statement of accounts / confirmations awaited for balances of secured loans from banks, financial institutions and current accounts with banks and reconciliation pending for several current accounts with banks including in some cases for past several years. Necessary adjustment to interest expense & other accounts would be effected on reconciliation of the balances.
- xiii Note No. 13(a) and 13(b) regarding non provisioning of interest of Rs. 7,10,56,684/- on some debentures /ICDs for the reasons explained in the note. Consequently, loss for the year, debit balance in the profit and loss account and current liabilities are understated by Rs.1,33,437,450/-, Rs.7,10,56,684/ and Rs.7,10,56,684/- respectively.
- xiv Note No. 13 (c) regarding non provision for penal interest (amount unascertained) on cash credit from banks and term loans from financial institutions.
- xv Note No.17 regarding non-provision for liability of leave encashment resulting in loss for the year and debit balance in profit and loss account being lower by an unascertained amounts.
- xvi Note No.18 regarding non-receipt of confirmation from debtors and creditors in the majority of the cases and accordingly these accounts being subject to adjustments if any.
- xvii Note No.19 regarding secretarial records under updation
- xviii Note No.20 regarding non-transfer of balances amounting to Rs. 16,02,500/- to the Investor Education and Protection Fund as required by Section 205 C of the Companies Act, 1956.
- xix Note No. 21 regarding non-compliance with the capital adequacy ratio prescribed as per regulation 10 of the Non-Banking Financial Companies Prudential norms (Reserve Bank) Directions, 1998 as amended from time to time.

- xx Note No.22 regarding accounts being prepared on going concern basis. In view of the continued losses for the year and the substantial negative net worth of Rs. 146,39,11,628/-, (Rs. 179,48,45,004/- if our qualifications are considered, excluding items, the impact of which could not be determined) the ability of the company to continue as a going concern is dependent on the outcome of the negotiations with its lenders and recoveries from borrowers. Further Reserve Bank of India (RBI) has not granted registration u/s 45 IA of the RBI Act and the company is facing attachment and other orders from the High Court/ Debt Recovery Tribunal. These factors raise substantial doubts that the company will be able to continue as a going concern; we are therefore unable to express our opinion on whether it is appropriate to use the going concern assumption in preparation of the financial statements.

We further report that, without considering the items mentioned in paragraphs i), ii), iii), iv), v), x), xi), xii), xiv), xv), xvi), xvii), xviii), xix) and xx) above the effect of which could not be determined, had the observations made by us in para vi), vii), viii), ix,) and xiii) above been considered, the loss for the year would have been Rs.65,26,77,382/- (against reported loss of Rs.48,96,91,178/-), and accumulated losses would have been Rs. 291,68,07,575/- (against reported figure of Rs.246,24,50,088/- current assets and loans and advances would have been Rs.59,36,42,846/- (as against reported figure of Rs.70,57,06,366/-) and current liabilities would have been Rs.37,76,53,119/- (as against reported figure of Rs.15,87,82,262/-) and Reserve & Surplus would have been Rs.68,64,46,571/- (as against reported figure of Rs.56,30,22,461/-).

- g) Subject to the foregoing in our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the other notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India -

- (i) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2003 and
- (ii) In the case of the Profit and Loss Account of the loss of the Company for the year ended on that date.
- (iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

For C. C. CHOKSHI & CO.
Chartered Accountants

Place :Mumbai
Date: 21st November, 2003

R. SALIVATI
Partner