



MAFATLAL FINANCE COMPANY LIMITED

MAFATLAL
FINANCE**BOARD OF DIRECTORS**

SHRI J. A. PATEL
 SHRI V. J. OJHA
 SHRI R. R. PATEL
 SHRI S. RAVINDRANATH
(Ceased w.e.f. 27.01.2005 - Nominee of Debenture Trustee)
 SHRI DILIP G. PATWARDHAN
(Ceased w.e.f. 21.11.2005 - Nominee of Debenture Trustee)
 SHRI P. DEVANGA
(w.e.f. 21.11.2005 - 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

FLAT NO. K-3/4, SECOND FLOOR,
 SHOPPING CENTRE, SECTOR 15/16,
 VASHI, NAVI MUMBAI - 400 703.

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 B. 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.

*Annual Report 2004-2005***NOTICE**

Notice is hereby given that the **EIGHTEENTH ANNUAL GENERAL MEETING** of the Members of **MAFATLAL FINANCE COMPANY LIMITED** will be held at Indian Women Scientists Association, Plot No. 20, Sector 10-A, Opp. Balaji Temple, Near Sainath High School, Vashi, Navi Mumbai 400 703 on Saturday, 31st day of December, 2005 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, 2005 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. Vinod Ojha who retires by rotation, and being eligible, offers himself for re-appointment.
3. 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.

By Order of the Board
For **MAFATLAL FINANCE COMPANY LTD.**

K.CHANDRAMOULI
COMPANY SECRETARY

Registered Office:

Flat No. K - 3/4 Second Floor
Shopping Centre, Sector 15/16
Vashi, Navi Mumbai 400 703

Date : 06.12.2005

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 Friday, 30th December, 2005 to Saturday, 31st December, 2005 (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.

Particulars of 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	: Vinod Ojha
Age	: 68 years
Qualifications	: Chartered Accountant
Experience	: 40 Years

His Directorships and Committee Memberships of other Companies are as follows:

Company	Position	Committee Membership
—	—	—

DIRECTORS' REPORT

To:
The Members
Mafatlal Finance Company Limited

Your Directors present the Eighteenth Annual Report with the Audited Statement of Accounts of the Company for the year ended 31st March 2005.

1. FINANCIAL RESULTS

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

	Year Ended 31.03.2005 (Rs. in lacs)	Year Ended 31.03.2004 (Rs. in lacs)
Gross Income	3,630.66	1,856.11
Gross Profit/(Loss) before Depreciation, Income Tax	1,689.19	(1,548.29)
Depreciation	4.88	8.14
Provision for Tax	0.21	—
Net Profit / (Loss) After Tax	1,684.10	(1,556.43)
Transferred from Capital Reserve	221.81	—
Add : Amount brought forward from previous year	(26,180.94)	(24,624.51)
Amount available for appropriation	—	—
Transferred to Debenture Redemption Reserve	—	—
Transferred to Statutory Reserve under RBI Act	—	—
Balance carried forward	(24,275.03)	(26,180.94)

2. OPERATIONS

The financial year 2004-2005 has ended with the Company declaring a profit of Rs. 1,684.10 lacs arising on account of reliefs and concessions that has been granted by banks, institutions and the write-back of past interest. The profit is also higher on account of Rs.12,93,21,132/- being the write back of principal liability having been reflected as other income although exceptional in nature and Rs.8,15,38,058/- taken under exceptional nature relating to previous year.

The company continued its efforts in entering into settlements with banks, institutions, debenture holders besides controlling the operative cost and collection of receivables. There has been considerable success although not sufficient enough and efforts are being enhanced.

The actions taken by the company had the effect of showing up improved performance and also reductions in the amount of liabilities. Keeping in view that long term committed objective of settling its liabilities, the company further made progress in its directions. The negotiations however, were not completely successful and the matter is being pursued further. There was also improvement in recovery from the NPA Accounts. The company has escrowed the outstanding from fixed deposits which the company expects legitimate claim and also considers the same as its admitted liability in respect of its outstanding fixed deposits. The company has been making payment out of the said escrow account as and when claims arise. The company however is committed to making payment of any legitimate claim of fixed deposits supported by documents irrespective of whether the same has been escrowed or not. The company's book balance of fixed deposit does not reflect the actual position as the management is of the view that some of the accounting entries have escaped appropriate reflection in the books of accounts. This fact is further confirmed as the company's outstanding bank balance as per books of accounts are substantially higher than the balance as per bank statements and the company has created a contingency provision against the same. Similarly, the company has made a provision for contingency for the difference in book balance and the actual bank balance in respect of the interest on fixed deposits which in the opinion of the management mainly reflects a short provision of interest on fixed deposits on the earlier years. The company has obtained the relevant bank statements along with the details of the warrants paid and appropriate accounting treatment shall be provided in the coming year.

As the focus on recovering dues and settlement of liability is likely to come to an end after the compromise proposal as per the provisions of sections 391 and 394 of The Companies Act 1956 if carried through the company would then divert its attention into new streams of activity to generate revenues in the financial services field or in other opportunities in which the company has developed expertise.

3. FILING OF COMPROMISE PROPOSAL UNDER SECTION 391 & 394 OF THE COMPANIES ACT, 1956:

The company is in the process of filing a compromise proposal with secured and unsecured creditors under the provisions of sections 391 and 394 of The Companies Act, 1956 in the

Honourable Bombay High Court after the regulatory approvals if any are obtained. The management is of the view that the company would be in a position to restructure its debts and shall be in a position to take the business forward in the years to come.

4. LITIGATIONS AGAINST THE COMPANY

Majority of the banks who had filed cases under the Debt Recovery Tribunal (DRT) has subsequently obtained decrees against the company. The company however has been in a position to settle the liabilities of the following banks during the year:

- Bank of India
- United Bank of India
- State Bank of India
- State Bank of Indore
- Sumitomo Mitsui Banking Corporation
- Bank of Punjab Ltd.

The case filed by the trustees for the debenture holders is being contested alongwith appropriate directions from the Honourable Bombay High Court to resolve the issues. However the company is defending litigations in various Consumer/Civil Courts, which has been initiated by the debenture holders.

During the year the company has settled on a one to one basis with one of the institutional debenture holder. The company is continuing its negotiations with the other debenture holders. The Company is awaiting the final order of the Honourable Bombay High Court in the civil suit filed by the trustee.

There is a winding up petition filed against the company by state level financial institution which is being contested. The said petition however has been admitted by the Honourable Bombay High Court.

The company has also appropriately filed appeal against the penalties of Rs. 607 lacs levied by the Enforcement Directorate.

5. REJECTION OF COMPANY'S APPLICATION AS A 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 networth and certain other reasons. After the finalization of the various settlement proposals, the company expects that its networth 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.

6. COMMENTS ON AUDITOR'S QUALIFICATIONS AND MANAGEMENT'S RESPONSES

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

- Item 4 (b) on Interest on certain Loans / Inter Corporate Deposit and penal interest
The Company is of the view that the lenders have not been providing interest and a major lender has already written it off as observed from the audited balance sheet of the lender. Further taking note of the various settlements, no liability is likely to lasten to the company in this respect. Admissibility of penal interest is debatable in view of the various judicial pronouncements.
- Item 4 (e) Re-appointment of Directors:
In respect of disqualification of the directors by virtue of Clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956 does not in view of the management relate to reappointment of directors in the same Company.
- Item 4(f)(i) on Managerial Remuneration:
The company is of the view that having regard to the fact that the appointment of the manager was made before the introduction of the revised guidelines, the same shall not have any retrospective effect but shall have only prospective effect.
- Item 4(f)(ii)(iii)(iv) in respect of Fixed Deposits and its reconciliation:
As explained earlier, the book balances relating to fixed deposit, fixed deposit bank accounts including interest payment account are not in agreement among themselves and with the respective subsidiary registers. The company is of the view that the accounting entries in respect of the transactions relating to fixed deposits have been inadvertently omitted due to which these differences have arisen. Due to the age of the transaction and the enormous size of the data involved the complete reconciliation does not seem to be possible. The company has created contingency provisions of Rs.11.30 crores for the same and during the coming year the necessary accounting treatment as is warranted including charge for prior period items would be made. The company does not expect any further liabilities on the fixed deposits other than what is escrowed as the entire fixed deposit have been outstanding almost for over 3 years from their due date or the date of escrow.

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The company is no longer a public deposit accepting and taking company in view of the escrow of the admitted liability. The company is of the view that no compliances regarding submission of forms and other returns are necessary.

e. Item 4(f)(v)(vi) in respect of matters arising out of debenture redemptions:

The dividend received on the equity shares of the company have been generally marked to the respective bank account which has been furnished to the depository participant and hence has been deposited in the said account. The company feels that this is sufficient compliance. Similarly, the resolution of the redemption of debentures has been pursuant to the directions of the Honourable Bombay High Court and the scheme of redemption is in consonance with the resolutions passed and is with an intent to secure the dues payable to the debenture holders.

f. Item 4(f)(vii) in respect of reconciliation with Garron Trading Company Pvt.Ltd.:

The company has taken credit for direct recovery of Rs. 7.90 crores from the fully provided and written off debtors which were assigned for collection and also settlement of bank liabilities. There were also additional recovery of about Rs. 11 lacs by repossession and sale of assets. This constitutes approximately 50% of the assigned debts signifying exemplary performance notwithstanding the termination of the agreement. The company does not envisage any reconciliation issues in this regard.

g. Item 4(f)(viii)(ix) in respect of filing satisfaction of charge and confirmation:

Since the bank have already filed suit in the DRT or in the Honourable Bombay High Court for winding up, the company is of the view that no separate confirmation is necessary. Banks with whom the settlements have already been reached, have given no due certificates including documentation for release of their charge and banks where the release of charge has not yet been filed shall be completed in due course. This does not in the Company's view negate the satisfaction of the liability.

h. Item 4(f)(x)(xv) in respect of confirmation of banks and other balances:

The confirmation letters in respect of current accounts have been sent to various banks. Reconciliation in respect of certain major bank accounts, especially relating to the fixed deposits and interest on fixed deposit accounts could not be carried through due to the age of the transactions. Detailed statements have once again been called and obtained. Reconciliation's shall be attempted in the coming year to reflect the correct position including accounting for prior periods. Similarly, confirmation from debtors most of whom currently constitute irregular and fully provided debts, are unlikely to be received, since any confirmation given shall be detrimental to them.

g. Item 4(f)(xi)(xii) in respect of non-provisioning of interest and penal interest:

The company does not envisage any liability in respect of these interest charges in view of the various settlements that have been arrived at and hence does not consider the same as a liability. Further the courts including the Honourable Supreme Court has not upheld the validity of charging penal interest.

h. Item 4(f)(xiii) in respect of settlement with erstwhile ICICI Ltd. (presently ICICI Bank Ltd):

The company in the year 1999 had made an onetime settlement with ICICI Ltd. through process of securitization, issue and allotment of equity and preference shares and transfer of a property to be received in settlement with the debtor. The transfer of property is pending as the same is not being impressed upon by the bank, for reasons best known to them. The company is of the view that having agreed to transfer the property, the liability in respect of the same does not exist. The company has however provided interest as advised, as a measure of abundant caution although not perceiving the same as a liability.

i. Item 4(f)(xiv) in respect of diminution in investment in partnership firms:

The company's capital contribution to the partnership firms in the year 1998 was on the basis of the shares of NOCIL to be received from a debtor and the resultant valuation gain was taken as income. Subsequently, the diminution in the investment value of the shares of the partnership firms were charged to the partnership firms and the profit and loss of the firm were provided in the books of the company. The pledge of the above shares are expected to be released and the company currently does not expect any diminution in value on this account.

j. Item 4(f)(xvi)(xvii) in respect of secretarial records and capital adequacy ratio:

The company does not concur with the above qualifications as the recent inspection by the ROC does not reveal any deficiency in secretarial records. Similarly, as the application of the company for registration as an NBFC has been rejected by the RBI, there are no specific applicability of capital adequacy ratio till the company once again proceeds to register itself.

k. Item 4(g) in respect of true and fair view of the accounts:

The company is of the view that mere non-provision of interest on certain borrowings which too the company does not anticipate any liability, does not negate the true and fair view as has been qualified by the auditors. This fact further is reinforced taking cognisance the totality of the various factors including the past settlements and the concessions obtained with the lenders. In view of the above the management feels that it is incorrect to state that the financial statement do not reflect a true and fair view of the state of affairs of the business.

7. PUBLIC FIXED DEPOSITS

Subsequent to the rejection by RBI of the company's application for registration, the company has secured the entire unclaimed admitted public deposit as per the subsidiary register of Rs. 19.10 lacs covering 170 cases and the company has taken steps to become a non-public deposit taking company. Currently the outstanding fixed deposit in the escrow account as on 31.03.2005 is Rs. 10.38 Lacs covering 116 cases.

The outstanding book liability of fixed deposit however does not reflect the true position as some of the accounting entries have remained to be carried out and the consequent higher book balances in the bank accounts maintained for payment of fixed deposits and interest on fixed deposits. The company is also of the view that provision of interest on fixed deposits for previous years have been left out as is reflected by the higher book balances in the said account. Pending reconciliation, the company has created a contingency provision of Rs. 11.30 crores in this regard which however needs to be appropriately reflected and shall be accordingly carried out during the year ending 31/3/2006.

8. MAFATLAL SECURITIES LIMITED (MSL) – SUBSIDIARY COMPANY

The Company has posted a net profit of Rs. 156.73 lacs for the financial year ended 31st March, 2005, after writing off Rs.7.49 lacs towards bad debts and providing for Rs. 4.67 lacs towards doubtful debts. 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 Mafatlal Securities Limited are separately given in this Report.

The company has made an application for grant of approval by the Central Government under Section 212(b) of the Companies Act, 1956 for exclusion of the copies of the Balance Sheet and Profit & Loss Account, Report of the Board of Directors and Report of the Auditors of the subsidiary company to be attached to the Balance Sheet of holding company. As the approval has not yet been received, the above documents have been enclosed.

9. OUTLOOK

Notwithstanding the success of the company in negotiating a onetime settlement with many banks, the company's future outlook continues to be blurred on account of the winding up petition filed by one of the lender and difficulties in finalising the settlement terms with the residual banks. Though the company has been making serious efforts by continuing their ongoing dialogue with the balance lenders, the inability to arrive at a settlement is hindering the future operations of the company. It is also inhibiting the company from working out an overall scheme of arrangement as was envisaged under Section 391 and 344 of the Companies Act, 1956.

In this backdrop, the company would continue to aggressively enter into dialogue and negotiations with the lenders and to bridge the resources gap, shall attempt in divesting its subsidiary, Mafatlal Securities Ltd., enter into sale of receivables and other assets and if necessary, raise additional resources. Taking various factors, the current year shall be critical in relation to the company.

10. ACTION UNDERTAKEN BY SEBI AGAINST THE COMPANY AND THE SHOW CAUSE NOTICES RECEIVED FROM REGISTRAR OF COMPANIES (ROC)

The adjudication proceedings which were initiated by SEBI culminated with the final orders by way of imposition of penalty of Rs. 15000/- on the company which has already been paid. There has been no other action or orders initiated by SEBI against the company.

The company has received Show Cause notices from ROC pursuant to the inspection carried out by them under Section 209 of the Companies Act 1956 and arising out of auditors' qualifications, issued certain show cause notices under Section 205 (c), 209 (3)(b) & 211 (7) of the Companies Act 1956 and the same has been appropriately responded. The company does not anticipate any penalties in this regard.

11. 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

12. DIRECTORATE

In accordance with the provision of the Articles of Association of your company, Mr. Vinod Ojha is retiring by rotation and being eligible, has offered himself for reappointment. The Board of Directors recommends his reappointment.

Mr. Purushottam Devanga has been nominated by Bank of India, Trustees for debenture holders in substitution of Mr. Dilip G. Patwardhan with effect from 21.11.2005. The Board appreciates the valuable contribution given by Mr. Dilip G. Patwardhan during his tenure.

13. 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.

14. LISTING OF SHARES

The shares of the company continues to be suspended for trading in NSE as well as BSE. The company is in dialogue with BSE for withdrawal of suspension.

15. 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.

16. 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 judgments 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 network on account of the anticipated restructuring process.

17. 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.

18. 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. The company has given in para 6 of this report hereinabove, the observations of the auditors and also the response of the Board of Directors.

19. 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 Debenture holders.

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

FOR AND ON BEHALF OF THE BOARD

Place : Mumbai
Date : 06.12.2005

J.A. PATEL
CHAIRMAN

MANAGEMENT DISCUSSION AND ANALYSIS

The NBFC industry has suffered critical resource constraints and loss of investor confidence due to certain failures in the industry. This lead to wide ranging changes in the guidelines by the Central Banking Authorities which almost forced most of the NBFC companies to go out of business and speed up their recovery process. Your company's application for registration as NBFC was not considered favourably by Reserve Bank of India due to negative network and certain other allied reasons. Consequently, the focus was shifted to downsizing the Balance Sheet and enter into negotiated settlements with creditors and borrowers.

Your company's management weathered the initial storm and withdrew the lending operations and commenced making the payment of the fixed deposits for its eventual closure. It is a matter of satisfaction that both the fixed deposits and retail debentures have either been paid or adequately secured. Having completed the said process, your company's management initiated dialogue for an amicable settlement of the banks and institutional liabilities so as to ensure continuity. In the year under review, few settlements have been achieved in a structured manner and consequent reduction of liabilities. This process is expected to be carried forward in the current financial year and your company's management is hopeful of concluding the same. Nevertheless, it is also important to note that in the event of non-resolution with the lenders, the company's operations could be seriously affected and any plan of future operations shall not be undertaken with appropriate level of confidence.

FINANCIAL REVIEW

As the company discontinued its lending operations, most of the revenues arose from past lending and disbursements. The company's income was Rs. 3,630.66 lacs which includes Rs. 614.63 lacs as operational income and Rs. 3,016.03 lacs being the write back / relief in settlement of liabilities and being exceptional in nature and the net profit after tax was Rs.1,684.10 lacs. During the year the company has provided Rs. 2095.47 lacs (net) towards bad and doubtful debts (including exceptional items) and diminution in the value of investments.

BUSINESS ANALYSIS OUTLOOK

The future outlook of the company hinges on the ability to close the settlements with various lenders in a satisfactory manner and diverting the resources in taking up new business opportunities. This would entail substantial shift to fee-based activities and controlling cost.

The company has been exploring its zone as a service provider combined with aggressive pursuit of stock broking activities where there has been a significant improvement. The company is confident of alternate channels of fee-based activities and generating adequate revenues therefrom.

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 the company by banks, debenture holders, financial institutions and other creditors.
- 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 continuously evaluating the risk and concerns and have been taking proactive action in its mitigation. Given the fact that there are substantial number of risks, which are cumulatively impinging the company's operations, any road to future development would be plagued with a fair degree of uncertainty.

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 31/03/2005 has 31 employees on its payroll. The relationship were 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.

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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 to recognize the responsibilities to the stakeholders and others on the principle of just and efficient governance. The philosophy also imbibes efficient conduct of 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 2004-2005 and the last Annual General Meeting is as follows

Director	No. of Meetings held During 2004-2005	Attended	Last Annual General Meeting Attended (Held on 30/09/2004)
Mr. J.A. Patel	5	4	Yes
Mr. R.R. Patel	5	4	No
Mr. Vinod Ojha	5	2	No
Mr. S. Ravindranath *	5	3	Yes
Mr. Dilip G. Patwardhan **	5	1	Not Applicable

* Appointed with effect from 01/06/2004 and Resigned with effect from 27/01/2005.

** Appointed with effect from 27/01/2005.

(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	4	Nil	Nil	Nil
* Mr. R.R. Patel	Not 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
*** Mr. S. Ravindranath	Independent, Nominee Director	Nil**	Nil**	Nil**	Nil**
*** Mr. Dilip G. Patwardhan	Independent, Nominee Director	Nil**	Nil**	Nil**	Nil**

* Independent Director till 07.07.2003 ** Not confirmed

*** Mr. Jagdish Pai was appointed as a Nominee Director representing debenture trustees ceased to be a Director with effect from 01/06/2004 and in substitution whereof, Mr. S. Ravindranath has been appointed 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.

Mr. S. Ravindranath appointed as a Nominee Director representing the Debenture Trustee ceased to be a Director with effect from 27/01/2005 and in substitution where of Mr. Dilip G. Patwardhan was appointed 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.

Mr. Dilip G. Patwardhan appointed as a Nominee Director representing the Debenture Trustee ceased to be a Director with effect from 21/11/2005 and in substitution where of Mr. Purushottam Devanga has been appointed 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:

Five Board Meetings were held during the year 2004-2005. The dates on which meetings were held were as follows:

15th April 2004, 29th July 2004, 3rd September 2004, 27th October 2004 & 27th January 2005

3. AUDIT COMMITTEE

The company has constituted an Audit Committee in accordance with the requirements of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement entered with the Stock Exchanges. The terms of reference of the Audit Committee, are in conformity with those mentioned in Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956. The Committee reviews various reports placed before it by the Internal Auditors of the Company. The members of the Audit Committee are as under:

Mr. Vinod Ojha	Chairman
Mr. R.R. Patel *	Director
Mr. J.A. Patel	Director
Mr. N.R. Dive	President & Chief Executive Officer (Co-opted)

The details of the Audit Committee Meetings and attendance of its members are given below:

Four meetings were held during the year 2004-2005. (15th April 2004, 29th July 2004, 27th October 2004 & 27th January 2005). The attendance for the said meetings is as follows:

Name of the Director	Category	Attendance Particulars
Mr. Vinod Ojha	Chairman	2
Mr. J.A. Patel	Director	4
Mr. R.R. Patel	Director	3

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-cum-Investor's Grievance Committee, constituting the following members:

Mr. J.A. Patel	Chairman
Mr. Vinod Ojha	Director
Mr. R.R. Patel	Director
Mr. N.R. Divate	President & Chief Executive Officer (Co-opted)

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: 01.04.2004 to 31.03.2005

Number of Equity Shareholders / Debtenture holders /	
Preference Shareholders complaints pending as on 01.04.2004	18
Number of complaints received during the year	494
Number of complaints solved during the year	476
Number of complaints pending as on 31.03.2005	36

Eight Complaints regarding dividend on Preference Shares, however are still pending on account of losses suffered by the company. SEBI vide its letter dated 29th April 2003 commenced adjudication proceedings for imposition of penalty on account of non-redressal of Investor Grievances. The last hearing of these proceedings was conducted in October 2003. Penalty of Rs.15,000/- was imposed which has since been paid.

Four meetings were held during the year 2004-2005. (15th April 2004, 29th July 2004, 27th October 2004 & 27th January 2005). The attendance for the said meetings is as follows:

Name of the Director	Category	Attendance Particulars
Mr. J.A. Patel	Chairman	4
Mr. Vinod Ojha	Director	2
Mr. R.R. Patel	Director	3

6. DIRECTORS

Mr. Vinod Ojha, Director of the company is retiring by rotation at the ensuing Annual General Meeting.

Mr. Jagdish Pai was appointed as a Nominee Director representing debtenture trustees ceased to be a Director with effect from 01.06.2004 and in substitution whereof, Mr. S. Ravindranath has been appointed as a nominee director for the debtenture holders as per Section 15(M) of SEBI (Debtenture Trustees) regulations 1993 in conjunction with the provisions of the Trust Deed. Mr. S. Ravindranath appointed as a Nominee Director representing the Debtenture Trustee ceased to be a Director with effect from 27/01/2005 and in substitution where of Mr. Dilip G. Patwardhan was appointed as a Nominee Director for the debtenture holders as per Section 15(M) of SEBI (Debtenture Trustees) regulations 1993 in conjunction with the provisions of the Trust Deed. Mr. Dilip G. Patwardhan appointed as a Nominee Director representing the Debtenture Trustee ceased to be a Director with effect from 21/11/2005 and in substitution where of Mr. Purushottam Devanga has been appointed as a Nominee Director for the debtenture holders as per Section 15(M) of SEBI (Debtenture Trustees) regulations 1993 in conjunction with the provisions of the Trust Deed.

Name of Director	Mr. Vinod Ojha	Mr. Purushottam Devanga
Date of Birth	1st January 1938	24th June 1947
Date of original Appointment	8th June 2001	21st November 2005
Expertise in specific functional areas	Financial Matters and Practising Chartered Accountant	Banker, Recovery Management
List of public limited Companies in which the person holds the directorship	Nil	Nil

7. GENERAL BODY MEETINGS

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

Date	Venue	Time
26th September, 2002	Babasaheb Dahanukar Sabhagriha, Maharashtra Chambers of Commerce & Industry, Orion House, 12 K. Dubhash Marg, Fort, Mumbai 400 001.	2.30 P.M.
29th December, 2003	A-52 All India Plastic Manufacturers Association, MIDC, Andheri (East), Mumbai 400 093	10.00 A.M.
30th September, 2004	A-52 All India Plastic Manufacturers Association, MIDC, Andheri (East), Mumbai 400 093	10.00 A.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

- The details of related party transactions are given in point No.28 of the notes to the account.
 - The company's shares were suspended from trading by NSE since September 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 debtentures.
 - SEBI had issued a notice of adjudication to the Company for its failure to redress the investor grievances and non-compliance of the provisions of corporate governance under Clause 49 of the Listing Agreement, which have been responded. Penalty of Rs.15,000/- was imposed which has since been paid.
 - SEBI has issued a notice to the company for violation of takeover regulations and issued a settlement by consent order on a payment of penalty of Rs. 1,25,000/-. The company has since accepted the same and forwarded a reply accordingly.
 - Chairman of the Audit Committee has not attended the last Annual General Meeting held on 30th September 2004.
 - Audit Committee meeting has not been held before the finalisation of accounts for the year ended 31st March 2004.
- 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

- Half-Yearly Report sent to each household of shareholders : No
- 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 displayed : No
 - Whether it also displays official news releases and presentations made to institutional investors/analysis. : No
- 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 : Saturday, 31st Day of December, 2005 at 10.00 A.M. at Indian Women Scientists Association, Plot No.20, Sector 10-A, Opp. Balaji Temple, Near Sainath High School, Vashi, Navi Mumbai-400 703.

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10.2 Financial Calendar (2005-2006) (tentative)

Quarterly Results:

Quarter ending June 30, 2005

Quarter ending September 30, 2005

Quarter ending December 31, 2005

Quarter ending March 31, 2006

Last week of July 2005

Last week of October 2005

Last week of January 2006

Last week of April 2006

10.3 Book Closure date(s)

Between Friday, 30th December, 2005 to Saturday, 31st, December 2005 (both days inclusive)

10.4 Dividend payment date(s)

Not applicable

10.5 Listing of Equity shares/debentures on Stock Exchanges

The Stock Exchange, Mumbai (BSE)

Phiroze Jeejeebhoy Towers,

Dalal Street, Mumbai - 400 001.

The 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 2004-05. 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:

The trading of the company's shares has been suspended in the National Stock Exchange of India Ltd. (NSE) with effect from September 2001 as well as The Stock Exchange, Mumbai with effect from December 2002 and accordingly no market price data is available.

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: 28470652 / 28470653 Fax: 28475207

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: 28470652/28470653 Fax: 28475207

10.10 (a) Distribution of Shareholding as on 31st March, 2005

No. of Equity Shares held (Rs.)	No. of Shareholders	% of Shareholders	No. of Shares held	% of Shareholding
Upto - 5000	50,765	95.93	58,48,001	14.66
5001-10000	1,013	1.92	8,52,677	2.14
10001-20000	509	0.96	7,81,856	1.96
20001-30000	181	0.34	4,71,321	1.18
30001-40000	102	0.19	3,69,506	0.93
40001-50000	75	0.14	3,57,101	0.90
50001-100000	126	0.24	9,05,996	2.27
100001 and above	147	0.28	3,02,95,242	75.96
GRAND TOTAL	52,918	100.00	3,98,81,700	100.00

(b) Category of Shareholding as on 31st March, 2005

Sr. No.	Category	Shareholding	Percentage
1.	Promoters	1,59,20,000	39.92
2.	Financial Institutions & Nationalised Banks	91,37,253	22.91
3.	Bodies Corporate	13,92,219	3.49
4.	Directors & their relatives	1,900	0.01
5.	Non-Resident Individuals	29,500	0.07
6.	General Public	1,34,00,828	33.60
	TOTAL:	3,98,81,700	100.00

10.11 Dematerialisation of shares

The Company has arrangements with NSDL and CDSL for demat facility.

27.80% of the total equity shares are held in dematerialised form with NSDL and CDSL as at 31st March 2005.

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

Flat No.K-3/4, Second Floor, Shopping Centre, Sector 15/16, Vashi, Navi Mumbai - 400 703.

**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 LIMITED.

We have examined the compliance of the conditions of Corporate Governance by Mafatlal Finance Company Limited for the year ended 31st March 2005 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.

We draw attention to the following:

- a) majority of the directors comprising the audit committee not being independent directors,
- b) *the Chairman of the Audit Committee not having attended the last Annual General Meeting,
- c) the audit Committee meeting has not been held before the finalisation of the accounts,

Subject to the above, 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 Investor Grievances Committee.

SEBI vide its letter dated 29th April 2003, commenced adjudication proceedings for imposition of penalty on account of non-redressal of investor grievances for that previous year. As informed to us, the adjudication order was passed during the year and a penalty of Rs. 15,000/- was imposed by the Securities Appellate Tribunal in terms of section 15C of SEBI Act, 1992 and was subsequently paid.

During the year further investor grievances were received by the company. As at the year end 36 investor grievances were pending on the basis of the statement received from the Registrar and Transfer Agent / records maintained by the Investor Grievance Committee. In the absence of detailed records, we are unable to state the number of investor grievances which are pending for a period exceeding one month as required by the Guidance Note issued by The Institute of Chartered Accountants of India.

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. Sallvati
Partner

Membership No. 34004

Place : Mumbai

Dated : 6th December 2005