



Mahindra Gesco

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MAHINDRA GESCO DEVELOPERS LIMITED

7th Annual Report 2005-2006

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MAHINDRA GESCO DEVELOPERS LIMITED

Board of Directors

| | |
|-------------------------|---|
| Mr. Anand G. Mahindra | Chairman |
| Mr. Arun Nanda | Vice-Chairman |
| Mr. Uday Y Phadke | |
| Mr. Hemant Luthra | |
| Mr. Sanjiv Kapoor | |
| Mr. Shailesh Haribhakti | |
| Mr. Anil Harish | |
| Mr. Pranab Kumar Datta | Managing Director & Chief Executive Officer |

Management Group

| | |
|------------------------|---|
| Mr. Pranab Kumar Datta | Managing Director & Chief Executive Officer |
| Mr. Anuj Mehra | Vice President - Marketing |
| Mr. Sudhir Kulkarni | Vice President - Business Development |
| Mr. P. Vijayan | Vice President - Human Resources |
| Mr. S. Krishnan | Chief Financial Officer |

Company Secretary

Mr. Suhas Kulkarni

Auditors

| | |
|----------------------------|-----------------------|
| M/s. Kalyaniwalla & Mistry | Chartered Accountants |
| M/s. B. K. Khare & Co. | Chartered Accountants |

Bankers

UTI Bank Limited
ING Vysya Bank Limited
Citibank N.A.

Registered Office

5th floor, Mahindra Towers,
Worli, Mumbai – 400 018.

Branch Offices

Mahindra Towers, 2A, Bhikaji Cama Place,
New Delhi 110 066.

City Point, 2nd Floor,
Office No. 215-A, B & C,
Boat Club Road, Pune 411 001.

Mahindra Towers,
Ground Floor, 17/18 Patullos Road,
Chennai 600 006.

Directors' Report to the Members

Your Directors present their Seventh Report together with the audited accounts of your Company for the year ended 31st March, 2006.

FINANCIAL HIGHLIGHTS

| | (Rs. in lacs) | |
|---|---------------|-------|
| | 2006 | 2005 |
| Operating Income | 12,113 | 9,146 |
| Other Income | 300 | 349 |
| Total Income | 12,413 | 9,495 |
| Profit Before Depreciation, Interest and Taxation | 2,413 | 2,189 |
| Less : Depreciation | 228 | 241 |
| Profit Before Interest and Taxation | 2,185 | 1,948 |
| Less : Interest | 436 | 614 |
| Profit Before Taxation | 1,749 | 1,334 |
| Less : Provision for Taxation | | |
| Current Tax | 167 | 105 |
| Deferred Tax (including MAT Credit) | 482 | 444 |
| Profit for the year after Taxation | 1,100 | 785 |
| Add : Balance of Profit for earlier years | 2,190 | 1,405 |
| Profit available for appropriation | 3,290 | 2,190 |
| Less : Proposed Dividend (including tax on distributed profits) | 1,295 | — |
| Less : Transfer to General Reserve | 27 | — |
| Balance carried forward | 1,968 | 2,190 |

Operations

The overall economic environment in the country continues to remain buoyant and business confidence is high. This is equally true for the infrastructure and real estate sectors. The realisation that impetus to the infrastructure sector, including of course real estate, an important component of this vital sector, can catalyse economic development in the country in an all pervasive manner could not have come at a better time. The buoyancy in real estate can be seen across the length and breadth of the country.

The promulgation of the SEZ Act has induced developers and industrial houses to establish SEZ's across industries and regions. Your Company is a pioneer in the field and has promoted Mahindra World City Developers Limited, which has established the first private sector SEZ at Chennai. It has three sector specific SEZs - IT, Auto Ancillary and Apparel. The Industrial Park of the SEZ is almost sold out. The Company is now planning to expand this into a fully integrated SEZ. Based on the success of Mahindra World City, Chennai, the Company has entered into an understanding with the State Governments of Rajasthan and Maharashtra to set up two multi-product SEZs at Jaipur and Karla, near Pune.

During the year, your Company expanded its project activities. While the residential project at Wakad (approximately 5.3 lacs sq.ft. of saleable area) near Pune called "the Woods" is heading towards completion having earlier been sold off in record time, two new projects aggregating approximately

8.0 lacs sq.ft. of saleable area were launched during the third quarter of the year under review.

"Sylvan County", spread over a sprawling campus of approximately 22 acres became your Company's first housing project in Chennai located in the Mahindra World City complex, now renowned for being the first private sector SEZ. This project has been virtually sold out even before start of construction.

"Mahindra Eminente", a premium residential complex, was launched in Goregaon, Mumbai. This is a high-rise development covering approximately 2.7 lacs sq.ft. of saleable area, comprising premium flats intended for consumers who value space and better quality living.

Your Company has acquired land in Faridabad for a residential project, which is expected to be launched in the current financial year, as soon as it receives the approvals. Your Company is expected to commence operations at Nasik during the later part of the current financial year. Efforts are continuing to expand the land bank and as indicated in the previous year's report, moves are afoot to increase our footprint to some newer locations.

Various organization development initiatives were undertaken during the year. These are expected to help create a robust organization based on strong values, uniform and systematic business processes and people empowerment. Your Company will shortly be undertaking major marketing initiatives to create a differentiated brand identity which will provide customers the requisite value and comfort that they

seek and which they have come to very profoundly associate with the 'Mahindra' brand.

Project revenues were significantly higher than the previous year having grown by over 36%. Current occupancy at the commercial complex and at business centres is near 100%.

During the year, revenues have increased by around 32% and Profit Before Tax has increased from Rs.1334 lacs to Rs.1749 lacs registering a growth of 31%. Profit after Tax has increased from Rs.785 lacs to Rs.1100 lacs, showing a growth of 40%.

The sharp increase in the capital employed represents the additions to the land bank. To achieve the aspirational growth targets set by the management, your Company will have to continuously add to its inventory, specially, since the land buying process is tedious and takes a long time. The resources required for achieving this growth will be mobilised at an appropriate time.

The Management Discussion and Analysis Report deals with the operations of your Company in detail and forms part of this Annual Report.

Dividend

Your directors have recommended dividend for the year on 55,00,000 – 13.10% Non-Cumulative Redeemable Preference shares of Rs.100 each and on 10,00,000 – 10.50% Non-Cumulative Redeemable Preference shares of Rs.100 each and a dividend of 10% on the paid-up equity capital of the Company. The total dividend payment including tax on distributed profits amounts to Rs.1295 lacs. The dividend, if approved, shall be subject to tax and shall be paid out of profits of the current and previous years.

Corporate Governance

A report on the Corporate Governance along with a Certificate from the Auditors of the Company regarding the compliance of conditions of Corporate Governance as also the Management Discussion and Analysis Report as stipulated under Clause 49 of the Listing Agreement are annexed to this Report.

Directors

Mr. Anand Mahindra, Mr. Uday Phadke and Mr. Sanjiv Kapoor retire by rotation and being eligible offer themselves for re-appointment.

The Board at the Meeting held on 18th January, 2006, appointed Mr. Pranab Kumar Datta as an Additional Director. At the same meeting, the Board appointed Mr. Pranab Kumar Datta as the Managing Director, designating him as 'Managing Director & Chief Executive Officer' for a period of five years with effect from 18th January, 2006, subject to the approvals of the Members of the Company and the Central Government.

Mr. Pranab Kumar Datta holds office upto the date of the forthcoming Annual General Meeting. The Company has received notice from a member signifying his intention to

propose Mr. Pranab Kumar Datta as candidate for the office of Director. Your directors recommend his appointment as director of the Company.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, your Directors, based on the representations received from the operating management and after due enquiry, confirm that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) they have, in the selection of the accounting policies, consulted the statutory auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the profit of the Company for the year ended on that date;
- iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

Corporate Social Responsibility Initiatives (CSR)

As a socially responsible citizen, the Mahindra Group has contributed not only to the economic well being of the communities it interacts with, but has also enhanced their social well being. Since its inception, the Mahindra Group has always been engaged in activities which add value to the community around us. A step forward was taken in this direction by the announcement made on the occasion of the 60th Anniversary of Mahindra & Mahindra Limited, that the Group would support a range of CSR initiatives by committing 1% of Profit after Tax (PAT) on a continuing basis. The 1% PAT would specifically benefit the economically disadvantaged and socially weaker sections of the society. Accordingly, the Board of your Company has resolved to contribute to recognised charitable and/or other Institutions, including K. C. Mahindra Education Trust and/or Mahindra Foundation, not related to the business of the Company or the welfare of the employees towards Corporate Social Responsibilities of the Company, such amounts which in the aggregate in any financial year will not exceed 1% of the Company's estimated PAT for the year on a continuing basis until further review by the Board.

A beginning in this direction was made by your Company during the current year by making a contribution of Rs. 5 lacs to a registered public charitable trust engaged in educational, training and research activities and socially pertinent issues for backward classes and rural communities.

Subsidiaries

During the year, Mahindra World City (Maharashtra) Limited (formerly Mahindra Realty Limited) and Mahindra World City

MAHINDRA GESCO DEVELOPERS LIMITED

(Jaipur) Limited became subsidiaries of your Company. Both these companies will be developing Special Economic Zones (SEZs) near Pune and Jaipur, respectively.

The other subsidiary company, Mahindra World City Developers Limited (formerly known as Mahindra Industrial Park Limited) has successfully implemented India's first private sector SEZ near Chennai. Your Company, as a Co-Developer is doing a part of the residential development in that SEZ spread over approximately 22 acres.

The Tirupur Water Supply & Sewerage project is being implemented by a consortium led by your Company. A subsidiary company, Mahindra Infrastructure Developers Limited is an equity participant in the project company. The project has successfully completed commissioning and has now entered the operations phase.

The Statement pursuant to Section 212 of the Companies Act, 1956, containing details of the Company's subsidiaries, Mahindra Infrastructure Developers Limited, Mahindra World City Developers Limited, Mahindra World City (Maharashtra) Limited and Mahindra World City (Jaipur) Limited, is attached.

The Consolidated Financial Statements of the Company and its subsidiary companies, prepared in accordance with Accounting Standard 21 prescribed by The Institute of Chartered Accountants of India, form part of the Annual Report and Accounts.

Your Company has made an application to the Central Government seeking exemption from attaching the accounts, etc., of its subsidiaries, Mahindra Infrastructure Developers Limited, Mahindra World City Developers Limited, Mahindra World City (Maharashtra) Limited and Mahindra World City (Jaipur) Limited with the Balance Sheet of the Company. If in terms of approval granted by the Central Government under Section 212 (8) of the Companies Act, 1956, copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Auditors of the subsidiaries are not required to be attached with the Balance Sheet of the Company, the Company Secretary will make these documents available upon receipt of request from any Member of the Company interested in obtaining the same. The financial data of the subsidiaries have been separately furnished forming part of the Annual Report. These documents will also be available for inspection at the Registered Office of the Company during working hours upto the date of the Annual General Meeting. Further, pursuant to Accounting Standard AS-21 issued by The Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the Company include financial information of its subsidiaries.

Auditors

M/s. Kalyaniwalla & Mistry, Chartered Accountants and M/s. B. K. Khare & Co., Chartered Accountants, retire as Joint Auditors at the forthcoming Annual General Meeting and have given their consent for re-appointment. The members will be required to appoint Auditors for the current year and fix their remuneration.

As required under the provisions of Section 224 of the Companies Act, 1956, the Company has obtained written certificates from the above Auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

Deposits and Loans/Advances

Your Company has not accepted any deposits from the public or its employees during the year under review.

The Company has not made any loans/advances which are required to be disclosed in the annual accounts of the Company pursuant to Clause 32 of the Listing Agreement with the Company.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

In view of the nature of activities which are being carried on by the Company, Rules 2A and 2B of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, concerning conservation of energy and technology absorption respectively, are not applicable to the Company.

Details of foreign exchange earnings and outgo during the year under review are furnished in the Notes to Accounts.

Particulars of Employees as required under Section 217(2A) of the Companies Act, 1956 and Rules made there under:

The Company had three employees who were in receipt of remuneration of not less than Rs. 24,00,000 during the year 31st March, 2006 or not less than Rs. 2,00,000 per month during any part of the said year. However, as per the provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Directors' Report being sent to the shareholders does not include this Annexure. Any shareholder interested in obtaining a copy of the Annexure may write to the Company Secretary at the Registered Office of the Company.

Acknowledgments

The Directors would like to thank all clients and suppliers/ associates of your Company for the unstinted support received from them during the year.

The Directors would also like to place on record their appreciation for the dedicated efforts and services put in by the employees of the Company.

For and on behalf of the Board

Anand G. Mahindra
Chairman

Mumbai, April 25, 2006

Management Discussion & Analysis Report

The Management of the Company is pleased to present this report covering the activities of the Company during the year 2005-2006.

I. The Overall Review

The Company's focus on the residential segment continued as demand for housing remains buoyant and is expected to remain so at least for the near medium term. To expand the Company's operations it is inevitable that concerted efforts be made to increase land bank, all the more so since land buying is a tedious and tortuous process and therefore certain minimum pipeline inventory has to be maintained, to ensure continuity in operations. Consequently, the Company made further purchases of land parcels at Pimpri near Pune, Mumbai, Faridabad and Nasik.

Land acquisition is an ongoing exercise and as already spelt out in the previous year's report, the Company is planning to augment its presence in the industry by venturing into newer locations, which offer potential for the kind of development the Company is reputed for.

New projects were launched at Chennai and Mumbai. The Chennai project located at Mahindra World City, reputed as the first private sector SEZ, marks the Company's foray into the residential market in Chennai. It may be noted that in the previous year the Company began its operation in Chennai through a commercial project undertaken for a very reputed private sector bank.

The housing project is spread over approximately 22 acres involving construction of over approximately 5 lacs sq. ft of saleable area. This is a unique development comprising of premium semi-detached houses, luxurious fully detached bungalows and three bedroom apartments set in very pleasant and sylvan surroundings adjacent to the famous Chengelpet Lake. To reflect its eye-catching ambience and surroundings, the complex has been aptly christened as "Sylvan County". The project was marketed uniquely through the use of direct marketing techniques, private presentations and effective use of the web as a communication medium. However, the attractiveness of the project can be gauged by the fact that it was verbally sold out upon its launch with minimal marketing efforts. Construction began towards the third quarter of the financial year and the project is expected to be completed within 2 years.

The Company also launched a prestigious exclusive multi-storeyed residential project at Goregaon, Mumbai. The housing units have been designed to meet the needs of the upwardly mobile consumers who value good living and luxuriant space. This project called "Mahindra Eminente" involving a saleable area of approximately 2.7 lacs sq ft was also launched in December and is expected to be ready in around two years.

Architectural plans have been kept ready for the proposed new projects at Faridabad, Pimpri and Mumbai.

These will be launched as soon as the approvals are received.

The commercial complexes at Delhi, Pune and Mumbai are all fully occupied. Business Centre activity continues to operate at an optimum level.

The Company closed the year with a total income of Rs.12413 lacs, Profit before Tax of Rs.1749 lacs and Profit after Tax of Rs.1100 lacs.

Since the Company is the flagship of the Infrastructure Sector, and carries its business directly and through its various subsidiary companies, it is only natural to expand its presence in the Sector not only directly but also through its various operating units.

With the extremely fruitful and successful experience of the first SEZ project at Chennai, the Company responded to the invitations from the Governments of Rajasthan and Maharashtra to partner them in SEZ projects in their respective states. Towards this objective, Memorandum of Understandings have been signed by the Company with these two State Governments for establishing SEZs of approximately 3000 acres each at Jaipur and near Pune through its subsidiary companies. These SEZs are expected to further augment the Company's presence in the ever-expanding infrastructure and real estate industry in the country. "Mahindra World City", the brand name for SEZ business, has already established itself and the brand equity is only expected to enhance with the commencement of the newer SEZs.

II. Business Environment

The industry continued to experience buoyant conditions throughout the year. This was backed by a very healthy growth in the economy. The rising disposable incomes, changing mindsets and availability of easy finance are the significant contributors for consumers wanting to buy their housing units at an early age.

With tightening liquidity conditions, interest rates have shown a rising trend. Land prices also continued to rise throughout the country, but notwithstanding this sustained rise, there has been no let up in demand as evidenced by the auctions of lands at Mumbai and some other places that received record response. IT and IT Enabled Services, which are the major drivers of growth for the real estate industry continue to experience buoyancy and as such the demand for commercial and housing space is unlikely to abate in the near future. Recently, the Government also announced a relaxation of FDI norms in retail, allowing single brand companies to commence operations. Perhaps it is a matter of time when the retail sector would be opened up fully for FDI. This would result in a further escalation in demand thereby allowing real estate developers the opportunity to exploit the resulting buoyant conditions. However, rising land prices is a cause of concern and together with the increase in interest and inputs costs such as cement and steel, it is inevitable that the increasing end product prices may begin to have an impact on demand.

III. Operations Review

The new residential project covering over 5.3 lacs sq.ft of saleable area launched at Wakad near Pune in the previous year is satisfactorily heading towards completion. This project was sold out in record time. The multi-storeyed building projects at Goregaon (Mahindra Gardens) and Kanjur Marg (GE Gardens) have also been completed having earlier been sold through very innovative marketing strategies.

As stated elsewhere in the report, a new housing project has been launched at Mahindra World City, Chennai. This project encompasses approximately 22 acres and is almost sold out. The project envisages development of 3 bedroom apartments, semi-detached houses, and fully detached bungalows in a sprawling campus, which provides contemporary and enviable amenities. This project too was marketed through use of innovative tools, the efficacy of which was demonstrated by the fact that with minimal marketing, it has been virtually sold out. Construction began in December and is expected to be completed in two years.

The Company launched a premium residential complex covering a saleable area of 2.7 lacs sq. ft. at Goregaon, Mumbai, comprising of dwelling units in 3 BHK and 3BHK+ study configuration in two multi-storey towers. Space is at premium in this project and is targeted at the upwardly mobile businessmen and professionals who value space and are eager to provide corresponding comforts to their family that can induce healthy living and emotional well-being.

The Company has further procured land at Faridabad, Pimpri and Mumbai aggregating to over 15 lacs sq.ft of saleable area. These projects are expected to be launched, as soon as the building approval plans are approved by the concerned authorities.

The Company is also considering a new commercial development at Pimpri, near Pune. The land is already in possession of the Company and the development will be spread over 3 lacs sq. ft of saleable area.

To increase its spread of operations, the Company has acquired land at Nasik and hopes to begin operations during the current year. It is exploring a few more locations in various parts of the country for expanding its portfolio of locations.

The organization building initiatives continue relentlessly. The overhauling of the business processes for which a renowned consulting firm was engaged, was completed and new processes are under implementation. The Company has also engaged the Mahindra Institute of Quality for improving quality culture and initiating 6-Sigma programme.

In order to further enhance its brand equity and closely align with its customers, major development initiatives have been undertaken in improving customer-centricity and escalating this vital value across all functions.

IV. Other Activities

During the year Mahindra Industrial Park Limited which developed the country's first Special Economic Zone (SEZ) in the private sector as a joint venture with the Government of Tamil Nadu was rechristened as Mahindra World City Developers Limited. The new name more aptly describes the nature of the operations of the company.

Since SEZs are expected to be the harbinger for catalyzing economic growth at a much faster pace, as demonstrated by the Chinese example, and buoyed with the experience of the first SEZ at Chennai, the Company has promoted 2 new subsidiaries viz., Mahindra World City (Jaipur) Limited and Mahindra World City (Maharashtra) Limited which will be developing the SEZs at Jaipur and at Karla (near Pune) in partnerships with the Government of Rajasthan and Maharashtra respectively.

These SEZs will be spread over approximately 3000 acres each. Memorandums of Understanding have been reached with the respective State Governments and the usual formalities are being complied with before the respective companies commence business operations.

V. Financial Review

During the year the Company reported a Profit before Tax of Rs.1749 lacs, an increase of 31% compared to the previous year, on top of the 73% growth recorded in the earlier year. Profit after Tax increased by 40% from Rs.785 lacs to Rs.1100 lacs.

The capital employed by the Company has increased to Rs. 32008 lacs reflecting the investments in land acquisition. The increase in capital employed has largely been funded from debt and the Company's debt equity ratio, while having moved up from 0.27:1 to 0.66:1 is still very healthy.

VI. Internal Controls

The Company has an adequate system of internal controls commensurate with its nature of business and scale of operations. However, to contemporise the business processes, services of a renowned international management consultancy firm were engaged to re-craft business processes. Implementation of these processes are expected to further enhance the internal control systems.

The internal audit activity is carried out by a firm which specialises in internal audit. They undertake the audit programme in accordance with the guidance of the Audit Committee of the Board. These reports are discussed with the management and are placed before the audit committee periodically.

VII. Human Resources

Organizational development is a continuing exercise and in this respect major initiatives in the area of Human Resources development have been taken including :

- a. Crafting of a 'Values Document' by a multi functional task force
- b. Constitution of a Shadow Board of bright young managers to constantly critique the Company's strategy so as to bring about greater ownership, and alignment and mid course correction if things are deviating from the intended plans.
- c. Comprehensive review of the 'Quality Journey' so as to make it an integral part of the Company's values and culture. The Company in partnership with the Mahindra Institute of Quality has embarked on the 6-Sigma journey. Various development projects have been undertaken as a part of this journey. The world renowned Prof. Kume from Japan (a Freelance Consultant & Principal Advisor of Mahindra Institute of Quality) was invited to share his thoughts with the management team on his interpretation of quality and the recommended way forward for the Company, contextual to its nature of business and the status of the industry.
- d. Increasing employee engagement through various impactful initiatives on special occasions such as annual festivals, etc.
- e. Implementation of the Corporate Social Responsibility (CSR) in sync with the Mahindra Group philosophy. Organization members as a part of the Employee Social Option Programme (Esops), have spontaneously and willingly participated in various social causes such as cleaning & painting of a municipal school at Kandivali (East), contributing to Home for the Destitutes, Shanti Bhagini, Don Bosco's, etc.
- f. Deputation of managers to various competency development programmes to broaden their perspective.

As of 31st March, 2006 the Company had 154 employees.

VIII. Opportunities and Threats

The Real Estate market is humungous in its size. The industry has only recently started receiving focus and it has swiftly responded to the stimulus. Both housing and commercial developments have escalated sharply, particularly during the last two years. The buoyancy in the economy and rising income levels can only propel the growth of the industry. This provides a tremendous opportunity to a Company whose values and reputation stand out prominently in the industry. The effort that the Company is making towards a holistically professional approach and all round development based on competency and people empowerment will enable it to

exploit the growing opportunity in the industry and increase its share in the market place. Towards this end, the Company is planning forays into medium and smaller cities.

Land prices during the year spiralled upwards. The hectic speculative activity is resulting in land grabbing at any cost and this is an area of concern. To mitigate any adverse fall out, the Company is consciously employing a hedging strategy in a manner that will mitigate risk. Venturing into newer cities and expanding the footprint in the SEZ domain are an outcome of this approach.

IX. Risks and Concerns

Apart from the increase in land prices, inputs costs have also been constantly increasing. This is likely to squeeze margins if end product prices do not go up correspondingly. Increase in end product prices coupled with tight liquidity may impact demand.

The Company is combating these risks by way of qualitative market research, quicker decision making, reducing its time to market for projects and by taking a fresh look at its entire set of processes, apart from undertaking a proactive approach towards problem resolution. The Company has a Risk Management Policy, which is being periodically reviewed.

Project delays are likely because of a new regulation that requires environment clearance for residential projects involving capital outlay of more than Rs.50 crores.

X. Business Outlook

In our view, the real estate markets would continue to be buoyant in the coming year with growth coming from innovative products both in commercial and residential segments.

During 2006-2007, your Company's focus would remain in the residential segment. It would endeavour a series of new launches to expand its presence and footprint.

Certain statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward-looking statements within the meaning of applicable securities laws and regulations. Actual results could differ from those expressed or implied. Important factors that could make a difference to the Company's operations include material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in government regulations, tax regimes, economic developments within India and other incidental factors.

Corporate Governance Report

1. Corporate Governance Philosophy

Your Company is committed to good Corporate Governance and endeavours to implement the Code of Corporate Governance in its true spirit.

The philosophy of your Company in relation to Corporate Governance is to ensure transparency in all its operations, make disclosures and enhance shareholder value without compromising in any way compliance with laws and regulations.

Your Company believes that good governance brings about sustained corporate growth and long-term benefits for stakeholders. Your Company continues to follow procedures and practices in conformity with the Code of Corporate Governance as enunciated in the Listing Agreement.

Details of the implementation of the Code follow in the paragraphs below.

2. Board of Directors

The Company has a non-executive Chairman and more than one-third of the total number of Directors is independent. The number of non-executive Directors is more than 50 % of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the Listing Agreement. The Management of the Company is entrusted in the hands of the Key Management Personnel of the Company and is headed by the Managing Director & Chief Executive Officer who operates under the supervision and control of the Board. The Board reviews and approves strategy and oversees the actions and results of management to ensure that the long term objectives of enhancing stakeholder value are met.

Mr. Anand G. Mahindra, Mr. Arun Nanda, Mr. Uday Y. Phadke and Mr. Hemant Luthra, non-executive Directors of your Company are in the whole-time employment of the holding Company, Mahindra & Mahindra Limited and draw remuneration from it. Apart from the above and apart from the reimbursement of expenses incurred in discharge of their duties and the remuneration that some of the non-executive Directors would be entitled to under the Companies Act, 1956, none of the Directors has any other material pecuniary relationships or transactions with the Company, its Promoters, its Directors, its Management, subsidiaries and Associates which in their judgement would affect their independence.

The Senior Management has made disclosures to the Board confirming that there are no material, financial and/or commercial transactions between them and the Company which could have potential conflict of interest with the Company at large.

a) Number of Board Meetings

Five Board Meetings were held during the period 1st April, 2005 to 31st March, 2006 on the following dates:- 25th April, 2005, 27th July, 2005, 10th August, 2005, 25th October, 2005 and 18th January, 2006.

b) Composition, Status, Attendance at the Board Meetings and at the last AGM:

As on 31st March, 2006, Mahindra Gescó's Board comprised of eight members. The Chairman of the Board and three other members are non-independent non-executive Directors. The Managing Director is an executive of the Company while remaining three members are independent Directors. The names and categories of Directors, their attendance at the Board Meetings held during the year and at the last Annual General Meeting are given below:

| Name of the Director | Status | No of Board Meetings | | Attendance at the last AGM @ |
|---|----------------------------------|----------------------|----------|------------------------------|
| | | Held | Attended | |
| Mr. Anand G Mahindra Chairman | Non-Independent Non-executive | 5 | 5 | Yes |
| Mr. Arun Nanda Vice-Chairman | Non-Independent Non-executive | 5 | 5 | Yes |
| Mr. Uday Y Phadke | Non-Independent Non-executive | 5 | 4 | No |
| Mr. Hemant Luthra | Non-Independent Non-executive | 5 | 3 | Yes |
| Mr. Sanjiv Kapoor | Independent Non-executive | 5 | 4 | Yes |
| Mr. Shailesh Haribhakti | Independent Non-executive | 5 | 3 | No |
| Mr. Anil Harish | Independent Non-executive | 5 | 5 | Yes |
| Mr. Pranab Kumar Datta Managing Director & Chief Executive Officer* | Executive | 5 | 1 | N.A. |

* Appointed as Additional Director on 18th January, 2006 and attended the Board Meeting of 18th January, 2006 as a director.

@ The Sixth Annual General Meeting was held on 10th August, 2005

c) Details of Directorships / Committee Memberships:

As mandated by Clause 49, none of the Directors is a member of more than ten Board level Committees nor is any of them a Chairman of more than five committees in which they are members. The number of Directorships and Committee positions held by them in companies are given below :