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MANDHANA INDUSTRIES PVT. LTD.

21st ANNUAL REPORT

F. Y. 2004-2005

MANDHANA INDUSTRIES PRIVATE LIMITED

205-214, Peninsula Centre,
Dr. S.S Rao Road, Off Dr. Babasaheb Ambedkar Road,
Parel (W), Mumbai – 400 012

NOTICE

NOTICE IS HEREBY GIVEN THAT THE 21st ANNUAL GENERAL MEETING OF THE MEMBERS OF MANDHANA INDUSTRIES PRIVATE LIMITED WILL BE HELD ON FRIDAY, THE 30TH SEPTEMBER, 2005 AT 11.30 A.M. AT THE REGISTERED OFFICE OF THE COMPANY AT 205-214 , PENINSULA CENTRE, DR. S.S RAO ROAD, OFF DR. BABASAHEB AMBEDKAR ROAD, PAREL (W), MUMBAI – 400 012 TO TRANSACT THE FOLLOWING BUSINESS.

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance Sheet, as at 31st March, 2005 and the Profit and loss Account for the year ended as on that date and the Reports of the Directors and Auditors thereon.

2. To declare Dividend.

3. To appoint Director in place of Mr. Purushottam C. Mandhana, who retires by rotation and being eligible offer himself for re-appointment.

4. To appoint Auditors who shall hold office from the conclusion of this Annual General meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By order of the Board of Directors

Place : Mumbai
Date : 3rd September, 2005

Purushottam C. Mandhana
Managing Director

NOTE:-

A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

DIRECTORS' REPORT

TO,

THE MEMBERS OF
MANDHANA INDUSTRIES PRIVATE LIMITED

Your Director have pleasure in presenting you this 21st Annual Report along with the Audited statement of Accounts of the company for the year ended on 31st March, 2005.

FINANCIAL RESULTS:-

(Rs. In Lacs)

		2004-2005		2003-2004
Sales & Other Income		14,515.03		10,099.06
Profit before interest and Depreciation		1,420.48		916.90
Less :				
Interest	214.26		259.69	
Depreciation	266.44	480.70	197.27	456.96
Profit before Taxation		939.78		459.94
Less :				
Current Tax	110.76		20.94	
Deferred Tax	188.37		68.61	
Tax of earlier years	-	299.13	1.05	90.50
Net Profit for the year		640.65		369.34
Add: (Less) Prior Period Adjustments		0.46		0.67
Profit after Taxation		641.11		370.01
Balance brought forward from last year		914.70		647.57
Amount available for Approproation		1,555.81		1,017.58
Less :				
Transfer to General Reserve		25.00		25.00
Proposed Dividend/ Final Dividend		94.32		68.88
Provision for Dividend Tax		12.33		9.00
Balance C/f to Balance Sheet		1,424.17		914.70

OPERATIONS:-

The Company posted yet another year of stellar performance. It has performed distinctly better than the previous year and has achieved better results. During the year under review, the Company has registered a turnover of Rs. 14,476 lacs as compared to Rs. 10,086 lacs *in the previous year, registering a spectacular growth of 44 %*. Operating profits stood at Rs. 1421 lacs as compared to Rs. 917 lacs during the previous year. The Net profits after tax for the year under review has shown tremendous growth to Rs. 640 lacs as against Rs. 370 lacs during the previous year. This growth is 73% during the year. Cash flow from operations also increased to Rs. 1653 lacs as compared to Rs. 227 lacs during the previous year. The improvement in performance is mainly attributable to initiatives undertaken in the international markets, which has helped secure increased order volumes. Constant endeavor to make operations economical, ensure quality products aligned with fashion trends and customer choice, enabled the company to make it's mark in the markets:

MARKET SCENARIO:-

As on March 2005, the Global Textile and Clothing Industry is estimated to be worth more than $395 bn, with Clothing and Textiles accounting for 60% and 40% of the market respectively. (Source: HDFC Securities-India Research, Market 02, 2005)

In 1995, the World Trade Organization (WTO) renewed the Multi Fibre Agreement (MFA) with an Agreement on Textiles and Clothing (ATC), which marked an end of quotas between WTO members with effect from January 01, 2005. The expiry of the ATC has increased the size of accessible global market in the textile segment, providing an impetus to growth of textile companies. Due to consolidation in the textile industry of developed markets, an overall shrinkage in the supply base is taking place due to adverse cost structures. Consequently, greater interest is being placed by major global retailers and merchandisers in outsourcing from cost competitive countries, particularly from Asia.

The demand for textiles and the price realisation have started improving for the last couple of years. The Government support to the industry has also helped it to recover from the effects of recession. Today textile industry's predominance in the Indian economy is very well manifested in its significant contribution to industrial production, high level of employment generation and highest share in foreign exchange earnings. The present quota free era of globalization is full of challenges. Post quota, India is positioned to become a major beneficiary given its low cost labour, improving yield of cotton crops, skilled manpower and it's wide range of products from fibre to garments. India's current share of the global textile market is estimated to double over the next five years.

The company, in order to continuously improve quality and productivity is perusing the modernization and technology upgradation programme.

EXPANSION:-

While the markets have now opened up, the industry is bound to witness more competition. In this environment, the companies that are able to deliver scalable volumes of proven quality through a business model involving integrated manufacturing, brand relations and strategic partnerships, will appear as front runners.

The Union Budget 2005 – 06 has introduced new measures to boost investment across the textile value-chain. Accordingly, the processing sector will receive a 10% capital subsidy and reduced import duty of 5% on capital goods import against export obligation will also add to building up capacity.

The expansion programs of the company are continuously going on. The gross investment in Fixed Assets has reached to 5485 lacs during the year as compared to previous year of Rs. 3329 lacs. To cater the large no. of orders and to solicit the business in overseas market the company has opened an office at Paris during the year.To take advantage of the opportunities available to the textile industry, in the domestic and overseas market and cater to the growing market for its products, and to take the advantage of post quota era the company has undertaken simultaneous expansion cum modernisation programmes in various spheres of the textile industry such as:-

GARMENT UNIT:-

During the year the company started commercial operation of it's garment unit at Bangalore in September, 2004. The unit is equipped with 400 stitching and other allied machineries. The unit has manufacturing capacity of 15 lacs shirts per annum.

Big retailers like Wal-mart, J C Penny, Tommy Hilfiger and GAP are planning to substantially increase their outsourcing from India in this sector, creating a tremendous opportunities for exporters.

YARN DYEING UNIT:-

Originally, the project comprised of installation of 66 Rapier Dobby looms and 6 wider-width Rapier jacquard looms. Thus, in total 72 looms with a capacity of 66 Lacs meters fabrics per annum and yarn dyeing unit with a capacity of 2,000 tons per annum, with the project cost was estimation of Rs. 50 Crores was planned.

However, on review and based on further study, the management realised that the existing production capacity and the profitability can be almost doubled with additional investment in machinery and factory building. Hence, the company has decided to install additional 45 Air jet looms along with some additional preparatory machines.

By implementation of this, the production capacity will be 132 Lacs meters per annum. With increase in production, the company will have benefits of large scale production and the fabric cost per meter will come down comprehensively, to give a boost to the overall profitability of the unit. With this expansion, the total cost of unit is estimated at Rs. 86 Crores.

The factory building is almost ready, the major part of plant and machineries is under installation. The unit is scheduled to commissioned by December, 2005.

WEAVING UNIT :-

During the year , the weaving division of the company got ISO 9001 certification. The company has successfully installed & commissioned commercial operation of 22 imported Toyota Airjet looms with this the company has increased the weaving capacity from 60 lacs meters to 100 lacs meters of fabrics per annum.

The company will enjoy the advantage of complete synergy of the manufacturing process through integration of it's Yarn Dyeing, Weaving, Processing - CDR and Garment business.

NEW OFFICE PREMISES

With the growing business, the company has recently shifted it's marketing and administrative offices to bigger, sprawling and well-planned premises at 'Peninsula Centre' at Parel, with the state of art facilities.

EXPORT PERFORMANCE:-

The Company continues to view foreign exchange earnings as a key priority. The total exports of the company during the year under review have been Rs. 4754 lacs as compared to last year of Rs. 4112 lacs. With the removal of quota system and with setting up the stitching unit at Banglore the company is expecting a healthy rise in it's export in current financial year.

DIVIDEND:-

The Directors have paid an interim dividend @ 15% for the year ended 31-03-05. Since no additional dividend has been recommended, the interim dividend will be the final dividend. Hence the total dividend paid for the year is 15% amounting to Rs. 106.64 lacs(including dividend distribution tax).(Previous year @ 12% amounting to Rs. 77.88 lacs). The dividend has been restricted to 15 % to plough back the profits into business to sustain strategic investments.

SHARE CAPITAL

During the year under review, to meet the cost of the various ongoing expansion projects the company raised the share capital by issue of 47.60 lacs equity shares of Rs. 10 each to the existing shareholders.

FINANCIAL PRUDENCE

Over the last few years, through prudent financial management the Company has been successful in reducing the average cost of debt on a year to year basis by being able to borrow cost effectively. Currently, the company enjoys amongst the best credit support from its lenders. By being able to finance its growth at the most optimal rates of interest, the Company is almost at par with its global competitors in terms of its cost of funds.

FUTURE OUTLOOK:-

The textile industry after the WTO Treaty from 1st of January 2005 is witnessing increased demand. The continuance of the interest subsidy on Capital investment under Textile Upgradation Fund has enabled the Company to undertake substantial modernization and Capital Investment for enabling improved quality and productivity.

The Indian Textile Industry is set to play a significant role in the markets in view of the traditional strengths, availability of skills, material and technology. The Government has taken various steps to support this industry, which is a major Foreign Exchange earner for the Exchequer and provides direct and indirect employment opportunities. The Company is continuously taking several measures to meet global competitiveness and exploit the opportunities that will be available due to non-quota regime. The Company is constantly increasing its scale of operations and confident of improving its performance in the coming years.

DIRECTORS:-

In accordance with the requirement of Companies Act, 1956 and the Articles of Association of the company, Shri Purushottam C. Mandhana retires by rotation and being eligible offer himself for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT:-

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed that;

i) In the preparation of the accounts for the financial year ended 31st March, 2005, the applicable accounting standards have been followed along with proper explanation relating to material departures;

ii) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;

iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provision of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv) The Directors have prepared the accounts for the financial year ended 31st March, 2005 on a 'going concern' basis.

HUMAN RESOURCES:-

The Company recognized human resources as its most valuable asset. The employees have an "Owner's Mindset" and work together in a highly cordial environment. The attrition rate was low as compared to industry standards. The quality of work force also improved with the Company appointing a greater number of professionals and training employees to improve their skill sets. They have enabled us build a culture of meritocracy.

INSURANCE:-

All the assets of the company have been adequately insured.

PARTICULARS OF EMPLOYEES:-

Particulars of employees as required under section 217 (2A) of the companies Act, 1956 read with companies (Particulars of Employees) Rules 1975, as amended are given in Annexure 'A' to this report.

AUDITORS AND AUDITORS' REPORT:-

M/s. Vishal H. Shah & Associates, Chartered Accountants, Mumbai, the statutory Auditors of the Company, retire at the ensuing Annual General Meeting and have consented to act as auditors of the Company, if appointed.

The observations made in the Audit Report are self explanatory and therefore do not call for any further comments under section 217(3) of the Companies Act, 1956.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUT GO:-

The additional information required under the provision of Section 217(1)(e) of the Companies Act, 1956, read with the companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Report is given as an Annexure 'B' to this Report.

ACKNOWLEDGEMENT :-

The Board wishes to place on record their appreciation of the co-operation of employees at all levels. Their competence, commitment and hard work have enabled the company to achieve good performance year after year. Industrial relations of the company continued to be cordial during the year under review.

The Directors also convey their grateful thanks to the Central and State Governments, Bankers, Customers and Suppliers and all other parties for their continued co-operation and patronage.

For & on Behalf of the Board

Place: Mumbai
Date: 3rd September, 2005

Purushottam C. Mandhana
Managing Director

Biharilal C. Mandhana
Director

Annexure 'B'

ADDITIONAL INFORMATION IN RESPECT OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO.

CONSERVATION OF ENERGY

The Company is quite conscious with regard to conservation of energy. The company has installed many energy saving devices like Auto voltage controller and automatic power cut-off device in the weaving factory which has resulted into efficient energy consumption.

I. TOTAL ENERGY CONSUMPTION AND ENERGY CONSUMPTION PER UNIT OF PRODUCTION ARE AS FOLLOWS:

		2004-2005	2003-2004
1	Electricity		
	a. Purchased Units	**11,825,933**	9,117,868
	Total Amount	**40,301,022**	31,594,440
	Rate/Unit	**3.41**	3.47
	b. Own Generation		
	Units	**35,400**	32,840
	Units per Ltr. Of diesel oil	**3.00**	3.03
	Cost Unit	Not Accessible	
2	COAL		
	Quantity (In M.T.)	**4,930**	7,828
	Total Cost	**16,517,336**	21,507,884
	Average Rate (Per M.T)	**3,350**	2,748
3	FURNACE OIL		
	Quantity (In Ltr,)	**1,777,359**	295,501
	Total Cost	**20,524,878**	3,897,093
	Average Rate (Per Ltr.)	**11.55**	13.19

B. Consumption per Unit of Processing

Product Unit — Not Accessible
Electricity

TECHNOLOGY ABSORPTION:

The company is constantly engaged in the process of technological upgradation to improve the quality of the products. The latest development in this process is the installation of Air jet loom technology in the weaving factory at Tarapur.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Earnings	:	Rs. 4348.08 lacs
Out go	:	Rs. 1719.78 lacs

For and on behalf of the Board

Place : Mumbai
Date : 3rd September, 2005

Purushottam C. Mandhana
Managing Director

Biharilal C. Mandhana
Director

VISHAL H. SHAH & ASSOCIATES
CHARTERED ACCOUNTANTS
A-302, Kailas Esplanade, L.B.S.Marg,
Opp. Shreyas Cinema, Ghatkopar (W),
Mumbai – 400 086.

AUDITORS' REPORT

TO,

THE MEMBERS OF MANDHANA INDUSTRIES PRIVATE LIMITED

1. We have audited the attached Balance Sheet of **MANDHANA INDUSTRIES PRIVATE LIMITED** as at 31st March, 2005 and the Profit & Loss Account and cash flow statement of the Company for the year ended on that date annexed thereto, which we have signed under reference to this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express 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 a 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 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 Companies (Auditor's Report) Order, 2003, as amended by the Companies (Auditor's report) (Amendment) Order, 2004 (together the "order") issued by the Central Government of India in terms of sub section (4A) of section 227 of The Companies Act, 1956 ('the Act') and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanation given to us, we enclose 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 purpose of our audit;

   b) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of the books of accounts of the Company;

   c) The Balance Sheet, Profit & Loss Account and Cash flow Statement dealt with by this report are in agreement with the books of account of the Company;

   d) In our opinion, the Balance sheet, Profit & Loss Account and Cash Flow Statement dealt with by this report comply with the mandatory Accounting Standards referred in section 211(3C) of the Companies Act, 1956;

   e) On the basis of written representations received from the directors, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2005 from being appointed as a director under Section 274(1) (g) of the Companies Act, 1956.

Tel : (0) 3951 62 69

VISHAL H. SHAH & ASSOCIATES
CHARTERED ACCOUNTANTS
A-302, Kailas Esplanade, L.B.S.Marg,
Opp. Shreyas Cinema, Ghatkopar (W),
Mumbai – 400 086.

f) Sales and Purchase figures are shown inclusive of inter-division transfers. On the basis of information and explanation furnished to us, as inter-division transfers do not affect the profitability of the company, quantification of the such transfers are not furnished

Subject to above, in our opinion, and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956 in the manner so required and present 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, 2005 and

ii) In the case of the Profit & Loss Account, of the Profit for the year ended on that date.

iii) In the case of the Cash flow Statement, of the cash flow for the year ended on that date.

FOR VISHAL H. SHAH & ASSOCIATES
CHARTERED ACCOUNTANTS

VISHAL H. SHAH
PROPRIETOR

Mumbai : 3rd September, 2005