

PEPL
Polyesters

10th
Annual Report and Accounts
2003-2004



PEARL

PEARL ENGINEERING Polymers Ltd.

BOARD OF DIRECTORS

Chand Seth	– Chairman & Managing Director
Harish Seth	– Managing Director
Arun Gupta	– Whole - Time Director
Dinesh Chand Kothari	– Director
C.R. Dua	– Director
B.B. Mathur	– Director
Ashok Khanna	– Director
Ramesh M. Bhujang	– Nominee Director (AFIC)
Satish Gupta	– Nominee Director (ICICI) (Nomination withdrawn by ICICI w.e.f. 23rd April 2004)
Chandra Shankar	– Special Director (BIFR) (Nomination withdrawn by BIFR w.e.f. 5th July 2004)

10TH ANNUAL GENERAL MEETING

DATE	: 17th September, 2004
DAY	: Friday
TIME	: 12:30 P.M.
PLACE	: D-17, M.I.D.C. Indl. Area Kurkumbh, Taluk Daund, Distt. Pune - 413 801 Maharashtra

AUDITORS

Price Waterhouse
PW Centre, Saidulajab
Opp. D-Block, Saket
Mehrauli-Badarpur Road,
New Delhi - 110 030.

REGISTERED OFFICE & WORKS

D-17, M.I.D.I.C. Indl. Area,
Kurkumbh, Taluk Daund,
Distt. Pune - 413 801.
Maharashtra.

CORPORATE OFFICE & INVESTORS' SERVICE CELL

B-59, Greater Kailash Part-I
New Delhi - 110 048
Tel. : 51417917-21
Fax : 51417596
Email - pearl@pearlpet.net

REGISTRARS & SHARE TRANSFER AGENTS

MAS Services (P) Ltd.
AB-4, Safdarjung Enclave
New Delhi – 110 029
Ph : 26104142 / 26104326
Fax : 26181081
Email - mas@vsnl.com

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NOTICE

NOTICE is hereby given that the 10th Annual General Meeting of the Members of Pearl Engineering Polymers Limited will be held on Friday, 17th September, 2004 at 12.30 P.M. at D-17, MIDC Industrial Area, Kurkumbh, Taluka Daund, Dist. Pune - 413 801, Maharashtra, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March 2004 and the Profit and Loss Account for the year ended on that date together with the Reports of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Arun Gupta, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Ashok Khanna, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditors of the Company and fix their remuneration.

By the Order of the Board

Place : New Delhi
Date : June 25, 2004

(ARUN GUPTA)
WHOLE-TIME DIRECTOR

Regd. Office :-
D-17, MIDC Industrial Area
Kurkumbh, Taluka Daund
Distt. Pune – 431 801 (MAHARASHTRA)

NOTES

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE (ON POLL ONLY) INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE ENCLOSED PROXY FORM, IF INTENDED TO BE USED, SHOULD REACH THE REGISTERED OFFICE OF THE COMPANY, DULY COMPLETED IN ALL RESPECTS, NOT LESS THAN FORTY EIGHT HOURS BEFORE THE SCHEDULED TIME OF THE MEETING.**
2. Members are requested to bring the Attendance Slips alongwith their copy of the Annual Report to the Meeting.
3. The Register of Members and Share Transfer Books of the Company will remain closed from September 10, 2004 to September 17, 2004 (both days inclusive).
4. Pursuant to Order passed by the Board for Industrial and Financial Reconstruction (BIFR) for the rehabilitation of the Company, the Paid-Up Equity Share Capital of the Company was reduced by 60% w.e.f. 28th March 2002. Accordingly, all the earlier shares have since been extinguished and new shares have been issued in lieu thereof. A specific letter had been sent to all the shareholders informing them of the same and also advising them to surrender the Old Certificate in respect of their shares (if held in physical form). However, shareholders, who have not exchanged their Old Share Certificates with the New Share Certificates till date, are requested to surrender the same with the Company at its Corporate Office or at the Office of its Registrar and Share Transfer Agents, M/s. MAS Services Private Ltd., to enable the Company to release/despatch New Share Certificates in lieu thereof.
5. The Company has entered into Agreements with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Further, as per SEBI Notification dated 29th May 2000, trading in shares of the Company is now permitted only in dematerialised form. Shareholders are, therefore, advised to dematerialise their shareholding to avoid inconvenience in future.
ISIN code of company is INE843A01023. Accordingly, shareholders are requested to send their request for dematerialisation of shares through their Depository Participant (DP) to the Registrar and Transfer Agent i.e. M/s. MAS Services Private Ltd., AB-4, Safdarjung Enclave, New Delhi-110 029.
6. Members desiring any information on the accounts are requested to write to the Company at least 10 days before the meeting so as to enable the management to keep the information ready.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to present the 10th Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2004.

FINANCIAL RESULTS

(Rs. in Lacs)

	For the Year Ended March 31, 2004	For the Year Ended March 31, 2003
Turnover	14177.06	17,517.99
Gross Profit/(Loss)	208.10	1,146.14
Interest	243.09	408.16
Depreciation & Miscellaneous Expenditure Written Off	523.83	540.43
Provision for Taxes	-	14.00
Net Profit/(Loss) after Tax	(558.82)	183.55

DIVIDEND

In view of the provisions of the Rehabilitation Scheme sanctioned by the BIFR and the issues in the current year, your Directors have decided not to recommend dividend on equity shares for the year ended 31st March 2004.

MANAGEMENT DISCUSSION AND ANALYSIS**(a) Industry Structure and Development**

The Company is one of the manufacturer of PET Resins (Bottle and Film Grade) and has a state-of-the-art production facility at Kurkumbh, Pune in Maharashtra. The products produced by the company have a wide application in the Packaging Industry.

The Domestic market of PET Resins, which was growing at the rate of more than 25 percent a year has faced some decline in the growth rate in the current year. Overall the industry is having an oversupply situation in India and in the World Market.

(b) Opportunity and Threats

The Company's efforts in developing Specialty Grade PET Resins for the newer applications have borne some results. During the year gone by, the Company could successfully commercialize the resin for bulk packaging of drinking water. Other applications are under testing and development.

The over-capacities in the manufacturing of PET Resin in the Country continues to be a cause of concern and may worsen the already depressed margins in the domestic market. It is expected that the ability of the Plant to develop customized products would help in the coming period.

(c) Economic Scenario and Outlook

The growth rate of the Country's Gross Domestic Products (GDP) was higher at 8.1% in 2003-2004 and is expected to drop to 6.7% in 2004-05 due to ongoing slowdown in Service sector and Agriculture Sector.

The almost consistent interest rate is expected to give a boost to the consumption patterns as well as the growth rate of packaged food and other products. The demand for PET Resin is therefore, expected to take an upturn.

(d) Risks and Concern

Changes in the Government Policy on the tax structure of the raw material and finished product may adversely affect the Company. The increased capacities in the domestic market is also a cause of concern.

(e) Internal Control Systems and their Adequacy

The Company has proper and adequate systems of internal controls to provide reasonable assurance that all assets are safeguarded and protected against any loss by disposition, misuse etc.

All the policies, procedures, guidelines, authorizations and approval procedures are well documented.

The management periodically reviews the internal control system and their adequacy. In addition the Company has a regular Internal Audit System.

(f) Discussion of Financial Performance with Respect to Operational Performance

During the year, the Company's plant operations were affected and production was 25610 MT as compared to 32795 MT during the previous year. The main reason for the fall was the production loss of 37 days due to technical reasons and the annual shut down. Further due to depressed margin the company could not viably source semi-processed chips for further processing, thus effecting volumes further.

Correspondingly, the Company's gross turnover for the year ended March 31, 2004 fell by 20% to Rs. 141.77 Crores, as compared to Rs. 175.18 Crores in the previous year.

The operating profit (PBITD) was Rs. 208.10 Lacs as compared to Rs. 1146.14 Lacs in the previous year. The decrease was mainly due to depressed margins and loss in production due to two shutdowns as stated above.

Interest and Bank charges decreased substantially by Rs. 165.07 Lacs to Rs. 243.09 Lacs as compared to Rs. 408.16 Lacs for the corresponding period of previous year on account of repayments/pre-payments and prudent financial management.

During the year, 143 number of persons were employed by the Company and the employee relationship was cordial during the period under review.

IMPLEMENTATION OF THE BIFR REHABILITATION SCHEME

The Rehabilitation Package of the Company, as sanctioned by BIFR, is being implemented as per schedule. Further induction of equity by Mr. Dinesh Chand Kothari, the strategic investor and his associates is not necessary as the entire cost of scheme has been already met. During the year the company completed the payments of One Time Settlement to Banks. As a result the current assets of the Company are now free of any charge and are being funded by internal accruals. The Company is operating without any working capital limits and efforts are being made to obtain the same. The Operating Agency has requested BIFR to discharge the company from the provisions of SICA.

CORPORATE GOVERNANCE

Report of the Directors on Corporate Governance is given separately and forms a part of this Annual Report.

A Certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance, as stipulated under Clause 49 of the Listing Agreement, is attached to this Report.

DIRECTORS

In accordance with the requirements of the Companies Act, 1956, Mr. Ashok Khanna and Mr. Arun Gupta retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

Further, nomination of Mr Satish Gupta as director on the Board of the Company has been withdrawn by ICICI Bank w.e.f 23rd April, 2004. The Board places on record its appreciation for the services rendered by Mr Satish Gupta during his association with the Board of the Company.

LISTING OF SHARES

The Company's Shares are listed on the following Stock Exchanges.

- Mumbai Stock Exchange
- National Stock Exchange

Further, during the year, pursuant to the members approval in the last Annual General Meeting on 30th September, 2003, the company had made an application for delisting of its shares at Delhi Stock Exchange and Ahmedabad

Stock Exchange. The shares of the companies were delisted from Delhi Stock Exchange vide its approval letter No. DSE/LIST/401 dtd 26th December, 2003 w.e.f 29th December, 2003 and from Ahmedabad Stock Exchange vide its approval letter no. ASE/2003/3350 dtd 5th January, 2004 w.e.f 19th January, 2004

The Listing Fee in respect of all these Stock Exchanges has been paid.

The trading in the shares of the company, which had been suspended, resumed in June 2003, consequent upon reduction of the capital and issue of shares to Promoters, Strategic Investors & Associates in accordance with BIFR Order.

AUDITORS AND AUDITORS' REPORT

M/s. Price Waterhouse, Chartered Accountants, New Delhi, Auditors of the Company, retire at the conclusion of this Annual General Meeting and, being eligible, offer themselves for reappointment.

The Notes to the Accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further comments.

PARTICULARS AS PER SECTION 217 OF THE COMPANIES ACT, 1956

The particulars of employees, as required under Section 217(2A) of the Companies Act, 1956, are annexed and form an integral part of this Report.

Information relating to the Conservation of Energy, Research & Development and Foreign Exchange Earnings and Outgo, as required under Section 217 (1)(e) of the Companies Act, 1956 annexed and forms an integral part of this Report.

CASH FLOW STATEMENT

Cash Flow Statement in accordance with Accounting Standards on Cash Flow Statement (AS-3) issued by ICAI is annexed to this Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the Section 217 (2AA) of the Companies Act, 1956, with respect to "Directors Responsibility Statement" in the Board's Report, the directors hereby confirm:

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.
- (ii) That 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 that period.
- (iii) That the Directors had taken proper and sufficient care 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 frauds and other irregularities.
- (iv) That the Directors had prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENT

We take this opportunity to express our deep sense of gratitude to Financial Institutions, Bankers, Central and State Government Departments, Local Authorities, our associates and customers for their continued guidance and support.

Your directors would like to record their sincere appreciation of the dedicated efforts put in by employees at all levels in the Organisation.

And to you, our shareholders, we are deeply grateful for the confidence and faith that you have reposed in us.

On behalf of the Board

Place : New Delhi
Date : June 25, 2004

(CHAND SETHI)
CHAIRMAN & MANAGING DIRECTOR

AUDITORS' CERTIFICATE ON COMPLIANCE WITH THE CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To The Members of Pearl Engineering Polymers Limited

1. We have reviewed the implementation of Corporate Governance by Pearl Engineering Polymers Limited (the Company) during the year ended 31st March, 2004, with the relevant records and documents maintained by the Company, furnished to us for our review and the Report on Corporate Governance, as approved by the Board of Directors.
2. 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 audit nor an expression of opinion on the financial statements of the Company.

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.

3. We state that in respect of investor grievances received during the year ended 31st March, 2004, no investor grievances are pending for a period exceeding one month against the Company as per the confirmation received from the Registrars of the Company.
4. On the basis of our review and according to the information and explanations given to us, the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchange(s) have been complied with in all material respects by the Company.

H. Singh
Partner
For and on behalf of
Price Waterhouse
Chartered Accountants

PLACE : New Delhi
DATE : June 25, 2004

REPORT ON CORPORATE GOVERNANCE

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

Pearl Engineering Polymers Limited (PEPL) upholds its commitment to the highest standards of Corporate Governance. PEPL continues to review its Corporate Governance and ensuring its relevance, effectiveness and responsiveness to the needs of all the stakeholders. The underlying philosophy of Corporate Governance envisages attainment of the highest level of transparency, accountability and equity, in all facets of its operation, and in all its interactions with the shareholders, employees, the Government and the lenders.

The Board is maintaining the highest principles of Corporate Governance and ensuring integrity of the Company's financial reporting, disclosure of material information, sound investor relations, continuous improvement of the internal controls and maximum contribution to uphold health, safety and environment.

This Section, alongwith the Sections on Additional Shareholder Information and Management Discussion and Analysis in the Annual Report, constitutes compliance with Clause 49 of the Listing Agreement.

2. BOARD OF DIRECTORS

The Board of Directors of the Company constitutes two Promoter Directors (Executive), one Whole-Time Director (Executive) and seven Non - Executive Independent Directors, two of whom are Nominee Directors representing ICICI Bank Limited and Asian Finance and Investment Corporation Limited (AFIC) respectively and one is a Special Director appointed by BIFR.

Four Board Meetings were held during the financial year ended March 31, 2004. The dates on which the Board Meetings were held are as follows:

- 1) April 30, 2003,
- 2) July 31, 2003,
- 3) October 30, 2003 and
- 4) January 30, 2004.

The maximum time gap between any two meetings was not more than four months.

Mr. Arun Gupta and Mr Ashok Khanna, directors of the Company retire by rotation at the forthcoming Annual General Meeting.

Mr. Arun Gupta is a Fellow Member of the Institute of Chartered Accountants of India and has to his credit, experience of 30 years, in organisations like Goetze DM, Germany and Indian Subsidiary of Nippon Denso Company Limited of Japan, SRF Ltd.

Mr Arun Gupta has been associated with the company since inception He was responsible for conceptualization of the project for setting up the Plant and running it. He is responsible for day to day operations of the Company.

Mr Ashok Khanna, an industrialist, has done B.Tech. (Mech & Industrial Engg.) from IIT, Madras and has to his credit experience of more then 37 years in the Industry being Director on the Board of Various Companies.

None of the Directors of the Company was a member of more than 10 committees nor was the Chairman of more than 5 committees across all companies in which he was a director.

The details of the Directors, their category, attendance particulars and directorship/chairmanship in other companies are tabulated below :

Name	Category	Attendance Particulars		Number of other Directorships and Committee Membership/ Chairmanships		
		Board Meeting	Last AGM	Other Directorships	Committee Memberships	Committee Chairmanships
Executive Directors						
Mr. Chand Seth	Chairman & Managing Director	03	No	2	Nil	Nil
Mr. Harish Seth	Managing Director	03	No	2	Nil	Nil
Mr. Arun Gupta	Whole Time Director	04	Yes	Nil	1	Nil
Non-Executive Directors						
Mr. Dinesh Chand Kothari	Independent Director	03	No	2	3	1
Mr. B. B. Mathur	Independent Director	04	No	Nil	1	Nil
Mr. Ashok Khanna	Independent Director	02	Yes	6	3	2
Mr. C. R. Dua	Independent Director	02	No	9	2	Nil
Mr. Satish. Gupta*	Nominee Director (ICICI)	02	No	2	1	Nil
Mr. Ramesh M. Bhujang	Nominee Director (AFIC)	Nil	No	1	Nil	Nil
Mr. Chandra Shankar	Special Director (BIFR)	04	No	2	Nil	Nil

Directorships received by Directors as mentioned above do not include directorships held in foreign Companies and private companies.

The Committees considered for the purpose are those prescribed under Clause 49 (iv) of Listing Agreement.

- * Nomination of Mr Satish Gupta withdrawn by ICICI Bank from the Board of the Company w.e.f. 23rd April, 2004.

Amongst other things, the terms of Reference to the Board include:

- * Annual operating plans and budgets and any updates thereof.
- * Quarterly Results for the Company.
- * Minutes of the Meetings of the Audit Committee and other Committees of the Board.
- * Information on recruitment and remuneration of Senior Officers immediate to the Board level.
- * Materially important show-cause, demand, and prosecution and penalty notices.
- * Fatal or serious accidents or dangerous occurrences.
- * Any materially significant effluent or pollution problems.
- * Any materially relevant default in financial obligations to and by the Company or substantial non-payment of goods sold by the Company.
- * Any issue, which involves possible public or product liability clause of a substantial nature.
- * Details of any joint venture or foreign collaboration Agreement.
- * Transactions that involve substantial payment towards goodwill, brand equity or intellectual property.
- * Significant labour problems and their proposed solutions.
- * Significant development in human resources and industrial relations fronts.
- * Sale of material, nature of investments, subsidiaries, assets, which is not in the normal course of business.
- * Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement.
- * Non-compliance of any regulatory, statutory or listing requirements as well as shareholder services such as non-payment of dividend and delays in share transfer.

The Board is routinely presented with all information under the above heads whenever applicable and submitted as part of the agenda or either tabled in the course of Board Meetings.

3. COMMITTEE OF DIRECTORS

The Committee consists of three members namely Mr. Chand Seth (Chairman), Mr. Harish Seth and Mr. Arun Gupta. The Board of Directors of the Company has constituted the Committee of Directors for taking decisions on making/reviewing Banking arrangements, approval of short-term and long-term investments, allotment of shares and other financial transactions within the limits specified by the Board. Also, the Committee has authority to approve and deal with transfers/transmission of shares. The Committee of Directors meets as and when the need to consider any matter assigned to it arises. Time Schedule for holding the meetings of the Committee of Directors is finalised, in consultation with the Committee members. The minutes of the proceedings of the Committee are placed before the Board for its perusal and noting.

The Committee of Directors had met 23 times on the following dates namely ; April 16, 2003, May 02, 2003, May 17, 2003, June 02, 2003, June 17, 2003, July 02, 2003, July 17, 2003, August 02, 2003, August 18, 2003, September 08, 2003, September 23, 2003, October 10, 2003, October 31, 2003, November 15, 2003, December 02, 2003, December 16, 2003, December 19, 2003, January 02, 2004, January 15, 2004, February 02, 2004, February 16, 2004, March 02, 2004 and March 16, 2004.

4. AUDIT COMMITTEE

In terms of the provisions of Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement, the Audit Committee comprises of three independent non-executive directors namely Mr. Ashok Khanna (Chairman), Mr. Dinesh Chand Kothari and Mr. B.B. Mathur.

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

- a) Overview of the Company's financial reporting process and the disclosure of its financial information.
- b) Recommending the appointment and removal of external auditors, fixation of audit fee and also for approval of payment for any other services.
- c) Reviewing with management the annual financial statements before submission to the Board, focussing primarily on
 - Any changes in the accounting policies and practices.
 - Major accounting entries based on exercise of judgement by management
 - Qualifications in draft audit report, if any.
 - The going concern assumption.
 - Compliance with Accounting Standards.
 - Compliance with Stock Exchange and legal requirements concerning financial statements
 - Any related party transactions i. e. transactions of the Company of material nature, with promoters or the management, their relatives or subsidiaries etc., that may have potential conflict with the interest of Company at large.
- d) Reviewing with the management, external and internal auditors, the adequacy of the internal control systems.
- e) Reviewing the adequacy of the internal audit functions.
- f) Discussion with internal auditors any significant findings and follow-up thereon.
- g) Reviewing the findings of any internal investigations by the internal auditors in to matters where there is suspected fraud or irregularity or failure of internal control systems of a material nature and reporting the matter to the Board.
- h) Discussion with external auditors, before the audit commences nature and scope of audit as well as have post audit discussion to ascertain any area of concern.
- i) Reviewing the Company's financial and risk management policies.
- j) To look into the reasons for substantial defaults in the payment to the depositors, debentureholders, shareholders (in case of non-payment of declared dividends and creditors).