

16th Annual Report 2006-2007



POKARNA LIMITED

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"The greatest risk of all

is not to take a risk at all."

- Anon

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BOARD OF DIRECTORS

Mr. Gautam Chand Jain, *Chairman & Managing Director*

Mr. Prakash Chand Jain, *Director*

Mr. M.Yugandhar, *Director*

Mr. T.V. Chowdary, *Director*

Mr. Vinayak Rao Juvvadi, *Director*

Mr. Mahender Chand Chordia, *Director*

Mr. Dhanjibhai Sawla, *Director*

Mr. Rahul Jain, *Executive Director*

Mr. Siddharth Jain, *Executive Director*

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COMPANY SECRETARY

Mr. Paras Kumar Jain

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AUDITORS

M/s. S. Daga & Co., Chartered Accountants, Hyderabad.

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BANKERS

Union Bank of India, Secunderabad, Bank of India, Khairatabad, Hyderabad

Indian Overseas Bank, M.G. Road, Secunderabad

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REGISTERED & CORPORATE OFFICE

First Floor, Surya Towers,

105, Sardar Patel Road, Secunderabad-500 003, Andhra Pradesh, India.

Tel: 91-40-27842182, 27844101, 27897722, Fax: 91-40-27842121

Email: contact@pokarna.com

Website: www.pokarna.com, www.stanzaworld.com

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FACTORIES

Survey No.123, Toopranpet (Village),

Choutuppal (Mandal), Nalgonda (District), Andhra Pradesh.

Survey No. 563, 568 & 574,

Aliabad Village, Shameerpet (Mandal), R.R. District, Andhra Pradesh.

Survey No. 33, 39, 50, 51, 55, 68 & 69, Apparels Export Park,

Gundla Pochampally Village, Medchal Mandal, R. R. District, Andhra Pradesh.

Plot No. 45, APSEZ Ltd, Achutapuram & Rambilli Mandals, Visakhapatnam.

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16th ANNUAL GENERAL MEETING

Date: 28th September, 2007 • Time: 10:30 a.m.

Place: Hotel Grand Kakatiya Sheraton & Towers, Begumpet, Hyderabad.

DIRECTORS' REPORT TO THE SHAREHOLDERS

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The directors present their 16th Annual Report and the audited statements of accounts for the year ended 31 March, 2007.

FINANCIAL RESULTS

The Financial Highlights are summarized below:

Rupees in Lakhs

| Particulars | 2006-2007 | 2005-2006 |
|-----------------------------------|-----------|-----------|
| Total Income | 16367.85 | 15270.55 |
| Less-Expenditure | 15125.75 | 13976.51 |
| Profit/(Loss) Before Tax | 1242.10 | 1294.04 |
| Prior Period Items | 9.14 | (2.01) |
| Provision for Taxation | 339.24 | 221.69 |
| Net Balance of Profit | 912.00 | 1070.34 |
| Balance of Profit brought forward | 6257.81 | 5542.43 |
| Appropriation | | |
| Proposed Dividend | 217.03 | 217.03 |
| Corporate Dividend Tax | 36.88 | 30.43 |
| Transfer to General Reserve | 92.50 | 107.50 |
| Balance Carried to Balance Sheet | 6823.40 | 6257.81 |

DIVIDEND

The directors recommend for consideration of the shareholders at the ensuing annual general meeting, payment of a dividend of Rs. 3.50 per share (35 per cent) for the year ended 31 March 2007. The amount of dividend and the tax thereon aggregates to Rs. 253.91 Lakhs.

Dividend paid for the year ended 31 March 2006 was Rs. 3.50 per share (35 per cent). The amount of dividend and the tax thereon aggregated to Rs. 247.46 Lakhs.

NEW PROJECT

As was communicated during the last report, the Company is setting up green field project for manufacturing of engineered stone at APSEZ Limited, Achutapuram, Visakapatnam, Andhra Pradesh. This would be the first ever initiative undertaken by any Indian Company in this sector. The project is expected to go into trial production by the end of March 2008. This being a SEZ unit, the benefits and concessions extended under SEZ Act, 2005 read with SEZ's Rules 2006 would be available to the Unit.

FOREIGN CURRENCY CONVERTIBLE BONDS

Your Company in March, 2007 issued and allotted Zero Coupon Foreign Currency Convertible Bonds ("FCCBs") with a maturity of 5 years and one day. The FCCBs were issued in the principal amount of US \$ 12,000,000 (Twelve Million) and are convertible into ordinary shares of the Company at an initial conversion price of Rs. 295.64 per share. The conversion price of the FCCBs may be adjusted in certain circumstances. Unless previously redeemed or converted or purchased and cancelled, the FCCBs would mature at 144.50 per cent of their principal amount in U.S. dollars on 29 March 2012. The said issue was made at 32% premium to the reference date price. The FCCBs are listed on Singapore Stock Exchange. Up to March 31, 2007, none of the bonds have been converted into equity shares.

The issue proceeds are earmarked for the development of new projects and the modernisation or expansion of existing plants; and for such purposes as may be permitted from time to time under applicable laws.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, the Directors confirm:

- That in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- That they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give 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 that period;
- That they 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 fraud and other irregularities;
- That they had prepared the annual accounts on a going concern basis.

AUDIT COMMITTEE

In consonance with the requirement of Clause 49 of the Listing Agreement entered into with Stock Exchange and Section 292A of the Companies Act, 1956, your Company has constituted Audit Committee. The Composition of the Committee is given else where in the Report.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with stock exchanges, a separate section titled 'Corporate Governance', and the report on 'Management Discussion and Analysis' forms part of the annual report. A certificate from Auditors of the Company regarding compliance of the conditions of 'Corporate Governance' as stipulated under Clause 49 of the Listing Agreement is given in the annual report.

All board members and senior management personnel have affirmed compliance with the code of conduct for the year 2006-07. A declaration to this effect signed by the Chairman & Managing Director (CEO) of the company is annexed to this report.

The CEO and Chief Financial Officer (CFO) have certified to the board with regard to the financial statements and other matters as required in clause 49 of the listing agreement.

AUDITORS

M/s. S. Daga & Co., Chartered Accountants, retire as auditors of the Company and have given their consent for re-appointment. The members are requested to appoint auditors for the period from the conclusion of the ensuing annual general meeting till the conclusion of the next annual general meeting and authorize Board to fix their remuneration.

As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate 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.

DIRECTORATE

Shri Meka Yugandhar, Shri T.V. Chowdary, Shri. Mahender Chand Chordia and Shri Dhanjibhai Sawla retire by rotation and, being eligible, offer themselves for re-appointment.

AWARDS AND ACCOLADES

Your Company was conferred first prize for being the 'Company with Highest Turnover' in Stone Granite & Marble Sector' by Construction World (a Largest Circulated Construction Business Magazine).

Your Company was conferred '**Special Export Award**' by CAPEXIL for Export achievement in Granite Sector.

ISO 9001:2000 CERTIFICATION:

Your Company's granite processing units were accredited with ISO 9001:2000 certification by Bureau Veritas Quality International (BVQI) Mumbai, for manufacture and supply of granite slabs, tiles, monuments, top management, business development, human resources and purchasing function. Similarly company's apparel division was accredited 9001:2000 certification from BVQI for manufacturing, marketing and supply of men's apparel for domestic and international market.

PERSONNEL

The particulars of employees as required to be disclosed in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 (as amended) are annexed to the Directors Report. However as per the provisions of Section 219(1) (b)(iv) of the Companies Act, 1956, the Report and the Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholders interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Disclosure under "Form A" pursuant to Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is not applicable to the Company.

Company's quarrying operations, granite processing plants and apparel manufacturing plant are designed to achieve high efficiency in the utilisation of energy. The key areas with regards to reduction of energy have been identified by us and necessary steps initiated. The Company has no specific Research & Development department.

FORM B

(Disclosure of particulars with respect to Technology Absorption)

Research and development (R & D)

1. Specific areas in which R & D carried out by the company – Not applicable having regard to the nature of the industry.
2. Benefits derived as a result of the above R&D – Not applicable having regard to the nature of the industry.
3. Future plan of action – Not applicable having regard to the nature of the industry.
4. Expenditure on R & D:
 - (a) Capital – Nil
 - (b) Recurring – Nil
 - (c) Total – Nil
 - (d) Total R&D expenditure as a percentage of total turnover – Nil

The Company maintains a high level of information flow with various companies. Through visits of Executives to developed countries, the Company keeps abreast with the advanced Technology Developments and through specific programmes introduces, adopts and absorbs these sophisticated technologies. This has resulted in higher production, accuracy and perfection in excavation of rough granite blocks, processing of random granite slabs and tiles, and, manufacturing of apparel.

Your Company is at present exporting to the Austria, Australia, Belgium, Canada, China, Germany, Greece, Hawaii, Ireland, New Zealand, Palestine, Panama, Poland, Puerto Rico, Pakistan, Russia, Spain, South Africa, Switzerland, USA, Ukraine and U.K. Your Company is continuously exploring possibilities of exporting to different markets.

During the period under review:

- a. the foreign exchange earnings by the Company was Rs. 12584 Lakhs.
- b. the foreign exchange expenditure (which includes import of raw materials, spares, etc.) was Rs. 4412 Lakhs.

ACKNOWLEDGEMENTS

Your Directors are thankful to Union Bank of India for meeting long term and working capital needs of the Company's expanding operations and Indian Overseas Bank and Bank of India for meeting long term capital needs of the Engineered Stone Division of the Company. The Board is also thankful to the holders of Foreign Currency Convertible Bonds for their support.

The Directors are grateful to the Central and State Governments and the Department of Mines & Geology, Andhra Pradesh, Directorate General of Mines Safety, Andhra Pradesh Industrial Infrastructure Corporation Limited, and Visakapatnam Special Economic Zone for their continued support to the Company's expansion plans. Your Board places on record its appreciation of the support provided by the customers, suppliers and equipment vendors to the Company.

Your Directors acknowledge with gratitude the commitment and dedication of the employees at all levels, that has contributed to the growth and success of the Company.

The Directors take this opportunity to record their appreciation for all those who contributed to the success of your Company and look forward to their continued support in the years to come.

For and on behalf of the Board

Place : Secunderabad

Date : 31st July, 2007

Gautam Chand Jain
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

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1. INDUSTRY STRUCTURE AND DEVELOPMENT

Granite

The word “Granite” is derived from the Latin word “Granum” meaning “grain” because of its granular nature.

Your Company’s granite segment activities can be broadly classified into the following.

Quarrying

Granite quarry is a pit or some open excavation from which granite is extracted. To extract granite from a quarry digging, cutting or cracking process is undertaken. This process of extracting the stone is called as quarrying. Your Company extensively uses mining machinery, such as excavator, tam rock, compressor and drilling machine for drilling, wire saw for dressing the blocks, crane for lifting big blocks, and dumpers and truck for transport of the waste and finished product. Your company recognises the importance of using earth’s resources in a responsible manner as this makes greater business sense. To compliment this philosophy your Company carries out scientific quarrying operations using the most mechanized quarrying machinery and by extensively using environmental friendly, very safe and non-explosive cracking agent. Your Company’s endeavour is to quarry in a manner such that there is no impact whatsoever on the environment including men, flora and fauna.

Manufacturing of slabs and tiles

To transform the huge block of rough granite into smaller pieces for manufacturing, the block must be sawed into slabs. This operation is performed by gang saw. Gang saw use fine steel shot and dozens of thin blades powered by pitman drive and flywheel assemblies to operate the huge saw mechanisms primarily used to produce thin structural stone panels. Large pumps in pits below the saws maintain a constant flow of water and steel shot slurry onto the block being cut. After slabs are sawed, they are sent for leveling, grinding and polishing.

Your Company has two manufacturing complexes with state-of-the-art equipment imported from the finest companies in the world. These machines extract the raw material; then cut and polish the granite with unmatched precision and efficiency thus ensuring a great finish.

As per the data available with the Company, it is the largest exporters of Granite slabs from India dealing in over 70 premium colors and exporting more than 140 containers every month to the most reputed companies all over the world.

Apparel

Apparel retailing is the country’s second largest opportunity for the organised retailers after food and groceries. The garment industry in India is a \$23 billion industry (at the current rate of exchange of Rs. 45/- = US\$). This industry also comprises the organized and unorganized sector. The unorganized sector largely consists of job workers who carry out jobs given by their principals, under their supervision. The organized sector generally consists of units having a minimum of 10 sewing machines under one roof. The organized sector is, by and large, update with modern technology, has economies of scale, is cost-competitive and is in a position to execute orders on time. The garment industry produces over 100 varieties of garments for different end-uses. Additionally, a section of the industry concentrates on manufacture of ethnic garments, or what are traditionally called “India Items”. Unlike the other segments of the textile industry, the apparel sector is relatively new because, traditionally, most Indian garments were made in the home or on a custom basis by local tailors.

Indian apparel producers are increasingly cognizant of emerging challenges and opportunities. Some firms, including a number of the largest firms in the textile business, are increasing investment in larger scale apparel enterprises, as well as in integrated operations involving some combination of spinning, weaving, finishing, and apparel making. But domestic and foreign direct investments to build capacity and strengthen competitiveness in the apparel sector have been small,

compared with investments in some other countries, particularly China. Fabric production and the exports, including exports of apparel, have been rising over the years and it is expected to maintain the trend in the future also.

The IMAGES-KSA Technopak Indian Apparel Report 2006 estimates the market size of the men's shirt market at Rs 12,010 crore, a category that commands the largest chunk of the country's apparel market share (14 per cent).

Your Company continues to be a preferred contract manufacturer for renowned international brands. Your Company's premium clothing brand STANZA has positioned itself very aggressively in the market. Right from its launch, STANZA has continuously been setting new standards in the men's wear domain, which in the past have never been focused on. Your Company believes in quality and that is the force driving it to excel continuously.

Company has opened exclusive STANZA shops (franchisee and self managed) in Secunderabad, Chandigarh, Pune. During financial year 2007-2008, Company would open STANZA shops in Jaipur, Mumbai, Ahmedabad, Surat and Kolkata.

Engineered Stone / Compound Stone / Quartz Surface

Throughout the centuries natural stone has been a predominate feature in a broad range of architectural works, and by tradition it will rightly hold a position of prestige also in future. However, over the years many limitations to the modern use of natural stone have become evident: the extensive exploitation of stone quarries has caused a shortage and at times even the total exhaustion of this resource in certain areas which is in direct conflict with environmental legislation; as natural stone by nature is often imperfect, it is very difficult to find large quantities that are aesthetically the same and perfectly uniform in their appearance; natural stone is not always the ideal solution to express new and innovative aesthetic and functional ideas of contemporary architects. Therefore, it has become a necessity to offer, in parallel to the evolution in tastes and the pace of life we live in today's society, new solutions and new technical and aesthetic proposals in masonry materials for the building and architectural industries.

The request today is for "stone" materials which are both innovative and contemporary in their appearance and in their technical features, and that can be designed for single and individual projects based on the tastes and requirements of the end user, and that are acid resistant, anti-scratch, anti-slip, in other words, these "stone" materials must have all those features which ensure safety, respect nature, and can be adapted to modern construction and design techniques, aesthetically pleasing in appearance and durable.

Breton is world leader in the stone market industry for its plants and technology for manufacturing and processing compound stone, with an absolutely exclusive know-how, fruit of ongoing research and innovation which started back in 1963, the year the company was first founded. There are many registered patents which cover solutions, ideas, technologies and machines offered by Breton. Breton has an important and well-equipped Research Centre and a team of highly qualified professionals in chemistry, physics and mechanics who thanks to the aid of sophisticated research tools and an engineering process laboratory equipped with machines and plants for compound stone, develop new products, new production processes and new processing technologies.

Breton plants for manufacturing compound stone are installed and successfully working in over 50 countries worldwide, with an annual production rate estimated at around 40 million square metres. The commercial success of Breton plants is demonstrated by the substantial and rapid increase in the consumption of compound stone on the world market, from the west coast of the USA across the globe to the Asian coasts of the Pacific basin. Considering that the current consumption of compound stone worldwide can be described as outstanding, it still only accounts for a small percentage, around 0.5%, of cladding materials utilised around the world, however it is more than evident the enormous growth potential compound stone will have in the near future.

Breton compound stone can be described as environmentally friendly as 96% of its content comes from crushed waste stone left over in quarries (up to 60% of waste stone is produced when extracting stone blocks) or from natural stone beds. Therefore, to manufacture Breton compound stone it is not necessary to open new quarries inevitably defacing the environment. Breton compound stone contains bonding agents which are transformed into inert materials during the manufacturing process therefore the final product does not produce any form of allergen making this type of product the ideal stone solution for any location.