

From the most
intriguing natural granite
to the most spectacular
Quartz surfaces.

Quantra

Quartz surfaces from Pokarna

From a brand new, state of the
art manufacturing complex
with the patented equipment and
expertise of Breton S.p.A. of Italy.

18th annual Report 2008-2009

We call it technology ...
powered by nature.

“The greatest risk of all

is not to take a risk at all.”

— Anon

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BOARD OF DIRECTORS

Shri Gautam Chand Jain, *Chairman & Managing Director*

Shri Prakash Chand Jain, *Director*

Shri M Yugandhar, *Director*

Shri T V Chowdary, *Director*

Shri Vinayak Rao Juvvadi, *Director*

Shri Mahender Chand Chordia, *Director*

Shri Dhanjibhai Sawla, *Director*

Shri Rahul Jain, *Executive Director*

Shri Siddharth Jain, *Executive Director*

.....●.....

COMPANY SECRETARY

Shri Paras Kumar Jain

.....●.....

AUDITORS

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

.....●.....

BANKERS

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

Indian Overseas Bank, M.G. Road, Secunderabad

.....●.....

REGISTERED & CORPORATE OFFICE

First Floor, Surya Towers,

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

Tel: 91-40-27842182, 27844101, 27897722, 66310111/222, 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.

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18th ANNUAL GENERAL MEETING

Date: 23rd September, 2009 • Time: 10:30 a.m.

Place: Hotel Fortune Select Manohar, Old Airport Exit Road, Begumpet, Hyderabad.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors are pleased to present the 18th Annual Report together with the Audited Accounts of your Company for the financial year ended 31st March, 2009. The summarised consolidated and standalone financial performance of your Company is as under:

FINANCIAL RESULTS

Rupees in Lakhs

Particulars	Standalone		Consolidated	
	2008-2009	2007-2008	2008-2009	2007-2008
Total Income	14913.78	15932.07	14915.29	—
Less-Expenditure	14798.56	15186.93	14799.39	—
Profit/(Loss) Before Tax	115.22	745.14	115.90	—
Prior Period Items	—	(5.98)	—	—
Provision for Taxation	84.33	280.20	84.55	—
Net Balance of Profit	30.89	458.96	31.35	—
Balance of Profit brought forward	6181.37	6823.40	6184.64	—
Appropriation	—	—	—	—
Dividend	—	93.01	—	—
Corporate Dividend Tax	—	15.81	—	—
Transfer to General Reserve	—	25.00	—	—
Transfer to FCCB Redemption Reserve	1488.49	967.16	1488.49	—
Balance Carried to Balance Sheet	4723.77	6181.38	4727.50	—

Over the review period, the global economy has started to witness perhaps the most turbulent economic challenges ever. Almost every country in the world and all industrial sectors are exposed to adverse effects of the slow-down. The Company witnessed enormous challenges due to the sudden and severe slow-down in all its business.

According to the World Economic Outlook of the International Monetary Fund, while the U.S. economy may have suffered particularly from intensified financial strains and the continued fall in the housing sector, Western Europe and advanced Asia have been hit hard by the collapse in trade as well as rising financial problems of their own and housing corrections in some national markets. As the global downturn deepens and credit markets remain severely impaired, the threat of credit defaults is rising to dangerous levels.

The current downturn in the U.S. and global economies, along with the housing markets in such economies, has negatively impacted the dimension stone industry and Your Company's granite business.

The bottom-line of this apparel division of Your Company continues to be severely affected due to lower capacity utilisation at manufacturing (contract exports) and lower consumer footfalls and higher discounting at the apparel retailing (STANZA brand) part of the business.

SCHEME OF ARRANGEMENT

The Board through a resolution dated 15th September, 2008 and Members' of the Company through a Court convened meeting dated 8th February, 2009 had approved the Scheme of Arrangement ("Scheme") between the Company and Pokarna Engineered Stone Limited ("PESL") a wholly owned subsidiary of the Company. The Scheme under Sections 391 to 394 of the Companies Act, 1956, interalia, provided for transfer and vesting of Engineered Stone Division of the Company to PESL.

The Hon'ble High Court of Andhra Pradesh vide its Order received by the Company on May 6, 2009 directed and ordered that the 'Engineered Stone Division' of the Company be transferred and vested with PESL, from the appointed date i.e. 1st July, 2007. Accordingly, the assets and liabilities, the legal proceedings, the employees, employee related benefits and all contracts and agreements in relation to the said Engineered Stone Division have been transferred to PESL w.e.f. 1st July, 2007. The Net Consideration as per scheme of Rs. 667.03 Lakhs has been discharged by PESL through issue of 66,70,280 optionally convertible debentures of face value of Rs. 10/- each in favour of the Company on 29th June, 2009. The terms of these optionally convertible debentures are as per the Scheme.

For the period between appointed date i.e., 1st July, 2007 and effective date 15th May, 2009 (the date on which the Order of the Hon'ble High Court of Andhra Pradesh was filed with the Registrar of Companies, Andhra Pradesh), the Engineered Stone Division was part of the Company. Hence, an agency entry has been passed in the Books of Accounts to transfer assets, liabilities, expenses and income recorded in the Books of Accounts of the Company for the said period. The net consideration of Rs. 5438.84 Lakhs for transfer of assets, liabilities, income and expenses for the period from 1st July, 2007 to 31st March, 2009 has been discharged by PESL through issue of 5,43,88,484 optionally convertible debentures of face value of Rs. 10/- each in favour of the Company on 29th June, 2009. The terms of these optionally convertible debentures are same as that of optionally convertible debentures allotted as per the Scheme.

SUBSIDIARY & CONSOLIDATED FINANCIAL STATEMENTS

Pokarna Engineered Stone Limited ("PESL") is the wholly owned subsidiary of the Company w.e.f. 15th September, 2008. Accordingly, in terms of the Section 212 of the Companies Act, 1956, a copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and Report of the Auditors of PESL have been attached to the Accounts of the Company for the year ended 31st March, 2009 and forms part of this annual report. The Statement as required under Section 212(3) also forms part of this annual report.

Consolidated Financial Statements in accordance with Accounting Standard-21 issued by The Institute of Chartered Accountants of India have been provided in the Annual Report. These Consolidated Financial Reports provide financial information about Your Company and its Subsidiary as a single economic entity. The Consolidated Financial Statements form part of this Annual Report.

DIVIDEND

Your Company has been declaring dividend consistently. The Company's dividend policy is based on the need to balance the twin objectives of appropriately rewarding the shareholders with cash dividend and of retaining adequate capital to meet the Company's future investment needs. Keeping in mind the profit earned during the financial year, overall financial position and necessary financial prudence, the Directors of the Company do not recommend dividend for the financial year ended 31st March, 2009.

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 Bombay Stock Exchange Limited, 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 2008-09. 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.

AUDIT

M/s. S. Daga & Co., Chartered Accountants, who are the Statutory Auditors of the Company hold office until the ensuing Annual General Meeting. It is proposed to re-appoint them to examine and audit the accounts of the Company for the Financial Year 2009-10. As required under the provisions of Section 224 of the Companies Act, 1956, the Company has obtained a written certificate from M/s. S. Daga & Co., Chartered Accountants to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

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.

AUDITORS' OBSERVATIONS

With regard to the emphasis of matters and observations in the Auditors' Report, though not statutorily warranted, explanations are given below:

1. The Auditors without qualifying their opinion have observed that the Company's financial statements for the year under review to the effect that the Company has paid managerial remuneration to its Chairman & Managing Director in excess of the limits under the Companies Act, 1956 ("Act"). The explanation to this qualification is that the Company had adequate profits for past many years and thus has been paying remuneration to its managerial personnel within overall limits as specified under the Act. However, due to large exposure of the Company's granite business to the U.S. market and the current downturn in the U.S. and global economies, along with the housing markets in such economies, has severely impacted the Company's business. Similarly the bottom-line of apparel business of the Company continues to be severely affected due to lower capacity utilisation at manufacturing (contract exports) and lower consumer footfalls and higher discounting at the apparel retailing (STANZA brand) part of the business.

In view of this, the managerial remuneration paid to Chairman & Managing Director during the year exceeded the limits prescribed under the Act. In case Members at the this Annual General Meeting, the Company approve the resolution relating to payment of excess remuneration to Chairman & Managing Director, the Company would seek approval of the Central Government for waiver such excess remuneration paid. Pending approval of the Members at the ensuing annual general meeting and the approval of the Central Government, the remuneration paid during the year, in excess of the limits prescribed under the Act, amounting to Rs. 28,55,240 is being held in trust by Chairman & Managing Director for the Company.

2. The Auditors without qualifying their opinion have observed that the Company has made transfer of assets during the year under a Scheme of Arrangement entered into with its subsidiary company Pokarna Engineered Stone Limited and their respective shareholders and creditors under Section 391 to 394 of the Companies Act, 1956, which was sanctioned by the Hon'ble High Court of Andhra Pradesh at Hyderabad. These observation on Scheme of Arrangement are self explanatory and therefore, do not call for any further comments.

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 'Special Export Award' by CAPEXIL for Export achievement in Granite Sector. The Marble Institute of America conferred the "ROCKY" award for Collateral Material, Brochure, Print Advertisement and Magazine.

PARTICULARS OF EMPLOYEES

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.

PROMOTER GROUP

Pursuant to intimation from Jain Family Promoters of Your Company, the names of Jain Family Promoters and Companies comprising the "group" as defined in the Monopolies and Restrictive Trade Practices Act, 1969, have been disclosed in the Annual Report of Your Company for the purpose of Regulation 3(1) (e) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997:

1. Gautam Chand Jain & Family
2. Ashok Chand Jain & Family
3. Prakash Chand Jain & Family
4. Dilip Kumar Jain & Family
5. Raaj Kumar Jain & Family
6. Rahul Jain & Family
7. Siddharth Jain
8. Neha Jain
9. Ekta Jain
10. Sneha Jain
11. Pokarna Fabrics Limited *
12. Pokarna Marketing Limited*
13. Pokarna Apparels Limited *
14. Pokarna Fashions Limited *

Family for this purpose includes spouse, dependent children and parents.

* Company owned and controlled by the Jain Family. These companies are not Member(s) / Shareholders of the Pokarna Limited or its Subsidiary.

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 granite to United States of America, United Kingdom, Canada, Switzerland, New Zealand, Russia, Australia, Liechtenstein, Mauritius, Ireland, Spain, France, Germany, United Arab Emirates, Belgium, South Africa, Greece, Republic of Panama, Poland, Israel, Mexico, Netherlands, Venezuela, Libya, Jordan, Saudi Arabia, Bahrain, China, Colombia, Italy, Taiwan, Slovenia, and Puerto Rico.

Your Company is at present exporting apparel to Germany, USA, Canada, Italy and Netherlands.

Your Company is continuously exploring possibilities of exporting to different markets.

During the year under review, the total standalone foreign exchange earnings and expenditure of your Company was Rs. 10523 Lakhs and Rs. 2879 Lakhs respectively.

ACKNOWLEDGEMENTS

Your Directors would like to express their grateful appreciation for the excellent support and co-operation received from the Banks, Government Authorities, Customers, Suppliers, Shareholders and other Stakeholders during the year under review. The Board is also thankful to the holders of Foreign Currency Convertible Bonds for their support.

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, 2009

Gautam Chand Jain
Chairman & Managing Director