PART XX

DIRECTORS' REPORT

Synopsis

Important Provisions at a Glance

Sl. No.	*Sections*	*Matters dealt with*	*Form Nos.*
1.	217(1)	Attachment of Directors' Report to balance sheet lay before the company's annual general meeting.	

Sl. No.	*Sections*	*Matters dealt with*	*Form Nos.*
2.	217(2)	Disclosure of material changes which has been accrued during the financial year.	
3.	217(2A)	Statement showing particulars of employees drawing salary not less than Rs. 24.00 Lacs p.a. or not less than Rs. 2.00 Lacs p.m. for part of the year.	
4.	217(2AA)	Inclusion of Directors' Responsibility Statement.	
5.	218	Penalty for circulation of the Balance Sheet without being attached the Directors' Report.	
6.	219	Right of members and others for obtaining copy of the Balance Sheet alongwith the Directors' Report and other documents.	
7.	220	Filing of Balance Sheet with Directors' Report with the ROC.	
8	Clause 49 of Listing Agreement	Report on Corporate Governance	

1. Provision applicable to all type of companies

Section 217 provides that every company, public or private shall forward to its members along with its annual balance sheet and profit and loss account, the directors' report. The directors' report is an important document in which the Board gives a complete review of the performance of the company during the year under review and other information as explained below:

2. State of the company's affairs

The Directors' Report generally starts with the financial results of the year and shows the turnover, profits before tax, provision for tax, provisions of depreciation, profit after tax, appropriation of profits including the mandatory transfer to general reserve, etc.

It is customary to give comparative data for the previous years in a logical presentation, forms like, tables, graphics, etc. The Board also point out any problem faced by the company, which have affected the profits and operations and measures, which have been taken to improve the working and reduce costs.

3. Recommendation of dividend in the Directors' Report

Where it is proposed to pay dividend on equity or preference shares, the Directors' Report shall contain the recommendation of the Board as to the rate of dividend for the year under review for the approval of members at the annual general meeting. The Board's proposal about dividend shall be in conformity with the relevant rules.

4. Disclosure of material changes since the data of balance sheet

As there must be some interval of time between the end of the financial year and the day on which the Board finalised the Directors' Report, the Board shall indicate in the report the up-to-date status and position affecting the financial impact on the operations of the company as well as material changes that have occurred which have a bearing on the working of the company. The expression would include events such as the following:—

(*a*) disposal of a substantial part of the undertaking;

(*b*) changes in the capital structure;

(*c*) any serious breakdown which has happened and the steps taken to reduce its adverse impact;

(*d*) alteration in wage structure arising out of trade union negotiations;

(*e*) material changes concerning purchase of raw materials and sale of the products, etc.

Subject to following the necessary precaution of not to disclose any information which is not in the interest of the business of the company or which may help the competitors, the directors' report shall give details of the changes, if any, that have occurred during the year under review, in the nature of the business of the company and in the class of business in which the company has interest and also in the nature of its subsidiary, if any.

5. Disclosure of composition of the Audit Committee

Section provides that every public company having paid-up capital of not less than Rs. 5.00 Crore shall constitute an Audit Committee of the Board. Section 292A(4) provides that the annual report of the company shall disclose the composition of the Audit Committee.

Further that the recommendation of the Audit Committee on any matter relating to financial management, including the auditor's report shall be binding on the Board. If the Board does not accept the recommendation of the Audit Committee, the reasons thereof shall be explained in the Directors' Report for communication to the shareholders of the company.

If default is made in complying with the provisions of section 292A, the company and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year, or with fine which may extend to Rs. 50,000 or with both.

6. Attachment of the Compliance Certificate given by a Company Secretary in Practice with the Directors' Report

Section 383A provides that every company not required to appoint a full time company secretary and having paid-up capital of Rupees Ten Lacs or more (a company having paid up capital exceeding Rs.10.00 lacs or more but less than Rs. 200.00 lacs) shall obtain a compliance certificate from a company secretary in practice and a copy of such certificate shall be attached with the Directors' Report.

However, if a company, which is not required to employ a company secretary but have employed the company secretary, such a company is not required to obtain compliance certificate from company secretary in practice. [Circular No. 35/2003 dated 11-12-2003].

7. Information to be given in the Directors' Report regarding acceptance of deposits from general public

The Directors' Report of every NBFC company covered by the RBI directions and inviting or accepting deposits shall, *inter alia*, contain the following particulars:—

(*i*) The total number of accounts of public deposits which have not been claimed by the depositors or not paid by the company after the due date.

(*ii*) The total amount unclaimed or unpaid as above as on the last date of the financial year to which the report relates. If such unclaimed or unpaid amount exceeds Rs. 5 Lakhs, the report shall also contain the steps taken or proposed to be taken by the Board for the repayment of the said deposits.

8. Comments on the reservation, qualification or adverse remarks given in the Auditors' Report

Section 217(3) provides that the Board of directors shall be bound to give full information and contain a suitable explanation in the Directors' Report on any adverse remark or qualification made by the Auditors in their report on the accounts audited by them.

9. Information on conservation of energy/technology absorption, etc.

The Board of all manufacturing companies as covered under the Companies (Disclosure of Particulars in the Board of Directors' Report) Rules, 1988, whether, public, private or government company shall include particulars in the Directors' Report with respect to the following matters (Appendix 1):—

(1) Actual energy consumed and energy conservation measures adopted in the industries specified in Form 'A'.

(2) Nature of Research and Development efforts in the company and efforts made towards technology absorption, adaptation and innovation in Form 'B' in respect of all industries.

(3) Foreign exchange outgo and inflow in the company in respect of all industries.

10. Disclosure of particulars of employees' remuneration Rs. 24.00 Lakhs p.a. or Rs. 2.00 Lakhs p.m.

Section 217(2A) provides that the Directors' Report shall contain information in a statement about employees who are in receipt of remuneration of such sum as may be prescribed, per annum if employed in the whole of last year or per month if employed for part of the year. The particulars required to be given in the statement to the Directors' Report shall be in accordance with Companies (Particulars of Employees) Rules, 1975 which was last amended on 24th March, 2004. (Appendix 2) The salary limit of employees for the purpose of the above Rules has been raised *vide* Notification GSR 288(E), dated 17-4-2002 from Rs. 12.00 Lakhs to Rs. 24.00 Lakhs per annum in respect of employees employed throughout the year or from Rs. 1 Lakh to Rs. 2.00 lakh per month if employed for part of the year. The following particulars are required to be given in that respect:—

(*a*) Designation of the employee.

(*b*) Remuneration received.

(*c*) Nature of employment, whether contractual or otherwise.

(*d*) Other terms and conditions.

(*e*) Nature of duties of the employee.

(*f*) Qualifications and experience of the employee.

(*g*) Date of commencement of employment.

(*h*) Age of the employee.

(*i*) Last employment held by such employee before joining the company.

(*j*) Percentage of equity shares held by the employee within the meaning of section 217(2A)(*iii*)(*a*).

(*k*) Whether the employee is a relative of any director or manager of the company and the name of such director.

As regards item (*j*) above, it may be mentioned here that the shareholding of the person, if any, together with that of his wife and dependent children need be given only if he draws remuneration from the company in excess of that drawn by the managing director, whole-time director or manager and if such shareholding is not less than 2% of the equity shares of the company.

10.1. Calculation of remuneration

The remuneration referred to above is stated to mean the same way as in section 198. In terms of section 198, the term shall include all expenditure incurred by the company in providing rent-free accommodation, benefit or amenity and any expenditure incurred by the company, which would have been incurred by the employee if not paid by the company.

The Department of Company Affairs clarified *vide* its Letter No. 8/27 (217)/75-CL.V, dated 6-8-1976 (Circular No. 23/76) that the expression 'remuneration received' occurring in the rules include all expenses incurred by the companies in providing any benefit or amenity to the employee and the word 'remuneration' has the meaning assigned to it in section 198. However, on the analogy that in Part II of Schedule VI under clause (*x*) of paragraph 3, Note 2, companies were allowed to value the monetary value of perquisites in accordance with the provisions of the Income-tax Act, 1961 for the purpose of computing the value of remuneration of employees to be given under the balance sheet and profit and loss account and the monetary value of perquisites for the purpose of giving employees' particulars in a statement to Directors' report was also being computed as per the provisions of Income-tax Act. The DCA has further clarified by Circular No. 8/7(217)/75-CL.V, dated 20-9-1997 that valuation of perquisites like furniture, fittings, airconditioner, etc. was at 10% of the cost of such items and as regards buildings purchased by the company and let out to its employees, the annual ratable value fixed for Municipal taxes may be taken as rent and 10% of cost of furniture, air-conditioners, etc. may be added if the accommodation provided is furnished.

10.2. Calculation of percentage of shareholding

The percentage of shareholding should be given, if an employee along with spouse and children holds not less than two per cent of the equity share capital of the company.

10.3. Employees' Particulars in loose Annexure

The DCA has clarified *vide* Letter No. 8/27(217)75-CL.V, dated 30-6-1976 that furnishing employees' particulars in a loose annexure with the Directors' Report is not proper compliance of section 217(2A).

10.4. Compliance of the Employees Rules now become very easier

Looking into the problems being faced by many companies in bringing out the statement with the Directors' Report. The problems have been solved to a large extent as the threshold limit of annual remuneration has been raised to Rs. 24 lakh with effect from 17-4-2002 referred to above. In this context it may be advisable to state that the employees' particulars and the details regarding conservation of energy, etc. shall be printed after the Directors' Report.

10.5. Exemption to certain employees in Information Technology sector

The Department of Company Affairs has issued a Notification 212(E) dated 24-03-2004 which states that particulars of employees of companies engaged in "Information Technology" sector, posted and working in a country outside India, not being directors or their relatives, drawing more than rupees twenty four lakh per financial year or rupees two lakh per month, as the case may be, shall not be included in such statement of the Board's report but such particulars shall be furnished to the Registrar of Companies and such particulars shall be made available to any shareholder on a specific request made by him during the course of annual general meeting in which the same is considered.

11. Disclosure for change in the directors and proposal for appointment thereof at the annual general meeting

The Board of directors should make disclosure in the Director's Report for the changes made in the composition of the Board of directors from the date of the previous Directors' Report to the date of the present Directors' Report.

Further that if the company proposes for appointment of a director other than liable to retire by rotation or re-appointment of directors liable to retire by rotation, proposal for appointment of managing or whole time director should also be disclosed in the Director's Report.

12. Disclosure for appointment of Auditors of the Company

The Directors should also make disclosure in their report regarding proposal for re-appointment of the auditors at the annual general meeting along with confirmation whether the retiring auditors has given eligibility certificate for their appointment.

13. Report on Corporate Governance

In case of listed company having paid up capital in excess of Rs. 3 Crore, it is required to comply with the requirement of Clause 49 of the listing agreement and a certificate to that effect given by the statutory auditors or by a company secretary in practice should also be enclosed with the Directors' Report alongwith the certificate of the CEO/Managing Director of the Company. For further detailed see the relevant part of the book.

14. Report on projection made in offer document for public or right issue by a listed company

Clause 43(*c*) of the Listing Agreement provides that if there are material variations between the projections and the actual utilisation/profitability, the company in case of Initial public offer have been shall furnish an explanation therefore in the advertisement and shall also provide the same in the Directors' Report.

15. Report of the utilisation of proceeds on the public issue and preferential allotment of securities

In case if a listed company raise capital by way of public issue and/or preferential allotment, as per SEBI (Disclosure and Invertors Protection) Guidelines, it is required to give report on the receipt and utilisation of the same with comparative statement of the disclosure given to the members while issuance of the notice for seeking approval and actual utilistion.

16. Inclusion of the Directors' Responsibility Statement

Sub-section (2AA) of section 217 requires that 'the Board's report shall also include a Directors' Responsibility Statement indicating therein:—

(*i*) that in the preparation of the annual accounts, the applicable accounting standards had been followed alongwith 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 profit or 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 Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(*iv*) that the directors had prepared the annual accounts on a going concern basis.

17. Disclosure for failure to complete buy-back within time

Sub-section (2B) to section 217 requires to specify in the Directors' Report the reasons for failure, if any, to complete buy-back within 12 months as specified in section 77A(4) of the Companies Act.

18. Disclosure for issuance of sweat equity shares

Unlisted Companies (Issue of Sweat Equity Shares) Rules, 2003 provides that the Board of directors shall, *inter alia*, disclose either in the Directors' Report or in the annexure to the Directors' Report, the following details of issue of sweat equity shares:

(*a*) number of shares to be issued to the employees or the directors;

(*b*) conditions for issue of sweat equity shares;

(*c*) the pricing formula;

(*d*) the total number of shares arising as a result of issue of sweat equity shares;

(*e*) money realised or benefit accrued to the company from the issue of sweat equity shares;

(*f*) diluted Earnings Per Share (EPS) pursuant to issuance of sweat equity shares.

19. Signing of the Directors' Report

Section 215 provides that the Directors' Report shall be signed by the chairman, if so authorised by the Board or by two directors, one of whom shall be the Managing Director, if there is one.

20. Penalties

If any person being a director of a company fails to take all reasonable steps to comply with the provisions of section 217 or being the chairman, signs the Directors' Report otherwise than in conformity with the provisions of sub-section (4), he shall, in respect of each offence be punishable with imprisonment upto six months or pay increased fine upto Rs. 20,000 or with both.

Appendix 1

The Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988[1]

[*Notification No. GSR 1029, dated December 31, 1988*]

In exercise of the powers conferred by section 642 read with clause (*e*) of sub-section (1) of section 217 of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules, namely:—

1. (1) These Rules, may be called the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

(2) They shall come into force on the 1st day of April, 1989.

2. Every company shall, in the report of its board of directors, disclose particulars with respect to the following matters, namely:—

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1 **See** Section 217(1)(*e*) of the Companies Act, 1956.

A. Conservation of energy—

(*a*) energy conservation measures taken;

(*b*) additional investments and proposals, if any, being implemented for reduction of consumption of energy;

(*c*) impact of the measures at (*a*) and (*b*) above for reduction of energy consumption and consequent impact on the cost of production of goods;

(*d*) total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries specified in the Schedule thereto.

B. Technology absorption—

(*e*) efforts made in technology absorption as per Form B of the Annexure:

C. Foreign exchange earnings and outgo—

(*f*) activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services and export plans;

(*g*) total foreign exchange used and earned.

ANNEXURE

FORM A

(*See* rule 2)

Form for disclosure of particulars with respect to conservation of energy

A. Power and fuel consumption

1. Electricity

	Current year	Previous year
(*a*) Purchased		
Unit		
Total amount		
Rate/unit		
(*b*) Own generation		
(*i*) *Through diesel generator*		
Unit		
Units per ltr. of diesel oil		
Cost/unit		
(*ii*) *Through steam turbine/generator*		
Units		
Units per ltr. of fuel oil/gas		
Cost/unit		

2. Coal (*specify quality and where used*)

Quantity (tonnes)

Total cost

Average rate

3. Furnace oil

Quantity (k ltrs.)

Total amount

Average rate

4. Others/internal generation (*please give details*)

Quantity

Total cost

Rate/unit

B. Consumption per unit of production

	Standards (if any)	Current year 1	Previous year 2
Products (*with details*) *unit*			
Electricity			
Furnace oil			
Coal (specify quality)			
Others (specify)			

Notes:

(1) Please give separate details for different products/items produced by the company and covered under these rules.

(2) Please give reasons for variation in the consumption of power and fuel from standards of previous year.

(3) In case of production of different varieties/specifications consumption details may be given for equivalent production.

SCHEDULE

(*See* rule 2)

List of industries, which should furnish information in Form A

1. Textile
2. Fertilizer
3. Aluminium
4. Steel
5. Refineries
6. Petro-chemicals and chemicals
7. Cement
8. Dairy and food processing
9. Cold storage plant
10. Electric arc furnaces
11. Chlor alkali
12. Edible oil
13. Engineering (Steel forging and re-rolling)
14. Glass
15. Jute
16. Paper
17. Refractory and pottery
18. Tea
19. Tyre
20. Sugar
21. Drugs and pharmaceuticals

FORM B

(*See* rule 2)

Form for disclosure of particulars with respect to absorption

Research and Development (*R & D*)

1. Specific areas in which R & D carried out by the company.
2. Benefits derived as a result of the above R & D.
3. Future plan of action.

4. Expenditure on R & D:
   (*a*) Capital
   (*b*) Recurring
   (*c*) Total
   (*d*) Total R & D expenditure as a percentage of total turnovers.

Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation.
2. Benefits derived as a result of the above efforts, *e.g.*, product improvement, cost reduction, product development, import substitution, etc.
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished:
   (*a*) Technology imported.
   (*b*) Year of import.
   (*c*) Has technology been fully absorbed?
   (*d*) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action.

Appendix 2

The Companies (Particulars of Employees) Rules, 1975

[*Notification No. GSR 41*(*E*), *dated January 31, 1975*]

In exercise of the powers conferred by sub-clause (*ii*) of clause (*b*) of sub-section (2A) of section 217, read with clause (*a*) of sub-section (1) of section 642 of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules, namely:—

1. **Short title and commencement**.—(1) These Rules may be called the Companies (Particulars of Employees) Rules, 1975.

(2) They shall come into force on the date on which the Companies (Amendment) Act, 1974 (41 of 1974), comes into force.

1A. Application.—These Rules shall apply to such employees whose remuneration is—

(*a*) not less than rupees [1][twenty-four lakhs] per financial year for the purpose of sub-clause (*i*) of clause (*a*) of sub-section (2A); and

(*b*) not less than rupees [2][two lakhs] per month, for the purposes of sub-clause (*ii*) of clause (*a*) of sub-section (2A).]

2. **Particulars of employees**.—The statement to be included in the Board's report under sub-section (2A) of section 217 of the Companies Act, 1956 (1 of 1956), shall also contain the following particulars, namely:—

(*a*) Designation of the employee.
(*b*) Remuneration received.
(*c*) Nature of employment, whether contractual or otherwise.
(*d*) Other terms and conditions.
(*e*) Nature of duties of the employee.
(*f*) Qualifications and experience of the employee.
(*g*) Date of commencement of employment.

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1 Substituted for "twelve lakhs" by GSR 288(E), dated 17-4-2002.
2 Substituted for "one lakh" by GSR 288(E), dated 17-4-2002.

(*h*) The age of such employee.

(*i*) The last employment held by such employee before joining the company.

(*j*) the percentage of equity shares held by the employee in the company within the meaning of sub-clause (*iii*) of clause (*a*) of sub-section (2A) of section 217 of the Act.

[1][Provided that particulars of employees of companies engaged in "Information Technology" sector, posted and working in a country outside India, not being directors or their relatives, drawing more than rupees twenty four lakh per financial year or rupees two lakh per month, as the case may be, shall not be included in such statement of the Board's report but such particulars shall be furnished to the Registrar of Companies.

Provided further that such particulars shall be made available to any shareholder on a specific request made by him during the course of annual general meeting in which the same is considered.]

Appendix 3

Specimen of Directors' Report

To,

The Members,
ABC Limited
Pithampur (M.P.)

The Directors have pleasure in submitting their 18th Annual report on the business and operations of the Company alongwith the Audited Balance Sheet and Profit & Loss Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS

Financial Results of the Company for the year under review alongwith the figures for previous year are as follows:—

	31st March 2006	*31st March 2005*
	(Rs. in Lacs)	
Net Sales/Income from Operations	——	——
Other Income	——	——
Total Income	——	——
(*b*) Profit before Interest, Depreciation & Tax	——	——
Less: Interest	——	——
Depreciation	——	——
Profit before Tax	——	——
Less: Previous Year adjustments	——	——
Provision for Wealth Tax	——	——
Provision for current year income-tax	——	——
Net Profit after tax	——	——
Add: Balance carried from Profit & Loss A/c	——	——
Less: Provision for earlier year taxation	——	——
Net Profit after tax and adjustments	——	——

1 Inserted by GSR No. 212(E), dated 24-3-2004.

	31st March 2006	31st March 2005
Dividends	——	——
Interim Dividend	——	——
Final Dividend (Proposed)	——	——
Transferred to general Reserve	——	——
Balance carried to the balance sheet	——	——
EPS (Basic)	——	——
(Diluted)	——	——

DIVIDEND

In October, 2005, the Company paid an interim dividend of Rs. 4.50 per share. Your directors recommend a final dividend of Rs. 5.00 per share, aggregating to Rs. 9.50 per share for the current year. . The dividend payout, if approved, will result in outflow of Rs…… Lacs inclusive of Rs….. Lacs on dividend tax.

REVIEW OF OPERATIONS

Revenues for Financial Year 2005-06 stood at Rs…… Lacs, gross profit before depreciation, interest, and tax, but after prior-period items stood at Rs. ……… million, and profit after tax was Rs …… Lacs. The market environment in financial year 2006 was challenging, but recovery signs made themselves felt in the second half of the financial year. A healthy sign was that the average selling price (ASP), which had remained an area of concern for three quarters, began to firm up from November onwards, notching up an increase of nearly 20% by the end of the fiscal year. Your Company continued to strengthen its position in this rapidly-growing market.

The business has performed well, with productivity gains, growth in volumes and sustained margins notwithstanding rise in input costs. The ABC Ltd. business continues to be successful despite of several environmental constraints. The Company's ability to neutralise cost increase and improve margins together with purchasing efficiencies, improvement in manufacturing yield/usage and expenses control helped in increasing the profitability. The performance had established a new milestone for the Company.

MARKETING AND EXPORT

A modest pick in the Global economy boosted the exports of the company from Rs...... Lacs to Rs. ...... Lacs in the year 2005-06 (including indirect export). Aggressive marketing efforts and relentless focus on quality have been impressive export performance enablers with nonetheless added numerous multinational companies in the clientele list of the Company.

Further the Company has successfully established its hand in Export market in more than 15 countries including the Nigeria, Ghana, Kenya, Tanzania, Azerbaijan, Turkmenistan, Cambodia, Alkmatti, Sri Lanka, Vietnam, and Myanamar. The Company have at present export order in hands of Rs....... Lacs. Your directors are positive towards the future growth.

CONTRACT OF MANUFACTURING ACTIVITIES

Your Company is towards expansion of its business activities. In order to expand, it has been doing contract manufacturing for the various Companies namely Unichem Laboratories Ltd, IPCA laboratories, Ranbaxy Laboratories Ltd, Parental Drugs India Limited etc. This line of activity has greatly contributed towards the profitability of the Company. The line of the activity has contributed Rs..... Lacs towards the top line of the company in the year under the review.

SUBSIDIARY COMPANY IN GERMANY

Your Company has established a subsidiary in Germany with the objective of addressing high-end niche markets. This subsidiary will establish manufacturing facilities in Europe that will create research and development, marketing, and distribution and logistics capabilities to service the requirements of our OEM, retail and enterprise customers.

The annexed accounts pertain for the financial year 2005-06. As required under section 212 of the Companies Act, 1956, the Balance Sheet, P&L Account and Directors' Report on the affairs of XYZ Ltd. are annexed herewith, together with the statement of the said subsidiary Company.

FINANCE

It is a matter of privilege to report that your Company is a zero debt company and it does not have any liability for loans and interest burden thereon.

ISO 9002 CERTIFICATION

Your Company is having status of ISO 9002 Certification, which is internationally recognised for the production, quality control and other qualities. The scope of certificate is design, manufacture, supply, installation and commissioning of fluid couplings and flexible fluid couplings. The ISO certification will give international recognisation and will help boost export turnover.

EMPLOYEES' STOCK OPTION PLAN

Your Company had introduced a stock option plan—the Employee Stock Option Plan, 2005 ("ESOP 2005")—for its employees and some of its Directors. The shareholders had given their approval, under ESOP 2005, to issue up to a maximum of 4,400,000 options convertible into an equal number of equity shares. Consequently, 2,030,300 options were granted to eligible employees.

Of the 2,030,300 options that were granted, 1,553,500 options were cancelled and new options were reissued to employees. The remaining options were either retained by employees or lapsed as the concerned employees had left the organization.

Additionally, the Compensation Committee of the Board of Directors, at its meeting held on 27 January 2006, granted 511,800 options to eligible employees under ESOP 2005.

The information required to be disclosed in terms of the provisions of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 is enclosed as per Annexure 'A' to this report.

DIRECTORS

The Board consists of executive and non-executive directors including independent directors who have wide and varied experience in different disciplines of corporate functioning. Shri AG has resigned from the office of the director as well as membership of the various committees w.e.f. 29th April, 2006. Your directors place on record their appreciation for the valuable services rendered by him in the capacity of director of the Company.

Shri AB was appointed as an additional director by the Board w.e.f. 29th April, 2006 in the category of the independent director to broad base the Board of Directors and to comply with the requirement of Clause No. 49 of the listing agreement. The Company has received a notice in writing from a members signifying his candidature for the office of the director of the Company. Shri AB is an independent director and the Board recommend for his appointment.

Shri KMB, the Whole-time Chairman, re-appointed at the 14th Annual General Meeting held on 30th September, 2004 for a period of five years w.e.f. 3rd May, 2004 is liable to retire by rotation and being eligible offers himself for re-appointment. Your directors recommend for his re-appointment. Further that the Remuneration Committee of the Board of Directors has considered and recommended for the increase in the remuneration payable to Shri KMB, the Whole-Time Chairman w.e.f. 1st December, 2006 for the remaining part of his tenure. Your directors recommend to pass necessary resolution as set out in the item no.6 of the notice of the annual general meeting.

Shri VKB, the Managing Director was appointed at the 12th Annual General Meeting held on 20th May, 2005 for a period of five years w.e.f. 1st December, 2001 for a period of five years, therefore his tenure will expire on 30th November, 2006. The Remuneration Committee of the Board of Directors has considered and recommended for his re-appointment as the Managing Director w.e.f. 1st December, 2006 for the further period of five years. Your directors recommend to pass necessary resolution as set out in the item No. 7 of the notice of the annual general meeting.

AUDITOR'S AND THEIR REPORT

Comments of the Auditors in their report and the notes forming part of the Accounts, are self explanatory and need no comments.

M/S VRD & Co., the Company's Auditors will retire at the conclusion of the ensuing Annual General Meeting and being eligible offers themselves for re-appointment. The Company has received a certificate from the auditors to the effect that their re-appointment if made, would be in accordance with the provisions of section 224(1B) of the Companies Act, 1956. The directors recommend the re-appointment of M/S VRD & Co. and to fix their remuneration.

INSURANCE

The assets of the Company are adequately insured against the loss of fire, riot, earthquake, terrorism, loss of profits, etc. and other risks which considered necessary by the management. In addition to this coverage, a statutory Public Liability Insurance Policy has been taken to cover by company for providing against the Public liability arising out of Industrial accidents for employees working in plants.

DEPOSITS

Fixed Deposit accepted by Company from the Public as on 31st March, 2006 was to the tune of Rs.270 Lacs. There is no unclaimed deposit, which was due as on that date. There are no small depositors in the Company.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of section 217(2AA) of the Companies Act, 1956, your directors state that:—

* In the preparation of accounts, the applicable accounting standards have been followed.
* Accounting policies selected were applied consistently. Reasonable and prudent judgments and estimates were made so as to give a true and fair view of the state of affairs of the company as at the end of 31st March, 2006 and the profit of the company for the year ended on that date.
* Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting frauds and other irregularities.
* The annual accounts of the company have been prepared on a going concern basis.

PERSONNEL

The Company continued to have cordial relations with its employees with exception of some untoward incidents in the field at the instance of external unions, etc.

CORPORATE GOVERNANCE

Your Company is committed to good Corporate Governance Practices and following to the guidelines prescribed by the SEBI and Stock Exchanges from time to time. The Company has implemented all of its major stipulations as applicable to the Company. The Statutory Auditor's Certificate dated .... in accordance with Clause 49 of the Listing Agreement and report on Corporate Governance is annexed to and forming part of the Directors' Report.

MANAGEMENT DISCUSSION AND ANALYSIS

A Management discussion and Analysis as required under the Clause 49 of the Listing Agreement is annexed and forming part of the Directors' Report.

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTIONS AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo, as required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 is given as per 'Annexure B' and forms part of the Directors' Report.

PARTICULARS OF EMPLOYEES

Particulars of employees, as required under section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, form part of this Report in 'Annexure C'. However, in pursuance of section 219(1)(b)(iv) of the Companies Act, 1956, this report is being sent to all shareholders of the Company, excluding the aforesaid information and the said particulars are made available at the Registered Office of the Company. The members interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

ACKNOWLEDGEMENT

Your Company outperformed the industry in a challenging year and continues to maintain its leadership position. It has also been surpassing all international quality and cost benchmarks and continues to build shareholder value. Your Directors look to the future with confidence.

Your Directors place on record their appreciation for the overwhelming co-operation and assistance received from investors, customers, business associates, bankers, vendors, as well as regulatory and governmental authorities. Your Directors also thank the employees at all levels, who, through their dedication, co-operation, support and smart work, have enabled the Company to achieve rapid growth.

For and on behalf of the Board.

Place: Indore
Dated: 31st July, 2006

CHAIRMAN

Annexure A

INFORMATION REGARDING THE EMPLOYEE STOCK OPTION SCHEME, 2005
(as on 31-03-2006)

The Vesting Period in respect of the Options granted in three tranches was as follows:-

(A)	Number of Stock Options granted	2,542,100	
(B)	Pricing formula	(*i*) Normal allocation - Rs 125 per Option or prevailing Market Price, whichever is higher. (*ii*) Special allocation - 50% of the Options at Rs 125 per Option or prevailing Market Price, whichever is higher and the balance 50% of the Options at Rs 170 per Option or prevailing Market Price, whichever is higher.	
(C)	Number of Options vested	100,000	
(D)	Number of Options exercised	Nil	
(E)	Number of shares arising as a result of exercise of options	Nil	
(F)	Number of Options lapsed	376,800	
(G)	Variation of terms of options	Nil	
(H)	Money realized by exercise of options	N.A.	
(I)	Number of Options in force	2,165,300	
(J)	Employee wise details of Options granted to	Year 2005-06	Year 2004-05
	(*i*) Senior managerial personnel		
	— Mr. PM, President	--	400,000
	— Mr. BB, Executive Vice-President	200,000	--

	— Mr. RG, Head-Corporate Strategy & Treasurer	150,000	--
	— Mr. MK, Vice-President	24,000	--
	— Mr. VJ, Managing Director (European Operations)	18,000	--
	(*ii*) Employees who were granted Options amounting to 5% or more of the Options granted during the year.	(*i*) Mr. BB, Executive Vice-President (*ii*) Mr. RG, Head-Corporate Strategy & Treasurer	
	(*iii*) Employees who were granted Options in any one year equal to or exceeding 1% of the issued capital of the Company.	None	
(K)	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of options calculated in accordance with Accounting Standard 20 - 'Earnings Per Share'	Rs 5.45	
(L)	The Company has used intrinsic value method for calculating the employee compensation cost with respect to the stock options. If the employee compensation cost for the ESOP had been determined in a manner consistent with the fair value approach, the stock option compensation expense would have been lower by Rs.4.91 Crore. Consequently, profit after tax would have been higher by Rs…….Lacs and the EPS of the Company would have been Rs…..per share (higher by Rs. ….. per share).		
(M)	Weighted average exercise price of the options granted during the year	Rs 221.37 per Option	
(N)	Weighted average fair value of the options granted during the year	Rs 108.77 per Option	
		2nd Grant (Allotment Date- 29 November 2005)	3rd Grant (Allotment Date -5 January 2006)
(O)	A description of the method and significant assumptions used during the year to estimate the fair value of options, including the following weighted average information:-		
	(*i*) risk-free interest rate	(*i*) 6.79 % (for 4 years.	(*i*) 6.55 % (for 5 years.
	(*ii*) expected life	(*ii*) 7 years	(*ii*) 7 years
	(*iii*) expected volatility	(*iii*) 70% (based on 5 year stock data from NSE).	(*iii*) 67% (based on 5 year stock data from NSE)
	(*iv*) expected dividends	(*iv*) 0.85% (based on simple average of the dividend history of past 4 financial years)	(*iv*) 0.85% (based on simple average of the dividend history of past 4 financial years)
	(*v*) the price of the underlying share in market at the time of option grant	(*v*) Rs 224.05 per share	(*v*) Rs 213.20 per share

Grants	**Vesting Period**
1st Grant on 9th January, 2005	3 years
2nd Grant on 29th November, 2005	2.5 years
3rd Grant on 27th January, 2006	2.5 years

Taking 3 years as weighted average vesting period in the Jan., 2005 ESOP valuation—This was based on the assumption that the exercise of the options vested will be over the period of 1 year i.e. the year of vesting.

Taking 2.5 years as weighted average vesting period in the Nov., 2005/Jan., 2006 ESOP valuation—The merchant bankers took the view that rather than making any assumptions regarding exercise pattern of the options, it may be better to take a conservative assumption that the weighted average should be based on the first date of actual vesting. Based upon this, the weighted average was revised to 2.5 years.

Annexure B

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE

Information as required under section 217(1)(*e*) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988 is given hereunder:

A. Conservation of energy

The Company has taken many steps for the Conservation of Energy.

		Current Year	Previous Year
POWER & FUEL CONSUMPTION			
1.	Electricity (Purchased) Units	——	——
	Total Amount (Rs.)	——	——
	Rate per Unit (Rs.)	——	——
2.	Electricity (Generated) units	——	——
	Diesel consumed in Liters	——	——
	Total Amount (Rs.)	——	——
	Rate per Unit (Rs.)	——	——
3.	Total Units consumed	——	——
	Units consumed in per lac production	——	——

B. Technology absorption and research & development

(*1*) *Research and Development*:

— Successfully developed a fully in-house indigenous Circular oriented printing machine, which can print capsules in a circumference of 250 degrees.

— Process debottle-necking at all stages of production line.

— Development in the area of trimming collection by efficient vacuum cyclone system.

— Automation in the area of physical test checking for finished products.

— Automation in the area of packing section.

R & D Expenditure

Not quantified separately.

(*2*) *Technology absorption, adaption and innovation*

(*a*) Efforts in brief made towards technology absorption, adaption and innovation:

— Constant monitoring of process and technology upgradation taking place in advance countries and to offer similar products through in-house R & D as well as through progressive manufacturing activities. The company is in the process of further improving its quality control methods and testing facilities.

— Regular interaction with equipment designers and manufacturers and major raw material suppliers for improvements to processing and operating parameters.

(*b*) Benefits derived as a result of above efforts.

— improved product quality

C. Foreign Exchange Earning and Outgo

(*a*) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans.

(*b*) Information in respect of Foreign Exchange Earning and Outgo is:

	Current Year	Previous Year
Earning:	Rs.	Rs. ......
Outgoing:	Rs.	Rs. ...…

Annexure C

PARTICULARS OF THE EMPLOYEES

As required under section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of the Employees) Rules, 1975 are as under:

Name	:	Shri RCM
Age	:	53 years
Qualification	:	B. Pharma
Date of employment	:	6-8-1983
Designation	:	Managing Director
Remuneration	:	Rs. 30,42,500
Experience	:	27 Years
Last Employment	:	Shri Ashok Thymol Factory

1. Nature of employment — Contractual.
2. Shri RCM, the Managing Director is related to Smt. KM, the director and Shri AG, the Whole-time director of the company.
3. Remuneration includes salary, contribution to provident fund and other benefits/perquisites as per Company's rules.

By order of the Board
For, ABC LIMITED

Place: Indore
Dated: 31st July, 2006

CHAIRMAN