PART XXXVII

CORPORATE GOVERNANCE

Synopsis

1. Meaning of Corporate Governance

Corporate governance have been drawn up defining the role of the Board of directors, establishing directors' accountability to the shareholders, investors and interest group and setting out guidelines for more effective and a new quality of performance, changing the face of relation between the Board and the executive officers.

The term 'governance' implies a method or system or measures taken to govern any organisation, or institution or a company.

2. Role of Corporate Governance

Corporate governance has a role to ensure that the directors of a company are subject to their duties, obligations, accountability and responsibilities to act in the best interest of the company, to give directions and to remain accountable to their shareholders and other beneficiaries for their corporate actions.

Corporate governance therefore calls for following factors:

(*a*) Transparency in decision-making;

(*b*) Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken;

(*c*) The accountability is for the safeguarding the interests of the stakeholders and the investors in the organisation;

(*d*) Commitment of the management for the principle of integrity;

(*e*) Compliance with legal and the administrative framework created by the government.

3. Corporate Governance under Clause 49 of the Listing Agreement

The Companies Act, 1956 has vested the shareholders with the supremacy of taking decisions. The directors appointed by the members, manage the company for and on behalf of shareholders, they have to report annually in form of directors' report to the members towards whom they are accountable.

SEBI, *vide* Circular SEBI/CFD/DIL/CG/1/2004/12/10, dated October 29, 2004, issued the revised clause 49 of the listing agreement, which was to come into effect by April 1, 2005. Since it was brought to SEBI's notice that a large number of companies were still not in a state of preparedness to be fully compliant with the requirements as contained in the revised clause 49, SEBI extended the date for ensuring compliance with the revised Clause 49 of the listing agreement upto December 31, 2005 vide circular no. SEBI/CFD/DIL/CG/1/2005/29/3 dated March 29, 2005. The revised clause 49 thus has come into effect from January 1, 2006.

4. Schedule of Implementation

The provisions of the revised Clause 49 shall be implemented as per the schedule of implementation given below:—

(*a*) For entities seeking listing for the first time, at the time of seeking in-principle approval for such listing.

(*b*) For existing listed entities which were required to comply with Clause 49 which is being revised *i.e.* those having a paid up share capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company, by April 1, 2005.

4.1 Clause 49 is not applicable to the existing listed companies having paid up capital of less than Rs. 3 Crores

A listed company having paid up capital of less than Rs. 3 Crores or having total net worth of less than Rs. 25 Crores is not mandatorily required to comply with the Clause 49 of the listing agreement, however they may opt voluntarily.

Provided that if at any time in the history of a listed company, its paid up capital was Rs. 3 Crores or more or net worth of Rs. 25 crores or more, and later on it reduced the above said limits, Clause 49 will be applicable to such listed company.

4.2 All the companies proposes to offer their securities to the public must fulfill the requirement of compliance of corporate governance

Clause 49 of the Listing Agreement provides that any company proposes to give offer to the general public for subscription their securities are required to fulfill all the requirements of corporate governance before making offer to the general public for subscription.

COMPLIANCE OF CORPORATE GOVERNANCE UNDER THE LISTING AGREEMENT

Clause 49 brings to the table several action points for companies. Corporates need to constitute the Board of directors and audit committee in consonance with revised Clause 49, develop a code of conduct and framework for monitoring and reporting compliance, establish a Risk Management and reporting framework, put in place an internal control assessment and reporting system and lastly build processes for disclosures. Clause 49 of the listing agreement requires to comply with the following provisions and to make adequate disclosures in the directors' report under the heading of the Corporate Governance.

5. Board of directors

5.1 Composition of Board of Directors

(*i*) The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty per cent of the Board of directors comprising of non-executive directors.

(*ii*) Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

5.2 Independent director

Independent director shall mean a non-executive director of the company who:—

(*a*) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;

(*b*) is not related to promoters or persons occupying management positions at the Board level or at one level below the Board;

(*c*) has not been an executive of the company in the immediately preceding three financial years;

(*d*) is not a partner or an executive or was not a partner or an executive during the preceding three years, of any of the following:

  (*i*) the statutory audit firm or the internal audit firm that is associated with the company, and

  (*ii*) the legal firm(s) and consulting firm(s) that have a material association with the company.

(*e*) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director; and (*f*) is not a substantial shareholder of the company *i.e.* owning two percent or more of the block of voting shares.

5.3 Additional definitions

"Associate" shall mean a company, which is an "associate" as defined in Accounting Standard (AS) 23, "Accounting for Investments in Associates in Consolidated Financial Statements", issued by the Institute of Chartered Accountants of India.

"Senior management" shall mean personnel of the company who are members of its core management team excluding Board of directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

"Relative" shall mean "relative" as defined in section 2(41) and section 6 read with Schedule IA of the Companies Act, 1956.

5.4 Nominee directors will be treated as Independent director

Nominee directors appointed by institution(s), which has invested in or lent to the company shall be deemed to be independent directors.

"Institution' for this purpose means a public financial institution as defined in section 4A of the Companies Act, 1956 or a "corresponding new bank" as defined in section 2(*d*) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts]."

Thus, a nominee director appointed by a private sector Bank is not an Independent director, if he does not satisfy the definition of an Independent director.

5.5 Approval for payment of compensation/fee to non- executive directors' and disclosures requirements

All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of directors and shall require previous approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, including independent directors, in any financial year and in aggregate.

[Provided that the requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 1956 for payment of sitting fees without approval of the Central Government.][1]

5.6 Requirement to have minimum Board Meeting sand information needs to be placed before the Board

The Board shall meet at least four times a year, with a maximum time gap of [four months] [2] between any two meetings. The minimum information to be made available to the Board is given in Appendix 1.

5.7 Restrictions of number of directorship of position in committees

A director shall not be a member in more than 10 committees or act as Chairman of more than 5 committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

5.8 Limit of the Committees covers only public limited companies

For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies and companies u/s 25 of the Companies Act shall be excluded.

For the purpose of reckoning the limit, Chairmanship/membership of the Audit Committee and the Shareholders' Grievance Committee alone shall be considered.

5.9 Periodical review of Compliance Reports

The Board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliances.

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1 Inserted *vide* SEBI/CFD/DIL/CG/1/2006/13 dt.13.01.2006.

2 Substituted for "three" vide SEBI/CFD/DIL/CG/1/2006/13 dt.13.01.2006.

5.10 Code of Conduct

(*i*) The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.

(*ii*) All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

5.11 Website for Independent Directors

The SEBI Chairman has inaugurated as Website sponsored by the SEBI Chairman for providing details of the independent directors for the prospective candidates and the listed companies namely primedirectors.com, sponsored by the Stock Exchange Mumbai, National Stock Exchange, CDSL and NSDL.

6. Audit Committee

6.1 Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:—

(*i*) The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

(*ii*) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

6.2 Financially Literate and accounting or related financial management expertise

The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

6.3 Chairman of Audit Committee

The Chairman of the Audit Committee shall be an independent director and he shall be present at Annual General Meeting to answer shareholder queries.

6.4 Presence of other executives in the meeting

The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee. The Company Secretary shall act as the secretary to the committee.

6.5 Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

6.6 Powers of Audit Committee

The audit committee shall have powers, which should include the following:—

1. To investigate any activity within its terms of reference.
2. To seek information from any employee.
3. To obtain outside legal or other professional advice.
4. To secure attendance of outsiders with relevant expertise, if it considers necessary.

6.7 Role of Audit Committee

The role of the audit committee shall include the following:—

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:—
   (*a*) Matters required being included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
   (*b*) Changes, if any, in accounting policies and practices and reasons for the same.
   (*c*) Major accounting entries involving estimates based on the exercise of judgment by management.
   (*d*) Significant adjustments made in the financial statements arising out of audit findings.
   (*d*) Compliance with listing and other legal requirements relating to financial statements.
   (*f*) Disclosure of any related party transactions.
   (*g*) Qualifications in the draft audit report.
5. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
6. Reviewing with the management, performance of statutory and internal auditors, and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
12. To review the functioning of the Whistle Blower mechanism, in case the same exists.
13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions/features as is contained in this clause.

6.8 Review of information by Audit Committee

The Audit Committee shall mandatorily review the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management;
3. Management letters/letters of internal control weaknesses issued by the statutory auditors;

4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

6.9 Subsidiary Companies

(*i*) At least one independent director on the Board of directors of the holding company shall be a director on the Board of directors of a material non-listed Indian subsidiary company.

(*ii*) The Audit Committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.

(*iii*) The minutes of the Board meetings of the unlisted subsidiary company shall be placed at the Board meeting of the listed holding company. The management should periodically bring to the attention of the Board of directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Where a listed holding company has a listed subsidiary, which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

Thus, Point (*i*) can be explained as follows:

(*a*) If the subsidiary is a foreign company, it need not appoint an Independent Director of the holing company, as a director on its Board;

(*b*) If the subsidiary is a listed company, it need not appoint an Independent Director of the holing company, as a director on its Board;

(*c*) If the Indian subsidiary does not satisfy the definition of 'material non listed Indian subsidiary', it need not appoint an Independent Director of the holing company, as a director on its Board.

6.10 Material non-listed Indian subsidiary

The term "material non-listed Indian subsidiary" shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (*i.e.* paid up capital and free reserves) exceeds 20% of the consolidated turnover or net worth respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

6.11 Significant transaction or arrangement

The term "significant transaction or arrangement" shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

6.12 Disclosures

(*a*) *Basis of related party transactions*

(*i*) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.

(*ii*) Details of material individual transactions with related parties, which are not in the normal course of business, shall be placed before the audit committee.

(*iii*) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

(*b*) *Disclosure of Accounting Treatment*

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

(*c*) *Board disclosures — Risk management*

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(*d*) *Proceeds from public issues, rights issues, preferential issues etc.*

When money is raised through an issue (public issues, rights issues, preferential issues, etc.), it shall disclose to the Audit Committee, the uses/applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent.

This statement shall be certified by the statutory auditors of the company. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

7. Disclosure for remuneration of directors

1. All pecuniary relationship or transactions of the non-executive directors *vis-a-vis* the company shall be disclosed in the Annual Report.
2. Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report:—
   (*a*) All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, pension, etc.
   (*b*) Details of fixed component and performance linked incentives, along with the performance criteria.
   (*c*) Service contracts, notice period, severance fees.
   (*d*) Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.
3. The company shall publish its criteria of making payments to non-executive directors in its annual report. Alternatively, this may be put up on the company's website and reference drawn thereto in the annual report.
4. The company shall disclose the number of shares and convertible instruments held by non-executive directors in the annual report.
5. Non-executive directors shall be required to disclose their shareholding (both own or held by/for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

8. Management discussion and analysis report

As part of the Directors' report or as an addition thereto, a Management Discussion and Analysis Report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:—

(*i*) Industry structure and developments.
(*ii*) Opportunities and Threats.
(*iii*) Segment–wise or product-wise performance.
(*iv*) Outlook.
(*v*) Risks and concerns.
(*vi*) Internal control systems and their adequacy.
(*vii*) Discussion on financial performance with respect to operational performance.
(*viii*) Material developments in Human Resources/Industrial Relations front, including number of people employed.

Senior management shall make disclosures to the Board relating to all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company at large (for *e.g*. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives, etc.)

Senior management shall mean personnel of the company who are members of its core management team excluding the Board of directors). This would also include all members of management one level below the executive directors including all functional heads.

9. Disclosure to information to the shareholders for appointment of directors

In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:—

(*a*) A brief resume of the director;

(*b*) Nature of his expertise in specific functional areas;

(*c*) Names of companies in which the person also holds the directorship, chairmanship and the membership of Committees of the Board; and

(*d*) Shareholding of non-executive directors.

9.1. Placing of certain information on the website

Quarterly results and presentations made by the company to analysts shall be put on company's website, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own website.

The companies should also require complying with the requirement of Clause 51 of the listing agreement relating to EDIFAR.

9.2. Shareholders/Investors Grievance Committee

A Board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, declared dividends, etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.

9.3. Delegation of power of share transfer

To expedite the process of share transfers, the Board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents.

The delegated authority shall attend to share transfer formalities at least once in a fortnight.

10. CEO/CFO Certification

The CEO, *i.e.* the Managing Director or Manager appointed in terms of the Companies Act, 1956 and the CFO *i.e.* the Whole-time Finance Director or any other person heading the finance function discharging that function shall certify to the Board that:—

(*a*) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:—

- (*i*) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- (*ii*) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(*b*) There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.

(*c*) [They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

(*d*) They have indicated to the auditors and the Audit committee:—

- (*i*) significant changes in internal control over financial reporting during the year;

(*ii*) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(*iii*) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.][1]

11. Report on Corporate Governance

There shall be a separate section on Corporate Governance in the Annual Reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement of this clause with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Appendix 3 and list of non-mandatory requirements is given in Appendix 4.

11.1. Quarterly Compliance Report

The SEBI had *vide* Circular No.MRD/AIISE/15489/2003, dated 14.08.2003 directed the listed companies to submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given in Appendix 2. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company.

12. Compliance

The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the Directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual report filed by the company.

The non-mandatory requirements given in Appendix 4 may be implemented as per the discretion of the company. However, the disclosures of the compliance with mandatory requirements and adoption (and compliance)/non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.

Appendix 1

Information to be placed before Board of directors

(1) Annual operating plans and budgets and any updates.

(2) Capital budgets and any updates.

(3) Quarterly results for the company and its operating divisions or business segments.

(4) Minutes of meetings of audit committee and other committees of the Board.

(5) The information on recruitment and remuneration of senior officers just below the Board level, including appointment or removal of Chief Financial Officer and the Company Secretary.

(6) Show cause, demand, prosecution notices and penalty notices, which are materially important.

(7) Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.

(8) Any material default in financial obligations to and by the company, or substantial nonpayment for goods sold by the company.

(9) Any issue, which involves possible public or product liability claims of substantial nature, including any judgment or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.

(10) Details of any joint venture or collaboration agreement.

1 Substituted *vide* SEBI Circular No. SEBI/CFD/DIL/CG/1/2006/13 dated 13.01.2006.

(11) Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.

(12) Significant labour problems and their proposed solutions. Any significant development in Human Resources/Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme, etc.

(13) Sale of material nature, of investments, subsidiaries, assets, which is not in normal course of business.

(14) Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

(15) Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

Appendix 2

Format of Quarterly Compliance Report on Corporate Governance

Name of the Company:

Quarter ending on:

Particulars	*Clause of Listing Agreement*	*Compliance Status Yes/No*	*Remarks*
I. Board of directors	**49(I)**		
(A) Composition of Board	49(IA)		
(B) Non-executive directors' compensation & disclosures	49(IB)		
(C) Other provisions as to Board and Committees	49(IC)		
(D) Code of Conduct	49(ID)		
II. Audit Committee	**49(II)**		
(A) Qualified & Independent Audit Committee	49(IIA)		
(B) Meeting of Audit Committee	49(IIB)		
(C) Powers of Audit Committee	49(IIC)		
(D) Role of Audit Committee	49(IID)		
(E) Review of Information by Audit Committee	49(IIE)		
III. Subsidiary Companies	**49(III)**		
IV. Disclosures	**49 (IV)**		
(A) Basis of related party transactions	49(IVA)		
(B) Board Disclosures	49 (IVB)		
(C) Proceeds from public issues, rights issues, preferential issues, etc.	49(IVC)		
(D) Remuneration of directors	49(IVD)		
(E) Management	49(IVE)		
(F) Shareholders	49(IVF)		
V. CEO/CFO Certification	**49(V)**		
VI. Report on Corporate Governance	**49(VI)**		
VII. Compliance	**49(VII)**		

Note.—

(1) The details under each head shall be provided to incorporate all the information required as per the provisions of the Clause 49 of the Listing Agreement.

(2) In the Column No.3, compliance or non-compliance may be indicated by Yes/No/N.A. For example, if the Board has been composed in accordance with the Clause 49 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the company has no related party transactions, the words "N.A." may be indicated against 49 (IVA).

(3) In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.

Appendix 3

Suggested list of items to be included in the Report on Corporate Governance

(1) A brief statement on company's philosophy on code of governance.

(2) Board of directors:—

- (*i*) Composition and category of directors, for example, promoter, executive, non-executive, independent non-executive, nominee director, which institution represented as lender or as equity investor.
- (*ii*) Attendance of each director at the Board meetings and the last AGM.
- (*iii*) Number of other Boards or Board Committees in which he/she is a member or Chairperson.
- (*iv*) Number of Board meetings held, dates on which held.

(3) Audit Committee:—

- (*i*) Brief description of terms of reference.
- (*ii*) Composition, name of members and Chairperson.
- (*iii*) Meetings and attendance during the year.

(4) Remuneration Committee:—

- (*i*) Brief description of terms of reference.
- (*ii*) Composition, name of members and Chairperson.
- (*iii*) Attendance during the year.
- (*iv*) Remuneration policy.
- (*v*) Details of remuneration to all the directors, as per format in main report.

(5) Shareholders Committee:—

- (*i*) Name of non-executive director heading the committee.
- (*ii*) Name and designation of compliance officer.
- (*iii*) Number of shareholders' complaints received so far.
- (*iv*) Number not solved to the satisfaction of shareholders.
- (*v*) Number of pending complaints.

(6) General Body meetings:—

- (*i*) Location and time, where last three AGMs held.
- (*ii*) Whether any special resolutions passed in the previous 3 AGMs.
- (*iii*) Whether any special resolution passed last year through postal ballot – details of voting pattern.
- (*iv*) Person who conducted the postal ballot exercise.
- (*v*) Whether any special resolution is proposed to be conducted through postal ballot.
- (*vi*) Procedure for postal ballot.

(7) Disclosures:—

(*i*) Disclosures on materially significant related party transactions that may have potential conflict with the interests of company at large.

(*ii*) Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

(*iii*) Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee.

(*iv*) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause.

(8) Means of communication:—

(*i*) Quarterly results.

(*ii*) Newspapers wherein results normally published.

(*iii*) Any website, where displayed.

(*iv*) Whether it also displays official news releases; and

(*v*) The presentations made to institutional investors or to the analysts.

(9) General Shareholder information:—

(*i*) AGM: Date, time and venue.

(*ii*) Financial year.

(*iii*) Date of Book closure.

(*iv*) Dividend Payment Date.

(*v*) Listing on Stock Exchanges.

(*vi*) Stock Code.

(*vii*) Market Price Data: High, Low during each month in last financial year.

(*viii*) Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index, etc.

(*ix*) Registrar and Transfer Agents.

(*x*) Share Transfer System.

(*xi*) Distribution of shareholding.

(*xii*) Dematerialization of shares and liquidity.

(*xiii*) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity.

(*xiv*) Plant Locations.

(*xv*) Address for correspondence.

Appendix 4

Non-Mandatory Requirements under Clause 49

(1) Chairman of the Board

A non-executive Chairman may be entitled to maintain a Chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties. Independent Directors may have a tenure not exceeding, in the aggregate, a period of nine years, on the Board of a company.

(2) Remuneration Committee

(*i*) The Board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment.

(*ii*) To avoid conflicts of interest, the remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.

(*iii*) All the members of the remuneration committee could be present at the meeting.

(*iv*) The Chairman of the remuneration committee could be present at the Annual General Meeting, to answer the shareholder queries. However, it would be up to the Chairman to decide who should answer the queries.

(3) Shareholder Rights

A half-yearly declaration of financial performance including summary of the significant events in last six-months, may be sent to each household of shareholders.

(4) Audit qualifications

Company may move towards a regime of unqualified financial statements.

(5) Training of Board Members

A company may train its Board members in the business model of the company as well as the risk profile of the business parameters of the company, their responsibilities as directors, and the best ways to discharge them.

(6) Mechanism for evaluating non-executive Board members

The performance evaluation of non-executive directors could be done by a peer group comprising the entire Board of directors, excluding the director being evaluated; and Peer Group evaluation could be the mechanism to determine whether to extend/continue the terms of appointment of non-executive directors.

(7) Whistle Blower Policy

The company may establish a mechanism for employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide for adequate safeguards against victimization of employees who avail of the mechanism and also provide for direct access to the Chairman of the Audit committee in exceptional cases. Once established, the existence of the mechanism may be appropriately communicated within the organization.

Appendix 5

Specimen of the Corporate Governance Report of XYZ Limited

I. CERTIFICATE OF CEO AND CFO OF THE COMPANY

We, FDS, Chief Executive Officer and SDP, Chef Financial Officer of the Company XYZ Limited, to the best of our knowledge and belief, certify that:

(1) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:—

- (*i*) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- (*ii*) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(2) There are, to the best of their knowledge and belief, no transactions entered into by the company during the year that are fraudulent, illegal or violative of the company's code of conduct.

(3) We accept responsibility for establishing and maintaining internal controls for financial reporting and that have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

(*a*) We have indicated to the Auditors and the Audit committee:—

(*i*) significant changes in internal control over financial reporting during the year;

(*ii*) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

(*iii*) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

Indore	FDS	SDP
Date XXXXXX	Chief Executive Officer	Chief Financial Officer

II. MANAGEMENT RESPONSIBILITY STATEMENT

The financial statements are in full conformity with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. The Management of XYZ Limited, accepts responsibility for the integrity and objectivity of these financial statements, as well as, for estimates and judgments relating to matters not concluded by the year-end. The management believes that the financial statements reflect fairly the form and substance of transactions and reasonably presents the company's financial condition, and results of operations. To ensure this, the company has installed a system of internal controls, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the company's established policies and procedures have been followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls.

These financial statements have been audited by M/s. VKL and Associates, the Statutory Auditors of the company.

The Audit Committee, at XYZ Limited, meets periodically with the Chief Financial Officer, the Internal Auditors and the Statutory Auditors to review the manner in which they are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the statutory auditors and the internal auditors have full and free access to members of the Audit Committee to discuss any matter of substance.

The Audit Committee for financial year 2005-06 consists of:

Mr. SDP, Chairman

Mr. GVD

Mr. DP

Mr. TNV

Indore

Date: xxxxxxxx	Chairman and Managing Director	Deputy CEO & CFO

III. REVIEW REPORT OF AUDITORS ON CORPORATE GOVERNANCE

To

The Board of directors,
XYZ Limited

We have reviewed the records concerning the company's compliance with Clause 49 of Listing Agreement entered into by the company with the Stock Exchanges, for the financial year beginning 1st April, 2005 and ending on 31st March, 2006.

The Objective of our review is to give our opinion on whether the Company has complied with the provisions of Clause 49 of the Listing Agreement entered into by the Company with the Stock Exchanges.

We have conducted our review on the basis of the relevant records and documents maintained by the company and furnished to us for review and the information and explanations given to us by the Company.

Based on such review, in our opinion, the company has complied with Clause 49 of the Listing Agreement with the Stock Exchanges.

Indore — For VKL & ASSOCIATES

Date::xxxxxxxx — Chartered Accountants

IV. STATEMENT OF DISCLOSURE BY THE AUDIT COMMITTEE TO THE SHAREHOLDERS

To

The Shareholders
XYZ Limited

We, the members of the Audit Committee disclose in respect of financial year 2005-06 that:—

(*i*) the management has reviewed the audited financial statements of the company with the Audit Committee, including the discussion on the quality of the accounting principles as applied and significant judgments affecting the Company's financial statements;

(*ii*) the statutory auditors have discussed with the Audit Committee, the statutory auditor's judgments on the quality of those principles as applied and judgments referenced in (*i*) above under the circumstances;

(*iii*) the members of the Audit Committee have discussed among themselves, without management or the statutory auditors presence, the information disclosed to the Audit Committee described in (*i*) and (*ii*) above; and

(*iv*) the Audit Committee, in reliance on the review and discussions conducted with management and the statutory auditors pursuant to (*i*) and (*ii*) above, believes that the Company's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP) in all material respects.

For and on behalf of Audit Committee

Indore — SDP

Date: XXXXXXXX — Chairman

V. COMPANY SECRETARY'S RESPONSIBILITY STATEMENT

The Company Secretary confirms that:

A. The Company has:—

(*i*) Maintained all the statutory registers.

(*ii*) Filed all forms and returns and furnished all necessary particulars to the Registrar of Companies and/or other authorities as required under the Companies Act, 1956.

(*iii*) Registered all the charges created in favour of financial institutions, banks and others with the Registrar of Companies.

(*iv*) Issued all notices required to be given for Board meetings and General meetings within the time limit prescribed by law.

(*v*) Conducted the Board and Annual General Meetings as per the Companies Act, 1956.

(*vi*) Effected share transfers and dispatched share certificates within the time limit prescribed by various authorities.

(*vii*) Not exceeded the borrowing powers.

(*viii*) Paid dividend to the shareholders within the time limit prescribed.

(*ix*) Transferred the unclaimed refund of application monies in respect of the public/rights issues of securities to the Investor Education & Protection Fund, as required.

B. No penalties or strictures have been imposed on the company by the Stock Exchanges, Securities and Exchange Board of India (SEBI) or any other statutory authority on any matter related to capital markets during the last three years.

C. The Company has also complied with the regulations prescribed by the Stock Exchanges, SEBI and other statutory authorities and also the statutory requirements under the Companies Act, 1956 and other applicable statutes in force.

Indore | D.K.Jain
Date: xxxxxxxx | Company Secretary

VI. MANAGEMENT DISCUSSION AND ANALYSIS

The business operations of the Company deals with the pharmaceuticals and had been reclassified based on the global nomenclature. Both the Domestic and Global Pharmaceutical markets present exciting opportunities for the Company while the Domestic market is expected to grow in double digit in near future, the Global generic market is also expanding rapidly. Market capabilities and distribution network being strengthen to meet out the requirement in domestic as well as export market.

(*i*) *Industry structure and developments*: There is no clear distinction in India between pharmaceuticals products, which are globally accepted as products under patent, and generic pharmaceuticals products i.e. products that are off patent.

The Indian pharmaceuticals industry grew by 5.7% during 2005-06. Industry growth registered was only ...% which was primarily due to uncertainty with regard to the implementation to the Value Added Tax (VAT), and liberalisation due to WTO conditions, which led to reluctance by distributors to lift stocks as they were concerned about being negatively impacted.

Although implementation of the much publicized Pharmaceutical Policy is delayed and uncertainties related to this continue to afflict the industry, the announcement of reduction in customs duties for critical life savings drugs has been a welcome step. The industry continues to await speedy introduction to the Patents Act, which will align local laws with international laws. We believe this move will promote India, which has a rich pool of scientific talent, as a preferred destination for pharmaceuticals research and clinical trials.

(*ii*) *Concerns*: Although India has partly met WTO obligations by passing the Second Patent Amendment Bill, the present Patent Act needs further amendment to bring it in line with international laws. The delay is a cause of concern for many research driven Pharmaceuticals Companies planning to launch new generation research products and is also resulting in deferment of investment decisions.

In addition, the industry continues to be impacted by the problem of parallel imports and increasing incidents of counterfeit/spurious drugs, which could be detrimental to patient health. This is also damaging India's image in the international market.

(*iii*) *Outlook*: The Pharmaceuticals and Generics businesses await implementation of the new Pharmaceutical Policy. The Company has alternative business plans for countering any negative impact once the Pharmaceutical Policy is implemented. The Company plans to launch new product(s) variants in the coming year and also to expand its marketing reach in the country and overseas market.

(*iv*) *Internal Control Systems and their adequacy*: The Company has clearly laid down policies, guidelines and procedures that form part of the internal control system which provide for automatic checks and balances. The internal audit department reviews the effectiveness and efficiency of these systems to ensure that all the assets are protected against loss and that the financial and operational information is complete and accurate.

Audits are finalised and conducted based on the internal risk assessment. Significant findings are brought to the notice of the Audit committee of the Board and corrective measures recommended for implementation.

(*v*) *Human relations*: We lay special emphasis to the human resources function in our organization and believe that our work opportunities and competitive compensation policy helps us in attracting and retaining our personnel.

The table below provides details of our employees:

Employees	Number of employees as on 31st March 2006
Permanent Workers	50
Temporary Workers	15
Operating, Administrative and support staff	150
Temporary Staff	50
Total Employees	265

We have an elaborate performance management system in place involving goal setting, and periodic reviews involving confirmation and annual reviews. The review sessions impress upon several aspects of the professionals' careers such as career and competency development, financial rewards and recognition. We endeavor to link careers to competencies, individual preferences and organizational needs.

Our compensation package has a fixed component in line with the industry standards and a variable component linked to the corporate and individual performance.

(*vi*) *Safety*: Safety management is integrated with the Company's overall environment, health and safety (EHS) management system and zero accident is taken up as the Company's goal. The following measures have been taken by the Company:

— Identification of hazard and risk present in work environment and its rectification.

— Continuous monitoring of unsafe condition and unsafe acts through safety inspection.

— Safety induction training for all employees and specific job safety awareness programmes on a continuous basis.

(*vii*) *Environment friendly operations*: Environmental protection is a prime concern for us and we are aware of our core responsibility to the society in this regard. *(viii) Cautionary Statement*: Statements in the Management Discussion and Analysis Report describing the Company's objectives, projections, estimates, expectations may be forward looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, among other things, economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in Government regulations, tax laws and other statutes and incidental factors.

CORPORATE GOVERNANCE FEATURES

Effective Board

— Optimum Board size (11 directors) for effective decision-making;

— Board's independence assured through the presence of seven professional independent directors and designation of one of them as 'Senior Director';

— With the induction of Prof. ABC of USA and Mr. DEF of Singapore, the Board has international presence;

— Policy dossier prescribes the selection criteria, compensation policy and duties of directors; code of conduct for the directors; and the roles of Chairman, CEO, CEO and Non-Executive Directors, to ensure that the directors posses the required competencies;

— Independent directors remunerated based on their service, time and output;

— Executive directors remunerated based on their individual contribution, company's performance and industry norms.

Committees of Directors

The existence of:—

— 'Audit Committee' for review of financial reporting;

— ''Nomination and Remuneration Committee' for selection and compensation of executive directors and senior officials just below Board level;

— 'Shareholders'/Investors' Grievance Committee' for looking after the interest of investors; and

— 'Operations and Technology Committee' for supervising and guiding the operational activities,

enable the directors to take informed decisions on all critical matters.

Participative Decision-making

Initiatives such as the formation of:—

- 'Operating Council' of key executives for review of performance of divisions;
- 'Management Council' of star performers for acting as the think tank; and
- 'Quality Management Council' of senior officials for review of quality standards,

provide the platform for participative decision-making.

Succession Planning

The programmes of:—

- Monitoring;
- Identification of Star Performers;
- Talent management; and
- Management Council,

help to groom employees to take higher responsibilities.

Strategy

The existence of:—

- 'Strategy Planning Team';
- 'Knowledge Management Team';
- 'Technology Council'; and
- 'Operations and Technology Committee' of directors.

help continuous review of strategic options.

Internal Control and Risk Management

- Drawing of annual operating plans and budgets;
- Clear demarcation of responsibilities of top management;
- Review of working of 'Risk Management Team' and 'Internal Audit Team' by Audit Committee;
- Establishment of functional procedures for all divisions and displaying them on the company's intranet,

ensure system of internal control and risk management.

Financial Reporting

- Adoption of 'Charter of Audit Committee' for self governance;
- Publication of audited quarterly financial results;
- Review of financial results by 'Audit Committee' of independent directors;
- Furnishing of Directors' Responsibility Statement; and
- Providing of elaborate financial and non-financial information in the Annual Report and the web-site ensures quality financial reporting.

Disclosure and Transparency

1. Displaying on the Company's web-site:—
    - Financial Results;
    - Corporate presentations made to analysts;
    - Annual Reports of last 3 years;
    - Activities of each division;
    - Career opportunities and training facilities.
2. Displaying on the intranet:
    - Organisational structure;
    - HR rules and policies;
    - Administration policies;
    - Training facilities;
    - Health issues;

— ISO systems; and
— Business news.

3. Intimation to Stock Exchanges of all important developments in the company then and there; and
4. Giving forewarning of adverse conditions,

strengthen trust and credibility among the stakeholders.

Ethics

Committing directors and employees to:—

— 'Company's Code of Ethics'; and
— 'Policy on Insider Trading',

helps to ensure ethical standards.

Protection of Shareholders' Rights

The shareholders population of 1.43 Lacs consisting of FIIs, FIs, MFs, NRIs, OCBs, Promoters and Retail Investors are treated equally and their rights are protected by:—

— Providing of Corporate Presentations in the website;
— Engaging the services of senior professionals for the positions of Chairman — Corporate Governance, Chief Investor Relations Officer, and Company Secretary;
— Providing of liquidity by listing in four leading stock exchanges;
— Putting systems in place by obtaining ISO accreditation for:—
  * Company Secretariat and Investor Service Centre, and
  * Corporate Governance
— Dematerialisation of 100% of Equity Shares;
— Quick disposal of share transfers through the 'Transfer Committee of directors'; and
— Presence of all directors including the chairmen of all Committees in the annual general meeting to answer shareowners' queries.

Recognition of stakeholders' Right

— Legal compliance certificate by the company secretary to members of the Board;
— Risk mitigation and close monitoring of litigations through 'Risk Management Team';
— Selection, compensation and succession planning of senior executives and directors reviewed by the 'Nomination & Remuneration Committee';
— Employees' participation in the management at various levels;
— Statutory and institutional liabilities met on the due dates; and
— ISO accreditation for 7 divisions, SEI-CMM Level 4 for software division for quality improvement.

Corporate Governance Compliance

— The Corporate Governance Task Force (CGTF) keep track of global Corporate Governance practices and ensure their compliance by the company;
— Annual Review of Corporate Governance compliance by the Statutory Auditors and JPS & Co., the Chartered Accountants;
— The CGTF endeavors to:—
  * enhance the image and credibility of the company in the eyes of domestic/international investors by consistent disclosure and transparency; and
  * make Corporate Governance as a way of life throughout the organisation.

End Results

Creation of wealth:—

— Asset base of Rs. 140.57 Crores;
— Net Worth of Rs. 143.01 Crores;
— Book Value and basic EPS (before extraordinary items) of Rs. xxxxxxx and Rs. xxxxx respectively;

— Around 300 knowledge work force;
— Around 800 Customers;
— Around 13000 Shareholders (including domestic and international institutional investors)

CORPORATE GOVERNANCE STRUCTURE

BOARD OF DIRECTORS

Board Committees

- Audit Committee
- Nomination & Remuneration Committee
- Shareholders'/ Investors' Grievance Committee
- Operations & Technology Committee

Chairman & Managing Director

- Corporate Governance Task Force
- Technology Council
- Operating Council
- Management Council
- Quality Management Council
- Risk Management Team
- Investor Relations Office
- Knowledge Management Team
- Corporate Strategy Team

REPORTS OF COMMITTEES

I. REPORT OF THE AUDIT COMMITTEE

We, the members of the Audit Committee, are pleased to present the report of the Committee for the FY 2005-06 as under:

The Committee presently has strength of four Independent directors. The scope of reference and powers of the Audit Committee are continued to be governed by the resolution passed by the Board on 12th June, 2005. The composition, attendance and terms of reference of the Committee are given in the report of compliance with Clause 49 of the Listing Agreement of the Stock Exchanges.

During the financial year, the Committee met five times and reviewed the following:—

1. Quarterly/annual financial statement with particular reference to the requirements of Clauses 41 and 49 of Listing Agreement of Stock Exchanges, sections 217(2AA) and 292A of the Companies Act, 1956 and Audit Charter of the company;
2. Budgetary Controls and Foreign Exchange Risk Management;
3. Impact of new Accounting Standards and Transfer Pricing Regulations;
4. Internal Control Systems, Audit Plan and Monitoring Process;
5. Working of the Risk Management Team;
6. Appointment and remuneration of the Statutory Auditors; and
7. Audit Charter.

For and on behalf of the Audit Committee

Indore
Date: xxxxxxxx

SDP
Chairman

II. REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

We, the members of the Nomination & Remuneration Committee, are pleased to present the report of the Committee for the FY 2005-06 as under:

With a view to reflect the functions discharged by the Remuneration Committee, the name of the committee was changed from 'Remuneration Committee' to 'Nomination and Remuneration Committee'.

The scope of reference of the Committee also got enlarged for monitoring the appointments of senior executives just below the Board level; review of HR policies, initiatives and succession planning; and overseeing implementation of revised policy on prohibition of Insider Trading and Fraudulent and Unfair Trade Practices adopted by the Board.

The Committee presently comprises of four Independent directors. The composition, attendance and terms of reference of the Committee are given in the report of compliance with Clause 49 of the Listing Agreement of the Stock Exchanges.

The Committee met five times during the year under consideration and made its recommendations to the Board *inter alia* on the following:—

1. Amendment of Policy Dossier for reducing the age of retirement of non-executiv e directors to 65 years, redefining the roles of the executive directors, and other related matters;
2. Composition of the Board and performance of the directors;
3. Commission to the executive directors on the basis of set parameters;
4. Appointment of three outstanding personalities namely Mr. VS, Prof. SBN and Mr. SPK as Independent directors on the Board; and
5. Appointment of the Chief Financial Officer as whole-time director.

The Committee also administered and supervised the Employees' Stock Option Schemes of the company and its subsidiaries.

For and on behalf of the
Nomination & Remuneration Committee

Indore SDP
Date: xxxxxxxxx Chairman

III. REPORT OF THE SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE

We, the members of the Shareholders'/Investors' Grievance Committee, are pleased to present the report of the Committee for the FY 2005-06 as under:

The constitution, scope of reference and powers of the Shareholders'/Investors' Grievance Committee are presently governed by the resolution passed by the Board on 12th June, 2001. During the year, the Committee was reconstituted. Presently, the Committee consists of Mr. TNV and Mr. DP, Independent Directors and Mr. FDS, Jt. Managing Director.

The Committee met twice during the year under consideration and reviewed the following;—

1. Internal Control Systems namely, dematerialisation of shares, periodical reports, internal and external audit, transfer committee meetings, budget, etc;
2. Redressal of investors' grievances especially in matters like pending transfers/dematerialisation of shares; non-receipt of dividend warrants, annual reports, notices, etc;
3. Communication with investors through separate e-mail id i-service@xyzlimited.com, company's web-site www.xyzlimited.com, annual report, public notices in the newspapers, intimation to Stock Exchanges, individual correspondence, feedback mechanism, etc;
4. Investor friendly measures such as dividend payment through ECS, organising site visits, soliciting response from investors, organising general meetings at easily accessible locations, presence of directors in the general meetings to answer investors' queries, etc;

5. Statutory compliance; and
6. Progress on obtaining ISO 9001:2000 accreditation and various Six Sigma initiatives.

For and on behalf of the
Shareholders'/Investors' Grievance Committee

Indore — TNV
Date: xxxxxxxxxx — Chairman

IV. REPORT OF COMPLIANCE WITH CLAUSE 49 OF THE LISTING AGREEMENT OF THE STOCK EXCHANGES

As the Company is a part of Group A of Bombay Stock Exchange index, in terms of Clause 49 of the Listing Agreement of the Stock Exchanges (Clause 49), the Compliance Report on Corporate Governance (in the prescribed format) is given as under:

1. Company's philosophy on code of governance

The Company's philosophy on code of Governance as adopted by the Board is as under:—

(1) Ensure that the quantity, quality and frequency of financial and managerial information, which management shares with the Board, fully places the Board members in control of the company's affairs.

(2) Ensure that the Board exercises its fiduciary responsibilities towards shareowners and creditors, thereby ensuring high accountability.

(3) Ensure that the extent to which the information is disclosed to present and potential investors is maximised.

(4) Ensure that the decision making is transparent and documentary evidence is traceable through the minutes of the meetings of the Board/Committee thereof.

(5) Ensure that the Corporate Governance Task Force itself, the Board, the Employees and all concerned are fully committed to maximising long-term value to the shareowners and the company.

(6) Ensure that the core values of the company are protected.

(7) Ensure that the company positions itself from time to time to be at par with any other world-class company in operating practices.

2. Board of directors

(1) Details of Directors

Sr. No	Name of Director	PD/ NPD*	ED/NED/ID*	Attendance in Board meetings		Attendance in last AGM	Other Board		
				Held	Attended		Directorship**	Committee Chairmanship***	Committee Membership (Including Chairmanship)***
1.	Shri GRT	PD	NED	4	4	Present	0	0	0
2.	Shri MT	PD	ED	8	8	Present	0	0	0
3.	Shri FDS	PD	ED	8	7	Present	0	0	0
4.	Shri GVD	PD	NED/ID	4	4	Present	0	0	0
5.	Shri SCS	NPD	ED	8	7	Present	0	0	0
6.	Shri SBN	NPD	NED/ID	5	2#	N.A.	0	0	0
7.	Shri SPK	NPD	NED/ID	4	3	N.A.	7	0	0
8.	Shri VP	NPD	ED	3	3	N.A.	6	2	2
9.	Shri AWF	NPD	NED/ID	8	7	Present	0	0	0

* PD — Promoter Director; NPD — Non-Promoter Director; ED — Executive Director; NED — Non-Executive Director; ID — Independent Director.

** In Indian Public Limited Companies.

*** In Audit, Remuneration and Shareholders' Committees of Indian Public Limited Companies.

Persons shown at Sr. Nos. 1 & 4 retired w.e.f. 30-7-2005. Persons shown at Sr. Nos. 6, 7, 8 & 10 appointed as Additional directors w.e.f. 30-7-2005, 30-7-2005, 1-8-2005 and 1-11-2005 respectively, and their brief resume is given in this report.

On account of his occupation in USA, Mr. SBN was granted leave of absence for the Board Meetings not attended by him.

(*2*) *Details of Board Meetings held during the year:*

Date of Board Meeting	Board Strength	No. of directors present
11th April, 2005	9	8
31st May, 2005	9	6
20th July, 2005	9	8
30th July, 2005	9	8
25th October, 2005	10	8
30th November, 2005	11	11
25th January, 2006	9	10
27th March, 2006	11	10

(*3*) *Audit Committee*

Brief description of terms of reference

1. Adopt and review Formal Written Charter approved by the Board for its self-governance.
2. Review with the management the annual/half-yearly/quarterly financial statements.
3. Hold separate discussion with Head-Internal Audit, Statutory Auditors and among members of Audit Committee to find out whether the company's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).
4. Review the company's financial and risk management policies and the adequacy of internal control systems.
5. Review the adequacy of accounting records maintained in accordance with the provisions of the Companies Act, 1956.
6. Look into reasons for substantial defaults, if any, in payment to depositors, shareowners and creditors.
7. Review the performance of Statutory Auditors and recommend their appointment and remuneration to the Board, considering their independence and effectiveness.
8. Perform other activities consistent with the Charter, company's Memorandum and Articles, the Companies Act, 1956 and other Governing Laws.

Composition of Committee and Attendance of Members

Sr. No.	Name of Director & position	Meetings/Attendance				
		11-4-2005	20-7-2005	4-10-2005	25-10-2005	25-1-2006
1.	Shri SDP, Chairman	Present	Present	Present	Present	Present
2.	Shri GVD	Present	Present	Present	Present	Present
3.	Shri DP, Member	Present	Present	Present	Present	Present
4.	Shri TNV, Member	Present	Present	Present	Present	Present

(*4*) *Nomination & Remuneration Committee*

Brief description of terms of reference

1. Frame company's policies on Board and directors with the approval of the Board.
2. Make recommendations for the appointments on the Board and Senior Management Positions.

3. Evaluate performance of the Board, Executive Directors and Non-Executive Directors on predetermined parameters.
4. Review and recommend compensation payable to the Executive Directors.
5. Review re-election of the members of the Board.
6. Recommend induction of directors into various Committees.
7. Assist the Board in selecting, compensating, monitoring and when necessary replacing key executives in Grades 10 and above and overseeing succession planning.
8. Review HR Policies and Initiatives.
9. Administer and supervise Employees' Stock Option Schemes.
10. Assist the Board in the implementation of the 'Policy on Prohibition of Insider Trading and Fraudulent and Unfair Trade Practices' adopted by the Board.

Composition of Committee and attendance of members

Sr. No.	Name of Director & position	Meetings/Attendance				
		11-4-2005	20-7-2005	25-10-2005	3-11-2005	14-12-2005
1.	Shri SDP, Chairman	Present	Present	Present	Present	Present
2.	Shri GVD	Present	Present	Present	Present	Present
3.	Shri DP, Member	Present	Present	Present	Present	Present
4.	Shri TNV, Member	Present	Present	Present	Present	Present

Remuneration Policy

The amended Policy Dossier approved by the Board at its meeting held on 30th July, 2004, *inter alia*, provides for the following:

Executive Directors

(1) Salary and commission not to exceed limits prescribed under the Companies Act, 1956.

(2) Revised from time to time depending upon the performance of the company, individual director's performance and prevailing industry norms.

(3) No sitting fees.

(4) No ESOP for Promoter directors.

Non-Executive Directors

(1) Eligible for commission based on time, effort and output given by them.

(2) Sitting fees and commission not to exceed limits prescribed under the Companies Act, 1956.

(3) Eligible for ESOP (other than Promoter directors).

Details of remuneration to all the directors

Sr. No.	Name of Director	Salary (Rs)	Benefits (Rs)	Bonus/Commission (Rs)	Performance linked incentives	Sitting Fees (Rs)	Total (Rs)	Stock Options	Service contract/notice period/severance fees/pension
1.	Mr. MAT	10,03,225	3,95,865	NIL	NIL	NIL	13,99,090	NIL	*
2.	Mr. FDS	6,90,000	4,52,439	NIL	NIL	NIL	11,42,439	NIL	**
3.	Mr. SDP	NIL	NIL	143500	NIL	86,000	2,29,500	NIL	Retirement by rotation
4.	Mr. SCS	5,15,963	1,35,552	720000	NIL	NIL	13,71,515	NIL	***
5.	Mr. VP	6,68,108	51,967	NIL	NIL	NIL	7,20,075	NIL	Additional Director****

* 3 years w.e.f. 31-7-2004/notice period 3 months/remuneration for unexpired period or 3 years whichever is less/N.A.

** 3 years w.e.f. 1-8-2004/notice period 3 months/remuneration for unexpired period or 2 years whichever is less/N.A.

*** 3 years w.e.f. 1-1-2005/notice period 3 months/N.A./N.A.

**** 3 years w.e.f. 1-11-2005/notice period 3 months/N.A./N.A.

(5) *Shareholders'/Investors' Grievance Committee*

1.	Name of the Non-Executive Director heading the Committee	:	Mr. TNV
2.	Name and Designation of the compliance officer	:	Mr. VAA, CS
3.	Number of shareholders' complaints received so far	:	248
4.	Number of compliants not solved to the satisfaction of shareholders	:	0
5.	Number of pending share transfers	:	4

(6) *General Meetings*

Locations and time, where last three AGMs were held

Financial Year	2002-03	2003-04	2004-05
Date	26-8-2003	30-6-2004	31-5-2005
Time	11.00 a.m.	3.00 p.m.	11.00 a.m.
Venue	Jal Autodorium,Ind	Jal Autodorium,Ind	Jal Autodorium,Ind

(7) *Disclosures*

(1) Disclosures on materially significant related party transactions *i.e.* transactions of the company of material nature, with its promoters, directors or the management, their subsidiaries or relatives, that may have potential conflict with the interests of company at large:

(2) Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchanges or SEBI or any Statutory Authority, on any matter related to capital markets, during the last three years.

(8) *Means of Communication*

(1) Half-yearly report to each household of shareholders: Displayed on company's web-site www.xyzlimited.com on 25th October, 2004, the date on which the results were adopted by the Board.

(2) Quarterly results: The Unaudited quarterly results alongwith the notes were published in the newspapers as under:

	Date of publication of results for the quarter ended			

(3) Website where displayed: http://www.xyzlimited.com.

V. INFORMATION TO SHAREHOLDERS

As an organisation, we are conscious for investors and potential investors when evaluating technology investments, navigating such an environment is difficult without appropriate information. This is, thus, the primary aim of XYZ's Investor Relations (IR). The basis of our Investor Relations work is ongoing and open communication with all market participants consisting of Financial Institutions, Foreign Institutional Investors, Mutual Funds, Common Investors and Analyst Community. Among the professional players, the focus is on analysts, brokers and fund managers. We provide the same information at the same time on our IR website.

The feedback from our investors has been very valuable to us for evolving and enhancing our communication. Based on such feedback, we have simplified the way we present our business plans and strategies. We have removed, as far as possible, the technical jargons.

Our IR team has valued this feedback and is thankful for the same. The basis of our Investor Relations work is ongoing and open dialogue to ensure that investors and potential investors have an accurate understanding of our company's management strategy and its financial performance.

We are confident that these initiatives will go a long way in enhancing the Company's credibility in the shareowners' eyes and strengthening our image as a progressive corporate, with high corporate ethics and value system.

1. Date, Time and Venue of Annual General Meeting: 25th August, 2006 at 11.00 a.m. at
Hotel Samrat,
M.G. Road, Indore

2. Financial Calendar for F.Y. 2005-06:

Particulars	Date
First Quarter Results	On 31st July, 2006
Second Quarter Results	On or before 31st October, 2006
Third Quarter Results	On or before 31st January, 2007
Fourth Quarter Results, and Audited Annual Results	On or before 30th April, 2007

3. Dates of Book Closure: From xx.xx.xxxx to xx.xx.xxxx

4. Dividend Payment Date: xx.xx.xxxx

5. Listing on Stock Exchanges:

The shares are listed on BSE and NSE. The Annual listing fees in respect of the shares of the Company have been paid for the FY 2006-07.

6. Stock Code:

Stock exchange/News Agency	Stock Code
	BSE
	NSE

7. Address for Communication: 4th Floor, Silver Arc Plaza,
20/A, New Palasiya
Indore (M.P.)

8. Stock Market Data:

Monthly high and low of closing quotations and volume of shares traded on the Stock Exchange at Mumbai (BSE):

Month	Highest (Rs.)	Date	Lowest (Rs)	Date	Total Volume
April 2005					
May 2005					
June 2005					
July 2005					
August 2005					
September 2005					
October 2005					
November 2005					
December 2005					
January 2006					
February 2006					
March 2006					

Monthly high and low of closing quotations and volume of shares traded on the Stock exchange on the National Stock Exchange (NSE):

Month	Highest (Rs.)	Date	Lowest (Rs)	Date	Total Volume
April 2005					
May 2005					
June 2005					
July 2005					
August 2005					
September 2005					
October 2005					
November 2005					
December 2005					
January 2006					
February 2006					
March 2006					

9. Investor Service Centre (ISC)

The Company's Investor Service Centre (ISC) handles all the securities related work in-house. All communications regarding share certificates, transfers, dematerialisation or rematerialisation of shares, dividend, change of address (in respect of shares held in physical form), etc. should be addressed to the ISC at the address, mentioned earlier.

Shareowners who continue to hold shares in physical form are requested to note that the shares of the company are now traded compulsorily in electronic (demat) form. Therefore, it would be in the interest of all such shareowners to dematerialise the shares. It may be pertinent to note that all the shareowners of the company now hold their shareholding in the share capital of the Company in electronic form. (As on 31st March, 2006).

Shareowners holding shares in electronic (demat) form are requested to approach their Depository Participants (DPs) for updating their bank details, to facilitate remittance of dividend, if declared, through Electronic Clearing Service (ECS). The data of Bank details are received by the Company from the Depositories, which is compiled from the information maintained by the DPs. It has been observed that in areas where our Bankers are extending facility of remittance of dividends through Electronic Clearing Service (ECS), the company is not in a position to remit dividend to such shareowners who have not provided their complete bank details including the 9 digit MICR (as appearing on bottom portion of cheques) to their DPs.

As a result, such shareowners receive dividend in the form of warrants. It is also observed that many shareowners have not provided their bank details to their DPs and such shareowners are advised to get their records updated at the earliest, as bank details are printed on the cheque portion of the dividend warrants, to prevent fraudulent encashment.

10. Share Transfer System

Share transfers are registered and returned within a period of 15 days from the date of receipt, if the documents are clear in all respects. In cases where shares are transferred after sending notice to the transferors, in compliance of applicable provisions, the period of transfer is reckoned from the date of expiry of the notice. The share transfer and allied matters were approved in 30 Share Transfer Committee meetings during FY 2005-06.

The transfers were completed within a maximum of 15 days. However, it may be noted that transactions of shares in physical mode are substantially low as a result of the compulsory trading of the company's shares in demat (electronic) form.

Days taken for transfer of shares	Nos. of Transfers FY 05-06 FY 04-05	Nos. of shares FY 05-06 FY 04-05	% of Shares FY 05-06 FY 04-05
Total			

11. Dematerialisation/Rematerialisation

The Securities and Exchange Board of India (SEBI) mandated compulsory trading of shares of the Company by all investors from 29th November, 1999 in electronic (demat) form. As of 31st March, 2006, the company's all the shares are held by shareowners in dematerialised form..

Days taken for dematerialisation of shares	Nos. of Requests FY 05-06 FY 04-05	Nos. of shares FY 05-06 FY 04-05	% of Shares FY 05-06 FY 04-05
Total			

12. Correspondence with Investors, Stock Exchanges and SEBI

Category of correspondence	Opening Balance	Received	Replied	Pending as on 31-3-2006
Transfer of Shares				
Dematerialisation				
Dividend				
Public/Rights Issue,				
Letters of Allotment				
Requests				
Stop Transfers				
Stock Exchanges & SEBI				
Others				
Total				

13. Distribution of Share owning as on 31st March, 2006

No. of Shares	No. of Owners	% of Share holders	Share Amount (Rs)	% to Total
Total				

14. Categories of Shareholders as on 31st March, 2006

Sr.	Category	No. of Shareholders	No. of shares	Voting Strength
1.	Promoters, Relatives &Associates			
2.	Bodies Corporate (Domestic)			
3.	Banks			
4.	Mutual Funds			
5.	Financial Institutions (FIs)			
6.	Foreign Institutional Investors			

Sr.	Category	No. of Shareholders	No. of shares	Voting Strength
7.	NRI/Foreign Corp., Bodies/Overseas Corporate Bodies (OCBs)			
8.	Resident Individuals			
9.	In Transit (Depository)			
	Total			

15. Top 10 Shareowners as on 31st March, 2006

Name	Category	Shares	%
Total			

16. Changes to Equity Share Capital during FY 2005-06

Date	Particulars	No. of Shares	Issue Price	Increase in Share Capital

17. Legal Proceedings

There are no proceedings pending against the company that are material enough to adversely affect the profit or financial health of the Company. However, as a matter of abundant precaution, we wish to disclose the following:

(*a*) *Cases filed against the company*

There are 5 proceedings against the company, pending in various Courts and other Dispute Redressal Forums.

Out of 5 cases pending against the company, 2 cases are such in which, the company has been implicated as Proforma Defendant, *i.e.* there is no monetary claim against company. In most of these cases, dispute is concerning to the matters like loss of share certificate, title claim/ownership on the shares, etc. The company's implication in these matters is with a view to protect the interest of the lawful owners of the shares (for example two parties involved in litigation, to establish their title/ownership over the shares and order is sought for restraining the company from transferring the shares to any other party). There is no direct liability or adverse impact on the business of the company because of the said 5 cases.

(*b*) *Recovery of Outstanding*

The company has been successful in recovering most of its dues by issuing legal notices through its Advocate. The aggregate of such receipts during the year was Rs. 6.52 Lacs.

18. Means of Communications

The Quarterly Results of the Company are announced within a month of the end of the respective quarter and are normally published in the Economic Times, Business Standard. These results can be accessed on the company's website. The company's official news releases, other press coverage and copy of corporate presentations made to institutional investors and analysts are also made available on the website. In addition, the Investor Relation Team maintains a mailing list of every analyst, institution, research house that comes into contact and sends them this information through e-mail, after the same is furnished to the stock exchanges.

Corporate Governance

The company is among the few to put in place a system of good Corporate Governance voluntarily since 1997-98. The practices adopted by the company for Clause 49 of the Listing Agreement of the Stock Exchanges. A separate section giving the reports on compliance with the recommendations of these various bodies on Corporate Governance, as reviewed and certified by JPS & Co., Chartered Accountants, is given elsewhere in this Annual Report. The composition of the Audit Committee, as required under section 292A of the Companies Act, 1956 and the report on Clause 49 of the Listing Agreement of the Stock Exchanges are also given elsewhere in this Annual Report.

Risk Factors

As in the previous report, a separate section on risk factors is provided as a part of the Annual Report. It is important for shareholders and investors to be aware of the risks that are inherent in the company's businesses. The major risks faced by your company have been outlined in the said section to allow shareholders and prospective investors to have an independent view on the risks being faced by the company. We strongly suggest Shareowners/Investors to read and analyse these risks prior to making investment decisions in the company.

Directors

Mr. DP and Mr. SDP retire by rotation at the forthcoming Annual General Meeting. Both of them being eligible offer themselves for re-appointment.

The background of the Additional directors and the directors proposed for appointment/re-appointment is given under the Corporate Governance section of the Annual Report.

Special Business

As regards the items of the notice of the Annual General Meeting relating to special business, the resolutions incorporated in the notice and the explanatory statement relating thereto, fully indicate the reasons for seeking the approval of members to those proposals. Members' attention is drawn to these items and explanatory statement annexed to the notice.

Appendix 6

Specimen of Minutes of Committees formed in compliance of Corporate Governance

I. Minutes of Audit Committee meeting

MINUTES OF THE MEETING OF AUDIT COMMITTEE OF THE FORM (INDIA) LIMITED HELD ON 9TH JUNE, 2006 AT 10:30 A.M. AT THE REGISTERED OFFICE OF THE COMPANY

PRESENCE IN THE MEETING:

I	**MEMBERS OF THE COMMITTEE:**		
	1.	SHRI M.K.SHAH	ON THE CHAIR
	2.	SHRI L.N. DUBE	DIRECTOR
	3.	SHRI D.K.KEMKAR	DIRECTOR
II			**SPECIAL INVITEES:**
	1.	SHRI J.P.SARAF	AUDITORS
	2.	SHRI D.K. JAIN	CORPORATE LAW ADVISOR
III			**IN ATTENDANCE:**
	1.	SHRI PROMOD JAIN	DY. GENERAL MANAGER (COMM.)

PROCEEDINGS OF THE MEETING:

1. CHAIRMAN OF THE MEETING & LEAVE OF ABSENCE:

The Chairman of Audit Committee Shri M.K.Shah took the chair and commenced the proceedings. With the consent of the Committee, the leave of absence was granted to Shri K.C. Jain, the member of the Committee.

2. CONSIDERATION AND REVIEW OF THE COMPANY'S FINANCIAL REPORTING PROCESS AND DISCLOSURES TO BE GIVEN IN THE NOTES OF ACCOUNTS:

The Company is disclosing its provisional financial results on quarterly basis, duly approved by the Board to the Stock Exchanges. It was also informed by the Company to the Stock Exchanges that the Company will considered the quarterly results for the quarter ended 31st March, 2006 as the Audited Results before 30th June, 2006 as per guidelines of the Stock Exchange.

Necessary disclosures as required have been incorporated in the Audited Balance Sheet and Profit and Loss Accounts for the year ended 31st March 2006.

3. CONSIDERATION AND REVIEW OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31/03/2006:

The Chairman informed that as per clause 49 of the Listing Agreement, the Balance Sheet and Profit and Loss Account for the quarter/year ended 31st March 2006 is to be considered by the Committee before submission to Board. The Committee considered following matters relating to financial statements.

1. CHANGE IN ACCOUNTING POLICIES

The Committee considered that there is no change in Accounting Policies of the company during the year under review.

2. MAJOR ACCOUNTING ENTRIES

Shri Pramod Jain, Dy.G.M. (Comm.) explained the following major accounting entries for the financial year 2005-06.

1. That turnover during the year under report has increased from Rs…….. Lacs to Rs. …….. Lacs. During the year under review, the Company has been able to generate net profit of Rs……..Lacs (previous year losses of Rs….. Lacs) However, it has made provisions for previous years tax and other liabilities of Rs……Lacs (Previous year Rs……Lacs) and proposes to carry net profit of the year after adjustment Rs.3.36 Lacs (Previous year Loss of Rs……. Lacs). Order booking is almost steady and has booking of Rs……..Lacs.
2. This year, we have executed Export orders of Rs 25 Lacs against Rs.10 lacs, in the previous year.
3. This year the Company has also organized training program for providing practical training to engineers/technicians of valued customers as a sales promotion measures on payment basis, which has got overwhelming response.
4. To improve the qualities of our product, we have started import of NTN Bearings from Japan/Singapore. This reduced the cost of purchase of bearings compared if NTN/SKF purchased in India and improved the product quality. This year we have imported NTN Bearings of Rs. 5.04 lacs (CIF value of import).
5. For restructuring of IFCI Term Loan liabilities, the Company had engaged M/s Econotech Ltd., Providing professional services to work out the proposal and follow up. We have been settled on Rs. 5.03 lacs as full and final payment, necessary payment/provisions to that effect have been made in the books of accounts.

3. QUALIFICATIONS IN THE DRAFT AUDITOR'S REPORT

The Auditors have informed that all the material discrepancies, were rectified on the spot and now there are no major qualifications, which will have impact on the true and fair view on the Balance Sheet and the Profit and Loss Accounts of the Company for the year under review.

4. SIGNIFICANT ADJUSTMENTS MADE:

The Committee considered the following significant accounting entries passed by the Company at the end of the financial year:

(*a*) Bad Debts & Doubtful Debts

A sum of Rs 3.75 Lacs (Previous year Rs. 9.59 Lacs) written off as Bad Debts. Shri Pramod Jain, informed that there are old dues of Rs.9.96 Lacs, which are also considered Doubtful. These dues are quite old and mainly consist of dues from Public Sector/Government Supplies on account of

5%-10% L.D. and retention charges. Shri Pramod Jain, informed that continuous follow up is being made to recover this amount.

(*b*) Misc. Expenditure Written off

The Misc. expenditures comprising Preliminary expenses for issue of shares written off to the tune of Rs. 1.60 Lacs. Now the Company has written off the entire amount as at 31st March, 2006.

(*c*) Provisions for Income Tax Liabilities for the earlier years:

Up to 31st March, 2006, the Income Tax paid against the assessment year 1992-93 against the various orders issued by the department u/s 143(3), 250/154/264, which was debited to income tax paid under appeal in the Books of Accounts at the time of payments made, now out of which Rs.5.75 Lacs have been transferred to Income Tax paid for earlier years and shown in the P & L Accounts as Income Tax paid for earlier years, as no appeal in this regard is pending. Except, a waiver petition of interest demand amounting to Rs.2.83 Lacs u/s 220(2) of the Act is pending before the CIT, Indore, contingents liability of Rs.2.83 Lacs has been considered, however, no provisions for these contingent liabilities has been made but disclosed in the notes on accounts for the year ended 31st March, 2006. Looking into the circumstances, the management is hopeful to get adequate relief from the department.

(*d*) The Company has received an order from the CIT Appeals, Indore, in which the department has considered the matter and given decision in favor of the Company, therefore, it is not required to make disclosure of contingent liabilities relating to assessment year 1998-99 of Rs.1,29,641 only during the year under review.

(*e*) The Company has also received an order from the CIT Appeals, Indore, in which the department has deleted the penalty of Rs. 30,100 imposed u/s 270(1)(*c*) of the Act, therefore, it is not required to make disclosure of contingent liabilities relating to assessment year 1998-99 of Rs.1,29,641/- only during the year under review

(*f*) Differed Tax Liabilities:

Since the Company is having accumulated losses, it is not required to make any provisions for the differed tax liabilities for the year ended 31st March 2006.

(g) The Theft has been taken place at the factory premises on 28th/29th Dec., 2005, and 16 patterns has been stolen, which includes 7 impellers and 8 casings and 1 rotor pattern, the w.d.v. Value of these patterns was Rs.41, 078 only on that day in the books of accounts. In absences of insurance, the book value of the same have bee debited to P & L Accounts during the year 2005-06.

5. COMPLIANCE OF ACCOUNTING STANDARDS:

Mr. J.P. Saraf, Statutory Auditors has advised that the company has to comply with the amended Accounting standards and in compliance of the Accounting standards, the following provision has been made in the books which were shown as notes in earlier years.

(*i*) Provision for encashment of Earned Leave payable to employees as per the Rules of the Company. (Including leave encashment of CMD as per the terms of appointment)

(*ii*) Gratuity payable to other employees of the Company are already covered under LIC Gratuity Group Scheme except shortfall in contribution to the tune of Rs.1.27 Lacs to LIC under the Scheme has been provided in the Books.

In the matter of Accounting standard on Deferred tax liability Shri Pramod Jain, informed that looking to the past constant losses and unabsorbed depreciation, accumulated losses to be carried forward, there is no virtual certainty that sufficient future taxable income will be available. The Committee and the Auditors were agreed on the same.

All the applicable Accounting Standard has been complied with in the financial year 2005-06.

6. COMPLIANCE OF THE REQUIREMENT OF THE STOCK EXCHANGE, REGARDING FINANCIAL STATEMENTS:

The Company is disclosing its provisional financial results on quarterly basis duly approved by the Board to the Stock Exchanges. It was also informed by the Company to the Stock Exchanges that the

Company would consider the quarterly results for the quarter ended 31st March 2006 as the Audited Results before 30th June, as per guidelines of the Stock Exchange.

Necessary disclosures as required to be made have been incorporated in the Audited Balance Sheet and Profit And Loss Accounts for the year ended 31st March 2006.

The Committee considered that the Final Accounts properly discloses, the requirements; relating to disclosures of the related party transactions, cash flow statements, EPS, significant accounting policies, etc. However, segment wise reporting not applicable to the Company, as it deals only in a single segment, i.e. manufacturing of fluid couplings.

7. CONTRACTS IN, WHICH DIRECTORS/THEIR RELATIVES ARE INTERESTED:

Shri Pramod Jain, informed the following Contracts in which directors or their relatives are/may be deemed to be interested.

Director/Relatives of Director	*Status in Contract*	*Nature of Payment/ Contract*	*Amount Paid (Rs)*
Shri L.N.Dube	Proprietor of L.N. Dube & Co.	Professional fee for attending taxation matters & Tax Audit Report	8,240
Shri Kunal Jain	Son of Director	Rent of premises of Regd. Office	95,206
Smt. Pramila Jain	Wife of Director Gross including perks)	Salary payments	2,14,016
Shri Ashok Jain	Self	Salary payments Gross including perks)	11,80,462
Shri Ashok Jain	Self	Interest on Unsecured Loan	75,089

(The above details are exclusive of sitting fees being paid to Directors, except CMD for attending Board/General/Committee meetings.)

8. PAYMENT OF MANAGERIAL REMUNERATION AND DISCLOSURE U/S 217 OF THE ACT:

Shri Pramod Jain informed the Committee that an annual increment of Rs.5000/- (Five Thousands) due to Shri Ashok Jain the Chairman & Managing given w.e.f.1/07/2003 as per the terms of its appointment. The Company has paid the managerial remuneration of Rs.11,80,462 (including perquisites) to Shri Ashok Jain, the Chairman & Managing Director of the Company, during the year 2005-06. (Previous year Rs.11,56, 809)

It was also noted by the Committee that during the year under review, none of the employee were drawing the remuneration in excess of Rs.24.00 Lacs p.a. or Rs.2.00 p.m. for part of the year, therefore, it is not required to make disclosure under section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975. After the above discussions, the Committee passed following resolution unanimously.

RESOLVED THAT the Balance Sheet as at 31st March, 2006 and the Profit and Loss Account of the Company for the year ended on 31st March, 2006 as placed before the Committee be and is hereby considered and approved and the same be placed before the Meeting of Board of Directors for approval of Board of Directors of the Company.

9. CONSIDERATION AND REVIEW OF THE MANAGEMENT CONTROL SYSTEM, INTERNAL CONTROL AND INTERNAL AUDIT SYSTEM, ETC.

Shri Pramod Jain informed the Committee about the financial reporting process of the Company. He informed that on behalf of Board of Directors the powers relating to the financial transactions such as operational payments, etc. have been delegated to the Chairman and Managing Director Shri Ashok Jain and for operational convenient also delegated to Shri Pramod Jain & Mrs. Radhica Sharma, the Dy .General Managers of the Company.

The Dy .General Manager informed that as per requirement of the Companies Act, 1956, the Annual Balance Sheet and Profit and Loss Account and other Financial Statements are being regularly considered by the Audit Committee and being placed before the Meetings of Board of Directors. He informed that the company is regularly submitting Monthly Selective Operational Data (MSOD) to the Banker's and Quarterly reports to IFCI Ltd. There has been no significant discrepancies or differences except, for some year end provisions and necessary book adjustments based on the verifications, scrutiny and Audit of the Accounts like Bad debts/doubtful debts/excess/short liabilities, valuation of inventories, etc.

Further Shri Pramod Jain apprised the Committee that for smooth internal control the company is regularly preparing various information and being submitted to management like;—

(*i*) Monthly Purchases Statement

(*ii*) Monthly/Quarterly Bank account control statement

(*iii*) Monthly Sundry Creditors Liabilities

(*iv*) Monthly Sundry Debtors/Receivables - Area wise/Age wise

(*v*) Periodical dispatch position

(*vi*) Monthly Stock Statement based on physical/ledger balances

(*vii*) Periodical Cash Flow Statements showing utilization of fund etc.

In addition to above the company draw quarterly Trial Balance/Provisional Profit and Loss Account and Balance Sheet. Copies of quarterly Un-audited (Provisional) financial report for all the quarters which were published and submitted to Stock Exchange, placed before the Audit Committee.

The Audit Committee perused various statements and Accounting & Management Control system adopted by the Company.

Shri Pramod Jain apprised that till now the internal audit function is being looked after by Shri Pankaj Pabaiya, the Company Secretary who was assisted by Shri Anil Mehta the Asst. Manager (Finance). On resignation of Shri Pabaiya, Shri Anil Mehta is looking after the Internal Audit Department and making quarterly report to the Audit Committee.

Internal Audit and Notes on Accounts: Relevant and material disclosures are as per the requirements of the Companies Act, 1956.

Internal Audit Report dated 26/04/2006 submitted by the Internal Auditor, Shri Anil Mehta, was placed on table which was considered by the Committee and took note of the same.

Shri Pramod Jain, informed that the company is making all efforts to improve the quality of the Internal Audit. The Committee discussed Internal Audit Report and Notes on Accounts in detail and expressed satisfaction.

The Board also noted the following financial status of the Company:

(*a*) *Working Capital Limits of Central Bank of India*

Mr. Pramod Jain, placed before the members a copy of the review proposal submitted to the Central Bank of India, Mill Area Branch, Indore for sanction on our review propose. However, he has informed, that this sanction shall be applicable in the year 2006-07.

He further informed details of various existing working capital limits as on 31/03/2006 and out standing balance.

Maximum Limits	(Rs. in Lacs)	
Cash Credit A/c	80.00	Funded
Bill Discounted	58.00	—do—
Performance Bank Guarantee	35.00	Non Funded
Letter of Credit	05.00	—do—

Outstanding Balance as on 31/03/2006	(Rs. in Lacs)
Central Bank of India C.C. A/c No. 47	70.58
Central Bank of India Book Debts A/c No. 2170	5.51
Central Bank of India C.C. OBD A/c	41.33

(*b*) *Unsecured Loan of Directors*

As at 31/03/2006, the company has taken unsecured loan of Rs.23.82 Lacs Previous year Rs. 6.67 Lacs, is outstanding towards borrowing from Chairman and Managing Director Shri Ashok Jain against which interest was provided @ 12% P.A on Quarterly Basis, however, no interest is payable on Rs 17.60 Lacs which was brought into the Company as per stipulated terms and conditions of the IFCI Ltd.

(*c*) *Sale/Discarding of Fixed Assets*

There is no sale/discard of any fixed assets during the year under review.

(*d*) *Addition in Fixed Assets*

The company has made following additions during the period. (in Rs.)

Building	495095.00	
Plant and Machinery	946450.00	
Computer	30400.00	
Furniture	750.00	
Vehicle	242963.00	
Total	1715658.00	
Capital works in progress	9,08,177.00	Patterns & Foundry strong room

Reasons for addition in Fixed Assets

Shri Pramod Jain has elaborated the reasons to the Audit Committee for addition in fixed assets.

10. SIGNIFICANT FINDINGS OF AUDITORS & FOLLOW UP BY THE MANAGEMENT:

The Auditors has also stated that this year there is no material qualification in his auditing. The Committee expressed its satisfaction on compliance of Accounting Standards.

11. CONSIDERATION AND REVIEW OF FINANCIAL AND RISK MANAGEMENT POLICY OF THE COMPANY:

Shri Pramod Jain apprised the Board that the Assets of company are fully insured against any eventuality. He informed the following insurance coverage to the Committee.

Upto 31/12/2006	(Rs.)
Plant and Machinery & Building	64579000
Furniture	100000
Inventories	17500000
Cash in safe	300000
Cash in transit (P.A.)	6000000

Besides the above we have also taken marine policies for goods in transit, vehicle insurance and personal accident policies for staff not covered under ESI and also for sales/service staff. The Committee took note of the same.

12. DEFAULTS IN MAKING PAYMENT OF FINANCIAL INSTITUTIONS AND OTHER STATUTORY LIABILITIES

(*a*) *Sales Tax Liability* (*undisputed*)

A statement of Sales Tax Liability placed before the Committee showing total outstanding of Rs. 12.72 Lacs, as against previous year outstanding balance of Rs. 10.98 Lacs. This was due to severe financial constraints and liquidity problem. During the current year till date company has paid Rs.2.37 Lacs against the above. The Committee noted the same.

(*b*) *Income Tax, Sales Tax, Property Tax, Labour Cases, etc.*

Disputed liability under Appeal is Rs.19,14,349 only. The Company has disputed these liabilities and has made appeal at the appropriate forum. The above said demands has bee disclosed in the notes on accounts as contingent liability. The Committee noted the disputed liabilities as appearing in Notes on Account of Annual Accounts.

(*c*) *Statutory Liability*

Shri Pramod Jain, informed that all statutory liabilities under P.F, ESI has been properly provided and deposited within due dates.

13. CONSIDERATION AND REVIEW OF DEFAULTS IN PAYMENT TO FINANCIAL INSTITUTIONS AND REASONS THEREOF

The Company is regular in making payment of the interest and principal amount as restructured by the IFCI Ltd. and there are no defaults as at 31^{st} March 2006.

14. CONSIDERATION OF THE DIRECTORS RESPONSIBILITY STATEMENT TO BE GIVEN BY THE BOARD IN THE DIRECTOR REPORT

The Chairman apprised the Committee that as per section 274(1)(*g*) of the Companies Act, 1956, the Directors are required to furnish before the Board information about companies, which have defaulted in filing annual accounts/returns to RoC. He informed that the Directors of the Company have informed that none of the Companies in which they are Directors have committed default under said section and as such, they are not disqualified under said section.

The Chairman also informed the Committee that section 217(2AA) has casted responsibility on the Directors to ensure the following matters and give a statement alongwith Director's Report containing:

(*i*) That in preparation of 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 judgements and estimated 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 Profits of the company for that period;

(*iii*) That the directors had taken proper and sufficient care has been taken for maintenance of adequate accounting records as per the Companies Act for safeguarding 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.

The Committee discussed the matter. Dy. General Manager, Shri P.K. Jain apprised the Committee that above requirements are being duly taken care of by the company.

15. CONSIDERATION OF MATTER RELATING TO RECOMMENDING RE-APPOINTMENT OF M/s J.P. SARAF & CO. AS AUDITORS

The Committee discussed about the re-appointment of present Auditors and it was decided to recommend the Board for re-appointment and remuneration of Rs. 35,000 *plus* Service tax and out of pocket expenses for the year 2005-06 of M/s J. P. Saraf & Co. as the Auditors of the Company.

16. OTHER BUSINESS

AUTHORITY TO SUBMIT THE MINUTES OF THE COMMITTEE TO THE BOARD FOR CONSIDERATION

The Chairman authorized Mr. P.K. Jain. Dy. General Manager to circulate the proceedings of the Committee Meeting to the Directors and to place before the Board at their next meeting for consideration and taken on record.

There being no other business the Committee meeting was concluded with vote of thanks to the Chair.

Indore
Date 30/06/2006

M. K. SHAH
CHAIRMAN

II. Minutes of Remuneration Committee meeting

MINUTES OF THE MEETING OF REMUNERATION COMMITTEE OF THE FORM (INDIA) LIMITED HELD ON 5TH JULY, 2006 AT 10:30 A.M. AT THE REGISTERED OFFICE OF THE COMPANY

PRESENT

1. Shri MKS (Independent/NED) : On the Chair
2. Shri DKK (Independent/NED) : Member
3. Shri LND (Independent/NED) : Member

IN ATTENDANCE

1. Shri PJ (Dy. G.M. & Secretary to the Committee)

CHAIRMAN OF THE MEETING

Shri MKS, occupied the Chair for the meeting, he welcomed all the members of the Committee and commenced the meeting.

ITEM NO.1: CONSIDERATION OF THE MATTER RELATING TO RE-APPOINTMENT OF SHRI AJ AS THE CHAIRMAN CUM MANAGING DIRECTOR OF THE COMPANY

The Chairman informed that the Board of directors of the Company at their meeting held on 30th June, 2005 has considered the matter relating to the re-appointment and remuneration and the terms and conditions for re-appointment of Shri AJ, the Chairman and Managing Director of the Company whose tenure being expires on 30th June, 2006.

The Chairman further placed before the Board a copy of the resolution passed by the members at their Annual General Meeting held on 26th Sept., 2000, copy of the Form 25C, statement for the remuneration paid to Shri AJ, during the last three years for consideration of the Committee.

The Committee considered that Shri AJ is a technocrat and qualified as B.E. (Mechanical) and having around 30 years experience in the manufacturing and development of fluid couplings. He is possessing the technology for the products of the Company and since last more than 27 years he is controlling the overall affairs of the Company and in facts he is one of the person in the Country which is having expertise and technical knowledge in the product line of the Company and he should be considered as the key asset of the Company, without his presence it is next to impossible to carry out business activities in the smooth manner. The Fluid coupling industry in the Country is having special category and the Company's activities cannot be compared with others, however, the industry may pay any amount and provide better opportunities to him to then the Company.

The Committee considered that the Chairman & Managing Director is having his tenure upto 30th June, 2005 and he his presently drawing remuneration by way of salary Rs. 62,500 p.m. and Rs. 31,250 as the 50% house rent allowance on the salary in the scale of 47,500-5,000-62,500. The Committee also considered the Effective capital of the Company as at 31st March, 2006, provisions of Schedule XIII of the Companies Act, 1956 and as per present status he an be re-appointed for a further period of 3 years on a monthly remuneration of not exceeding Rs. 1,00,000 with the approval of the members by way of special resolution and if company proposes to pay more than Rs. 1,00,000 p.m. approval of the Central Govt. will be required.

Looking into the present status of his remuneration, remaining tenure upto 30th June, 2006, that will come after the next financial year, therefore, the Committee considered that the Company should with hold his re-appointment procedure till the availability of the results of the next financial year and the matter may be considered after 31st March, 2006 by the Committee.

RESOLVED FURTHER THAT the remuneration committee of the Board of directors of the Company be and is hereby recommend that the re-appointment of Shri AJ, the Chairman and Managing Director of the Company be considered after the availability of the financial results for the year ended 31st March, 2006.

FURTHER RESOLVED THAT the Chairman of the Committee be and is hereby requested to submit the minutes of the Committee meeting to the Board of directors of the Company to consider and further needful.

VOTE OF THANKS

Being no other business, the meeting concluded with a vote of thanks to the Chair.

Indore, MKS

29th July, 2006 CHAIRMAN OF THE COMMITTEE

III. Minutes of Shareholders/Investors Grievance Committee meeting

MINUTES OF THE MEETING OF SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE OF THE FORM (INDIA) LIMITED HELD ON 30TH JANUARY, 2006 AT 10:30 A.M. AT THE REGISTERED OFFICE OF THE COMPANY

PRESENTS

1. Shri AG – On the Chair
2. Shri KB – Member
3. Shri ATG – Member

PROCEEDING OF THE MEETING

1. CHAIRMAN

Shri AG, occupied the chair for the meeting.

2. LEAVE OF ABSENCE

Leave of absence was granted to Shri RM who had conveyed his inability to attend the meeting and asked for leave of absence.

3. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING OF THE COMMITTEE

The Chairman placed on table the minutes of the previous meeting of the Committee held on 7-1-2006, which were read and confirmed by the Committee.

4. DEMATERIALISATION OF SHARES

The Chairman placed before the meeting a list containing the name, folio number, Share Certificate number and 87 demat request forms of the members who have applied for the dematerialisation of the shares in their names, received by the company up to the date of the meeting, members considered the same and it was:

RESOLVED THAT consent of the Committee be and is hereby given for dematerialisation of shares of the eligible members as per the list placed before the committee initialed by the Chairman for the purpose of identification and Shri KB and Shri MPK be and are hereby severally authorised to cancel the share certificates and enter said shares in the name of depository in the record of the company.

5. TRANSFER OF SHARES

The Chairman placed before the meeting a list containing the name of the transferors alongwith their Folio Numbers, Share Certificate Numbers, and the names of the Transferee who have applied for the transfer of said shares in their names, received by the company upto the date of the meeting, members considered the same and it was:

RESOLVED THAT the registration of transfer of equity shares of Rs. 10 each, fully paid up under transfer numbers from 17819 to 17839 (both inclusive) particulars thereof contained in the Register of transfer submitted to the meeting be and are hereby approved and the name of the transferees be placed on the Register of members of the company.

RESOLVED FURTHER THAT Shri KB and Shri MPK be and are hereby severally authorised to authenticate endorsement on the share certificates in respect of the transfer of the aforesaid shares so approved.

6. CONSOLIDATION OF SHARE CERTIFICATES

The Chairman placed before the meeting a list containing the name of the applicant alongwith their Folio Numbers, Share Certificate Numbers, who has applied for the consolidation of share certificates for shares held by them in more than one share certificates, received by the company upto the date of the meeting, members considered the same and approved the consolidation of the said share certificates and following resolution was passed:

RESOLVED THAT the Share Certificates No.17661 and 17662 of 100 shares of Rs. 10 each be and are hereby consolidated into one certificate No.17661 of 200 shares of Rs. 10 each.

RESOLVED FURTHER THAT Shri KB and Shri MPK be and are hereby severally authorised to authenticate endorsement on the share certificates in respect of the transfer of the aforesaid shares so approved.

7. VOTE OF THANKS

There being no other business to transact, the meeting concluded with a vote of thanks to the chair.

Place: Indore	AG
Date: 30th January, 2006	CHAIRMAN