#### DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors have pleasure in submitting their Annual Report and Accounts of the Company for the year ended 31st March 2003.

#### GENERAL ECONOMIC ENVIRONMENT

Against a forecast GDP growth of 6.7%, India achieved a GDP growth of 4.3%. In the first two quarters the growth was 5.3% and 5.2%. The growth slowed dramatically in the third quarter due to the poor monsoon. The rate recovered in the fourth quarter to 4.9% as reported by the National Council of Applied Economic Research.

Agricultural growth as a consequence of the drought recorded one of the sharpest declines over the last 20 years of 3.2%. Industry recovered in 2002-03 and recorded an overall growth of 5.7%, with manufacturing marginally better at 6%. The capital goods and consumer non-durables sectors showed growth of 10.6% and 11.9% respectively. Indian exports grew in all major categories despite the strengthening rupee against the US dollar.

In summary, the Indian economy did reasonably well despite the drought and the uncertainty in global demand due to the Middle East situation and SARS.

Despite this, future growth depends on a growing agricultural sector. Over 70% of India's population reside in rural India. Growth in the rural economy is necessary for price stability as well as the profitability of the manufacturing sector. It is, therefore, essential to commit and implement a package of reforms in the agriculture sector, along with necessary investments in rural infrastructure.

#### CIGARETTE INDUSTRY IN INDIA AND ITS POTENTIAL

#### Heavily regulated environment

While the overall manufacturing industry is witnessing a reasonable growth of 6%, the domestic cigarette industry operates in an ever increasing regulatory environment that effectively subsidises the non-cigarette tobacco products at the cost of cigarettes. The significant aspect of this regulation is two fold: firstly, discriminatory taxation and secondly, discriminatory advertising and marketing restrictions.

#### Taxation

While cigarettes account for approximately 14% of total tobacco consumption, they account for 85% of total tobacco excise tax revenues. In addition, the cigarette industry is also liable to pay state taxes such as luxury and entry taxes, etc. which equate to approximately 10% of the excise tax. The impact of this effective subsidised taxation on the non-cigarette tobacco products has seen India's consumption of cigarette per capita sinking below Pakistan, Bangladesh and Nepal to one of the lowest in the world. As a consequence, consumption on non-cigarette tobacco products including bidis and chewing tobacco has grown to be the highest in the world!

#### THE EXTENT OF THE DISCRIMINATORY TAX IS SHOWN IN THE TABLES BELOW.

Clearly the tax policy of placing the majority of the excise burden on cigarettes has not achieved its stated social objective of decreasing tobacco consumption, nor has the Government been able to optimize the revenue collected as a result of the declining tax base. With globalisation of the Indian market, discriminatory taxation will result in an increasing percentage of the tobacco market going to illegal imports. Not only will the taxation policy not dissuade consumption, it will merely downgrade it to non-cigarette products and lead to a loss of tax revenue to the

Taxation
Discrimination against Cigarettes

Duties (Rs./Kg.)

Cigarettes
680

Bidis
30

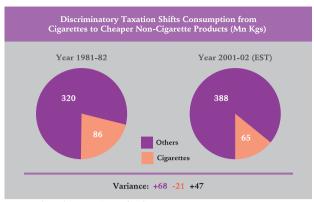
Chewing Tobacco / Others
40

Cigarettes suffer Tax burden 21 times greater than on Bidis & 17 times greater than on Chewing/other Tobaccos

Source: The Tobacco Institute of India

tobacco farm income and cigarette manufacturing income and diminish export potential.

government, loss of



Source: The Tobacco Institute of India

The significance of the impact of the taxation policy on Indian cigarettes is best illustrated when we compare our closest neighbour China and look at its cigarette tax and total tax collection (see the table below):

A more equitable tax base must be established for all tobacco products,

reducing the discriminatory gap between cigarette and non-cigarette tobacco products. The tax base should have no or, at best, moderate increases if the government hopes to achieve its stated social objective and not lose excise revenue to cheap and/or illegal imports.

#### MARKETING RESTRICTIONS

The recent introduction of the Cigarette and Other Tobacco Products ... Act, 2003 imposing advertising bans, product labeling and other restrictions only on domestic tobacco, further discriminates domestic cigarette brands against imported products. Advertising



Source: The Tobacco Institute of India

and promotion of imported brands is seen on cable television in India allowing promotion of their products over domestic cigarette brands.

The Act's ban on tobacco sales within 100 yards of educational institutions will cause significant dislocation in the retail and farming sector and result in loss of income given the density of population in India. Of greater concern, it will encourage illegal sales in these areas.

Both the discriminatory taxation and marketing regulations imposed on the domestic cigarette industry will further erode the value of the domestic industry, reduce the government taxation base by encouraging cheaper foreign brands or contraband, reduce tobacco farm income, as more products are supplied from overseas, adding to unemployment. All this without reducing overall tobacco consumption.

#### RECOMMENDED SOLUTION

Alternatively, the tobacco industry in India could move from the second largest producer of tobacco to become the worlds largest exporter of tobacco, generating substantial export revenue, quantum increases in farm income and significant employment. This requires a commitment to growing better quality tobacco at higher yields (export quality) as is used in the production of cigarettes, moving away from leaf used in non-cigarette production. This initiative can only be undertaken by the domestic industry if there is a clear government commitment to export growth with the associated more equitable taxation systems allowing the improvement in income to invest in the structural change necessary to achieve this solution.

The graph below shows that a 7-fold increase in export earning can be achieved by obtaining just a 5% share in the world tobacco trade. Continued discrimination against the domestic cigarette industry will result in whatever little share of world tobacco export trade India has (0.7%) moving to our more competitive neighbours, including China.

Our vision is to become a leading tobacco player in India and beyond with a global mindset and the Company stands ready to work with the government to achieve the solution outlined above.



Source: The Tobacco Institute of India

#### ASSISTANCE TO FARMERS

The Company undertook a number of developmental activities in different tobacco areas to help uplift the farming community by transferring latest farm technology to achieve higher yield per hectare and better produce, enabling them to realise better prices and earnings per hectare. We also helped them introduce an Integrated Pest Management System and supply of pheromone traps, nuclear polyhydro virus solution and neem products to reduce the pesticide residue in tobacco production. We also did trials on production of flavourful tobacco to help farmers produce more exportable tobaccos and realise better profits, with

very promising results. These efforts have been duly recognised by Government scientists and Tobacco Board officials

#### PROGRESS IN 2002/03

Not unaccustomed to working in difficult environments, your Company has managed to launch three new brands and grow our market share of the domestic cigarette industry to over 11%. This is a 10+% increase on 2001-02 and was undertaken at a time when the industry had only marginal growth.

This year saw the most significant investment in new and existing brands, including the launch of Piper, Tipper and Prince. Both Piper and Tipper involved new innovations in the Indian market, with Tipper's technology being copied by competitors. Prince was launched in a totally revamped version with improved smoke as well as packaging. New campaigns were undertaken for Four Square and Cavanders brands.

The Company also launched three cigar brands, Phillies, Hav-a-tampa and Don Diego in the domestic market in 2002. These cigars are imported by the Company under an arrangement with Altadis of USA, one of the World's leading cigar manufacturers.

To ensure that these new brands and your Company's existing brands are well presented and accessible to customers, investments have been made in the sales and distribution system resulting in significant increase in retail servicing and brand presence. At the same time, we are investing in building stronger relationships with our trade partners.

A major investment was made in R & D facilities at the Mumbai factory to establish a state-of-the-art facility. Further investments were made in upgrading both the manufacturing facilities. Continued training and the application of the "Kaizen Teian" scheme have again resulted in improvement in overall operating efficiencies and reduction in manufacturing costs. In recognition of these efforts, the Company won the highest award from INSAAN for the sixth successive year.

#### TEA

The global over supply of tea led to bearish trends in commodity prices for the fourth successive year. These depressed market conditions led to a 9% decline in the domestic packet tea market resulting in its further fragmentation.

To meet these challenges, the Tea business was restructured and overheads reduced. The Company focused on markets which satisfied contribution and profitability objectives, while exiting unviable territories. As a result of this the business achieved positive cash flows by the second half of the financial year. Total segment revenues were Rs. 31 crore for the year.

Good progress was made with opportunities identified in the high value, growth segment of out-of-home beverages. Test marketing of innovative ways of addressing this market are planned during the current financial year.

During the first quarter of the current year your Company has achieved sales of Rs.6.3 crore against Rs. 7.2 crore in the corresponding period last year. The sales decline is mainly due to exiting low profitability areas in the domestic market and lower exports. Domestic marginal contribution has been increased by around 2% over the corresponding period.

#### **EXPORTS**

During the year the FOB value of the export of the Company including tobacco, cigarettes and tea were significantly higher at Rs. 52.47 crore as against Rs. 10.99 crore in the previous year. The cigarette exports increased from Rs. 2.4 crore in the previous year to Rs. 19.2 crore during the year under report. During the first four months of the current year the Company has exported cigarettes worth Rs. 11 crore.

#### FINANCIAL PERFORMANCE

During the year under report the cigarettes sales volume rose to 10593 million cigarettes as against 8854 million cigarettes in the previous year, recording an increase of 19.64%. The sales turnover was also higher at Rs. 1077 crore as against Rs. 945 crore in the previous year, registering an increase of 14%. The Company continued to make major investments in improving the equity of its existing brands in a highly competitive environment. The focus on development of innovative products and investments made therein have helped the Company in introduction of two unique products for the first time in the Industry under the brand names Piper and Tipper. The latter has become an instant success and a trendsetter in the Industry. All these efforts have helped the Company improve its overall performance. In June 2003, your Company launched yet another brand, Jaisalmer, in the North in the premium king size segment.

The profit before taxation and exceptional item was higher at Rs. 79.60 crore as against Rs. 71.84 crore in the previous year. However, after providing for the taxation and after considering exceptional expense on account of Assam dues becoming doubtful of recovery due to the retrospective amendment made in the Finance Act 2003, as further explained hereunder, the net profit of the Company was lower at Rs. 37.91 crore as against Rs. 47.80 crore in the previous year.

#### DIVIDEND

Keeping in view the overall performance and optimistic outlook for the future, the Board of Directors of the Company are pleased to recommend a dividend of Rs. 17 per share which, together with dividend tax, works out to Rs. 19.20 per share as against Rs. 18.50 per share paid out in the previous year. This is despite the lower net profit for the year due to provision for a substantial amount on account of an exceptional item.

2002-2003	2001-2002
Rs. in lac	Rs. in lac
	7995.12
	811.28
2918.00	2466.00
(1018.22)	(61.71)
6060.70	4779.55
0000.70	4//9.33
2270.09	
3790.61	4779.55
16233.07	14377.30
20023.68	19156.85
1767.80	1923.78
226.50	
1100.00	1000.00
16929.38	16233.07
20023.68	19156.85
	Rs. in lac  8873.49 913.01 2918.00 (1018.22) 6060.70  2270.09 3790.61  16233.07 20023.68 1767.80 226.50 1100.00 16929.38

#### **ASSAM DUES**

As stated in earlier years, the Company entered into contracts in March 2000 with some manufacturing units in Assam for purchase of certain quantities of cigarettes at economical prices, on account of these units enjoying exemption from payment of excise duty in pursuance of an exemption notification issued by the Central Government earlier. The Government withdrew the exemption in January 2001 and, thereafter, these units closed down operations. However, there was a net outstanding amount of Rs. 22.70 crore recoverable as on 31 March, 2003 from these units against the amount of advances given to them by the Company from time to time for making deposits with excise authorities, which under the said arrangements, they were to return to the Company on receipt of the refund of such deposits from the excise department. The Government has, however, withheld some of the refunds of excise duty due to such units pursuant to the said exemption notification.

The said manufacturing units had moved the Guwahati High Court against the unfair and illegal action on the part of the excise department. The Court passed an order on 17 May, 2002 directing the excise department to grant refunds to these units. The excise department had then moved the appellate bench of the High Court by way of an appeal. The Division Bench of Guwahati High Court dismissed the appeal of the central excise department on 4 April, 2003 and directed the department to refund the amounts within 30 days of the judgement. However, the Finance Bill, 2003 proposed a retrospective amendment to the Notification, which sought to provide for the denial of refunds in terms of the Notification from the date of its issue, i.e. 8 July, 1999. Consequently, the refunds earlier granted to the Assam Units were also to be refunded back to the Government within 30 days of the passing of the Finance Bill, which became an Act after passage by the Parliament and assent by the President on 14 May, 2003.

Notwithstanding the directions of the Division Bench of the Guwahati High Court, armed with the provisions contained in the Finance Act 2003, the department initiated action by issue of orders for recovery of the past refunds from the Assam Units and rejected all the pending claims. The Assam Units, therefore, sought the protection of the Guwahati High Court by moving a Writ Petition challenging the provisions of the Finance Act as being bad in law.

The said petitions have been admitted and the Court was pleased to grant a stay on recovery of the past refunds. The said stay is now listed for final hearing on 17th September, 2003.

Based on the legal opinion received from eminent counsels, your Directors feel confident that the benefit of the Notification cannot be legally denied consequent upon amendment thereto by the Finance Act, 2003. However, as a measure of prudence the said amounts aggregating to Rs. 22.70 crore recoverable from the said units have been provided for in these accounts.

#### INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews.

#### HUMAN RESOURCE AND CORPORATE DEVELOPMENT

The Human Resources Department has continued the work of implementing the necessary changes to bring company systems in line with the top FMCG companies in India. Following detailed employee surveys and an external review of your company's HR processes, all recommended polices are in the process of implementation including a transparent appraisal system, a consolidation or rationalisation of reporting levels and grades, new job evaluation and competency models.

To ensure that the Company's vision and values are understood and implemented, top management teams have been appointed to monitor progress. The number of training days per employee has more than doubled over the previous year and, after a gap of many years, it took 13 post graduates from a university recruiting campaign. All are still with the Company and enjoying the experience. Overall employee turnover is down, reflecting the improvement brought about by the investment in HR.

The Company has continued the participative management practices and extended the Kaizen Teian scheme beyond the manufacturing operations of the Company. 2003-04 marks the tenth year of the Kaizen Teian scheme for the Company.

Total manpower in the Company, including its wholly owned subsidiary, International Tobacco Company Limited, as on  $31^{st}$  March 2003 was up by 22 at 1376 compared with the total strength of 1354 at the beginning of the year.

#### "P1+" RATING

The Company continues to enjoy the top rating of P1+ for an amount of Rs. 35 crore from the Credit Rating Information Services of India Limited (CRISIL) in respect of its Commercial Paper programme. The Company has not been issuing Commercial Paper for quite sometime as it is able to raise funds through short term loans/FCNRB loans at lower cost.

#### CONSERVATION OF ENERGY

During the year under report, the measures initiated/implemented by the Company for conservation of energy included the following main items:

- $1. \ \ Reduced the loading and unloading pressure setting of air compressor up to optimum limits.$
- 2. Enthalpy Control System installed for central air conditioning.
- 3. Automatic control of cooling tower fan.
- 4. Switching off the air washer pumps of Air Handling Unit and Humidifier & Ventilation plants by continuously maintaining humidity.
- 5. Rationalised the use of airconditioning system in the factory in a manner to reduce the total tonnage of the plant without curtailing its use or availability.
- 6. Individual lighting switches were provided for better control of lighting on/off at main factory office.

These measures have resulted in saving in electricity consumption by 130 units per million cigarettes produced compared to 2001-02.

#### RESEARCH AND DEVELOPMENT

#### New Developments:

1. Smoke quality improvement of the cut rolled stem.

2. Development of low tar/nicotine cigarettes.

Improvement as a result of these developments:

- 1. Improvement in blend/taste of existing cigarettes.
- 2. Improvement in smoke consistency of all brands of cigarettes.

#### TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

The measures initiated/implemented are:

- 1. Commissioning of Cigarette Inspection Device on makers which has improved the quality of cigarettes.
- 2. Successful commercial production of innovative Piper and Tipper cigarette packs.
- 3. Commissioning of Coupon feed facility on all packers.
- 4. Date code printing by Ink Jet Printers on all Hinge Lid packers.
- 5. Autocontrol in Cut Tobacco Store/Dry Room's relative humidity giving guarantee of product quality in 'In Process Material'.

#### FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 53.26 crore (previous year Rs. 11.68 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 40.05 crore (previous year Rs. 26.14 crore).

#### FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. 4,29,32,000, which included 69 deposits totaling Rs. 6,85,000 not claimed on due dates. Out of these, 24 deposits for an aggregate amount of Rs. 2,65,000 have since been repaid or renewed at the option of the depositors leaving a balance of Rs. 4,20,000 for completion of formalities.

Presently the Company is neither accepting fresh deposits nor renewing the existing ones as it is no longer economical for the Company to raise money through this mode of finance.

#### **DIRECTORS**

Mr. R.A. Shah, Mr. S.V. Shanbhag and Mr. C.M. Maniar, Directors, will retire by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

The three year term of Mr. K.K. Modi as Managing Director shall expire on the date of the ensuing Annual General Meeting. A resolution for his re-appointment for further period of three years is being put up for your consideration at the forthcoming Annual General Meeting.

#### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibilities Statement, it is hereby confirmed:

- (i) that in the preparation of the Annual Accounts for the financial year ended 31st March, 2003, the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the accounts for the financial year ended 31st March, 2003 on a 'going concern' basis.

#### CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions stipulated in the Listing Agreement. It encourages wide participation from all stakeholders. Its objective and that of its management and employees is to manufacture and market the Company's

products in a way as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general. A certificate from the auditors of your company regarding compliance of the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with stock exchanges, is enclosed.

#### CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from Subsidiary Companies, as approved by their respective Boards.

#### **AUDITORS**

A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors, have offered themselves for re-appointment as Auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, New Delhi and Chandigarh.

#### SUBSIDIARY COMPANIES

The Reports and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost in connection with printing and mailing of the Report and Accounts.

#### GENERAL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219 (1) (b) (iv) of the Act, the annual report and accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

#### **EMPLOYEES**

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

Respectfully submitted on behalf of the Board

Mumbai

Dated : August 11, 2003

R.A. SHAH CHAIRMAN

BOARD OF DIRECTORS		BANKERS	
	R.A. Shah - Chairman		State Bank of India
	K.K. Modi - President		Bank of Baroda
	Lalit Kumar Modi - Executive Director		Bank of India
	Samir Kumar Modi - Executive Director		Citibank N.A.
	Lalit Bhasin		State Bank of Hyderabad
	Anup N. Kothari		State Bank of Travancore
	C.M. Maniar		The Hongkong and Shanghai
	O. P. Vaish		Banking Corporation
	S.V. Shanbhag - Whole-time Director		Union Bank of India
COMPANY SECRETARY		REGISTRARS AND TRANSFER AGENT	
	R. Joshi		Sharepro Services
			Satam Estate,3rd Floor
			(above Bank of Baroda),
			Cardinal Gracious Road,
			Chakala, Andheri(E),
			Mumbai - 400099.
AUDITORS	A. F. Ferguson & Co.	CORPORATE OFFICE	Four Square House, 49, Community Centre, Friends Colony,
NTERNAL AUDITORS		OTHER OFFICES	New Delhi - 110 065
	Lodha & Co.		Ahmedabad, Chandigarh,
			Ghaziabad, Hyderabad, Kolkata, Mumbai, New Delhi
SOLICITORS		LEAF DIVISION	
	Crawford Bayley & Co.		Guntur (Andhra Pradesh)
		REGISTERED OFFIC	E
		REGISTERED OFFIC	E Chakala, Andheri (E), Mumbai - 400

#### REPORT ON CORPORATE GOVERNANCE FOR THE YEAR ENDED MARCH 31, 2003

The Directors present the Company's Report on Corporate Governance.

#### 1. THE COMPANY'S GOVERNANCE PHILOSOPHY

GPI's Corporate Governance initiatives are devised for achieving basic objective of wealth creation for the benefit of all its stakeholders namely the shareholders, employees, business associates and the society at large. The Company believes in giving its executives ample freedom to operate and secure the Company's target by putting in best of their efforts.

The Board of Directors is primarily responsible for protecting and enhancing shareholders' values besides fulfilling the Company's obligations towards other stakeholders. The role of the Board of Directors is to provide strategic superintendence over the Company's management. The day to day management of the Company is vested in the managerial personnel and sufficient authority is delegated at different operating levels. Delegation of authority in the operating people helps generation of creativity and innovation. This also helps in harnessing potential of employees to the best advantage of the Company.

#### 2. BOARD OF DIRECTORS

#### i) Composition

The Board of Directors of the Company consists of executive and non-executive directors and more than half of the Board comprises of non-executive directors. The non-executive directors are independent professionals drawn from amongst persons with experience in business /law/finance. At present the total strength of the Board of Directors is nine out of which five are non-executive Directors. The Chairman of the Board is a non-executive director and the minimum requirement of one-third of the Board consists of independent directors is duly complied with.

## ii) Attendance at the Board Meetings and the last Annual General Meeting, directorships and memberships/chairmanships of Board Committees of other Companies

Director	Executive/ Non-Executive Independent	No. of Board Meetings attended	Attendance at last AGM	Membership of Board of other Companies *	Membership/ chairmanship of other Board Committees #
Mr. R.A. Shah	Non-Executive & Independent	7	Yes	14	8 (includes 4 as Chairmanships)
Mr.K.K. Modi	Executive	6	Yes	11	2 (includes 1 as Chairmanship)
Mr. S.V. Shanbhag	Executive	7	Yes	5	None
Mr. Lalit Bhasin	Non-Executive & Independent	7	Yes	6	8 (includes 3 as Chairmanships)
Mr. Anup N. Kothari	Non-Executive & Independent	6	Yes	2	None
Mr. Lalit Kumar Modi	Executive	3	Yes	9	None
Mr. C.M. Maniar	Non-Executive & Independent	5	Yes	11	9 (includes 1 as Chairmanship)
Mr. O.P. Vaish	Non-Executive & Independent	6	Yes	7	3
Mr. Samir Kumar Modi	Executive	5	Yes	9	1

- \* Excludes directorships in private limited companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies.
- # Represents memberships/chairmanships of Audit Committee, Shareholders/Investors Grievances Committee and Remuneration Committee (excluding private companies).

#### iii) Board Meetings held during the year

During the year 2002-03, seven Board Meetings were held on the following dates:

April 27, 2002, June 26, 2002, July 31, 2002, August 22, 2002, September 24, 2002, October 31, 2002 and February 4, 2003. In addition to the regular business items, most of the other statutory items as recommended by the SEBI committee on Corporate Governance were placed before the Board.

## iv) The details of pecuniary relationship or transactions of the non-executive directors vis-a-vis the Company are given below:

Name of the director	Amount involved (Rs. in lacs)	Nature of transaction
1 Mr. R.A. Shah & Mr. C.M. Maniar (Senior Partners of Crawford Bayley & Co.)	8.65	Payment for professional services
2 Mr. Lalit Bhasin (Proprietor of Bhasin & Co.)	3.57	Payment for professional services

#### v) Brief resume, experience and other directorships/board committee memberships

As per the Articles of Association of the Company, one-third of the total strength of the Board (i.e. three directors at present namely Mr. R.A. Shah, Mr. S.V. Shanbhag and Mr. C.M. Maniar shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible shall be re-appointed subject to shareholders approval.

Name of the director	Qualifications	Experience	Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board
1. Mr. R.A. Shah		<ul> <li>He is a Solicitor and Senior Partner of Messrs Crawford Bayley &amp; Co.</li> <li>Specialises in a broad spectrum of Corporate Laws in general with special focus on Foreign Investments, Joint Ventures Technology and Licence Agreement, Intellectual Property Rights, Mergers and Acquisitions, Industrial Licensing, Anti Trust Laws, Company Law and Taxation.</li> <li>Member of the Managing Committee of Bombay Chamber of Commerce.</li> <li>Member of Indo German Chamber of Commerce.</li> <li>Member of the Committee for revision of SEBI Takeover Code.</li> <li>President of Society of Indian Law firms (Western Region).</li> </ul>	<ol> <li>Pfizer Limited         (Also Chairman of Audit Committee).</li> <li>Colgate Palmolive India Limited.         (Also Chairman of Audit Committee).</li> <li>Asian Paints (India) Limited.</li> <li>Atul Limited</li> <li>The Bombay Dyeing &amp; Mfg. Company Limited.         (Also Chairman of Audit committee)</li> <li>BASF India Limited         (Also a Member of Audit Committee)</li> <li>Colour Chem Limted.         (Also a Member of Audit Committee)</li> <li>Deepak Fertilisers &amp; Petrochemicals Corporation Limited.</li> <li>Abbott India Limited         (Also a Member of Audit Committee)</li> <li>Procter &amp; Gamble Hygiene and Healthcare Limited.         (Also a Member of Audit Committee)</li> <li>Nicholas Piramal India Limited         (Also Chairman of Audit Committee)</li> <li>Philips India Limited</li> <li>Prudential ICICI Trust Limited</li> <li>Clariant India Limited</li> </ol>
2. Mr. S.V. Shanbhag	M.Com., LL.B., ACS	<ul> <li>Worked for 2 years in M/s. A.F. Fergusson &amp; Co. Chartered Accountants.</li> <li>Joined the Company in 1949 and has considerable experience in the field of Finance, Accounts, Legal &amp; Secretarial matters.</li> <li>Appointed as Company Secretary in the year 1963.</li> <li>Since 1983 he has been working as Wholetime Director.</li> </ul>	<ol> <li>International Tobacco Company Limited</li> <li>Kamanwala Industries Limited</li> <li>City Leasing and Finance Limited</li> <li>Chase Investments Limited</li> <li>Manhattan Credits and Finance Limited</li> </ol>
3. Mr. C.M. Maniar	B.Com, M.A. (Eco.& Politics) & LL.B. Solicitor.	<ul> <li>Presently acting as a Partner in Crawford Bayley &amp; Co., Solicitors &amp; Advocates Mumbai since 1976.</li> <li>Member of the Maharashtra Bar Council</li> </ul>	<ol> <li>Foods &amp; Inns Limited</li> <li>Gujarat Ambuja Exports Limited         (Also a Member of Audit Committee)</li> <li>Hindalco Industries Limited         (Also a Member of Audit Committee and Shareholders/Investors Grievance         Committee)</li> <li>Indian Card Clothing Company Limited</li> </ol>

- Specialises in Corporate and Commercial Laws with special reference to Company Law, Foreign Financial & Technical Collaborations, Anti Trust and Competition Laws, Foreign Exchange Laws, Consumer Protection, Drugs & Cosmetics and Insecticides, Intellectual and Industrial Property Laws- Trade Marks, Patents, Designs and Copyright and drafting of documentation generally.  - Participated in and read papers on different subjects relating to the above laws at conference and seminars organized by various institutions, such as the Institute of Secretaries, Institute of Chartered Accountants, The Bombay Chartered Accountants Society, The Bombay Chamber of Commerce, etc.	<ol> <li>Pioneer Investcorp Limited         (Also a Member of Audit Committee and Shareholders/Investors Grievance Committee)</li> <li>Sudal Industries Limited</li> <li>Twenty- First Century Printers Limited         (Also a Member of Audit Committee)</li> <li>Varun Shipping Company Limited         (Also Chairman of Shareholders/Investors Grievance Committee and a Member of Audit Committee.)</li> </ol>
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#### 3. AUDIT COMMITTEE

#### i) Composition and terms of reference

The Board of Directors of the Company at their meeting held on January 31, 2001 constituted an Audit Committee comprising of three non-executive independent directors namely Mr.O.P.Vaish, Mr. Anup N. Kothari and Mr. Lalit Bhasin, in pursuance of the provisions of Section 292A of the Companies Act, 1956. Subsequently the Board at their meeting held on April 18, 2001 revised the terms of reference of the Audit Committee so as to cover all the areas specified in Section 292A of the Companies Act, 1956 as well as those specified in clause 49 of the Listing Agreement. Mr. O.P. Vaish who has financial and accounting knowledge, is the Chairman of the Audit Committee. Mr. R. Joshi, Company Secretary acts as the Secretary to the Committee.

The Chairman attended the Annual General Meeting held on September 24, 2002 to answer the shareholder's queries.

The terms of reference of the audit committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges, and provisions of Section 292A of the Companies Act, 1956 and inter-alia include overseeing financial reporting process, reviewing disclosures and the financial statements before submission to the Board, reviewing internal control systems and internal audit functions etc.

Audit Committee meetings are attended by members of Audit Committee. Managing Director also being director in charge of finance, Director –Finance, Company Secretary, Internal Auditors and the Statutory Auditors attend the meetings on the invitation of the Company.

#### ii) Details of meetings and attendance of each member of the Committee

During the financial year 2002-03, the Audit Committee met three times on August 22, 2002, October 31st, 2002 and March 21, 2003.

SI. No.	Name	Category of directors	No. of Committee Meetings attended (Total Meetings held 3)
1	Mr. O.P. Vaish	Non-Executive & Independent 3	
2	Mr. Lalit Bhasin	Non-Executive & Independent	2
3	Mr. Anup N. Kothari	Non-Executive & Independent	3

#### 4. REMUNERATION TO DIRECTORS

#### i) Remuneration policy

The Company has not constituted any Remuneration Committee. The remuneration to be paid to the Managing/ Executive/ Whole-time Directors is decided by the Board and recommended for approval by the shareholders at the Annual General Meeting. The non-executive directors do not draw any remuneration from the Company except the sitting fee of Rs. 5000 (as decided by the Board of Directors) for each meeting of the Board and the Board Committee attended by them.

#### ii) Details of remuneration to the directors

(Amount in Rs.)

Name of the Director	Salary and other allowances	Perquisites	Commission	Sitting Fees Board/ Committee Meetings	Total
Mr. R.A. Shah	Nil	Nil	Nil	35,000	35,000
Mr. K.K. Modi <sup>1</sup>	6,000,000	Nil	4,000,000	Nil	10,000,000
Mr.S.V. Shanbhag <sup>2</sup>	312,000	68,262	Nil	Nil	380,262
Mr. Lalit Bhasin	Nil	Nil	Nil	45,000	45,000
Mr. Anup N. Kothari	Nil	Nil	Nil	45,000	45,000
Mr. Lalit Kumar Modi <sup>3</sup>	600,000	449,512	600,000	Nil	1,649,512
Mr. C.M. Maniar	Nil	Nil	Nil	25,000	25,000
Mr. O.P. Vaish	Nil	Nil	Nil	45,000	45,000
Mr. Samir Kumar Modi <sup>4</sup>	672,000	144,508	420,000	Nil.	1,236,508
Total	7,584,000	662,282	5,020,000	195,000	13,461,282

#### iii) Details of service contract, notice period, severance fees etc. of directors

<sup>1</sup>The Company has service contract with Mr.K.K. Modi, Managing Director for a period of three years with effect from August 14, 2000 which has been extended for a further period of three years with effect from August 14, 2003, subject to approval by the shareholders at the forthcoming Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him.

<sup>2</sup>The Company has service contract with Mr.S.V. Shanbhag, Whole-time Director for a period of three years with effect from October 1, 2001. The notice period is three months by either party. However, the Company has the right to terminate appointment forthwith upon payment of three months salary only in lieu of notice and in that case he is not entitled to any benefits or perquisites.

<sup>3</sup>The Company has service contract with Mr.L.K. Modi, Executive Director for the period from September 24, 2002 till the Annual General Meeting to be held for the approval of the audited accounts for the financial year ended March 31, 2005. The notice period is six calendar months by either party. No severance fees is payable to him.

<sup>4</sup>The Company has service contract with Mr.Samir Kumar Modi, Executive Director for the period from September 24, 2002 to the date of the Annual General Meeting of the Company to be held for the approval of the audited accounts for the financial year ended March 31, 2005. The notice period is six calendar months by either party. No severance fees is payable to him.

The Company presently does not have any stock option scheme.

#### 5. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company had a Share Transfer Committee which was constituted on December 7, 1979.

The Board of the Directors of Company at their meeting held on January 28, 2002 re-constituted the Share Transfer Committee and renamed it as 'Share Transfer and Shareholders/Investors Grievance Committee' headed by Mr. R.A. Shah a non-executive director as its Chairman. Mr. K.K. Modi & Mr. S.V. Shanbhag executive directors and Mr. Lalit Bhasin & Mr.C.M. Maniar non-executive directors being its members. Mr. R.A. Shah, however, resigned from the chairmanship/membership of this committee by a communication received by the Company after close of the financial year 2001-02. Mr. C.M. Maniar was appointed as the Chairman in his place in the Board Meeting held on August 22, 2002. The re-constituted committee besides sanctioning share transfers/transmissions and other related matters, is also required to look into the redressal of shareholders' and other investors' complaints regarding transfer of shares, non-receipt of balance sheets and dividends etc. Mr. R. Joshi, Company Secretary has been appointed as the Compliance Officer.

During the Financial year 2002-03, 94 complaints were received from the shareholders/investors and same were solved to the satisfaction of the shareholders/investors.

#### 6. GENERAL BODY MEETINGS

Details of the last three Annual General Meetings(AGM) are as follows:

Financial year	Date of AGM	Time	Location
1999-00	September 30, 2000	11:00 a.m.	Y.B. Chavan Auditorium General Jagannath Bhosle Marg Mumbai - 400021
2000-01	September 27, 2001	11:00 a.m.	-do-
2001-02	September 24, 2002	11:00 a.m.	-do-

There was no other General Body Meeting in the last three years.

No special resolutions was put through postal ballot during last year and no special resolution for current year is proposed to be conducted through postal ballot.

#### DISCLOSURES

- i) Related parties and transactions with them as required under Accounting Standard 18 (AS-18) are stated in paragraph 12 of the Notes to the Accounts attached with the financial statements for the year ended March 31, 2003. The said transactions have no potential conflict with the interests of the Company at large.
- ii) There has neither been any non-compliance by the Company of any legal provision of applicable law nor any penalties, strictures imposed on the Company by the stock exchanges, SEBI or any other statutory authorities, on any matter related to capital markets during the last three years.

#### PHILLIPS GODFREY INDIA LIMITED

#### MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are generally published by the Company in all editions of Economic Times (English) and in Maharashtra Times (Marathi). The quarterly and yearly results are also available on the Company's website: www.godfreyphillips.com as well as on Mumbai and National Stock Exchange website: www.bseindia.com & www.nseindia.com .The half-yearly reports are not sent to household of shareholders. During the year, the Company had no occasion to make any official news releases and no formal presentations were made to the institutional investors/analysts.

The Management Discussion and Analysis Report forms a part of the Directors' Report.

#### GENERAL SHAREHOLDER INFORMATION

**Annual General Meeting** 

**Date and Time** September 26, 2003 at 4.00 P.M.

Venue Y.B Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai-400021

Financial Calendar for 2003-04

First Quarter Results July 2003 Second Quarter Results October 2003 Third Quarter Results January 2004 Fourth Quarter Results April 2004

iii) Date of Book Closure September 23, 2003 to September 26, 2003 (both days inclusive)

iv) Dividend Payment Date Dividend payments shall be made on or after October 3, 2003 to those shareholders

whose names shall appear on the Members' Register as on September 26, 2003.

#### **Listing on the Stock Exchange:**

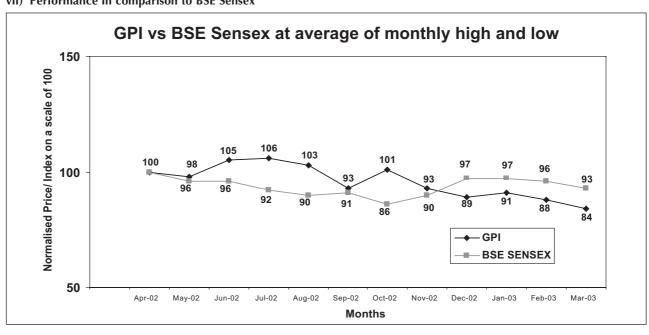
The Company's shares are listed on National Stock Exchange (Stock Code GODFRYPHLP), Mumbai Stock Exchange (Stock Code 500163) and the Calcutta Stock Exchange (Stock Code 1001735 for shares in Demat form and 17335 for physical form.)

### Market Price Data of equity shares in the Company

High, Low during each month in the financial year 2002-03, on The Mumbai Stock Exchange

Month	High (Rs.)	Low (Rs.)
April 2002	390.00	340.00
May 2002	397.00	320.00
June 2002	395.00	369.00
July 2002	420.00	350.00
August 2002	410.00	340.00
September 2002	371.00	310.00
October 2002	415.00	320.00
November 2002	360.00	318.50
December 2002	350.00	300.00
January 2003	343.25	318.50
February 2003	334.90	310.00
March 2003	329.00	286.00

#### vii) Performance in comparison to BSE Sensex



#### viii) Registrar and Share Transfer Agent

Sharepro Services Satam Estate 3rd Floor, Above Bank of Baroda Cardinal Gracious Road, Chakala Andheri (East), Mumbai-400099

#### ix) Share Transfer System

The Company's share transfers and related operations are handled by Sharepro Services, Registrars and Transfer Agent (RTA) which is registered with the SEBI as a Category 1 registrar.

The shares for transfers received in physical mode by the Company/RTA, are transferred expeditiously and thereafter option letter for simultaneous demateralisation of shares are sent within 15 days from the date of receipt, provided the documents are complete and shares under transfer are not under dispute. The share certificates duly endorsed are returned immediately to those who do not opt for simultaneous transfer cum demateralisation. Confirmation in respect of the request for demateralisation of shares is sent to the respective depositories NSDL/CDSL within 15 days.

#### x) Distribution of shareholding as on March 31, 2003

Number of equity share holdings	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares
1-50	4,523	34.61	89,639	0.86
51-100	3,118	23.86	288,924	2.78
101-500	4,928	37.71	1,036,983	9.97
501-1000	287	2.20	200,831	1.93
1001-5000	141	1.08	283,064	2.72
5001-10000	18	0.14	139,863	1.34
10001 & Above	53	0.41	8,359,480	80.39
TOTAL	13,068	100.00	10,398,784	100.00

#### xi) Category of Shareholding as on March 31, 2003

SI. No.	Category of share holders	No. of shares held	Percentage of Shareholding
<b>A</b> 1	Promoter's Holding Promoters		
_	Indian Promoters Foreign Promoters	3,771,244 3,736,704	36.27 35.93
2	Person's acting in concert	NIL	NIL
	Sub Total	7,507,948	72.20
<b>B</b> 3 A B	Non-Promoter's Holding Institutional Investors Mutual Fund UTI Banks Insurance Companies State Government State Financial Corp. FII's	1,125 100 18,659 45,467 4,800 2,400 387,732	0.01 0.00 0.18 0.44 0.05 0.02 3.73
	Sub Total	460,283	4.43
4 A B C D	Others Private Corporate Bodies Indian Public NRIs/OCBs Director's & Relatives	239,167 2,062,990 119,806 8,590	2.30 19.84 1.15 0.08
	Sub Total	2,430,553	23.37
	Grand Total	10,398,784	100.00

#### xii) Demateralisation of shares

The shares of the Company are compulsorily traded in the demateralised form and are available for trading under both the Depository Systems- NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services (India) Ltd.). As on March 31, 2003, a total of 3,535,142 equity shares of the Company, which forms 34% of the share capital, stands demateralised.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's equity shares is INE260B01010.

#### xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments

The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

#### xiv) Plant Locations

The Company's plant is situated at Andheri(Mumbai) and the other one owned by the Company's wholly owned subsidiary, International Tobacco Company Limited, is located at Guldhar (Ghaziabad).

Andheri Plant : V.K.K. Menon Road (Sahar Road),

Chakala, Andheri (East), Mumbai-400099

Guldhar : International Tobacco Company Ltd. (Ghaziabad Plant) Delhi- Meerut Road

Delhi- Meerut Road Guldhar, Ghaziabad

#### **Address for Correspondence**

Shareholders should address all their correspondence concerning shares to the Company's Registrars and Share Transfer Agent, Sharepro Services at the address mentioned above or at:

Sharepro Services 2, Raheja Centre, Free Press Journal Road Nariman Point, Mumbai- 400021

#### 10. NON- MANDATORY CLAUSES

The Company has not adopted any of the non-mandatory requirements as mentioned in annexure 3 of clause 49 of the Listing Agreement.

For and on behalf of the Board

Place : Mumbai R.A. SHAH
Date : 11th August, 2003 Chairman

#### **CERTIFICATE**

#### To the Members of Godfrey Phillips India Limited

We have examined the compliance of conditions of Corporate Governance by Godfrey Phillips India Limited for the year ended March 31, 2003, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended March 31, 2003, no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A.F. FERGUSON & CO. Chartered Accountants

Place: New Delhi
Date: 11th August, 2003.

J.M.SETH
Partner

### Auditors' Report to the Members of Godfrey Phillips India Limited

- 1. We have audited the attached balance sheet of Godfrey Phillips India Limited as at March 31, 2003 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2. We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragaraphs 4 and 5 of the said Order.
- 4. Further to our comments in the Annexure referred to in paragraph 3 above:
  - (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
  - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - (v) on the basis of the written representations received from the directors, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
  - (vi) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2003;
    - (b) in the case of the profit and loss account, of the profit for the year ended on that date and;
    - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO. Chartered Accountants

J.M.SETH Partner

New Delhi: 11th August, 2003

# Annexure referred to in Paragraph (3) of the Auditors' Report to the Members of Godfrey Phillips India Limited on the Accounts for the year ended March 31, 2003.

- 1. The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets. As explained to us, the Company has a system of physical verification of fixed assets once in a period of three years and in accordance therewith no physical verification was due in the current year. In our opinion, the frequency of verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- 2. None of the fixed assets has been revalued during the year.
- 3. The stocks of finished goods, stores, spare parts and raw materials have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable.
- 4. The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- 5. The discrepancies noticed on physical verification of stocks as compared to book records were not material and have been properly dealt with in the books of account.
- 6. On the basis of our examination of stock records, we are of the opinion that the valuation of stocks is fair and proper in accordance with normally accepted accounting principles. The basis of valuation of stocks is the same as in the preceding year.
- 7. According to the information and explanations given to us, the Company has not taken any loans from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and/or from the companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
- 8. According to the information and explanations given to us, the Company has not granted any loans to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and/or to companies under the same management as defined under Section 370(1B) of the Companies Act, 1956.
- 9. In respect of loans and advances in the nature of loans given to employees, the repayment of the principal amount and the interest, where applicable, are as per the stipulations. Further, loans aggregating Rs.1151 lacs given to a subsidiary company are repayable on demand and according to the information and explanations given to us, these loans have not been recalled.
- 10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets and for the sale of goods.
- 11. In our opinion and according to the information and explanations given to us, the transactions of purchase of goods and materials and sale of goods, materials and services, aggregating during the year to Rs. 50,000 or more in respect of each party, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956, have been made at prices which are reasonable having regard to prevailing market prices of such goods, materials and services or the prices at which transactions for similar goods, materials and services have been made with other parties, except for items stated to be of specialised nature for which there are no alternate sources of supply/sales to enable a comparison of prices.
- 12. As explained to us, the Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
- 13. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public.
- 14. In our opinion, reasonable records have been maintained by the Company for the sale and disposal of realisable scrap. The Company's manufacturing activities do not generate any by-products.
- 15. In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- 16. We are informed that the maintenance of cost records has not been prescribed by the Central Government under Section 209(1) (d) of the Companies Act, 1956 in respect of the Company's products.
- 17. According to the records of the Company, provident fund dues and employees' state insurance dues have been regularly deposited during the year with the appropriate authorities.
- 18. According to the information and explanations given to us, no undisputed amounts payable in respect of income-tax, wealth tax, sales tax, customs duty and excise duty were outstanding as at March 31, 2003 for a period of more than six months from the date they became payable.
- 19. According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
- 20. The Company is not a sick industrial company within the meaning of clause (o) of the sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
- 21. As explained to us, in respect of goods purchased for resale, the Company has a reasonable system for the determination of damaged goods. Adequate provision has been made for the loss arising on the items so determined which is not of a significant value.

For A.F.FERGUSON & CO. Chartered Accountants

J.M.SETH Partner

New Delhi: 11th August, 2003

### Balance sheet as at March 31, 2003

							Rupees in lacs
		chedule Number			As at 31.3.2003		As at 31.3.2002
SOURCES OF FUNDS Shareholders' funds Share capital		1		1039.88		1039.88	
Reserves and surplus		2		24926.26	25966.14	23129.95	
Loan funds Secured Unsecured Deferred credits		3		2336.13 445.67 526.81	3308.61	464.64 2956.44 608.34	
TOTAL					29274.75		28199.25
APPLICATION OF FUNDS Fixed assets Gross block Less: Depreciation		4		12802.91 5437.67		11312.26 4578.58	
Net block Capital work-in-progress and				7365.24		6733.68	
advances on capital account				48.24	7413.48	303.74	7037.42
Investments		5			15635.52		12873.43
Current assets, loans and advances Income accrued on investments Inventories Sundry debtors Cash and bank balances Loans and advances		6 7 8 9		36.04 10353.81 1162.30 1636.89 4158.09		28.88 10053.19 195.76 757.27 6245.19 17280.29	
Less: Current liabilities and provisions Current liabilities Provisions		10 11		8441.05 3477.24 11918.29		5696.72 3073.86 8770.58	
Net current assets Deferred tax (net)		12			5428.84 796.91		8509.71 (221.31)
TOTAL					29274.75		28199.25
Notes to the accounts		16					
Per our report attached For A.F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director S.V. SHANBHAG Whole-time Director		Exe	IR KUMAR MODecutive Director  R.A. PODDAR  Chief Executive	DI	R.A. SHAH Chairman K.K. MODI President	
J.M. SETH Partner New Delhi : 11th August, 2003	R.N. AGARWAL Director - Finance		Cor	R. JOSHI mpany Secretary	LA	M. MANIAR ALIT BHASIN O.P. VAISH N. KOTHARI	Directors

## Profit and loss account for the year ended March 31, 2003

		Schedule	For the year	For the ye	
		Number	ended 31.3.2003	ended 31.3.2002	
INCOME					
Sales			107734.16	94468.	
Other income		13	1904.75	1533.	
			109638.91	96001.	
EXPENSES					
Raw and packing materials, manufactured and other goods		14	20284.59	16599.	
Excise duty			52085.18	47048.	
Manufacturing and other expens	es	15	28395.65	24358.	
Depreciation		4	913.01	811.	
			101678.43	88818.	
Profit before taxation and except	ional item		7960.48	7183.	
Exceptional item (Refer Note 15)			2270.09		
Profit before taxation			5690.39	7183.	
Provision for taxation - current			2918.00	2466.	
- deferred	d tax credit		(1018.22)	(61.7	
Profit after taxation			3790.61	4779.	
Profit brought forward from previous year			16233.07	14377.	
Available for appropriation			20023.68	19156.	
APPROPRIATIONS					
Proposed dividend			1767.80	1923.	
Corporate dividend tax			226.50		
Transferred to general reserve			1100.00	1000.	
Surplus carried to balance sheet			16929.38	16233.	
			20023.68	19156.	
Basic and diluted earnings per sk (Face value of share - Rs.10 each			Rs.36.45	Rs.45.	
Notes to the accounts		16			
Par our rapart attached					
Per our report attached to the balance sheet For A.F. FERGUSON & CO., Chartered Accountants	L.K. MODI Executive Director	SAMIR KUMA Executive D		A. SHAH Chairman	
	S.V. SHANBHAG Whole-time Director	R.A. POD Chief Exec		K. MODI President	
J.M. SETH Partner New Delhi : 11th August, 2003	R.N. AGARWAL Director - Finance	R. JOSI Company Se	LALIT HI O.F	MANIAR BHASIN P. VAISH	

### CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2003

A. CASH FLOWS FROM OPERATING ACTIVITIES         \$13,32003         \$12,32033		SH FLOW STATEMENT FO	OK THE TEAK ENDED N	лаксп 31, 2003		Rupees in lacs
Net profit before tax						For the year ended 31.3.2002
Despeciation   913.01   913.	A.	Net profit before tax	TIVITIES		5,690.39	7,183.84
Subsidiary companies   192-42   104-131   105-220   10		Depreciation		913.01		811.28
Dividends from other long term investments		Subsidiary companies				
Interest income from other long term investments   115.50   1172.391   172.3		Dividends from other long term i				(72.53)
Profit on sale of other current investments (net)   (229.67)   (181.69)   (192.67)   (191.69)   (192.67)   (		Interest income from other long	term investments			(172.39)
Provision for wealth tax		Profit on sale of other current inv		(229.67)		(181.69)
Section   112.31   122.52   122.53		Provision for wealth-tax		11.00		9.00
Fixed assets written off		- others				
Loss on sale of fixed assets fixed   16.75						252.39 3.38
Loss on other current investments   306.57   596.41		Loss on sale of fixed assets (net)	alue of other long term investments	7.86		
Poperating profit before working capital changes				-	206 57	169.75
Trade and other receivables   1,282,60   391,95   17,000   17,00		Operating profit before working capit	tal changes			7,780.25
Inventoriories   1,300.62   2,675.64   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57   735.83   7457.57				1 282 60		391 95
Cash generated from operations         3,098.01         3,543.34           Interest received Direct taxes paid Direct taxes paid Direct taxes paid Direct taxes paid (2,638.89)         12,269         122.56           Net cash from operating activities         (2,638.89)         (2,545.66)         (2,090.08)           B. CASH FLOWS FROM INVESTING ACTIVITIES         (1,223.44)         80.77.80           Proceeds from sale of fixed assets         (3,23.24)         9.77.80           Proceeds from sale of fixed assets         (66,400.37)         66,400.37           Proceeds from sale of fixed assets         (66,400.37)         9.64,200.37           Proceeds from sale of fixed assets         (66,400.37)         9.64,200.37           Proceeds from sale of fixed assets         (66,400.37)         9.64,200.37           Dividends from long term other investments         34.33         9.64,200.37           Dividends from other current investments         115.50         1838.33           Dividends from fixed deposits made (adoptish asset)         (209.00)         42.996.0           Interest received         155.66         130.42           Net cash used in investing activities         183.83         150.88           C. ASSI FLOWS FROM FINANCING ACTIVITIES         183.83         150.88           Repayment of fixed deposits         183.83<		Inventories		(300.62)		2,675.64
Interest received   93.23   (2,518.66)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (2,545.66)   (2,069.08)   (		rrade and other payables		2,710.03	3,698.01	3,543.34
Direct taxes paid   (2,638.89)   (2,545.66)   (2,069.70)     Net cash from operating activities   (2,545.66)   (2,069.70)     R. CASH FLOWS FROM INVESTING ACTIVITIES     Purchase of fixed assets   (1,223.44)   (30.28)     Purchase of investments   (64.90.70)   (49.56.34)     Purchase of investments   (64.90.70)   (49.56.34)     Dividends from long term ether investments   (64.90.70)   (49.56.34)     Dividends from long term ether investments   (64.90.70)   (49.90.70)     Dividends from oller term ether investments   (64.90.70)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90.70)     Interest received from other long term investments   (20.90.00)   (49.90.70)   (49.90					9,694.97	
Net cash from operating activities   1,223,44    5,254   5,2						(2,191.77)
B. CASH FLOWS FROM INVESTING ACTIVITIES		Nick and form amounting a state of				
Purchase of fixed assets Proceeds from sale of fixed assets Proceeds from sale of fixed assets Proceeds from sale of investments Proceeds from other long term investments Proceeds from from set minestments Proceeds from fixed deposits Proceeds from fixed from fixe	R	. 0	TIVITIES			9,234.31
Purchase of investments (66,480.37) (64,450.44) 70	ь.	Purchase of fixed assets	HVIIILS			
Dividends from long term other investments   34.53   17.53   17.53   17.53   17.53   17.53   17.53   17.53   17.55		Purchase of investments		(66,480.37)		(64,456.34)
Interest received from other long term investments		Dividends from long term other investi	ments			77.53
Interest received   155.66   313.42   (5.527.83)   (5.527.83)   (5.527.83)   (5.527.83)   (5.527.83)   (7.5		Interest received from other long term	investments			191.95
C. CASH FLOWS FROM FINANCING ACTIVITIES  Proceeds from fixed deposits Repayment of fixed deposits Repayment of long term borrowings Repayment of long term of (628.43) Repayment of long term borrowings Repayment of long term of (628.43) Repayment of long term of (628.41) Repayment of (628.41) Repa		Interest received				
Proceeds from fixed deposits   183.83   150.85   Repayment of lixed deposits   (106.11)   Repayment of long term borrowings   (200.31)   (175.66)   (175.66)   Repayment of long term borrowings   (200.31)   (175.66)   (	_	9			(3,257.48)	(5,527.83)
Repayment of long term borrowings	C.	Proceeds from fixed deposits	CHVITIES			
Compared to the balance sheet   L.K. MODI   SAMIR KUMAR MODI   R.A. SHAH   For A.F. FERGUSON & CO.,   Executive Director   Executive Director   Executive Director   Chief Executive   President   C.M. MANIAR   LALIT BHASIN   Directors   C.M. MANIAR   C.M. MASIAR   C.M. MASIAR   C.M. MASIAR   C.M. MASIAR   C.M. MANIAR   C.M.		Repayment of long term borrowi	ings	(200.31)		(175.66)
Dividend paid Croprorate dividend tax paid (1,907.30) (1,645.27) (169.71)  Net cash used in financing activities (2,988.60) (3,707.57)  NET INCREASE IN CASH AND CASH EQUIVALENTS 903.23 19.11  Opening cash and cash equivalents - Cash and bank balances (1,636.89) 757.27 738.33 (1,636.89) 757.27 738.33 (1,636.89) 757.27 757.2		Bill discounting charges paid	orrowings	(69.32)		(222.24)
Net cash used in financing activities (2,988.60) (3,707.57)  NET INCREASE IN CASH AND CASH EQUIVALENTS 903.23 19.11 Opening cash and cash equivalents — Cash and bank balances Closing cash and cash equivalents — Cash and bank balances — Effect of exchange rate changes on foreign currency bank balance  Per our report attached to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman  S.V. SHANBHAG Whole-time Director Chief Executive President  J.M. SETH Partner  R.N. AGARWAL R. JOSHI O.P. VAISH  Directors  Directors  Directors  Directors  Directors		Dividend paid				(1,645.27)
NET INCREASE IN CASH AND CASH EQUIVALENTS  Opening cash and cash equivalents — Cash and bank balances Closing cash and cash equivalents — Cash and bank balances — Effect of exchange rate changes on foreign currency bank balance  Per our report attached to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chartered Accountants  S.V. SHANBHAG Whole-time Director Chief Executive  R.N. AGARWAL R. JOSHI Directors  R.N. AGARWAL  Popenals Against 19.11  903.23 19.11  903.23 19.11  903.23 19.11  903.23 19.11  903.23 19.11  Poposition Fractor Tokana  R.A. SHAH Chartered Accountants  S.V. SHANBHAG R.A. PODDAR K.K. MODI President  C.M. MANIAR LALIT BHASIN O.P. VAISH Directors				<del>-</del>	(2.988.60)	
CASH EQUIVALENTS Opening cash and cash equivalents — Cash and bank balances Closing cash and cash equivalents — Cash and bank balances — Cash and bank balances — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — Effect of exchange rate changes on foreign currency bank balance — 23.61 — 1,660.50 — 757.44  Per our report attached to the balance sheet  L.K. MODI — Executive Director — Executive Director — Chairman  Chartered Accountants  S.V. SHANBHAG — R.A. PODDAR — K.K. MODI — Whole-time Director — Chief Executive — President  J.M. SETH — C.M. MANIAR LALIT BHASIN — LALIT BHASIN — O.P. VAISH — Directors — Directors — Directors — Directors — Directors — Directors — Cash and bank balances — 757.27 — 738.33 — 757.27 — 738.33 — 757.27 — 738.33 — 757.27 — 738.33 — 757.27 — 738.33 — 757.27 — 757.44 — 1,660.50 — 757.44 — 1,660.50 — 757.44 — 1,660.50 — 757.44 — 1,660.50 — 757.44 — 1,660.50 — 1,660.5	NET				(2,300.00)	(3,7 07 .37)
Closing cash and cash equivalents Closing cash and cash equivalents Closing cash and cash equivalents Closing cash and bank balances T57.27  T58.33  T57.27  T58.33  T57.27  T57.27  T57.27  T58.33  T57.27  T		H EQUIVALENTS			903.23	19.11
- Cash and bank balances - Effect of exchange rate changes on foreign currency bank balance - Effect of exchange rate changes on foreign currency bank balance - Effect of exchange rate changes on foreign currency bank balance - 23.61 - 1,660.50 - 757.27 - 0.17		— Cash and bank balances			757.27	738.33
Per our report attached to the balance sheet L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG R.A. PODDAR K.K. MODI Whole-time Director Chief Executive President  J.M. SETH  Partner  R.N. AGARWAL R. JOSHI O.P. VAISH  Directors		<ul> <li>Cash and bank balances</li> </ul>	foreign currency bank balance			757.27 0.17
to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG Whole-time Director Chief Executive President  C.M. MANIAR LALIT BHASIN R.N. AGARWAL R. JOSHI O.P. VAISH  Directors					1,660.50	757.44
to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG Whole-time Director Chief Executive President  C.M. MANIAR LALIT BHASIN R.N. AGARWAL R. JOSHI O.P. VAISH  Directors						
to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG Whole-time Director Chief Executive President  C.M. MANIAR LALIT BHASIN R.N. AGARWAL R. JOSHI O.P. VAISH  Directors						
to the balance sheet  L.K. MODI SAMIR KUMAR MODI R.A. SHAH For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG Whole-time Director Chief Executive President  C.M. MANIAR LALIT BHASIN R.N. AGARWAL R. JOSHI O.P. VAISH  Directors						
For A.F. FERGUSON & CO., Executive Director Executive Director Chairman Chartered Accountants  S.V. SHANBHAG R.A. PODDAR K.K. MODI Whole-time Director Chief Executive President  J.M. SETH  Partner  R.N. AGARWAL R. JOSHI O.P. VAISH  Directors		•	L K MODI	CALAID IZI IAAAD AAODI		7
Chartered Accountants  S.V. SHANBHAG Whole-time Director  R.A. PODDAR Chief Executive  R.A. MODI President  C.M. MANIAR LALIT BHASIN R.N. AGARWAL  R. JOSHI  O.P. VAISH  Directors						
Whole-time Director Chief Executive President  J.M. SETH  Partner  R.N. AGARWAL  C.M. MANIAR LALIT BHASIN LALIT BHASIN O.P. VAISH  Directors		,				
J.M. SETH Partner  R.N. AGARWAL R. JOSHI C.M. MANIAR LALIT BHASIN O.P. VAISH Directors						
Partner LALIT BHASIN R.N. AGARWAL R. JOSHI O.P. VAISH Directors			o.c ame Director	Ss. Executive		
R.N. AGARWAL R. JOSHI O.P. VAISH Directors	-					
New Delhi : 11th August, 2003 Director - Finance Company Secretary ANUP N. KOTHARI	iaii	nei	R.N. AGARWAL		O.P. VAISH	Directors
	Nev	v Delhi : 11th August, 2003	Director - Finance	Company Secretary	ANUP N. KOTHARI	