EURO CERAMICS LIMITED • ANNUAL REPORT 2006-07

Seven

commandments on how
to run a boring business...

EURO Vitrified Tiles

Get Floored

www.eurovitrified.com

Forward-looking statement

The information and opinions expressed in this Annual Report consist of certain forward -looking statements, which the management believes are true to the best of its knowledge at the time of its preparation. We shall not be liable for any loss, which may arise as a result of any action taken on the basis of the information contained herein.The information contained herein may not be disclosed, reproduced or used in whole or in part for any purpose or furnished to any other persons without the express prior written permission of the Company.

Contents

Corporate information

Board of Directors

Mr. Shantilal L. Shah, *Chairman*

Mr. Nenshi L. Shah, *Managing Director*

Mr. Talakshi L. Nandu, *Director*

Mr. Kumar P. Shah, *Director*

Mr. Paresh K. Shah, *Director*

Mr. Pravin D. Gala, *Director*

Mr. Lalji K. Shah, *Director*

Mr. Shivji K. Vikamsey, *Director*

Mr. Raichand K. Shah, *Director*

Mr. Anil M. Mandevia, *Director*

Mr. Amit G. Shah, *Director*

Company Secretary

Ms. Jayshree D. Soni

Chief Executive Officer

Mr. Sushil Chudiwala

Auditors

M/s. Deepak Maru & Co.,
Chartered Accountants

Bankers

State Bank of India

State Bank of Saurashtra

The Cosmos Co-op. Bank Limited

HDFC Bank Limited

Registered Office

Boston House, Ground Floor,
Suren Road, Chakala,
Andheri (East),
Mumbai - 400093

Factory

Survey No. 510, 511, 512, 517/1,
Bhachau Dudhai Road,
Bhachau (Kutch),
Gujarat – Pin: 370140

Registrar & Share Transfer Agent

M/s. Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (west),
Mumbai - 400078

A TRISYS PRODUCT
info@trisyscom.com

...AND HOW EURO CERAMICS HAS BROKEN EVERY ONE OF THEM!

In 2006-07, the average age of the eight leading listed ceramic tile manufacturers in India was 20 years; Euro Ceramics was the youngest at only four years.

In 2006-07, India's tiles industry grew at an estimated 15%; Euro Ceramics' topline grew 35.32%.

In the fourth quarter of 2006-07, the average tile industry EBIDTA margin was 17.5%; Euro Ceramics reported 36.61%.

Euro Ceramics.

Tile maker.

Trend breaker.

Questioning convention.

Daring the status quo.

Distinctive vitrified tile manufacturer in India.

The largest. Most profitable. Fastest growing.

Business

- Manufacture of vitrified ceramic tiles with a total installed capacity of 79,971 MTPA.
- Manufacture of aluminum extruded sections with a total installed capacity of 1,800 MTPA.
- Power generation through a 10-MW lignite-based captive facility.

Presence

- Headquartered in Mumbai.
- Plant location in Bhachau, Kutch.
- Marketing presence across India.
- 30 dedicated pan-Indian franchisee outlets.
- Shares listed on the Bombay and National stock exchanges.

Operations

- Technology and equipment from SACMI.

Management

- 500-plus member professional team headed by Mr. Nenshi L. Shah, Managing Director.

Quality

- ISO 9001:2000 and ISO 13006/EN 176 Group B1a certifications.
- Exports to 20 countries.

Vision

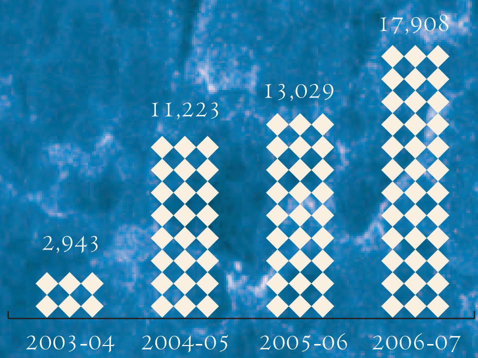
- To be the most effective, innovative and creative company and be known for the quality, leadership and professionalism both nationally and internationally.
- To build a conglomerate and be a leader in it's chosen business area, create an organisation in which all members are proud to be associated with.
- To set benchmarks that will become the standard for industry and others to emulate and follow.

Mission

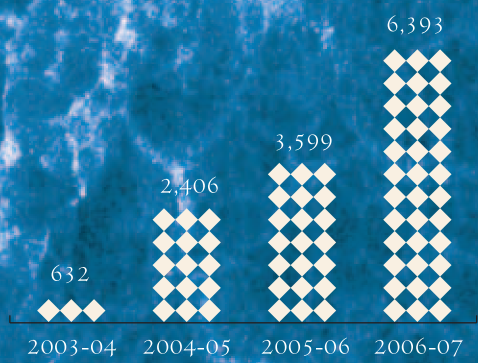
- Euro Ceramics is committed to serve the society by providing quality products and services.
- We have dedicated ourselves to long term growth and will practice highest standards in manufacturing, marketing and care for our people.
- Apart from local markets we should become an international player and with the existing high standards of quality, we should have a good market share of the global market.
- Suitable expansions related to our core strength in construction industry.
- Euro Ceramics will practice best business standards and values and stand as a role model for best of the medium size enterprises to give maximum benefits to its shareholders.

Operations commissioned	Number of employees	Promoter holding at
October 5, 2003	524	55.31%
	(March 31, 2007)	(March 31, 2007)

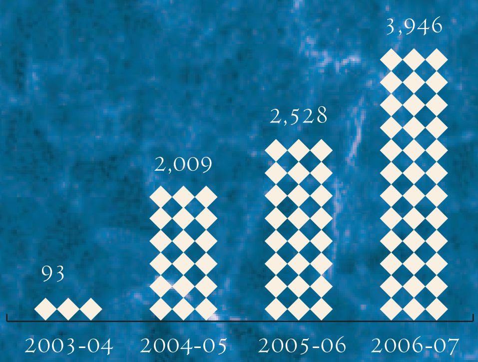
Sales * (Rs. lacs)



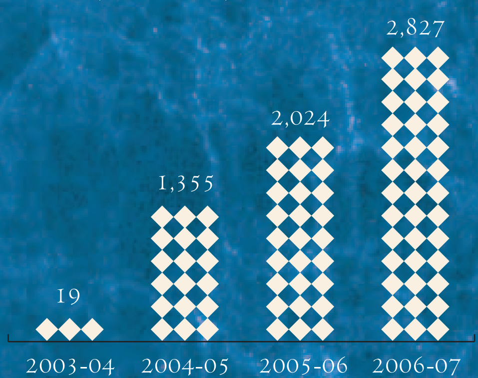
EBIDTA * (Rs. lacs)



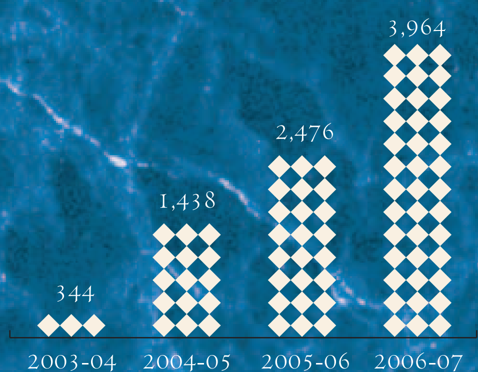
PBT (Rs. lacs)



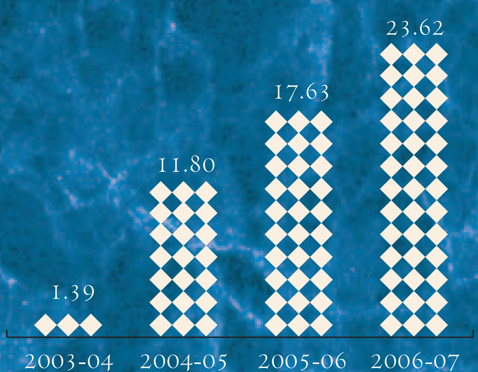
PAT (Rs. lacs)



Cash profit (Rs. lacs)



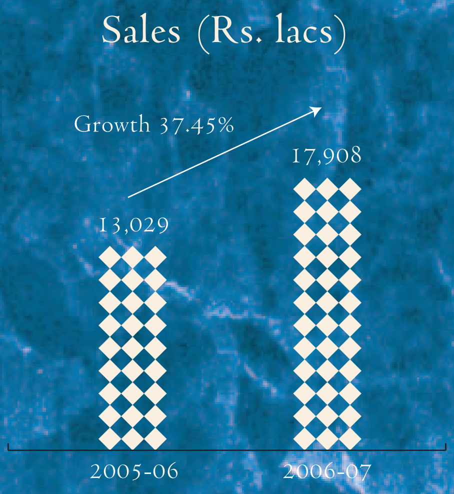
EPS (Rs.)



* Excludes the figures of our erstwhile jewellery division which was closed in 2005-06

This is what we achieved in 2006-07, the first year in which we went public

Performance



Profitability

• EBIDTA margin strengthened by 841 basis points – from 27.29% in 2005-06 to 35.70% in 2006-07.

• Cash profit margin strengthened by 343 basis points – from 18.71% in 2005-06 to 22.14% in 2006-07.

• Net margin strengthened by 50 basis points – from 15.29% in 2005-06 to 15.79% in 2006-07.

Operations

• Production of vitrified tiles increased by 45.69% – from 53,765 tonnes in 2005-06 to 78,331 tonnes in 2006-07.

• Second vitrified tile production line achieved a capacity utilisation of around 95% in the first full year of operations.

• Nearly 85% of the output of vitrified tiles was classified as first quality grade.

• 40 new designs in vitrified tiles were introduced.

• The gasifier unit facilitated a substantial fuel cost saving.

Marketing

• Exports grew from Rs. 545 lacs in 2005-06 to Rs. 1313 lacs in 2006-07.

• Established its presence in more than 20 countries and across almost all states in India.

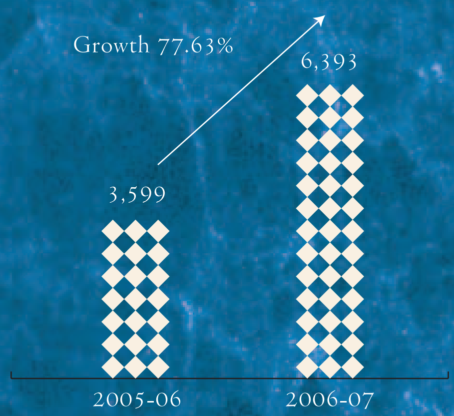
• Added new institutional customers.

Post-Balance Sheet developments

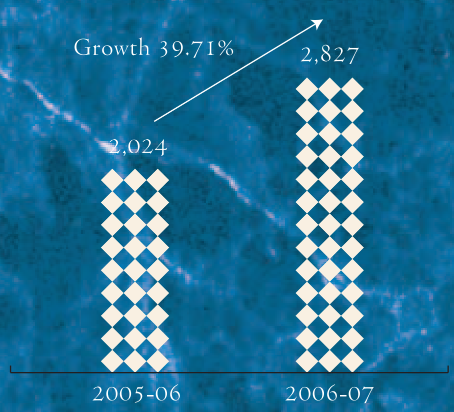
• Calcarious tiles unit commissioned at Bhachau from June 2007 (annual capacity of 45,000 MT) at a total cost of around Rs. 8200 lacs.

• Continued to implement the sanitary ware unit (capacity of 11,000 TPA), which is expected to commence operations in the third quarter of 2007-08.

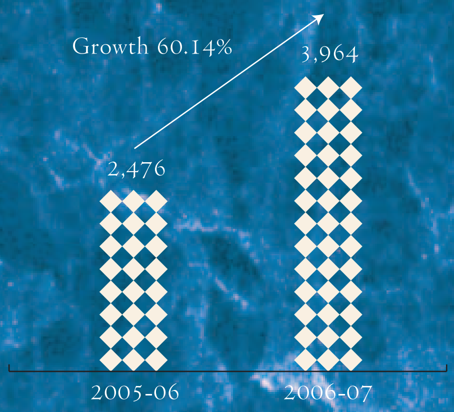
EBIDTA (Rs. lacs)



PAT (Rs. lacs)



Cash profit (Rs. lacs)



MD's message

"We evolved our business model to emerge as a preferred source for all flooring and bathroom solutions."

Mr. Nenshi L. Shah explains the strategic direction of the Company

Dear Shareholders,

DURING THE COURSE OF A NUMBER OF MEDIA AND ANALYST CONFERENCES DURING OUR IPO ROADSHOW IN 2007, THE ONE THING THAT WE WERE REPEATEDLY ASKED WAS: WHAT IS THE NEED FOR ANOTHER TILE COMPANY WHEN THE EXISTING ONES CAN EASILY ENHANCE THEIR INSTALLED CAPACITY, LEVERAGE THEIR BRAND AND OUTSELL A NEW ENTRANT LIKE US?

My answer was – and is, that we weren't just another tile company.

Performance

The result is evident in the following numbers:

- 35.32% growth in topline to Rs. 17908 lacs.
- 77.00% increase in EBIDTA to Rs. 6393 lacs.
- 841 basis points increase in EBIDTA margin to 35.70%, the highest in the industry.
- 39.71% surge in post-tax profit to Rs. 282.73 million.
- 60.14% growth in cash profit to Rs. 3964 lacs.

A quick analysis reveals that our profits grew faster – despite a general drop in tile realisations in India in the latter part of 2006-07 – than our sales or costs, indicating that Euro Ceramics thrived in a challenging and competitive environment.

A number of analysts and shareholders are now asking me the next most important question: can Euro Ceramics sustain this? My humble submission is that we can and with a little more effort even accelerate the growth that we have reported in the recent past.

Mindset and action

So what makes us different?

Mindset: One, when you go into business

Within a year of our second expansion, we are reporting the highest industry margin.

with the same game plan as everyone else, you get results that are no different.

Action: The three most contrarian things that we did were to get into vitrified tiles from day one as opposed to a gradual extension, commission capacity in a back-of-beyond location not contiguous to our principal consuming markets and relatively over-invest by setting up a captive power plant and completely outsourcing our technology.

Most industry watchers said that we would be challenged by a difficult technology, we would spend far too much on our logistics costs and our high project cost per square foot of installed capacity would never make us viable. However, within a year of our second expansion, we are reporting the highest industry margin.

Mindset: Two, as competitors begin to figure out your game, change the game.

Action: During the course of 2006-07, our growing market share was being visibly mirrored in our superior financial performance. The temptation was to let an existing trend roll, scale the business and make even bigger profits. On the contrary, we changed the game; we diversified into the manufacture of calcarious tiles and sanitary ware products, the full impact of which will be felt from the second half of 2007-08. In doing so, we have strategically established ourselves at least a couple of years ahead of our competitors with the unique advantage of leveraging cross-sales and eating into the market shares held by standalone players in the respective segments. This argument is slightly unique in the area of calcarious tiles, which are being introduced for the first time in India in an organised manner. The result is that there is no company with such a diversified yet synergic product portfolio in India today.

Outlook

At Euro Ceramics, we are optimistic that these investments have been made in relatively safe business lines with a protected downside. Consider the following:

Affluence: The estimated cumulative liquid wealth of the affluent class in India is poised to grow at 50% from US$ 203 billion to US$ 322 billion over the next three years *(Source Datamonitor)*. The number of Indians with liquid wealth of US$ 100,000 and above is also rapidly increasing and is likely to grow from 711,000 to 1.1 million *(Source: The Economic Times, September 22, 2006)*.

Malls: The available mall space of about 30 million sq. ft in India is expected to increase to 100 million sq. ft by 2010. According to a report on real estate trends by Merrill Lynch, the number of malls in the five cities - Mumbai, Bangalore, New Delhi, Hyderabad and Pune - itself is expected to reach 250 by 2010.

Commercial space: According to Nasscom-McKinsey data, over 1 million more people will be added in the IT-ITES sectors by 2010. This will result in a demand for over 100 million sq. ft of office space. Over the next 10 years, the rate of growth in India's commercial space is likely to be maintained at 20-25% per annum, creating an attractive industry opportunity.

At the Company we believe that this is only the beginning of our growth story as we leverage a differentiated business model, speedy project implementation, a culture of manufacturing excellence and a spirit of market responsiveness leading to a 50% growth in our topline in 2007-08 and 2008-09.

Nenshi L. Shah
Managing Director

Thou Shalt not think different…

and how Euro Ceramics dared laterally

FOR YEARS, THE ESTABLISHED CANON OF THE TILE INDUSTRY WAS 'THINK CERAMIC'. VITRIFIED WAS FORBIDDEN TERRITORY.

Ceramic tiles were relatively easy to make; vitrified was challenging.

Ceramic tiles required a relatively low investment; vitrified entailed a higher outlay.

Euro Ceramics dared to become the first Indian company to enter the business of tile production through a vitrified line. Where others saw danger, Euro Ceramics perceived opportunity.

• Most players stayed off vitrified because of a small market. Euro Ceramics perceived opportunity of presence in a business with relatively low competition.

• Most players complained of the price-sensitive nature of an Indian consumer spoilt for choice. Euro Ceramics discerned a visible change in the consumption pattern towards expensive upmarket products of commercial users requiring world-class offices.

• Most players were daunted by the need to cater to non-residential institutional customers. Euro Ceramics recognised the vast room for providing flooring solutions between ceramic tiles at one end and marble at the other.

As a result, Euro Ceramics grew its topline at a CAGR of 82% over the four years leading to 2006-07 compared with an industry average of about 15% (Source: ICCTAS).

Euro Ceramics' vitrified tiles command an 8-10% premium due to their superior quality and finish.

Thou Shalt not trust imported technology...

and how Euro Ceramics outsourced a complete solution

For years, the established wisdom was 'cherry pick technology' in exchange for a lower financial outgo. Acquiring a complete technology solution was considered naïve.

Cherry picking technology modules were considered inexpensive; buying the complete solution was dismissed as prohibitive.

Euro Ceramics went contrarian; the Company invested in a complete technology solution from SACMI (Italy). Where others saw expense, Euro Ceramics saw efficiency.

- Quicker operational stability while outsourcing solution from a single technology supplier than when integrating across various technology providers.
- Higher proportion of the best quality products due to technology seamlessness; confidence-enhancing electronic scanning between first, second and third grade material.
- Lower downtime than competing technology providers.

As a result, Euro Ceramics achieved the first-grade quality equivalent to 85% of its total output compared with the industry average of around 65%; it achieved 90% production efficiency within the first three months of commercial production.

The difference in realisation between the first-grade quality of vitrified tiles and the second grade is about 15%; the difference between the second-grade quality and the third-grade is another 20%. Euro Ceramics' products received the US quality certification from Applied Consumer Services Inc., Florida.

Thou Shalt not trespass into uncharted territory...

and how Euro Ceramics ventured
into untested space

For years, the tried and tested locations of tile manufacture in India were either in the middle of consuming markets or in tax-friendly locations. Extending beyond was a no-no.

Being close to a consuming market was justified on the basis of a lower transportation cost; presence in a tax-friendly zone was justified by a theoretically quicker payback.

Euro Ceramics dared to commission its production facility in Bhachau (Kutch), 400 kms from the state capital and 800 kms from its biggest markets. For some good reasons:

- Raw material source: Proximate access to raw material, less than an hour from the port and next door to one of the largest deposits of feedstock lignite in India.
- Consuming markets: Equidistant from Delhi and Mumbai markets; proximate to the growing markets of Gujarat, Maharashtra and Rajasthan; next to the port to facilitate export.

As a result of this favourable location, the Company's logistics cost was quite low compared with other industry peers.

More than 55% of the Company's production was sold within a radius of 800 kms of its plant in 2006-07.

Thou Shalt not exploit your power...

and how Euro Ceramics did so
in a responsible way

FOR YEARS, EVEN IN AN ENERGY-INTENSIVE BUSINESS LIKE TILE MANUFACTURE, COMPANIES PREFERRED TO INVEST THEIR SURPLUSES IN GROWING THEIR TILE CAPACITY. INVESTING IN PERIPHERAL BUSINESS SUPPORTS WAS GENERALLY LAST ON THE PRIORITY.

For a good reason. Most manufacturers felt that the economies of scale would not justify a power plant; the latter would probably generate far too much of power to be fully consumed within the tile making facility; any suboptimal consumption on the other hand, would enhance the power cost and make the investment unviable.

Euro Ceramics dared to think different. Even as the Company was commissioning its tile making capacity in 2003, it was setting up a captive lignite-based 10-MW power plant, the first of its kind in the tile industry in India. It did so with the following perspectives:

- Even at 50% PLF, the cost of power generated through the lignite-based captive power plant would be 30% below the grid equivalent; at 100% PLF, there would be a significant Rs. 2 per unit differential compared with the alternative source.
- As the business expanded in established and synergic directions, the quantum of captive power consumption would increase and the competitiveness of all products would sharpen.
- A captive power source would result in a consistent supply of quality power, an edge in a business where minor power fluctuations can impact the product grade and shrink realisations by 15-20% and where power interruptions can increase maintenance costs.

As a result, power and fuel as a proportion of Euro Ceramics' revenues is nearly 400 basis points below the industry average; besides, the superior power supply has resulted in a consistent product quality, reflected in more than 60% of the Company business being repetitive or referral in nature.

The Company invested in a gasifier for generating gas for its spray dryer, replacing expensive propane gas by about 40%.

Thou Shalt not market only to those weaker than you...

and how Euro Ceramics created a company selling to companies larger than itself

FOR YEARS, THOSE WHO TAUGHT BUSINESS STRATEGY ARGUED THAT SALES MADE TO RELATIVELY WEAKER COMPANIES WOULD ENABLE ONE TO DICTATE TERMS. EURO CERAMICS WENT COUNTER TO THIS ESTABLISHED PRECEPT.

The prevalent argument was 'sell retail'; the moment you moved towards wholesale and institutional, the large buyer would compare quotes, select the lowest and drive you to the cleaners.

It took a Euro Ceramics to expose this argument in the following ways:

- Large institutional clients meant that if they grew, Euro Ceramics grew; the Company carefully selected to work with the fastest growing proxies of some of the fastest growing industries in India today.
- Large institutional clients required large batches of products; this enabled assets to be sweated at more than 100% in 2006-07; this high utilisation caused costs to be covered more effectively; in turn, this enabled the Company to provide its customers a better deal – a virtuous cycle.
- Large but relatively few institutional customers obviated the need for a nationwide distribution network to service far-flung retail clients; Euro Ceramics created a 120-strong sales and marketing team to service institutional customers instead.
- Large institutional clients translated into a brand-enhancing referral value leading to business with other institutional clients within India and abroad.

As a result, 70% of Euro Ceramics' revenues comprised sales to institutional buyers; the Company captured a sizable 15% of India's tile market within a mere five years of its existence.

More than 50% of the Company's revenues were derived from existing customers.

Thou Shalt not Create Self-competing Products...

and how Euro Ceramics created a new income stream

For years, the conventional wisdom was to compete externally; the result was that companies created complementary or mutually exclusive product lines.

As an intelligent risk taker, Euro Ceramics introduced an innovative flooring solution, a product that would compete with italian marble, creating a new business vertical. This was done in response to the following realities:

- Growing prosperity demands a superior flooring option between vitrified tiles and marble flooring.
- Calcarious tiles will command a higher value for the Company – its realisations are more than 2.5 times that of vitrified tiles.
- The first mover advantage in a new segment will enable Euro Ceramics to strengthen its brand as a company that provides premium products.
- To cater to the growing affluence of the commercial sector where differentiated flooring solutions are the order of the day, Euro Ceramics prudently chose to manufacture large format tiles.

As a result, Euro Ceramics will be able to cater to all price points in the tile industry – ceramic wall and floor tiles (trading business) at one end and vitrified tiles and calcarious tiles at the other – a one-stop flooring solutions, the first to achieve this distinction in India.

Calcarious tiles possess the look and shine of natural Italian marble. Approximately Rs. 1 billion were imported into India in 2006-07, indicating a ready market for Euro Ceramics.

The Company's 45,000 TPA calcarious tiles facility commenced operations from June 2007.

Thou Shalt not Diversify...

and how Euro Ceramics created multiple businesses

FOR YEARS, THE SACRED PRONOUNCEMENT IN THE TILE BUSINESS WAS 'CONSOLIDATE'. ANY BUSINESS MANAGER WHO EVEN WHISPERED OF SYNERGIC DIVERSIFICATION WAS BANISHED FROM THE BOARD ROOM.

The argument was that the tile business itself needed as much resources a company could mobilise; any diversification would effectively weaken the core business.

Euro Ceramics dissented. The Company argued that as purchases became progressively single-stop, producers would also have to widen their scope of operations. So the Company diversified into two additional businesses – calcarious tiles and sanitary ware - in the very first full year of going public.

The decision was made in recognition of the following realities:

- Most institutional customers require a composite interior flooring and allied solution; it made sense for a tile manufacturer to manufacture sanitaryware products as well.
- Most institutional customers who required vitrified tiles also needed a superior product for select areas in their establishments; calcarious tiles – priced and positioned between vitrified tile and marble – appeared to be a prudent selection.
- As a future-focused measure, Euro Ceramics created a sales and marketing team on the one hand and an exclusive Euro-centric franchisee network capable of leveraging existing relationships to market a wider number of products and capture a larger share of the customer's wallet, on the other.

As a result, Euro Ceramics will emerge as the first one-stop bathroom as well as flooring solutions shop in India.

The Indian sanitaryware and bathroom accessories industry is estimated at about Rs. 15 billion and growing at 15-18% annually. Euro Ceramics is launching a complete range of sanitaryware products on a pan-Indian basis with a capacity of 11,000 MTPA in 2007-08.

10 minutes with the Directors

"Our deep sense of satisfaction emerges from the fact that despite high competition and low industry realisations, we reported a *significantly higher* profitability"

The Directors of Euro Ceramics Ltd., review the performance of the Company in 2006-07 and look into the future with optimism

What were some of the highlights reported during the year under review?

Before we embarked on 2006-07, we charted out a three-pronged agenda - to enhance the proportion of value-added products in our overall product mix, to commission fresh production assets in synergic business segments and strengthen our cost management – to not just grow our business but concurrently de-risk it from unforeseen industry slowdowns as well. We are pleased to tell our shareholders that each of these initiatives translated into concrete attractive numbers not just for the moment but also for the foreseeable future.

Can you explain some of these initiatives?

It is important to recognise that there is a new shift happening within the economy – a willingness to buy large and expensive homes reinforced with commensurately priced interiors. There is a larger proportion of Indians who are willing to spend extra as long as what is delivered is exclusive and world-class. When you translate such a mindset into a consumption pattern, you recognise a growing appetite for products characterised by different tile sizes, different colour combinations and superior finishes.

At Euro Ceramics, we recognised that we were in a business where it was not imperative to only produce large quantities and encash economies of scale, but to produce select material as well. This is easier

At Euro Ceramics, we recognised that we were in a business where it was not imperative to only produce large quantities and encash economies of scale, but to produce select material as well.

strategised than done; in a volume-driven business it is difficult to play the niche game. By definition, both appear contradictory.

It is here that Euro Ceramics reported its biggest success: even as it produced the largest volume in its existence, it customised a number of new finishes like Rustic, Honed, Zodiac and S&P, among others. This helped fetch a clear 8-10% premium over competing products. More importantly, this strategy reversed a slide in average realisations, a common industry feature in 2006-07. The Company actually reported an increase in EBIDTA margin from 27.29% in 2005-06 to 35.70% in 2006-07.

What was the other value-enhancing initiative?

We recognised that in our business the brand must be commensurately equivalent to the production capacity; when you have a brand that is disproportionately stronger than the production capacity, you run the risk of consumers going to the retail outlet but not finding enough material to select from. When this happens there is a danger that the customer may never return to buy Euro Ceramics' product again. On the other hand, if the capacity invested in is disproportionately higher than the brand, you run the risk of oversupply leading to probable under-cutting.

At Euro Ceramics, we balanced both in 2006-07. We recognised the strength of our brand and commissioned our second production line in December 2005. Within the first full year of operation of the enhanced capacity, we reported an utilisation of around 95%, which was not only higher than that of equivalent companies in their first year but also considerably higher than the prevailing industry average.

At Euro Ceramics, we complemented the advantage of this high utilisation with a production of 'first quality' tiles to the extent of 85% of our product mix. This combination – high utilisation and high realisation – not only represented a potent mix but also an industry wide achievement.

The industry-wide decline in margins goes counter to a robust trend in the real estate and cement sectors.

It is important to note that India's tile industry did not witness a demand de-growth during the year under review; on the contrary, the volume demand surged during 2006-07 and the industry off-take was the highest ever in the country's history.

However, the country's unorganised sector - contributing nearly 50% of the industry's output – capitalised on the robust demand and affected realisations, which only stabilised in the last quarter of 2006-07.

Euro Ceramics protected itself from an erosion in realisations through its customer mix; a focus on institutional customers helped us protect our realisations over a larger volume.

You indicated effective cost management.

It is important to comprehend the limiting pricing factors in tile manufacture. There is adequate capacity within the country so that the moment one increases prices, there is always a competitor waiting to undercut; besides, China is a large producer of low-cost ceramic and vitrified tiles, with a fairly well penetrated presence within India through a trading network which makes it difficult to price at will. The conclusion is that cost

We commissioned a 10-MW power plant to reduce the cost of energy and become completely self-reliant for our power needs.

management is really a very important profitability-enhancing factor completely within a manufacturer's control.

Within the area of cost management, we selected to focus on a more efficient use of energy as this normally accounts for 32% of a tile manufacturer's total expenditure and around 20% of revenues. We embarked on two specific initiatives:

- We commissioned a 10-MW power plant to reduce the cost of energy and become completely self-reliant for our power needs. Besides, this captive installation translated into high-quality uninterrupted power, enhancing our production quality and plant utilisation.
- We commissioned a gasifier in March 2006, which enabled us to substitute high-cost propane with processed steam to the extent of 40% of our fuel mix.

A number of shareholders will want to ask whether this growth will be sustainable.

At Euro Ceramics, we are convinced that it will indeed be possible to sustain this growth for an important reason – even as a number of our competitors are still grappling with the tile business, we have evolved our business model towards interior solutions through the following initiatives:

- We will manufacture and market sanitary ware products from October 2007. The business is not as unconnected; it will enable those who walk into our stores for bathroom tiles to buy sanitary ware as well – and vice versa. With this understanding, we intend to commission around 20 exclusive franchisee stores across India, not only providing customers with a one-stop convenience but also collecting precious marketplace intelligence with the objective to enhance direct customer contact and drive product innovation.
- We pioneered a large-scale manufacture of calcarious tiles in India's organised sector, increasing our ability to service upmarket customers with flooring options catering to various price points.
- We enhanced our front-end retail presence through franchisee stores exclusively housing our products.

How does the Company expect to enrich shareholder value?

We expect to extend our reliance from one business in 2006-07 to a presence in three businesses in 2007-08, translating into a healthy growth in our topline and a corresponding increase in our bottomline. However, the full impact of these businesses will be reflected in our financials in 2008-09, which means that shareholders can look forward to two more years of straight growth based on the existing business plan.

As a value-oriented organisation we promise our shareholders with sound governance and responsible profit distribution, enhancing the value of the shares they hold in the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

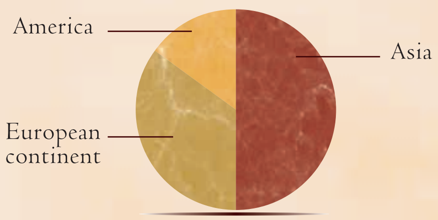
Industry overview

Global overview

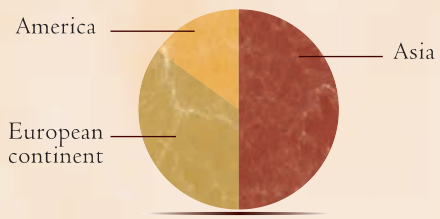
GLOBALLY THE CERAMIC TILE INDUSTRY GREW AT AROUND 6% IN 2005. CHINA WAS THE LARGEST PRODUCER WITH A TOTAL PRODUCTION OF 2,500 MILLION SQ. MTR. PER ANNUM (36% OF WORLD PRODUCTION) FOLLOWED BY SPAIN (PRODUCTION 656 MILLION SQ. MTR. PER ANNUM) AND ITALY (PRODUCTION 570 MILLION SQ. MTR. PER ANNUM).

Global ceramic tile production and consumption reported growth; Asia dominated production with a 52% global share, followed by Europe (30%) and North America (14%). While Asia reported 51% of the global consumption, Europe consumed 26% followed by North America with 18%. During 2005, world ceramic tile production was 6.9 million sq. mtrs., 5.7% up from 6.5 million sq. mtrs in 2004. The ratio between consumption and production remained stable in 2005 at 94% (Source: World production and consumption of ceramic tiles report).

The world tile production



The world tile consumption



Indian overview

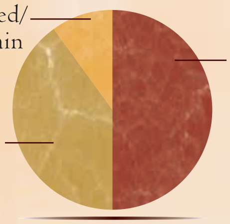
India remains the second largest tile producer in Asia, the fifth largest in the world. India's production was estimated at around 340 million sq. mtr. in 2006-07.

Particulars	Ceramic tiles
World production	6,900 million sq.mtr.
India's share	340 million sq.mtr.
World ranking in production	5
Global industry growth rate	6%
Growth rate (Indian domestic market)	15%
Organised sector	
Turnover	3,000 crores
% share in production	56%
Number of units	15
Unorganised sector	
% share in production	44%
Number of units	200

Source: ICCTAS

The industry in India can be classified into three segments: wall tile – 35% of the market (relatively slow growth), floor tile – 53% of the market (rapid growth) and vitrified / porcelain tile – 12% of the market. (sizable growth) *Source: ICCTAS.*

The market share



Vitrified tiles represent a unique combination of value-addition and growth. These tiles, compressed under a 5,000 tonne pressure, are the strongest man-made tiles, scratch-resistant, glossy, impermeable (absorption only 0.05% or less) and easy to lay. They are becoming immensely popular for the following reasons: they are light, can be fixed easily on the floor, provide a designer look and fit perfectly between the low-end ceramic wall tiles and the relatively expensive marble flooring solutions. The vitrified and porcelain tile segment is expected to gradually capture the market from the conventional ceramic tiles (wall and floor).

Opportunities and outlook

Euro Ceramics manufactures and markets vitrified tiles. The scenario is optimistic for the product for the following reasons:

Flooring solution: The business is growing on account of a sustained rise in affluence, the housing, commercial property and hospitality industries with manufacturers focusing on cost control, capacity expansion, market expansion and product development.

Commercial space: Sustained growth in the manufacturing and service sectors as well as India's emergence as the preferred destination for MNCs has strengthened the demand for commercial space. Total demand is expected to increase to 500 million sq. ft in the next decade, with IT/BPO sectors contributing close to 60-70%, the rest coming from non-IT and manufacturing sectors (*Source McKinsey-NASSCOM*).

Malls: Knight Frank ranked India fifth in the list of 30 emerging retail markets and predicted a 20% growth for the organised segment by 2010. India retained its position as the world's most attractive market for mass merchant and food retailers seeking overseas growth according to management consulting firm A.T. Kearney's 2006 Global Retail Development Index (GRDI), an annual study of retail investment attractiveness among 30 emerging markets.

The demand for mall space is expected to rise from 30 million sq. ft to about 100 million sq. ft. by 2010. According to a Merrill Lynch report, the mall population in Mumbai, Bangalore, New Delhi, Hyderabad and Pune is expected to reach 250 by 2010.

Euro Ceramics ensures that the size and flatness of each vitrified tile are benchmarked to stringent EN standards through a computerised size and flatness sorting system. As a result of this consistency and thickness, Euro Ceramics' products can be laid effortlessly and quicker over natural stones.

Hotels: It is estimated that India will require about 166,000 rooms by 2010 (from the present 109,000), of which 113,000 are required across the luxury, business and budget hotel categories.

Hospitals: In 2002, India's healthcare industry contributed 5% to the GDP; by 2012, the industry is expected to contribute 8.5%. Healthcare expenditure is expected to double over the next 10 years. It is expected that private healthcare will form a large chunk of this spending, rising from US$ 14.8 billion to US$ 33.6 billion in 2012. The number of hospitals is expected to increase from about 3,000 presently to about 4,500 by 2010.

Affluence: Households with annual earnings greater than Rs. 10 lac are expected to grow from 0.8 million in 2002 to 3.8 million in 2010 *(source: NCAER)*.

The cumulative liquid wealth of India's affluence is poised to grow at 50% from the present US$ 203 billion to US$ 322 billion over the next three years *(source: Datamonitor)*. The number of Indian millionaires is expected to grow from 83,000 to 134,000 by 2009. The number of Indians with liquid wealth of US$ 100,000 and above is likely to grow from 711,000 to 1.1 million *(The Economic Times, September 22, 2006)*.

Aluminium extruded sections: India represents one of the most attractive aluminium recycling opportunities in the world. The metal's prospects of manufacture and use are more attractive in India today than in most countries. The demand for extrusions is growing at 8-9% per annum and is likely to increase by 50% to 300,000 MT by 2010. The use of recycled aluminium in the extrusions industry is expected to remain at 25% of the total consumption; the present consumption of 50,000 MT is likely to grow to 75,000 MT by 2010. Aluminium is increasingly used as a replacement for other metals, enjoying applications in false ceilings, partitions, office cabins and commercial premises over wooden and metal frames.

Operational review

Euro Ceramics recorded the highest-ever production at 78,331MTPA in 2006-07. The sale of value-added varieties increased resulting in better average realisations.

The Company's operational efficiency is reflected in the table below:

	2004-05	2005-06	2006-07
Installed capacity	35,880	79,971	79,971
Proportionate installed capacity	35,580	50,577	79,971
Production	39,374	53,765	78,331
Capacity utilisation	109.74%	106.30%	97.95%

Supply chain management: Euro Ceramics located its facility proximate to raw material (soda feldspar, potash feldspar, china clay, Ukraine clay, ball clay, zirconium silicate, and quartz) sources, facilitating a seamless supply chain management.

- Clay and feldspar are abundantly available in Rajasthan and Kutch, procured from within 600 km of the factory.
- Ukraine clay and other consumables are easily imported due to the proximity to Kandla and Mundra ports.
- Other raw materials are sourced domestically.
- Lignite, the key input for its power generating unit, is abundantly available in Kutch.

A monthwise production plan, based on indents with the marketing team, provides a sufficient buffer to stock inputs adequately. As a prudent de-risking strategy, the Company maintains a multi-vendor policy, ensuring that production is not interrupted.

Operations: Euro Ceramics' vitrified tiles are manufactured in a modern automated state-of-the-art plant in Bhachau (Kutch) enjoying ISO 9001:2000 accreditation. The technology and manufacturing modules for the plant were procured from SACMI (Italy), one of the leading suppliers of automated tile manufacturing technology, leading to an international quality standard. The Company commenced operations in October 2003 with an installed capacity of 35,880 MTPA and added 44,091 MTPA in December 2005.

The Company also commissioned a 10-MW lignite-based power generation unit from March 2006 to provide uninterrupted power. The Company also installed a gasifier gas station to substitute a part of its requirement of propane gas, leading to substantial cost savings and self sufficiency.

The key features of the vitrified tile manufacturing plant comprise of:

- Three multiple hydraulic presses compatible to produce Rustics (anti-skid); sizes comprised 300 x 600, 400 x 400, 500 x 500, 600 x 600, 600 x 1200 and 900 x 900 mm.
- Three horizontal five layer driers for homogeneous drying.
- Multiple glazing lines compatible with the equipment to produce all vitrified tile types.
- TGV system for tile loading and storage into boxes before firing and onto the pallets after firing.
- Two advanced roller kilns facilitating quality and improved productivity.
- Polishing machines for polishing various product sizes.
- Automatic sizing and planarity checking machines connected to the polishing lines.

The Company's product profile includes various series like mono colours, marble, matt (oxidised), rustics, granite (salt and pepper) and full body (multi-charge) with varied applications (flooring, wall fixing, steppers and skirting, among others).

Designing capabilities: The Company's design team works closely with its marketing arm leading to the creation of cutting edge products. Also, the Company's equipped laboratory includes a pilot plant to facilitate trial production.

Highlights, 2006-07

- A capacity utilisation of more than 90%; production grew by 45.69% over 2005-06.
- Launched the 'honed-series' of vitrified tiles which are a type of anti-skid and virtually stain-free and scratch-free.
- Conducted periodic energy audits to reduce energy costs.
- Enabled a higher productivity through progressive de-bottlenecking and process enhancement.

Quality assurance: The Company focused on matching international quality standards since its inception, reflected in its policies and initiatives.

The accurate recreation of natural stones – combined with a technical expertise of hardwearing material resistant to stains, abrasion and heavy load – make Euro Ceramics' vitrified tiles ideal for applications in commercial and residential complexes as well as retail and IT parks.

Euro Ceramics' quality policy

- As part of our quality policy we manufacture and supply superior quality vitrified ceramic tiles, following professional standards and ethics. We strive to meet customer requirements through prudent resource utilisation and meeting tight delivery schedules.
- We also monitor and record our processes throughout the execution of the project. Euro Ceramics ensures that the employees are involved for the continual implementation of our quality policy.

Initiatives: Euro Ceramics imported the complete manufacturing technology from SACMI (Italy); the quality of its vitrified tiles matched the stringent ISO 13006 / EN 176 Group B1a international standard; the products received certification from VJTI-Mumbai and Applied Consumer Services, Inc. USA. A combination of the best inputs, with cutting-edge technology, enabled the Company to produce products superior to the prevailing Indian standards, reflected in the following:

- Euro Ceramics allows a variation tolerance of only 0.22%, around the lowest in the country.
- Euro Ceramics maintains the modulus of rupture standard (strength benchmark) at 500 kg/sq. cm. significantly higher than the industry level.
- Euro Ceramics reports an absorption level of 0.03%; well below the industry level.

Euro Ceramics maintains a full-fledged quality assurance team, supported by a fully equipped R&D facility comprising sophisticated testing equipment as well as a testing protocol. Above 90% of the Company's production was of superior quality, matching almost all leading international standards. As a result of these quality-enhancing initiatives, the Company emerged as one of the leading exporters of vitrified ceramic tiles to South Africa, the US, Middle East, United Arab Emirates and Bahrain, among other regions.

Analysis of our financial statements

2006-07 vs 2005-06

Increasing numbers

- Sales increased 35.32% from Rs. 13233 lacs in 2005-06 to Rs. 17908 lacs in 2006-07.
- EBIDTA increased 77% from Rs. 3612 lacs in 2005-06 to Rs. 6393 lacs in 2006-07.
- PBT increased 56.11% from Rs. 2528 lacs in 2005-06 to Rs. 3946 lacs in 2006-07.
- PAT increased 39.71% from Rs. 2024 lacs in 2005-06 to Rs. 2827 lacs in 2006-07.
- Cash profit increased 60.14% from Rs. 2476 lacs in 2005-06 to Rs. 3964 lacs in 2006-07.

Improving profitability

- EBIDTA margin grew by 841 basis points.
- Net margin grew by 50 basis points.
- Prior to the issue of fresh equity in February 2007, ROCE grew by 17 basis points from 11.49% in 2005-06 to 11.67% in 2006-07.

Strengthening shareholder value

- Earnings per share increased from Rs. 17.63 in 2005-06 to Rs. 23.62 in 2006-07.
- Company has declared and paid a dividend of Rs. 1.20 per share on the expanded capital of Rs. 171 million.

• Book value increased from Rs. 52.83 in 2005-06 to Rs. 104.87 in 2006-07.

Surplus management

The Company is at that stage in its history when every rupee invested in the business will yield far greater returns than any other investment opportunity. As a result, the Company re-invested surpluses into its business with the objective of repaying debt and strengthening its gross block. In view of this, the Company maintained a strict control of its asset-liability position at all times through a study of the periodic cash flow statement. The proceeds from all business profits were channelised into debt repayment and gross block enhancement, which increased earnings per share.

Margins

The Company's economies of scale and enriched product portfolio translated into a growing EBIDTA margin – from 27.29% in 2005-06 to 35.70% in 2006-07. Besides, improved fiscal management enabled the Company to report a higher cash and net margin by 343 basis points and 50 basis points respectively.

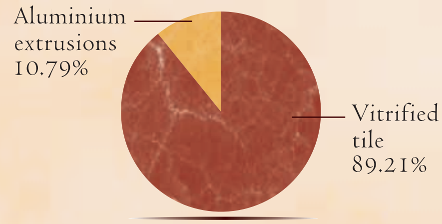
	2005-06 (in %)	2006-07 (in %)
EBIDTA margin	27.29	35.70
Cash profit margin	18.71	22.14
Net margin	15.29	15.79

Revenue

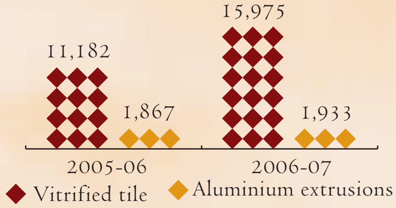
Revenue grew 35.32% in 2006-07 over 2005-06, primarily on account of increased production and the full benefit of the second production line, which commenced operations in December 2005.

By vertical: The Company derives its revenue mainly from vitrified tiles and aluminium extruded sections.

Revenue constituents (%)



Growth in business verticals (Rs. lacs)



By geography: Domestic income grew 30.78% from Rs. 12688 lacs in 2005-06 to Rs. 16594 lacs in 2006-07, largely on account of the enhanced demand of vitrified tiles to meet the growing needs from the commercial and retail segments. Exports grew 141.11% from Rs. 545 lacs in 2005-06 to Rs. 1313 lacs in 2006-07, primarily due to a growing focus on the Middle East and entry into emerging markets like Turkey.

(Rs. lacs)

	Domestic		Exports	
	2005-06	2006-07	2005-06	2006-07
Vitrified tiles	10637	14662	545	1313
Aluminium extrusions	1847	1933	Nil	Nil
Jewellery	205	Nil	Nil	Nil

The Company's economies of scale and enriched product portfolio translated into a growing EBIDTA margin – from 27.29% in 2005-06 to 35.70% in 2006-07.

During 2006-07, other income jumped 134.05% over 2005-06 from Rs. 28 lacs to Rs. 65 lacs, largely on account of the interest earned on the investment of the IPO proceeds in risk-free fixed deposits. The other key component of other income comprised rentals, which are expected to recur.

Operating expenses

While total costs increased by Rs. 1931 lacs over the previous year, the Company reduced the total cost as a percentage of total sales by 8.25%, compared with the previous year. The increase in revenues was significantly higher than the proportionate increase in total costs.

Key cost analysis

	2005-06		2006-07		Growth y-o-y
	Amount (Rs. lacs)	Proportion of net sales (%)	Amount (Rs. lacs)	Proportion of net sales (%)	(%)
Cost of materials	3862	29.19	3998	22.32	3.51
Employee related expenses	437	3.31	699	3.91	59.91
Manufacturing expenses	2953	22.31	4024	22.47	36.29
Selling and other expenses	2397	18.11	2858	15.96	19.27

Materials: The absolute cost of raw materials increased owing to enhanced production following the commencement of the second production line. Imported materials comprised around 46% of the total material cost for the Company; the Company is reducing this high-cost component by partially replacing imported material with domestic alternatives through innovative research initiatives.

Employee: The wage bill for the Company increased due to increased employee recruitment following the commencement of the second production line as well as annual salary revision.

Marketing: Selling expenses comprised advertisements, commission to the distribution network and outward freight expenses. Routine advertisement costs declined significantly as the Company leveraged the IPO for a huge advertisement campaign to enhance its brand visibility. Commission charges also declined significantly as the proportion of direct institutional deals increased. Freight charges increased following a rise in fuel prices and increased business volumes.

Fixed expenses

Interest: The Company's interest outflow increased from Rs. 632 lacs in 2005-06 to

Rs. 1310 lacs in 2006-07 on account of an increase in the coupon rate resulting in a rise in the average debt cost from 4.97% in 2005-06 to 6.01% in 2006-07 as well as an increase in working capital and capital expenditure requirements.

Depreciation: Increase in the depreciation provision from Rs. 452 lacs in 2005-06 to Rs. 1137 lacs in 2006-07 was on account of a higher provision on an expanded production capacity.

Capital employed

A volume-driven tiles business warrants progressive investments in capacity expansion to leverage economies of scale. The capital employed in the business increased by Rs. 21336 lacs during the year under review, from Rs. 23109 lacs in 2005-06 to Rs. 44445 lacs in 2006-07, to fund growing capacities and diversification into new business verticals.

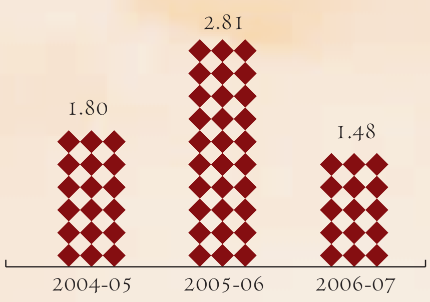
Shareholders' funds: The Company's share capital comprised 171,000 equity shares of Rs. 10 face value each. The equity grew from Rs. 1140 lacs as on 31 March 2006 (share application money was Rs. 605 lacs) to Rs. 1710 lacs as on 31 March 2007 following an issue of 562 lacs equity shares through an IPO (100% book building process at Rs. 165 per share).

Reserves and surplus: These represent zero-cost funds, which can be deployed for prospective capex programmes. Reserves and surplus stood at Rs. 16223 lacs as on March 31, 2007, an increase of Rs. 11306 lacs over the previous year through a plough back of retained earnings of Rs. 2593 lacs in 2006-07 and an addition to securities premium by Rs. 8713 lacs. The entire reserves comprised free reserves.

External funds: The size and cost of debt makes the difference between a Company's success and failure. In the short-term it impacts the profitability, while over the long-term it dictates the strength with which the Company is able to mobilise funds for projects. The Company managed its capital employed in a prudent manner by incurring minimal long-term debt keeping in view its requirement of funds for expansion/new projects.

Loans comprised a significant part of the Company's capital employed. External debt stood at Rs. 25612 lacs as on 31 March 2007, compared with Rs. 17045 lacs as on 31 March 2006, an increase of 55.54% over the previous year. Secured loans comprised more than 93% of the total external debt, an increase by 65.59% during the year under review. Of the total, 20.92% was earmarked for working capital purposes; 35.42% comprised foreign currency loans in the form of buyers' credit at a low coupon rate, reducing the Company's interest liability. Unsecured loans primarily comprised loans from sources other than banks and financial institutions, drawn mainly from the Company's directors and other companies. Unsecured loans declined by 16.70% during the year under review over the previous year.

D/E ratio



Reserves and surplus stood at Rs. 16223 lacs as on March 31, 2007, an increase of Rs. 11306 lacs over the previous year through a plough back of retained earnings of Rs. 2593 lacs in 2006-07 and an addition to securities premium by Rs. 8713 lacs.

Gross block

The Company's gross block stood at Rs. 20121 lacs as on 31 March 2007, compared with Rs. 17049 lacs as on 31 March 2006. During 2006-07, the Company added equipment to strengthen its operational capability:

- Installed machinery for the manufacture of large format tiles (1mtr. x 1 mtr.).
- Added one more polishing line to its existing facilities.
- Increased the number of cutting and crushing units.
- Installed an additional conveyor line and a hot air generation plant.

The Company maintained a policy of proactive equipment maintenance, enhancing asset utilisation and return on asset investment.

Following the end of 2006-07, the Company implemented projects for the manufacture of calcarious tiles and sanitary ware products which are a part of capital work-in-progress.

Calcarious tiles: This around Rs. 8200 lacs project was financed through a prudent mix of debt and internal accruals; commercial production commenced in June 2007.

Sanitaryware products: This around Rs. 7700 lacs project was financed through a public issue of shares made in February 2007. This project is expected to commence operations by the third quarter of 2007-08.

Working capital

Working capital is essential to lubricate day-to-day funds in a growing business as well as the adequate inventorisation of imported raw material. Working capital constituted 42.74% of the total capital employed, the outlay increasing from Rs. 6700 lacs as on 31 March 2006 to Rs. 18996 lacs as on 31 March 2007.

Inventory: Inventory increased from Rs. 3180 lacs as on March 31, 2007 to Rs. 5279 lacs as on March 31, 2006. Inventory increased consequent to a growth in the business scale and the nature of the revenue model, being highly skewed towards institutional sales, requiring batch extras, customised designs and the storage of colours. The Company followed an efficient inventory management system supported by IT systems. Besides, maintenance of an increasing gross block necessitated the storage of large volumes of stores and spares.

Debtors: Increased sales enhanced debtors from Rs. 2801 lacs as on March 31, 2006 to Rs. 4441 lacs as on March 31, 2007

Cash and bank balances: Cash balance grew significantly due to the investment of IPO proceeds in fixed deposits with banks.

Loans and advances: Loans and advances constituted 14.50% of the total current assets, increasing from Rs. 2461 lacs as on March 31, 2006 to Rs. 3267 lacs as on March 31, 2007. A large part of the outstanding loans and advances comprised advance payments to contractors and suppliers for the proposed calcarious tiles and sanitary ware projects.

Creditors: Increased business strengthened the Company's negotiation capability. The Company selectively maintained a prudent mix of cash and credit purchases to improve working capital efficiency.

Foreign exchange management

Exports accounted for 7.33% of the Company's total sales mix, comprising exports of vitrified tiles. The Company

The Company followed employee friendly policies and undertook various staff welfare measures.

imported critical raw material like Ukraine clay and other consumables. As a result, it enjoyed a natural hedge against currency fluctuations.

Human resources

The number of employees during the year increased from 428 as on March 31, 2006 to 524 as on March 31, 2007. The Company followed employee friendly policies and undertook various staff welfare measures. Due to various measures adopted by the management, the Company had a low employee turnover ratio.

Internal control and audit

The Company had in place an adequate system of internal control and documented procedures, covering all financial and operating functions. This was designed to provide proper accounting control, monitoring the economy and efficiency of the Company, protecting assets from unauthorised use or losses and ensuring the reliability of financial and operational information. As a result, the Company is in a strong position to detect frauds and/or irregularities, if any.

The internal controls were designed to ensure that financial and other records were reliable for preparing financial statements, collating other data and maintaining an accountability of assets.

The Audit Committee of the Board of Directors, comprising Independent Directors, regularly reviewed the plans, significant audit findings and adequacy of internal controls as well as compliance with accounting standards.

RISK MANAGEMENT

RISK IS INTEGRAL TO MOST BUSINESSES AND EURO CERAMICS IS NO DIFFERENT.

However at Euro Ceramics, we have formulated a well-defined and structured risk management process to insulate against business adversity on the one hand and maximise opportunities on the other. Over the last few years, the Company has addressed challenges through the following initiatives

- Transformation of an understanding of risk into profit.
- Comprehensive knowledge of the Company's business, industry and customers.
- Knowledge of when to conform and when to deviate without increasing risk.
- Forward-looking approach to identify probable risk areas.
- Ability to sound alerts as soon as risk is detected or quantified.

1 Industry risk

THE INDIAN REAL ESTATE INDUSTRY MIGHT WITNESS A SLOWDOWN, AFFECTING THE DEMAND FOR VITRIFIED TILES.

Risk response: Though the Indian real estate industry experienced a modest decline in prices over the past year, the industry's fundamentals remain strong, interest rates appear to have peaked and the demand for interior infrastructure products is growing attractively. The vitrified tiles industry is expanding at around 15% per annum.

The traction within the vitrified tiles industry is expected to sustain over the foreseeable future for the following reasons:

- India is the second largest population in the world at 1.1 billion with the rate of population growth at 1.38% per year. The large and growing population will generate a commercial space demand of around 250 lac sq. ft. by 2010 (source AT Kearney).
- India has been ranked number one on the AT Kearney Services Location Index, vindicating the country's reputation as a preferred off shoring destination and likely to generate additional commercial space demand.
- With a turnover in excess of US$ 250 billion, India is already one of the world's ten largest retail markets. From the beginning of 2006, the Indian Government permitted foreign direct investment in retail with 51% participation.
- Euro Ceramics' ability to innovate and capitalise on industry opportunities is reflected in its compounded annual growth rate (CAGR) in top line of 82% over the last four years leading to 2006-07.

2 Competition risk

HEALTHY GROWTH AND ATTRACTIVE BUSINESS PROSPECTS COULD ATTRACT LOW COST COMPETITION.

Risk response: At Euro Ceramics, quality management represents an effective counter-competition initiative. The Company acquired modern technology from SACMI, Italy.

- The Company installed a 10-MW captive power plant at its Kutch facility, ensuring uninterrupted quality power.
- The Company has diversified into calcarious tiles and will enter the business of sanitary ware products in the second half of 2007-08, offering customers an integrated one-stop convenience.
- To widen its portfolio and enhance marketplace understanding, the Company is engaged in trading Chinese tiles.

3 Strategy risk

IN A COMPETITIVE MARKET, DOMESTIC TILE COMPANIES MAY UNDERCUT TO EXPAND MARKET SHARE, SURRENDERING VALUE FOR VOLUMES – A STRATEGIC ERROR.

Risk response: Euro Ceramics selected to be present in the vitrified tiles segment enjoying attractive realisations over ceramic counterparts.

- Evolved a marketing strategy weighted in favour of institutional customers (nearly 70% of its annual sales targeted at this segment), which ensured volume off take, brand credibility and the prospect of repeating business.
- Engaged in direct selling through a ground workforce of more than 100 members, eliminating middlemen. However, sales were routed through the logistically nearest dealer, building loyalty and creating lasting relationships.
- Identified an exclusive franchise model to enhance its front-end presence and grow product offtake.
- The Company presently has retail formats in the form of franchisee stores exclusively selling Euro Ceramics products.
- The Company enjoys a high market share in the domestic vitrified tiles market despite its recent entry.

4 Brand risk

THE BUSINESS IS BRAND-INTENSIVE; INEFFICIENT MANAGEMENT COULD DENT RECALL.

Risk response: The Company routinely conducted meetings with architects, masons and specifiers, using their feedback to upgrade products. The Company participated in exhibitions in India as well as abroad for brand building and brand awareness.

5 Location risk

THE LOCATION OF EURO CERAMICS' MANUFACTURING UNIT MIGHT BE UNABLE TO CAPITALISE ON RAW MATERIAL RESOURCES OR CONSUMING MARKETS.

Risk response: The positioning of Euro Ceramics' production facility represents a competitive edge for the following reasons:

- Euro Ceramics' unit is a mere 500 km from Rajasthan, the country's largest source of sand and feldspar, two critical raw material inputs used in the manufacture of ceramic tiles.
- The Company's production unit is located in a lignite-rich belt, which assures it of low-cost fuel for the competitive production of power.
- The unit is located 45 km from the Kandla port and 100 km from Mundra port, facilitating the economical import of imported raw material.
- The unit's equidistance from Delhi and Mumbai (located 800 km from the plant) ensures rapid customer servicing and a distinct logistics advantage in freight-intensive transportation.

6 Operational risk

INEFFICIENT OPERATIONS AT THE COMPANY'S OPERATING FACILITIES COULD DAMPEN PROFITABILITY.

Risk response: The Company has taken a number of initiatives for ensuring that its product specifications match global standards.

- Purchased the entire technology from SACMI, global technology leaders in the field.
- Supplemented the sophisticated technology with captive supply of power.
- Institutionalised a quality assurance cell, with state-of-the-art equipment and a qualified team to ensure that the products match customer specifications at all times.
- Operational processes were value-engineered to ensure that the quality of its vitrified tiles matched the stringent ISO 13006 / EN 176 Group B1a international standards; the products received certification from VJTI- Mumbai and Applied Consumer Services, Inc., USA.

7 Distribution risk

THE COMPANY WORKS WITH PAN-INDIAN DISTRIBUTORS, WHO DO NOT HAVE ANY OBLIGATION TO EXCLUSIVELY MARKET THE COMPANY'S PRODUCTS, WHICH COULD AFFECT REACH.

Risk response: The Company is optimistic of dealer support and loyalty for the following reasons:

- Entered into exclusive franchisee models which will ensure that only the Company's products are displayed at these outlets, increasing brand visibility.
- Ensured that there is no overlap in the catchment areas between the dealers and franchisees.
- Commissioned a structure that serves as an incentive for dealers to grow the business.
- Maintained an extensive supply-chain network which it leverages to ensure that there is a fair balance between demand and supply.

8 Customer attrition risk

THE COMPANY'S FOCUS ON INSTITUTIONAL CLIENTS COULD BE DETRIMENTAL IN THE EVENT OF CUSTOMER ATTRITION.

Risk response: Euro Ceramics enjoys ongoing relationships with large corporate clients who are rapidly expanding their operations on a pan-India basis. The Company evolved its product into a service through customised manufacture, timely warehousing and staggered supply with a quality assurance. Around 50% of business revenue were derived from existing customers vindicating the strategy of focusing on institutional clients.

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the Fifth Annual Report of the Company for the year ended 31st March 2007.

Financial results

The highlights of the financial results for the year ended 31st March 2007 are as follows:

(Rupees in lacs)

Particulars	Year ended 31st March 2007	Year ended 31st March 2006
Income:		
Sales	17,907.80	13,233.19
Other income	65.35	27.90
Total income	17,973.15	13,261.09
Total expenditure	11,580.00	9,649.17
Earning before interest, depreciation and tax	6,393.15	3,611.92
Interest and other finance expenses	1,309.82	632.25
Profit before depreciation and tax	5,083.33	2,979.67
Less: Depreciation	1,137.20	451.95
Profit before tax	3,946.13	2,527.72
Less: Provision for tax	1,118.82	504.02
Net profit after tax	2,827.31	2,023.70
Add: Balance brought forward from the previous year	2,776.16	1,374.11
Profit available for appropriation	5,603.47	3,397.81
Appropriations:		
Interim dividend	205.20	–
Corporate tax on interim dividend	28.78	–
Transfer to General Reserve	100.00	–
Capital Redemption Reserve	–	621.65
Surplus carried to Balance Sheet	5,269.49	2,776.16

Review of performance

During the year under review the Company has registered a growth in sales as well as profits.

Sales increased by 35.32% from Rs. 13,233.19 lacs to Rs. 17,907.80 lacs. Against that, the increase in the total expenditure was controlled at 20%, thereby achieving a 77% increase in EBIDTA, from Rs. 3,611.92 lacs to Rs. 6,393.15 lacs. However, the profit after tax increased from Rs. 2,023.70 lacs to Rs. 2,827.31 lacs, i.e. an increase of 39.70% due to a higher interest on cost and depreciation. The interest cost and depreciation was higher for the year since the full year's impact of the second line of vitrified tiles and the power plant was felt during this year.

Operational performance

a) Ceramic division

During the year under review, the Company's ceramics division showed considerable growth. Subsequent to the commissioning of the second line of vitrified tiles towards the end of the previous year, the Company produced 78,331 MT of vitrified tiles during the year, as compared with 53,765 MT in the previous year. Correspondingly, the quantity of vitrified tiles sold during the year increased to 68,538 MT as compared with 51,155 MT in the previous year. Thus, there was an increase of 45.69% in the quantity of tiles produced, and an increase of 33.98% in the quantity of tiles sold during the year.

During the year, the Company aggressively marketed its products in the Indian market as well as the international market. This enabled the Company to achieve good growth in sales. Sales of vitrified tiles increased by 42.86% from Rs. 11,182 lacs in FY 2005-06 to Rs. 15,975 lacs in FY 2006-07. The percentage increase in sales value was higher than the percentage increase in the quantity of tiles sold, denoting an improvement in average realisation per MT.

b) Aluminium division

The quantity of aluminium sections sold during the year was lower at 1,303 MT as compared with1,664 MT in the previous year. The same was due to lower production during the year from 1,665 MT to 1,320 MT. However, the sales value of aluminium sections sold during the year increased from Rs. 1,847 lacs to Rs. 1,933 lacs, due to increase in average realisation per MT.

c) Power plant

The 10-MW lignite-based captive power plant (CPP) commissioned last year was fully operational during the year. There was substantial savings in power cost for the year since the manufacturing processes of the Company are power intensive. Besides saving in power cost, the CPP ensured uninterrupted power supply, leading to strict monitoring of quality of the vitrified tiles produced.

d) Exports

Export revenues for the year amounted to Rs. 1,314 lacs as compared with Rs. 545 lacs in the previous year, showing an increase of 141.10%. The Company exported vitrified tiles to various countries including USA, U.K, U.A.E, Turkey etc.

Dividend

During the year under review, the Board of Directors of the Company at their meeting held on 20th March 2007, declared an interim dividend of Rs. 1.20 per share (12%) on equity shares of Rs.10 each. The outflow on account of the interim dividend was Rs. 233.98 lacs including corporate dividend tax of Rs. 28.78 lacs. The said interim dividend was paid to the shareholders of the Company.

In order to conserve the resources for business requirement of the Company, your Directors do not recommend any further dividend for the financial year under review. The interim dividend declared by the Board shall be considered as the final dividend.

Directors

As per the provisions of the Companies Act, 1956, and as per Article No. 196 of the Articles of Association of the Company, Mr. Amit G. Shah and Mr. Lalji K. Shah, retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for reappointment.

Your Directors recommend their re-appointment as Directors of the Company.

Initial public offer and listing

Pursuant to the shareholders' approval at the Extraordinary General Meeting held on 31st January 2006, the Company came out with the maiden initial public offer (IPO) of 5,621,500 equity shares of Rs. 10 each, at a price of Rs. 165 per share aggregating to Rs. 9,275 .48 lacs, through 100% book building process. The issue opened for subscription on 7th February 2007 and closed on 13th February 2007 and was over-subscribed by 3.2 times. The shares issued under IPO were allotted on 27th February 2007 and listed on 9th March 2007 on Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The total paid-up capital after the said issue is Rs. 1,710 lacs.

Utilisation of funds

The details of the amount spent out of the proceeds of the public issue in comparison with the amount as projected in the prospectus are given below:

(Rs. in lacs)

Particulars	Estimated utilisation amount		Actual as on 31/03/2007
	Total	Upto 31/03/2007	
Capital expenditure	7,693.37	5,251.85	441.00*
IPO expenses	835.20	701.68	800.42
General corporate purposes	746.91	578.45	373.00
Total	9,275.48	6,531.98	1,614.42

* Due to delay in the civil and foundation work at the project site, the Company could not incur the projected capital expenditure by the year-end. The pending utilisation of funds for the project is envisaged in the prospectus and the balance amount has been invested in fixed deposits with banks.

Consolidated accounts

In accordance with the requirements of Accounting Standard – AS 21 issued by the Institute of Chartered Accountants of India, the consolidated accounts of the Company and its subsidiary i.e. Euro Merchandise (India) Limited, together with the Auditors' and Directors' Report thereon are annexed to this report.

Directors' Responsibility Statement

The Directors of the Company confirm, pursuant to Section 217 (2AA) of the Companies Act, 1956, that:

1. In the preparation of the annual accounts, the applicable accounting standards have been followed along with the proper explanations relating to material departures;
2. They have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company at the end of the financial year, and of the profit of the Company for that period;
3. They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. They have prepared the annual accounts on a going concern basis.

Corporate Governance

The Company is committed to conducting its business with the highest level of integrity and transparency and implementing the best of the international practices of corporate governance. The commitment of the Company is clearly reflected in its business activities. Pursuant to Clause 49 of the Listing Agreement with the stock exchanges, a separate report on 'Corporate Governance' forms a part of the Directors' Report. Your Company complies with the requirements of the Listing Agreement and necessary disclosures were made in this regard in the Corporate Governance Report.

A certificate from the auditors of the Company regarding compliance of the conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this report.

Management Discussion and Analysis

The Management Discussion and Analysis forms part of the Directors' Report and is given in a separate section in the Annual Report.

Energy conservation, technology absorption and foreign exchange

The particulars required under Section - 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure A attached to this report.

Subsidiary

The information pursuant to Section 212 of the Companies Act, 1956, with regard to the subsidiary Company is furnished in this report.

Public deposits

Your Company did not accept any deposits from the public within the meaning of Sections 58A and 58 AA of the Companies Act, 1956, during the year under review.

Personnel

There are no employees drawing remuneration of more than the limits prescribed in Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars in the Report of Board of Directors) Rules, 1988. Therefore no information is provided in this report.

Auditors

M/s. Deepak Maru & Co., Chartered Accountants, statutory auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Company has received a letter from them to the effect that their re-appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956, and that they are not disqualified for such re-appointment within the meaning of Section 226 of the said Act.

Auditors' Report

The observations made in the Auditors' Report, read together with the relevant notes thereon, are self-explanatory and hence do not call for any comments under Section 217 of the Companies Act, 1956.

Appreciation

Your Directors acknowledge with gratitude and wish to place on record, their deep appreciation of the continued support and co-operation received by the Company from the various government authorities, shareholders, bankers, business associates, dealers, customers, financial institutions and investors during the year.

Your Directors place on record their deep appreciation of the dedication and commitment of your Company's employees at all levels and look forward to their continued support in the future as well.

For and on behalf of
the Board of Directors

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Place: Mumbai
Date: July 25, 2007

Annexure A to the Directors' Report

The particulars required under Section -217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are as under:

A. Conservation of energy:

1. **Energy conservation measures taken:**

a. The Company conducted an energy audit as an energy conservation tool.

b. The Company installed a gasifier gas station to reduce the energy cost.

c. The Company is improving the power factor upto unity to achieve savings in maximum demand.

d. It kept the damper position 100% open of the fume suction fan because VFDs are already installed.

e. It connected the highly under-loaded polishing grinding motor in star mode.

f. It took measures to avoid the throttling in delivery-side in ETP transfer pumps by variable frequency drive.

g. It took measures for cool and dry air in suction, and discharge the exhaust air outside the compressor room.

2. **Additional investments and proposals, if any, being implemented for reduction of consumption of energy:**

a. The proposed areas of work include the implementation of hot air generation plant for generation of steam which will be used in the spray dryer and reduce the energy cost.

3. **Impact of the measures taken at (1) and (2) above for reduction of energy consumption and consequent impact on the cost of production of goods:**

The above measures resulted / will result in savings in energy consumption and a consequent decrease in cost of production.

4. **Total energy consumption and energy consumption per unit of production:**

Information is given in the prescribed form A annexed herewith

B. Technology absorption:

Information is given in the prescribed form B annexed herewith

C. Foreign exchange earnings and outgo

The information on foreign exchange earnings and outgo is contained in Annexure I of Schedule 'X'.

Form A

(See rule 2)

Form for disclosure of particulars with respect to Conservation of Energy

a. Power and fuel consumption :

		2006-07	2005-06
1.	Electricity :		
i)	Purchased		
	Units (KWH)	606,360	17,565,169
	Total amount (Rs.) *	6,119,300	58,824,661
	Cost / unit (Rs.)	10.09	3.35

		2006-07	2005-06
ii)	Own generation		
	(a) Through liquid fuel generator		
	Units (KWH)	1,040,407	1,787,199
	Units (KWH)/ Ltr. of LDO/HSD/ Furnace oil	2.95	1.42
	Cost / unit (Rs.)	10.66	20.30
	(b) Through steam turbine/generator		
	Units (KWH)	25,204,505	Nil
	Units (KWH)/ tonne of fuel (Lignite)	870	Nil
	Cost / unit (Rs.)	2.22	Nil
2.	Propane/LPG gas :		
	Quantity (MT)	8,035.39	5,537.77
	Total amount (Rs.)	257,780,744	171,965,834
	Average rate (Rs./MT)	32,080.67	31,053.26
3.	Furnace oil :		
	Quantity (Ltrs)	149,319	226,197
	Total amount (Rs.)	2,941,063	5,615,721
	Average rate (Rs./Ltr.)	19.70	24.83
4.	Coal :		
	Quantity (MT)	3,968.83	Nil
	Total amount (Rs.)	18,678,483	Nil
	Average rate (Rs./ MT)	4,706.29	Nil

b. Consumption per unit of production :

i)	Electricity (KWH/MT of vitrified tiles)	334.66	344.85
ii)	Electricity (KWH/MT of aluminium sections)	482.31	487.33
iii)	Furnace oil (Ltr/MT of aluminium sections)	113.12	135.85
iv)	Propane/LPG gas (MT/MT of vitrified tiles)	0.10	0.10
v)	Coal (MT/MT of vitrified tiles)	0.05	–

* The minimum demand charges paid to Pachim Gujarat Vij Company Limited have been included in the above cost.

Form B

(See rule 2)

Form for disclosure of particulars with respect to Technology Absorption

1. Research and development:

a. **Specific areas in which R&D is carried out by the Company.**

- The Company has developed honed finished tiles which are anti-skid and virtually stain and scratch free
- Introduction of new design and size in the existing product line of vitrified tiles
- Introduction of screen lab machine and screen printing machine
- Implementation of a new storage system for finished goods
- Introduction of magnetic separator in the Ball Mill for removal of iron particles
- Maintaining the quality standards
- Various input-mix for different products and designs
- Technology upgradation

b. **Benefits derived as a result of the above R&D.**

The benefits to the Company resulting from the R&D activities are reflected in terms of:

- Increase in market share and new business
- Better realisation in new designs and sizes
- Better designing and highly aesthetic work in large sized tiles
- Quality improvement
- Saving in production cost
- Substantial increase in overseas sales

c. **Future plan of action.**

- Continuous efforts to be made for reduction in the cost of material through backward integration and otherwise
- Use of new combinations of input-mix to improve the product quality

d. **Expenditure on research and development**

	2006-07 (Rs.)	2005-06 (Rs.)
Capital expenditure	1,404,482	85,383
Recurring expenditure	507,231	146,351
Total	1,911,713	231,734
Total R&D expenditure as percentage of the total turnover	0.01%	0.02%

2. Technology absorption, adoption, and innovation

a. **Efforts in brief, made towards technology absorption, adoption, and innovation.**

- Grinding units implemented for crushing of raw material
- Installation of cutting machines
- Introduction of colour silos
- Installation of new plant and machinery, procured from Sacmi, for producing big sized tiles like 900x900, 600 x 1200

b. **Benefits derived as a result of the above efforts**

- Improvement in quality and reduction in the cost of production
- Able to introduce new product varieties of tiles of different sizes in the market
- Increase in the production flexibility to respond to market demand in a faster way

c. Information regarding technology imported during the last five years:

Technology	Year of import	Has technology been fully absorbed	If no, areas where this has not taken place, and reasons and future plans of action
Complete machinery for manufacturing of the vitrified tiles with state-of-art plant. (First phase of plant- 1st line)	2003	Yes	Not applicable
Complete machinery for manufacturing of the vitrified tiles with state-of-art plant. (Second phase-2nd line)	2005	Yes	Not applicable
Gasifier gas station	2005	Yes	Not applicable
Depremometer	2005	Yes	Not applicable
Complete machinery for manufacturing of the vitrified tiles with state-of-art plant. (For producing 900x900 and 600x1200 size tiles)	2006	Yes	Not applicable
Complete machinery for manufacturing of the agglomerated marble with state-of-art plant.	2006	No	It is under implementation and will be fully commissioned by June 2007

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on code of governance

Good Corporate Governance is the core process guided by a strategic leadership to provide values with necessary checks and balances. It is a process which provides transparency of corporate policies, strategies and the decision-making process and also strengthens internal control systems and helps in building relationship with stakeholders. We at "Euro Ceramics" are committed to benchmarking ourselves with the best in all areas including Corporate Governance. The Company's philosophy of Corporate Governance is aimed at strengthening confidence among shareholders, customers, employees and ensuring a long–term relationship of trust by maintaining transparency and disclosures. The Company has experienced professionals on its Board of Directors as well as at other appropriate levels, who are actively involved in the deliberations of the Board on all important policy matters. The Company believes in maintaining the highest standards of quality and ethical conduct, in all the activities of the Company.

A report on the implementation of the code of Corporate Governance as per Clause 49 of the Listing Agreement is given below:

2. Board of Directors

a) Composition

The Board of Directors provides strategic direction and thrust to the operations of the Company. The Board of Directors of the Company has an optimum combination of Executive and Non-Executive Directors. The present Board comprises four Executive Directors and seven Non-Executive Directors, out of which four are Independent Directors. According to Clause 49, if the Chairman is a Non-Executive, atleast one-third of the Board should consist of Non-Executive Independent Directors. Hence, the Company is complying with the provisions of Clause 49 of the Listing Agreement.

None of the Directors on the Board is a member of more than 10 committees and the Chairman of more than five committees, across all companies in which they are Directors.

b) Board procedure

The agenda is prepared in consultation with the Chairman of the Board and the Chairman of the other committees. The agenda for the meetings of the Board and its committees, together with the appropriate supporting documents, is circulated well in advance of the meeting.

Matter discussed at the Board meeting generally relate to the Company's performance, quarterly results of the Company, approval of related party transactions, general notice of interest of Directors, review of the reports of the internal auditors, Audit Committee and compliance with their recommendation, suggestion, compliance of any regulatory, statutory or listing requirements etc.

c) Attendance at Board meetings

During the year under review, the Board of Directors met 14 times on 21st April 2006, 12th June, 29th June 6, 29th July, 10th August, 21st September, 25th September, 6th October, 6th November, 17th November, 18th January 2007, 19th February, 27th February and 20th March.

The attendance record of the Directors at Board meetings and Annual General Meeting held during the financial year 2006-07, number of Directorship held and position of Membership / Chairmanship of Committees in Indian Public Limited Companies is given below:

Name	Nature of directorship	No. of Board meetings held	No. of Board meetings attended	No. of other directorship in public/private companies	Membership/ chairmanship of committees in other companies		Whether attended the last AGM
					Member	Chairman	
Mr. Shantilal L. Shah	Non-Executive Chairman	14	6	3	-	-	Yes
Mr. Nenshi L. Shah	Executive/ Managing Director	14	14	9	-	-	Yes
Mr. Talakshi L. Nandu	Executive/ Wholetime Director	14	14	1	-	-	Yes
Mr. Kumar P. Shah	Executive/ Wholetime Director	14	12	-	-	-	Yes
Mr. Paresh K. Shah	Executive/ Wholetime Director	14	14	2	-	-	Yes
Mr. Lalji K. Shah	Non-Executive Director	14	5	6	-	-	Yes
Mr. Pravin D. Gala	Non-Executive Director	14	6	1	-	-	Yes
Mr. Shivji K. Vikamsey	Independent Director	14	4	3	1	1	Yes
Mr. Raichand K. Shah	Independent Director	14	3	7	-	-	Yes
Mr. Anil M. Mandevia	Independent Director	14	5	-	-	-	Yes
Mr. Amit G. Shah	Independent Director	14	5	-	-	-	Yes

3. Committees of the Board

The Board of Directors of your Company has constituted three committees: Audit Committee, Shareholders' / Investors' Grievance Committee and Remuneration Committee. The roles and responsibilities assigned to these committees are covered under the term of reference approved by the Board and are subject to review by the Board from time to time. The minutes of the meetings of the Audit Committee, Shareholders' / Investors' Grievance Committee and Remuneration Committee are placed before the Board for their discussions and noting. The details as to the composition, terms of reference, number of meetings and attendance thereat, etc., of these committees are provided below:

a) **Audit Committee**

The Company has an Audit Committee in accordance with the requirement of Section 292A of the Companies Act, 1956, and the terms of reference are in conformity with Clause 49 of the Listing Agreement entered into with the stock exchanges. The Committee comprises three Independent Directors and the Managing Director of the Company.

The Audit Committee met three times on 29th June 2006, 17th November and 20th March 2007 during the year under review, and the number of meetings attended by each member during the year ended 31st March 2007 are as under:

Name of the member	Designation	No. of Committee meetings	
		Held	Attended
Mr. Shivji K. Vikamsey	Chairman	3	3
Mr. Anil M. Mandevia	Member	3	3
Mr. Amit G. Shah	Member	3	3
Mr. Nenshi L. Shah	Member	3	3

All the members of the Audit Committee possess sound financial knowledge. Mr. Shivji K. Vikamsey, Chairman is a qualified Chartered Accountant and has the relevant accounting and related financial management expertise.

Ms. Jayshree D. Soni, Company Secretary, is the Secretary to the Audit Committee. The terms of reference of this committee are wide. Besides having access to all the required information of the Company; the committee acts as a link between the statutory auditors and the Board of Directors of the Company.

The brief description of terms of references are as follows:

- It shall have authority to investigate into any matter in relation to the items specified in Section 292A of the Companies Act, 1956, or referred to it by the Board and for this purpose, shall have full access to the information contained in the records of our Company and external professional advice, if necessary.
- To investigate into any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if considered necessary.
- 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.
- Recommending the appointment and removal of the external auditor, fixation of audit fee and also approval of payment for any other services.
- Reviewing with the management the annual financial statements before submission to the Board, focusing primarily on:

- Any changes in accounting policies and practices.

- Major accounting entries based on exercise of judgment by the management.

- Qualifications in draft audit report.

- Significant adjustments arising out of audit.

- The 'going concern' assumption.

- Compliance with accounting standards.

- Compliance with the stock exchange and legal requirements concerning financial statements.

- Any related party transactions, i.e. transaction of the Company of material nature, with promoters or the management, their subsidiaries or relatives, etc., that may have potential conflict with the interest of the Company at large.

- Reviewing with the management, statutory auditors and internal auditors the adequacy of internal control systems.
- Reviewing the adequacy of the internal audit function, 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.
- Discussion with internal auditors and significant findings and follow-up thereon.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussion with the auditors before the audit commences, nature and scope of the audit as well as has post-audit discussion to ascertain any area of concern.
- Reviewing the Company's financial and risk management policies.
- It shall have discussions with the auditors periodically about internal control systems, the scope of audit including observations of the auditors and review the quarterly, half yearly, and annual financial statements before submission to the Board.
- It shall ensure compliance of internal control systems.

b) Shareholders' / Investors' Grievance Committee:

As part of its Corporate Governance initiative, the Company has constituted the Shareholders' / Investors' Grievance Committee to specifically look into the unresolved shareholder grievance with regard to transfer / transmission / demat / remat of shares, issue of duplicate, split-up, consolidation, of share certificates, non-receipt of annual report, non- receipt of dividend, non-receipt of refund of application money, and other issues concerning the shareholders / investors.

The Shareholders'/Investors' Grievance Committee met three times on 29th June 2006, 17th November 2006 and 20th March 2007 during the year under review, and the number of meetings attended by each member during the year ended 31st March 2007 are as under:

Name of the member	Designation	No. of Committee meetings	
		Held	Attended
Mr. Shantilal L. Shah	Chairman	3	3
Mr. Kumar P. Shah	Member	3	3
Mr. Lalji K. Shah	Member	3	3
Mr. Paresh K. Shah	Member	3	3

Details of shareholders' complaints

The total number of complaints received and replied to the satisfaction of the shareholders during the year ended 31st March 2007 were 74. There were no complaints outstanding as on 31st March 2007.

c) Remuneration Committee

The Remuneration Committee has been constituted to review the remuneration payable to Executive Directors, based on their performance and vis-a-vis the performance of the Company on defined assessment parameters. The remuneration policy of the Company is directed towards rewarding the performance, based on the review of achievements on a periodic basis. The remuneration policy is in consonance with the industry standards.

During the year under review no meeting of the Remuneration Committee was required to be held.

The composition of the Remuneration Committee as on 31st March 2007 was as follows:

Sr. no.	Name of the member	Designation
1.	Mr. Anil M. Mandevia	Chairman
2.	Mr. Raichand K. Shah	Member
3.	Mr. Lalji K. Shah	Member
4.	Mr. Amit G. Shah	Member

The details of remuneration paid to the Directors during the year ended 31st March.2007:

Executive Directors

The aggregate value of salary and perquisites paid for the year ended 31st March 2007 to the Managing Director and Whole-time Directors is as follows:

(Amount in Rupees)

Name	Designation	Salary	Perquisites or allowances
Mr. Nenshi L. Shah	Managing Director	1,148,400	51,600
Mr. Talakshi L. Nandu	Whole Time Director	1,148,400	51,600
Mr. Kumar P. Shah	Whole Time Director	1,148,400	51,600
Mr. Paresh K. Shah	Whole Time Director	1,148,400	51,600

Non Executive Directors

No remuneration is paid to the Non Executive Directors except sitting fees of Rs. 2,500 for each meeting attended by them. The sitting fees paid during the financial year 2006-07 is on the following page:

Name of the Director	Sitting fees paid
Mr. Shantilal L. Shah	15,000
Mr. Pravin D. Gala	15,000
Mr. Lalji K. Shah	12,500
Mr. Shivji K. Vikamsey	10,000
Mr. Raichand K. Shah	7,500
Mr. Anil M. Mandevia	12,500
Mr. Amit G. Shah	12,500

4. Subsidiary companies

In terms of Clause 49 (III) of the Listing Agreement, your Company does not have a material non-listed Indian subsidiary company, whose turnover or net worth exceeds 20% of the consolidated turnover or net worth respectively, of the Company and its subsidiaries in the immediately preceding accounting year.

The Audit Committee reviews the financial statements of the unlisted subsidiary of the Company from time to time. Also, copies of the minutes of the unlisted subsidiary of the Company are placed before the Board on a periodic basis.

5. General Body meetings

The location, time and date where the last three Annual General Meetings were held are given below:

Financial year	AGM dates	Time	Location of the meeting
2003-04	30.09.2004	11.30 a.m.	208, Sangam Arcade, Opp. Railway Station, Vile Parle (West), Mumbai 400056.
2004-05	30.09.2005	4.00 p.m.	208, Sangam Arcade, Opp. Railway Station, Vile Parle (West), Mumbai 400056.
2005-06	24.08.2006	2.30 p.m.	Boston House, Gr. Floor, Suren Road, Chakala, Andheri (East), Mumbai 400093.

Special Resolutions

AGM held on 30-09-2004: No special resolution was passed.

AGM held on 30-09-2005: No special resolution was passed.

AGM held on 24-08-2006: (1)A special resolution was passed for the amendment of the main object clause of the Memorandum of Association; 2) A special resolution was passed for alteration of the Articles of Association.

No special resolution was passed through postal ballot during the last year and no special resolution is proposed through postal ballot.

6. Disclosures

a) Related party transactions

Related party transactions are defined as transactions of the Company of material nature, with promoters, Directors or their relatives, subsidiaries etc. that may have potential conflict with the interest of the Company at large. None of the transactions with any of the related parties were in conflict with the interest of the Company.

The details of materially significant related party transactions are given in the appended financial statements under notes to the accounts annexed to the financial statements.

b) Compliances

The Company has complied with the requirements of the stock exchanges, SEBI and other statutory authorities on all matters relating to the capital market. No penalties or strictures have been imposed on the Company by the stock exchanges, SEBI or any other statutory authority.

c) Whistle Blower Policy

Though there is no formal whistle-blower policy, the Company takes cognisance of the complaints made and suggestions given by the employees and others. Even anonymous complaints are looked into, and whenever necessary, suitable corrective steps are taken.

d) Code of conduct

The Company has laid down a code of conduct for the Directors, senior management and employees of the Company. The code has been posted on the website of the Company. A declaration to the effect that the Directors and senior managerial personnel have adhered to the same, signed by the Managing Director of the Company, forms part of this report.

e) Disclosure of accounting treatment

In the preparation of the financial statements, the Company has followed the accounting standards issued by the Institute of Chartered Accountants of India to the extent applicable.

f) Disclosure of risk management

The Company has laid down systems to inform the Board members about the risk assessment and minimisation procedures. The Company's risk mitigation strategies are more fully described in the risk management section and these procedures are periodically reviewed to ensure effective controls.

g) Proceeds from the public issue

During the year under review, the Company came out with an initial public offer of 56,21,500 equity shares of Rs. 10 each, at a price of Rs. 165 per share. The proceeds of the IPO have been utilised for the purposes as stated in the offer documents. The details of utilisation are provided to the Audit Committee and Board of Directors at their respective meetings and the same are also provided in the notes to accounts of the financial statements appended herewith.

h) Review of Directors' Responsibility statement

The Board in its report has confirmed that the annual accounts for the year ended 31st March 2007, have been prepared in line with the applicable accounting standards and policies and sufficient care was taken for maintaining adequate accounting records.

i) CEO / CFO certification

As required by Clause 49 (V) of the Listing Agreement, the CEO/CFO certificate signed by Mr. Nenshi L. Shah, Managing Director, and Mr. Sushil Chudiwala, Chief Executive Officer of the Company, was placed before the Board of Directors at their meeting held on 25th July 2007, is annexed here to and forms part of the report.

7. Means of communication

- Quarterly results: The quarterly results are published in accordance with the provisions of the Listing Agreement. The results are published in an English Newspaper and a Marathi newspaper.

- Website: The Company's website—www.eurovitrified.com contains a separate dedicated section on "Investor Relationship" where shareholder information is available. The un-audited quarterly results, audited yearly results, shareholding pattern, and code of conduct for the Board of Directors and senior management personnel are also available on the website in a user-friendly and downloadable form.

- No formal presentations were made to the institutional investors and analysts during the year under review.

8. Certificate by the statutory auditors as to compliance of the conditions of Corporate Governance

The certificate given by the statutory auditors of the Company as to the compliance of the condition of Corporate Governance, pursuant to Clause 49 of the Listing Agreement, is annexed hereto and forms part of the report.

7. General information for shareholders

a) Annual General Meeting

Date	:	28th September 2007
Time	:	10.30 a.m.
Venue	:	S.P.B.T. College, JVPD Scheme, Vile Parle (West), Mumbai 400056

Financial calendar (2007- 08)

First quarterly results	-	Upto the end of July 2007
Second quarterly results	-	Upto the end of October 2007
Third quarterly results	-	Upto the end of January 2008
Fourth quarterly results	-	Upto the end of April 2008

Date of book closure

24th September 2007 to 28th September 2007 (Both days inclusive)

Dividend payment date

Not applicable

Listing on stock exchanges

Bombay Stock Exchange Limited and National Stock Exchange of India Limited

Stock code / symbol

BSE-532823 / NSE-EUROCERA

ISIN number for CDSL and NSDL

INE649H01011

b) Market price data

The monthly high and low quotations of shares traded on Bombay Stock Exchange Limited and National Stock Exchange of India

Limited during each month in the financial year 2006-07 are as follows:

Month	BSE		NSE	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
March'07*	159.00	100.10	150.00	100.20

* The equity shares of the Company are listed on Bombay Stock Exchange Limited and National Stock Exchange of India Limited w.e.f. 9th March 2007.

c) Share transfer system:

All shares sent for transfer in physical form are registered and returned by the Registrar and Share Transfer Agents within 30 days of the lodgement, if the documents are found in order. Shares under objection are returned within two weeks. All requests for dematerialisation of shares are processed and the confirmation is given to the respective depositories, i.e. National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) within 15 days.

d) Categorywise distribution of equity shareholding as at 31st March, 2007

Category	Number of shares held	Percentage of shareholding (%)
Shareholding of promoter and promoter group		
Indian		
Individuals/ Hindu undivided family	9,458,500	55.31
Central Government/ State Government(s)	–	–
Bodies corporate	–	–
Financial institutions/ banks	–	–
Any other (specify)	–	–
Sub-total (A)(1)	9,458,500	55.31
Foreign		
Individuals (Non-Resident individuals/ foreign individuals)	–	–
Bodies corporate	–	–
Institutions	–	–
Any other (specify)	–	–
Sub-total (A)(2)		
Total shareholding of promoter and promoter group (A)= (A)(1)+(A)(2)	9,458,500	55.31
Public shareholding		
Institutions		
Mutual funds/ UTI	423,833	2.48
Financial institutions/ banks	503,565	2.94
Central Government/ State Government(s)	–	–
Venture capital funds	–	–
Insurance companies	–	–

Category	Number of shares held	Percentage of shareholding (%)
Foreign institutional investors	1,055,557	6.17
Foreign venture capital investors	–	–
Any other (specify)	–	–
Sub-total (B) (1)	1,982,955	11.60
Non-institutions		
Bodies corporate	804,269	4.70
Individuals -		
i. Individual shareholders holding nominal share- capital up to Rs. 1 lakh.	2,420,576	14.16
ii. Individual shareholders holding nominal share- capital in excess of Rs. 1 lakh.	845,137	4.94
Non-residents	1,557,932	9.11
Clearing member	30,631	0.18
Sub-total (B) (2)	5,658,545	33.09
Total public shareholding (B) = (B) (1) + (B) (2)	7,641,500	44.69
Total (A) + (B)	17,100,000	100.00
Shares held by custodians and against which depository receipts have been issued (C)	–	–
Grand total (A) + (B) + (C)	17,100,000	100.00

e) Distribution of shareholding as on 31st March, 2007

Category	Number of shareholders	% of total number of shareholders	Total number of shares	% of total number of shares
1 to 500	18,850	97.80	1,992,125	11.65
500 to 1000	168	0.87	132,547	0.78
1000 to 2000	102	0.53	138,378	0.81
2001 to 3000	31	0.16	81,130	0.47
3001 to 4000	10	0.05	35,215	0.21
4001 to 5000	6	0.03	27,886	0.16
5001 to 10000	40	0.21	280,604	1.64
10001 and above	67	0.35	14,412,115	84.28
Total	19,274	100.00	17,100,000	100

f) Dematerialisation of shares and liquidity

About 32.87% shares have been dematerialised as on 31st March 2007. The equity shares of the Company are traded on the Bombay Stock Exchange Limited and National Stock Exchange of India Limited. The Company has paid the listing fees to all the stock exchanges for the year 2007-08.

g) Outstanding ADRs, GDRs, warrants or any convertible instruments, conversion date and impact on equity

Your Company has not issued any ADRs, GDRs, warrants or any convertible instruments.

h) Plant location

Survey No. 510, 511, 512, 517/1,
Bhachau Dudhai Road,
Bhachau (Kutch),
Gujarat – 370 140.

i) Registrar and share transfer agents

M/s. Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L. B. S. Marg, Bhandup (West),
Mumbai - 400 078.
Tel no. 2596 3838
Fax no. 2596 0329
E-mail: euroipo@intimespectrum.com

j) Address for investor correspondence

For any assistance regarding dematerialisation of shares, share transfers, transmissions, change of address, non-receipt of dividend or any other query relating to shares, please write to:

The Company Secretary
Euro Ceramics Limited
Boston House, Ground Floor, Suren Road,
Chakala, Andheri (East), Mumbai 400093
Tel no. 4019 4019 • Fax no. 4019 4020
E-mail: jdsonics@eurovitrified.com

Declaration of compliance with the code of conduct

I, Nenshi L. Shah, Managing Director of Euro Ceramics Limited, hereby declare that all the members of the Board and Senior Managerial personnel have affirmed adherence to and compliance with the code of conduct of the Company laid down for them for the year ended 31st March 2007.

For Euro Ceramics Limited

Place: Mumbai
Date : July 25, 2007

Nenshi L. Shah
Managing Director

Auditors' Certificate on Clause 49 on the compliance of Corporate Governance

To
The Members of
Euro Ceramics Limited

We have examined the compliance of the conditions of Corporate Governance by EURO CERAMICS LIMITED for the period from March 9, 2007 (date of initial listing) to March 31, 2007, as stipulated in clause 49 of the Listing Agreement of the Company with the Stock Exchanges.

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

In our opinion and based on the information and explanations given to us , the representations made by management and to the best of our knowledge and belief, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned listing agreement.

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 Deepak M. Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No: 49347

Place : Mumbai
Date : July 25, 2007

Certificate by Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

We, Mr. Nenshi L. Shah, Managing Director and Mr. Sushil Chudiwala, Chief Executive Officer of Euro Ceramics Limited, hereby certify that:

1. We have reviewed financial statements and the cash flow statement for the year ended March 31, 2007 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 our 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;

3. we accept responsibility for establishing and maintaining internal controls and have evaluated the effectiveness of the internal control systems of the Company and have disclosed to the Auditors of the Company and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies; and

4. we have indicated to the Auditors and the Audit Committee that there were:

   (i) no significant changes in internal control during the year;

   (ii) no significant changes in accounting policies during the year;

   (iii) no instances of significant fraud of which we 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.

For Euro Ceramics Limited

Place: Mumbai
Date: July 25, 2007

Nenshi L. Shah
Managing Director

Sushil Chudiwala
Chief Executive Officer

AUDITORS' REPORT

To,
The Members of
EURO CERAMICS LIMITED

1) We have audited the attached Balance Sheet of Euro Ceramics Limited as at March 31, 2007 and also the Profit and Loss Account for the year ended on that date and the Cash Flow Statement for the year ended on that date both 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 have conducted our audit in accordance with the 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 from material misstatements. 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 presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

3) As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of Sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4) Further to our comments in the Annexure referred to in paragraph 3 above, we report as follows:

   a. 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;

   b. 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 such books;

   c. The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d. In our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Sub-Section (3C) of Section 211 of the Companies Act, 1956;

   e. On the basis of written representations received from the Directors, and taken on record by the Board of Directors, as on March 31, 2007, we report that none of the Directors is disqualified as on March 31, 2007 from being appointed as a Director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with significant accounting policies, notes to 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:

      i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;

      ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and

      iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For DEEPAK MARU & CO.
Chartered Accountants

Deepak M. Maru
Partner
Membership No.: 49347

Place: Mumbai
Date: July 25, 2007

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1) In respect of Fixed Assets:
   a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.

   b) As explained to us, the management during the year at reasonable interval has physically verified the assets and no material discrepancies were noticed on such verification.

   c) The Company has not disposed of any substantial part of the fixed assets during the year.

2) In respect of its Inventories:
   a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of such verification is reasonable.

   b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. The discrepancies noticed on verification between the physical stocks and the book records were not material.

3) In respect of Loans Taken / Granted:
   a) According to the information and explanation given to us, the Company has taken unsecured loans from twenty-four parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 25,947,059/- and the year end balance of loans taken from such parties was Rs. 7,282,113/-

   b) According to the information and explanation given to us, the Company has granted loans to two parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 26,800,000/- and the year-end balance of loans given to such parties was Rs. 22,800,000/-.

   c) In our opinion, the rate of interest and other terms and conditions on which loans mentioned above have been taken/granted are not, prima facie, prejudicial to the interest of the Company.

   d) In the absence of stipulations in respect of the terms of payment of principal amount and interest for the loans taken/granted, it is not possible to comment whether the principal and interest payments are regular.

4) In respect of register maintained u/s. 301 of the Companies Act, 1956:
   a) In our opinion, and according to information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been so entered in the register required to be maintained under that section.

   b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 500,000/- or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

5) In our opinion and according to the information and explanations given to us, the Company has not accepted any deposits from the public within the meaning of the provisions of section 58A or section 58AA or any other relevant provisions of the Act and the rules framed there under.

6) 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 with regards to purchases of inventory, fixed assets and with regards to the sale of goods. During the course of our audit, no major weaknesses has been notice in the internal control system in respect of this areas.

7) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business

8) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 for its Aluminium Segment and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.

9) In respect of Statutory Dues:

   a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Income tax, Sales tax, VAT, Wealth tax, Custom duty, Excise Duty, Cess and other material statutory dues applicable to it and there are no arrears outstanding as at the year end for a period of more than six months from the date they became payable. In respect of tax deducted/ collected at source, Provident Fund and Employees' State Insurance there were minor delays in deposit of dues with the authorities during the year.

   b) According to the information and explanation given to us, there are no dues of Income tax, Sales Tax, VAT, Wealth tax, Customs duty, Excise duty and cess, which have not been deposited on account of any dispute.

10) The Company does not have any accumulated losses at the end of financial year and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

11) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any of the banks during the year.

12) According to the information and explanations given to us, the Company has not granted loans and advances on the basis or security by way of pledge of shares, debentures and other securities.

13) The Company is not a chit fund or a nidhi/mutual benefit fund/society. Hence the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

15) According to the information and explanations given to us, the Company has given guarantees for loans taken by its subsidiary from bank, and the terms of issue of said guarantee are not prejudicial to the interest of the Company.

16) In our opinion, the term loans are being applied for the purpose for which they were obtained.

17) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been utilized for long-term investment.

18) According to the information and explanations given to us, the Company has not made preferential allotment of shares to parties and Companies covered in the register maintained under section 301 of the Act.

19) According to the information and explanations given to us, during the year covered by our audit report, the Company has not issued any Debenture.

20) The monies raised during the year by way of Public Issue, have been utilized for the end use as stated in the prospectus, however surplus funds pending utilization for the stated purpose are being temporarily invested in Fixed Deposits.

21) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For DEEPAK MARU & CO.
Chartered Accountants

Deepak M. Maru
Partner
Membership No.: 49347

Place: Mumbai
Date: July 25, 2007

BALANCE SHEET

(Amount in Rupees)

	Schedule	As at March 31, 2007	As at March 31, 2006
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	A	171,000,000	175,249,000
Reserves and Surplus	B	1,622,336,331	491,671,191
		1,793,336,331	666,920,191
Loan Funds			
Secured Loans	C	2,477,887,071	1,496,441,532
Unsecured Loans	D	173,282,752	208,019,421
		2,651,169,823	1,704,460,953
Deferred Tax Liabilities		98,019,085	61,441,118
Total Funds Employed		4,542,525,239	2,432,822,262
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,012,140,615	1,704,872,233
Less : Accumulated Depreciation		199,318,521	85,954,892
Net Block		1,812,822,095	1,618,917,341
Capital Work In Progress		815,484,230	129,267,641
		2,628,306,325	1,748,184,982
Investments	F	14,610,750	14,611,100
Current Assets, Loans and Advances			
Inventories	G	527,910,619	318,021,958
Sundry Debtors	H	444,147,309	280,061,723
Cash and Bank Balances	I	954,878,735	28,526,312
Loans and Advances	J	326,723,474	246,115,389
		2,253,660,138	872,725,382
Less : Current Liabilities and Provisions	K		
Current Liabilities		317,634,498	200,432,741
Provisions		36,417,476	2,266,461
		354,051,974	202,699,202
Net Current Assets		1,899,608,164	670,026,180
Miscellaneous Expenditure (to the extent not written off)		–	–
Total Funds Utilized		4,542,525,239	2,432,822,262
Significant Accounting Policies and Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

By order of the Board of Directors
For Euro Ceramics Ltd.

Deepak M. Maru
Partner
Membership No. 49347

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

Place : Mumbai
Date : July 25, 2007

PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	Schedule	For the year ended March 31, 2007	For the year ended March 31, 2006
INCOME			
Sales and Income from Operations		1,790,779,613	1,323,319,050
Other Income	L	6,534,967	2,790,423
		1,797,314,580	1,326,109,473
EXPENDITURE			
(Increase)/Decrease In Stock	M	(210,328,848)	(41,033,097)
Cost of Materials	N	610,096,772	427,255,598
Salaries, Wages and Employee Benefits	O	69,958,013	43,753,088
Manufacturing, Selling and Other Expenses	P	688,274,026	534,941,747
		1,157,999,964	964,917,336
Earnings before Interest, Depreciation and Tax		639,314,616	361,192,137
Interest and Other Finance Expenses (Net)	Q	130,981,985	63,224,906
Profit before Depreciation		508,332,631	297,967,231
Depreciation		113,720,134	45,195,176
Profit before Tax		394,612,498	252,772,055
Provision for Taxation			
- Current Tax		73,873,961	21,444,238
- Deferred Tax		36,577,967	27,857,979
- Fringe Benefit Tax		1,430,000	1,100,000
Net Profit		282,730,570	202,369,838
Balance Brought Forward		277,616,191	137,411,353
Profit Available for Appropriation		560,346,761	339,781,191
APPROPRIATIONS			
Interim Dividend		20,520,000	–
Corporate Tax on Interim Dividend		2,877,930	–
Transferred to General Reserve		10,000,000	–
Capital Redemption Reserve		–	62,165,000
Surplus Carried to Balance Sheet		526,948,831	277,616,191
		560,346,761	339,781,191
Basic and Diluted Earnings Per Share - Rs. (Face Value of Rs. 10/- each)		23.62	17.63
Significant Accounting Policies and Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

By order of the Board of Directors
For Euro Ceramics Ltd.

Deepak M. Maru
Partner
Membership No. 49347

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

Place : Mumbai
Date : July 25, 2007

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
A SHARE CAPITAL		
Authorised		
20,000,000 Equity Shares of Rs. 10/- each	200,000,000	200,000,000
	200,000,000	**200,000,000**
Issued, Subscribed and Paid Up		
Equity Share Capital		
17,100,000 (Previous year 11,478,500) Equity Shares of Rs. 10 each fully paid	171,000,000	114,785,000
Out Of the Above :		
a) 8,608,875 (Previous year 8,608,875) Equity shares fully paid were issued as Bonus out of the Reserves.		
b) 5,621,500 (Previous year NIL) Equity shares fully paid up were issued by IPO through 100% Book Building Process at a premium of Rs. 155 per share.		
Share Application Money Received	–	60,464,000
Total	**171,000,000**	**175,249,000**

	Balance as at March 31, 2006	Additions Deletions during the year	Balance as at March 31, 2007
B RESERVES AND SURPLUS			
Share Premium	214,055,000	871,332,500	1,085,387,500
General Reserves	–	10,000,000	10,000,000
Profit and Loss Account	277,616,191	249,332,640	526,948,831
Total	**491,671,191**	**1,130,665,140**	**1,622,336,331**
Previous Year	375,390,103	116,281,088	491,671,191

	As at March 31, 2007	As at March 31, 2006
C SECURED LOANS		
From Banks		
a) Vehicle Loans	5,914,192	9,093,393
b) Term Loans and Buyers Credit	1,917,300,654	1,063,759,517
c) Cash Credit Facilities	554,672,225	423,588,622
(Refer Note No. 4 of Schedule X)		
Total	**2,477,887,071**	**1,496,441,532**
D UNSECURED LOANS		
From Directors	82,782,310	123,232,712
From Shareholders	10,763,204	22,188,931
From Companies	59,613,007	50,298,546
From Dealers - Security Deposits	20,124,231	12,299,232
Total	**173,282,752**	**208,019,421**

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

E FIXED ASSETS

	PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as on Mar-31-2006	Additions	Deletions / Adjustments	Cost as on Mar-31-2007	Upto Mar-31-2006	For the Year	On Deletions	As on Mar-31-2007	As on Mar-31-2007	As on Mar-31-2006
TANGIBLE ASSETS											
I	Land - Freehold	1,625,509	918,492	–	2,544,001	–	–	–	–	2,544,001	1,625,509
II	Building	301,757,599	81,908,180	7,013,642	376,652,137	12,122,147	9,930,275	5,134	22,047,288	354,604,849	289,635,452
III	Plant and Machinery	1,355,361,059	282,372,321	61,024,527	1,576,708,853	69,937,854	99,894,424	136,829	169,695,449	1,407,013,404	1,285,423,205
IV	Furniture and Fixtures	22,088,131	7,201,472	–	29,289,603	1,008,848	1,546,160	–	2,555,008	26,734,595	21,079,283
V	Office Equipments	7,468,322	830,147	–	8,298,469	337,975	375,310	–	713,285	7,585,184	7,130,347
VI	Vehicles	12,940,618	2,004,966	898,900	14,046,684	1,771,618	1,316,800	214,542	2,873,876	11,172,808	11,169,000
VII	Computers	3,630,995	959,873	–	4,590,868	776,450	647,163	–	1,423,613	3,167,255	2,854,545
INTANGIBLE ASSETS											
VIII	Trade Mark Rights	–	10,000	–	10,000	–	10,000	–	10,000	–	–
	Grand Total	1,704,872,233	376,205,451	68,937,069	2,012,140,615	85,954,892	113,720,134	356,505	199,318,521	1,812,822,095	1,618,917,341
	Previous Year	545,628,531	1,161,336,654	2,092,952	1,704,872,233	40,962,458	45,195,176	202,742	85,954,892	1,618,917,341	–

F INVESTMENTS

		As at March 31, 2007	As at March 31, 2006
Long Term Investments			
Non-trade			
I	Unquoted		
	35,075 Shares of The Cosmos Co-Op. Bank Ltd. (Pledged with Bank)	350,750	350,750
II	Properties		
	7 Shares of Sangam Arcade Co-Op. Housing Society Ltd.	–	350
III	National Saving Certificate	10,000	10,000
Trade			
IV	Shares of Subsidiary	14,250,000	14,250,000
	Euro Merchandise (India) Ltd. (190,000 Equity Shares of Rs.10/- each fully paid up)		
Total		14,610,750	14,611,100

G INVENTORIES

a)	Finished Goods	305,465,584	100,209,044
b)	Stores and Spares	33,841,964	6,828,966
c)	Raw Materials	154,771,054	192,074,532
d)	Packing Materials	8,357,866	3,093,304
e)	Work In Process	14,167,016	9,094,708
f)	Stock-in-Transit	11,307,135	6,721,403
	(As Valued and Certified by the Management)		
Total		527,910,619	318,021,958

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
H SUNDRY DEBTORS *		
(Unsecured, Considered Good)		
Outstanding for a period exceeding Six Months	52,138,923	7,248,902
Other Debts	392,008,386	272,812,821
Total	**444,147,309**	**280,061,723**
(* Includes amount in respect of which the Company holds Letter of Credit / Guarantees from Banks.)	12,401,425	15,564,310

I CASH AND BANK BALANCES		
Cash in Hand	1,587,335	1,739,236
Balance With Scheduled Banks		
Current Accounts	35,717,017	8,457,092
Fixed Deposits	917,574,383	18,329,984
(Of the total Fixed Deposits Rs. 169,574,383/- (Previous year Rs. 18,329,984/-) are pledged with banks as Margin Money against Guarantee and Letter of Credit and Rs. 748,000,000/- (Previous year Rs. NIL) are temporary investments of surplus funds of proceeds from IPO.)		
Total	**954,878,735**	**28,526,312**

J LOANS AND ADVANCES		
(Unsecured, Considered Good)		
Advances Recoverable in cash or in kind or for value to be received (Refer Note No. 15 of Schedule X)	290,618,137	221,116,831
Deposits	15,789,651	13,215,940
Balance With Central Excise, Sales Tax etc.	20,315,686	11,782,618
Total	**326,723,474**	**246,115,389**

K CURRENT LIABILITIES		
Sundry Creditors	205,760,536	143,969,097
[Out of the above, the total outstanding dues to small scale industrial undertaking are Rs. 3,019,694, (Previous year Rs. 1,190,993)] (Refer Note No. 16 of Schedule X)		
Advances From Customers	40,580,341	28,773,961
Other Liabilities	60,982,445	26,867,892
Interest Accrued But not due	10,311,176	821,791
	317,634,498	200,432,741
Provisions		
Taxation (Net of Advance Taxes)	35,210,177	1,085,345
Leave Encashment	1,207,299	1,181,116
	36,417,476	2,266,461
Total	**354,051,974**	**202,699,202**

SCHEDULES TO PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	For the year ended March 31, 2007	For the year ended March 31, 2006
L OTHER INCOME		
Dividend on Long Term Investments	15,000	15,000
Miscellaneous Income	–	1,425,423
Interest on Fixed Deposit Kept form IPO Proceed	4,719,967	–
Rent	1,800,000	1,350,000
Total	**6,534,967**	**2,790,423**

	For the year ended March 31, 2007	For the year ended March 31, 2006
M (INCREASE) /DECREASE IN STOCK		
Opening Stock		
Finished Goods	100,209,044	65,925,121
Work In Process	9,094,708	2,345,534
	109,303,752	68,270,655
Closing Stock		
Finished Goods	305,465,584	100,209,044
Work In Process	14,167,016	9,094,708
	319,632,600	109,303,752
(Increase) / Decrease	(210,328,848)	(41,033,097)

	For the year ended March 31, 2007	For the year ended March 31, 2006
N COST OF MATERIALS		
Raw Material Consumption	554,961,352	406,731,664
Purchase of Trading Goods	21,323,319	–
Packing Material Consumption	33,812,101	20,523,934
Total	**610,096,772**	**427,255,598**

	For the year ended March 31, 2007	For the year ended March 31, 2006
O SALARIES, WAGES AND EMPLOYEE BENEFITS		
Salaries, Wages, and Bonus	57,599,181	35,869,761
Contributions to Provident and Other Funds	2,087,822	1,501,064
Welfare Expenses	10,271,010	6,382,263
Total	**69,958,013**	**43,753,088**

SCHEDULES TO PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	For the year ended March 31, 2007	For the year ended March 31, 2006
P MANUFACTURING, SELLING AND OTHER EXPENSES		
Consumptions of Stores and Spares	8,785,611	22,844,657
Power and Fuel	371,527,011	258,832,225
Processing Charges	5,993,135	7,695,874
Brokerage and Commission	12,797,374	28,558,244
Advertisement	29,023,081	51,500,001
Auditors Remuneration	100,000	55,100
Repairs and Maintenance		
- Building	752,400	438,943
- Plant and Machinery	15,366,844	5,467,756
- Others	2,698,480	2,442,566
Director Remuneration	4,800,000	3,400,000
Director Sitting Fees	85,000	40,000
Donation	9,388,380	5,347,101
Exchange Rate Differences	(1,414,312)	1,554,438
Loss on Sale of Fixed Assets	384,358	1,199,210
Insurance	27,639,992	24,606,342
Rent, Rates and Taxes	12,039,118	10,319,983
Other Selling Expenses	157,219,574	86,468,424
Miscellaneous Expenses	31,087,980	24,170,883
Total	**688,274,026**	**534,941,747**

Q INTEREST AND OTHER FINANCE EXPENSES		
Interest on Fixed Loans	84,393,640	23,937,730
Interest Others	53,708,369	36,972,295
Other Financial Charges	7,609,719	4,958,631
	145,711,728	65,868,656
Less : Interest Income		
Interest on Fixed Deposits With Banks	8,367,254	2,252,384
Other Interest	6,362,489	391,366
Total	**130,981,985**	**63,224,906**

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

I Basis of Preparation of Financial Statements

The Financial statements are prepared under the historical cost convention, on an accrual basis, and in accordance with the relevant provisions of the Companies Act, 1956 and the applicable mandatory Accounting Standards issued by the Institute Of Chartered Accountants of India.

II Fixed Assets

Fixed Assets are stated at historical cost (net of CENVAT credit availed) less accumulated Depreciation/ amortization thereon and/or recoverable value in case of Impairment, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use and also comprises of borrowing Costs attributable to acquisition and construction of assets up to the date when such asset is ready for its intended use.

III Depreciation

a) Depreciation is provided on Straight Line Method at the rates and in the manner specified in the Schedule XIV of the Companies Act, 1956.

b) The Ceramic Plant and the allied Machineries have been classified as a continuous process plant on technical assessment and depreciation has been provided accordingly.

c) Depreciation on the Fixed Assets added/disposed off /discarded during the period has been provided on pro-rata basis with reference to the month of addition/disposal/discarding.

d) Depreciation on the amounts capitalized on account of foreign exchange fluctuation is provided prospectively over residual life of the assets.

IV Borrowing Cost

a) Borrowing Costs attributable to acquisition and construction of qualifying assets are capitalized as a part of the cost of such asset up to the date when such assets is ready for its intended use.

b) Other borrowing costs are recognized as an expense in the period in which they are incurred.

V Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing on the date of transaction. Monetary Assets and Monetary Liabilities in foreign currency are stated at the period ended closing rates. The resulting exchange gain/loss is recognized in the profit and loss account. Exchange differences arising on account of conversion/translation of liabilities incurred for acquisition of the fixed assets are adjusted to the cost of the respective assets.

VI Investments

Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

VII Inventories

Raw Materials, components, stores and spares are valued at lower of cost and net realisable value.

Work in Progress and finished goods are valued at lower of cost and net realisable value. Finished goods and work in progress include costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost of inventories is computed on Weighted Average / FIFO basis.

VIII Revenue Recognition

a) Sales are recorded net of returns.

b) Export Incentives on Advance License are recognized on accrual basis.

c) Interest Income is recognized on accrual basis and dividend income is accounted for when the right to receive the same is established.

IX Retirement Benefits

a) The Company's contributions in respect of Provident Fund are charged to the profit and loss account each year.

b) The Company's contribution to Life Insurance Corporation of India (LIC) for group gratuity policy is charged off to profit and loss account each year. The contribution to group gratuity policy is based on values as actuarially determined and demanded by LIC at the year end.

c) Liability for accumulated earned leave of employees is ascertained and provided for as per Company Rules.

X Taxes on Income

Provision for taxation comprises of Current Tax, Deferred Tax and Fringe Benefit Tax. Current Tax Provision has been made in accordance with the Income Tax Act, 1961.

Deferred tax for timing differences between the book and tax profits for the period is accounted for, using the tax rates and laws that have been substantively enacted as of the balance sheet date.

Deferred tax assets arising from timing differences are recognized to the extent there is reasonable certainty that these would be realized in future.

Deferred tax assets are recognized on unabsorbed losses only if there is virtual certainty that such deferred tax asset can be realized against future taxable profit.

XI Impairment of Fixed Assets

Factors giving rise to any indication of impairment of the carrying amounts of the Company's Assets are appraised at each Balance Sheet date to determine and provide/ reverse an impairment loss. There is no such impairment in the carrying amount of the Company's Assets.

XII Provisions and Contingent Liabilities

Provisions are recognized when the Company has a legal and constructive obligation as a result of a past event, for which it is probable that a cash outflow will be required and a reliable estimate can be made of the amount of the obligation.

Contingent Liabilities are disclosed when the Company has a possible obligation or a present obligation and it is uncertain as to whether a cash outflow will be required to settle the obligation.

B) NOTES TO ACCOUNTS:

1. The Company through a Book Building Initial Public Offering (IPO), in February 2007, issued 5,621,500 equity shares of Rs. 10 each at a premium of Rs. 155. The Company's shares are now listed with Bombay Stock Exchange Ltd. and National Stock Exchange of India Ltd. The principal objects of the issue and the expenditure incurred upto March 31, 2007 on such objects pursuant to clause 43 of the listing agreement were as under:

(Rupees in Lacs)

	Particulars	Estimated Utilization Amount Total	Estimated Utilization Amount Upto March 31, 2007	Actual utilization upto March 31, 2007
a)	Setting up of manufacturing facilities for Sanitary Ware Products project at Bhachau, Kutch	7,693.37	5,251.85	441.00
b)	General Corporate Purposes	1,156.91	578.45	373.00
c)	Expenses Relating to IPO	835.20	701.68	800.42

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

The Balance of unutilised proceeds were kept in Fixed Deposits with bank and will be utilized in due course.

(Amount in Rupees)

		Current year	Previous year
2.	Estimated amount of contracts remaining to be executed on capital account and not provided for.	272,502,873	NIL

3. Contingent Liabilities not provided for in the books of accounts:

(Amount in Rupees)

		Current year	Previous year
a.	Bills Discounted with Banks	26,630,541	11,310,767
b.	Letter of Credit	53,736,125	NIL
c.	Bank Guarantees	5,059,350	4,775,000

d. The Company has imported various Capital Goods under the Export Promotion Capital Goods Scheme (EPCG), of the Government of India, through various licenses, at concessional rates of Custom Duty on an undertaking to fulfill quantified exports within a period of eight years from the date of the respective licenses. The Custom Duty so saved amounts to Rs. 339,876,220 and the corresponding Export Obligation to be fulfilled is Rs. 2,719,009,760 as on the Balance Sheet date. If the said export is not made within the stipulated time period, the Company is required to pay the said saved Custom Duty together with interest @15% p.a. There are two licenses in respect of which Export Obligation is entirely fulfilled by the close of the year, which is not included in the above figures. However, formal discharge from the obligation by discharge of license by the appropriate authorities is in progress.

4. Secured Loans

(Amount in Rupees)

	Current year	Previous year
a. Vehicle Loans		
Are secured against vehicles specified in the respective agreements & Personal Guarantee of the Directors of the Company.	5,914,192	9,093,393
b. Term Loans and Buyers Credit		
Are secured against the First Charge created by mortgage on all the existing and future fixed assets situated at Bhachau (Kutch) and second charge created by hypothecation of current assets of the Company and against the collateral securities & Personal Guarantee given by the Directors and their Relatives.	1,917,300,654	1,063,759,517
c. Cash Credit and Other Facilities		
Are secured against the First Charge created by Hypothecation of Stock and Book Debts and other current assets and second charge created on existing as well as future fixed assets of the Company situated at Bhachau (Kutch) and Against the personal Guarantee given by the Directors and their Relatives.	554,672,225	423,588,622

5. The Company entered into an arrangement with Euro Multivision Limited, one of its group companies having its factory adjacent to the Company's factory at Bhachau, whereby it recovered one-fifth of the capital investment cost incurred by the Company on its Power Plant Machinery and Building for sharing of power generated by the Power Plant. The Company also recovers the operating expenses of running the Power Plant from Euro Multivision Limited on a monthly basis, based on the actual units of power consumed by Euro Multivision Limited.

6. Sales and Income from Operation includes Rs. 3,307,847 being Export Incentives in the nature of Advance License benefit.

7. Managerial Remuneration:

	Current year	Previous year
Directors Salary and Allowances	Rs. 4,800,000	Rs. 3,400,000
Percentage to Net Profit	1.20%	1.32%

Note: The above remuneration is within the limits as calculated below

Computation of Net Profit under section 198 read with section 309 (5) of the Companies Act, 1956.

(Amount in Rupees)

	Current year	Previous year
Profit as per Profit and Loss Account	394,612,498	252,772,055
Add: Managerial Remuneration	4,800,000	3,400,000
Add: Loss on sale of fixed assets	384,358	1,199,210
Total	399,796,856	257,371,265
Managerial Remuneration ceiling @ 10%	39,979,686	25,737,127

8. Auditors Remuneration (including service tax):

(Amount in Rupees)

	Current year	Previous year
For Audit	112,240	55,100
For Taxation Related Matters	56,120	27,550
For Certification Fees - IPO	112,240	–

9. Deferred Tax Liability / (Asset) at the year end comprise timing differences on account of:

(Amount in Rupees)

	Current year	Previous year
I Depreciation	97,926,281	63,940,724
II Expenditure/Provisions Disallowable	92,804	(2,499,606)

10. Earnings per Share (EPS) is calculated as under:

(Amount in Rupees)

		Current year	Previous year
I	Profits used as Numerator for calculating EPS		
	Net Profit after Tax	282,730,570	202,369,838
II	Denominator		
	Weighted average number of Equity Shares outstanding		
	-Basic	11,971,344	11,478,500
	-Diluted	11,971,344	11,478,500
III	Nominal Value of Share in (Rs.)	10	10
IV	Earnings Per Share (Basic as well as Diluted)	23.62	17.63

Note: The Company has restated earning per share of the Previous year on account of bonus shares issued during the year.

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

11. All Insurance Claims, unless clearly identifiable with the respective heads of expenses are reduced from manufacturing, Selling and Other expenses.

12. Amount of exchange difference (net)

(Amount in Rupees)

	Current year	Previous year
Included/(Excluded) in additions to the fixed assets	(27,696,290)	3,611,962

13. Derivative Instruments and Unhedged Foreign Currency Exposure

(Amount in Rupees)

Sl. No.	Particulars	Current year	Previous year
	a) Foreign Currency SWAP outstanding		
1.	ECB loan of USD 3,000,000 (Previous Year NIL) swapped against CHF	CHF 3,664,700	–
2.	ECB loan of USD 641,000 (Previous Year NIL) swapped against CHF	CHF 789,712	–
	b) Unhedged Foreign Currency Exposure		
1.	ECB Loan	USD 146,13,882.85	USD 7,759,470.00
2.	ECB Loan	EURO 2,631,317.49	–
3.	Outstanding Creditors for purchase of Raw Material, Consumables and Spares.	USD 9,000.00	USD 29,329.00
4.	Outstanding Creditors for purchase of Raw Material, Consumables and Spares.	EURO 104,095.00	EURO 94,095.00
5.	Outstanding Creditors for Capital Goods	USD 612,500.00	–
6.	Outstanding Debtors	USD 1,050,428.88	USD 231,063.20

14. Disclosure in respect of Related Parties pursuant to Accounting Standard 18:

a) Subsidiary

Euro Merchandise (India) Limited

b) Name of the enterprises having same Key Management Personnel and/or their relatives as the Reporting enterprises:

Eurobond Industries Pvt. Ltd.	Euro Flooring Pvt. Ltd.	Subhnen Décor Pvt. Ltd.
Euro Multivision Ltd.	Euro Developers Pvt. Ltd.	Subhnen Ply Pvt. Ltd.
Euro Pratik Ispat Pvt. Ltd.	Euro Solo Energy Systems Ltd.	Subhnen Veneer Pvt. Ltd.
Subhnen Finance and Investments Pvt. Ltd.	Kevin Impex Pvt. Ltd.	Kanch Ghar
Neelam Metal - Pune	Laxmi Ply Agency	Metro Stationery Mart
Neelam Ply & Laminates	NLS Enterprise Pvt Ltd.	Gurukul Enterprises Pvt. Ltd.
Tangent Furniture Pvt. Ltd.	Lyons Technologies Ltd.	Ladhabhai Sanganbhai Gala Charitable Trust
Monex Stationers	Disti Enterprises Pvt. Ltd.	Vaman International Pvt. Ltd.
National Ply & Laminates	Zenith Corporation	Nova Enterprises
National Laminate Corporation	Gala Enterprises	

c) Relatives of Key Management Personnel:

Nenshi L. Shah H.U.F.	Shantilal L. Shah	Pravin D. Gala
Laljibhai K. Shah H.U.F.	Gunvantiben N. Shah	Laljibhai K. Shah
Shantilal L. Shah H.U.F.	Hitesh S. Shah	Sushila H. Gala
Subhash L. Shah H.U.F.	Jayantilal Nishar	Rekhaben Nishar
Dhaval L. Shah	Subhash L. Shah	Kasturben T. Nandu
Shantaben L. Shah	Urmi P. Shah	Viral T. Nandu
Sonalben L. Shah	Parag K. Shah	Nitesh P. Shah
Manjari H. Shah		

d) Key Management Personnel:

Nenshi L. Shah	Kumar P. Shah	Talakshi L. Nandu	Paresh K. Shah

During the year following transactions were carried out with the related parties in the ordinary course of business:

Nature of Transactions	Subsidiary	Enterprises having common Key Management Personnel	Relative of the Key Management Personnel	Key Management Personnel
Sales, Service and other income	46,008,369 (9,632,458)	219,280,702 (213,860,331)	– (–)	– (–)
Sale of Fixed Assets	– (–)	67,896,206 (–)	– (–)	– (–)
Purchase of goods and services	– (–)	5,810,297 (1,119,719)	– (–)	– (–)
Purchase of fixed assets	– (–)	1,127,432 (1,107,813)	– (–)	– (–)
Donation	– (–)	2,700,000 (1,000,000)	– (–)	– (–)
Director's Remuneration/ Sitting Fees	– (–)	– (–)	42,500 (111,600)	4,800,000 (3,400,000)
Interest Received	– (–)	5,194,398 (–)	– (–)	– (–)
Interest Paid/Payable	– (–)	175,762 (1,062,277)	2,932,677 (2,449,178)	11,795,196 (3,826,535)
Loans/Advances Obtained	– (13,350,000)	5,5814,000 (148,211,000)	15,000,000 (27,235,000)	163,830,000 (250,160,575)
Loans/Advances Given	53,300,000 (600,000)	24,350,000 (13,000,000)	– (–)	– (–)
Loans/Advance Repaid	– (–)	34,929,663 (–)	12,514,588 (–)	228,117,000 (–)
Outstanding balance as at March 31, 2007				
Loans Payable	– (–)	11,172,139 (129,547,890)	27,802,545 (22,867,578)	55,242,969 (109,058,194)
Loans Receivable	17,800,000 (–)	5,000,000 (–)	– (–)	– (–)
Amount Receivable	29,460,045 (9,377,950)	61,837,238 (50,329,198)	– (–)	– (–)
Amount Payable	– (–)	2,022,206 (248,389)	– (148,225)	– (–)

- *Figures of the Previous Year have been given in brackets*
- *No amount in respect of the related parties have been written off / back.*
- *Related party relationship have been identified by the management and relied upon by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

15. Disclosure pursuant to Clause 32 of the Listing Agreement

a) Loans and Advances in the nature of Loans given to the Subsidiary or to others for which there is no repayment schedule:

(Amount in Rupees)

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
i) Wholly Owned Subsidiary - Euro Merchandise (India) Ltd.	17,800,000	21,800,000	5,789,278	5,858,558
ii) Staff Advances and Loans - are given in the ordinary course of the business	1,349,403	1,555,000	892,496	978,083

b) Loans and Advances in the nature of Loans given to the Firms/Companies in which Directors are interested:

(Amount in Rupees)

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
i) Euro Multivision Ltd.	5,000,000	5,000,000	NIL	8,000,000

c) Investment by the loanee in the shares of the Company and /or its Subsidiary:

(Amount in Rupees)

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
Investment by the loanee in the shares of the Company and /or its Subsidiary.	NIL	NIL	NIL	NIL

16. The amount due to Small Scale Industrial Undertakings (SSIs) is furnished under the relevant head, on the basis of information available with the Company regarding small-scale industry status of the suppliers. There are no amounts outstanding to such suppliers that are due for more than 30 days beyond the agreed credit period.

The Company has not received any intimations from suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given.

17. a) For additional information as required under para 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 - Refer Annexure I.
b) For Segment Information - Refer Annexure II
c) For Cash Flow Statement- Refer Annexure III
d) For information as required under part IV of schedule VI to the Companies Act, 1956 - Refer Annexure IV.

18. Figures of previous year have been regrouped / rearranged wherever necessary.

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347
Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Ceramics Ltd.

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

ANNEXURE - I

INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3, 4C AND 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956

a) Particulars of capacity and production:

Products	Annual Installed Capacity		Actual Production	
	Current Year	Previous Year	Current Year	Previous Year
Vitrified Ceramic Tiles (M.T.)	79,971	79,971	78,331	53,765
Aluminium Section (M.T.)	1,800	1,800	1,320	1,665
Gold Coins and Jewellery (M.T.)	–	72	–	0.029

b) Particulars in respect of Opening Stock, Sales and Closing Stock for class of goods Dealt with by the Company:

Products	Opening Stock		Sales		Closing Stock	
	Qty.	Value (Rs.)	Qty.	Value (Rs.)	Qty.	Value (Rs.)
Vitrified Ceramic Tiles (In Metric Tonnes)	7,932	98,233,716	68,538	1,556,015,802	17,725	299,519,000
(Previous Year)	5,322	63,998,311	51,155	1,105,928,979	7,932	98,233,718
Aluminium Section (In Metric Tonnes)	25	1,975,328	1,303	192,070,259	42	5,946,584
(Previous Year)	24	1,926,810	1,664	183,956,864	25	1,975,326
Jewellery Division (In Metric Tonnes)	–	–	–	–	–	–
(Previous Year)	–	–	0.029	20,456,000	–	–
Trading Goods - Ceramic Tiles (Boxes)	–	–	100,056	21,771,847	–	–
(Previous Year)	–	–	–	–	–	–
Others	–	–	–	20,921,705	–	–
(Previous Year)	–	–	–	12,977,206	–	–
Total		100,209,044		1,790,779,613		305,465,584
Total (Previous Year)		65,925,121		1,323,319,050		100,209,044

The Installed Capacity is as Certified by the Management.

Sales Quantity includes captive consumption, damages, sample sale and shortages.

c) Raw Materials Consumed:

	Current year		Previous year	
	MT.	(Rs.)	MT.	(Rs.)
I Clay	48,370.84	141,350,111	28,515.17	80,666,339
II Feldspar	45,633.85	45,195,706	31,267.38	39,119,491
III Quartz	1,387.06	1,424,670	1,325.97	1,575,634
IV Gold	–	–	0.029	17,745,121
V Aluminium Scrap	1443.05	157,004,329	1,908.47	136,076,014
VI Other	–	209,986,536	–	131,549,065
Total	96,834.80	554,961,352	63,017.019	406,731,664

d) Purchase of Trading Goods

	Current year		Previous year	
	Boxes	(Rs.)	Boxes	(Rs.)
Ceramic Tiles	100,056	21,323,319	–	–

ANNEXURE - I

e) Value of Imports calculated on C.I.F. Basis

(Amount in Rupees)

		Current Year	Previous Year
I	Raw Materials and Consumables	179,941,271	269,350,243
II	Stores and Spares	3,721,022	5,698,555
III	Capital Goods	695,363,601	162,294,545
IV	Trading Goods	21,323,319	–

f) Expenditure in Foreign Currency (on actual payment basis)

(Amount in Rupees)

		Current Year	Previous Year
I	Foreign Traveling Expenses	1,785,069	675,283
II	Others	–	91,772

g) Value of Imported and Indigenous Raw Materials, Spare parts and Components consumed and percentage thereof to the total Consumption:

		Current year		Previous year	
		%	(Rs.)	%	(Rs.)
I	Raw Materials				
	Imported	46.89	260,227,458	59.14	240,525,851
	Indigenous	53.11	294,733,894	40.86	166,205,813
	Total	100.00	554,961,352	100.00	406,731,664
II	Stores and Spares				
	Imported	24.44	2,147,449	21.81	4,981,638
	Indigenous	75.56	6,638,162	78.19	17,863,019
	Total	100.00	8,785,611	100.00	22,844,657

h) The Amount remitted during the year in Foreign Currencies on account of dividends

	Current Year	Previous Year
Amount Remitted (Rs.)	1, 850,400	–
No. of Non–Resident shareholders	3	–
No. of shares held by the above	1,542,000	–
Year to which dividend relates	2006 - 2007	–

i) Earnings in Foreign Currency - Export of Goods (F.O.B. Basis)

(Amount in Rupee)

		Current Year	Previous Year
a.	Foreign Currency	97,077,256	53,529,847
b.	Rupee Currency (Export through Merchant Exporters)	–	1,223,113

ANNEXURE - II

SEGMENTWISE FINANCIAL STATEMENT FOR THE YEAR ENDED MARCH 31, 2007.

I) Primary Segment - Business

(Amount in Rupees)

	CERAMIC TILES		ALUMINIUM SECTIONS		GOLD JEWELLERY		INTER-SEGMENTAL ELIMINATION		TOTAL	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
a) Segmental Revenue										
Sales to External Customers	1,597,495,869	1,118,169,861	193,283,744	184,693,189	–	20,456,000	–	–	1,790,779,613	1,323,319,050
Inter-segmental Revenue	–	–	–	–	–		–	–	–	–
Total Segmental Revenue	1,597,495,869	1,118,169,861	193,283,744	184,693,189			–	–	1,790,779,613	1,323,319,050
b) Segmental Results (PBIT)	714,546,062	359,621,520	28,194,717	29,715,797	–	1,345,428	–	–	742,740,779	390,682,745
Less: Interest and Finance Charges									130,981,985	63,224,906
									611,758,794	327,457,839
Less: Unallocable Expenses Net of Unallocable Income									217,146,297	74,685,784
Profit Before Tax and Exceptional Items									394,612,497	252,772,055
Loss / (Gain) due to Exceptional Items									–	–
Profit Before Tax									394,612,497	252,772,055
Less: Provision for Current Tax									73,873,961	22,544,238
Less: Provision for Deferred Tax									36,577,967	27,857,979
Less: Provision for Fringe Benefit Tax									1,430,000	–
Profit After Tax									282,730,570	202,369,838
c) Carrying amount of Segmental										
Assets	2,479,046,899	1,537,316,146	86,578,859	56,598,688	–	451,862	–	–	2,565,625,757	1,594,366,696
Unallocated Assets									2,530,269,975	1,041,154,767
Total Assets									5,095,895,733	2,635,521,463
d) Carrying amount of Segmental										
Liabilities	1,077,278,074	625,152,708	4,947,531	681,507	–	–	–	–	1,082,225,605	625,834,215
Unallocated Liabilities									2,021,015,277	1,342,767,058
Total Liabilities									3,103,240,882	1,968,601,273
e) Cost incurred to acquire Segment										
Fixed Assets during the year	267,490,182	786,524,064	7,244,867	1,659,554	–	–	–	–	274,735,049	788,183,618
Unallocated Assets									101,470,052	373,153,036
f) Depreciation / Amortization	58,970,936	27,807,639	1,614,563	1,171,941	–	–	–	–	60,585,499	28,979,580
Unallocated depreciation									53,134,635	16,215,596

II Primary Segment - Geographical

	2006-2007	2005-2006
The Company's operating facilities are located in India		
Domestic Revenues	1,659,440,995	1,268,845,948
Export Revenues	131,338,618	54,473,102
Total	1,790,779,613	1,323,319,050

ANNEXURE - III

Cash Flow Statement

(Amount in Rupees)

	2006-2007			2005-2006
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		394,612,498		252,772,055
Adjustments for :				
Depreciation	113,720,134			45,195,176
Interest and Finance Charges (net)	130,981,985			63,224,906
Dividend and Other Incomes	(6,534,967)			(2,790,423)
Loss On Sale Of Fixed Assets	384,358	238,551,509		1,199,210
Operating Profit before working capital changes		633,164,007		359,600,924
Decrease / (Increase) in sundry debtors	(164,085,586)			(107,951,141)
Decrease / (Increase) in other current assets	(80,608,085)			(192,138,233)
Decrease / (Increase) in inventories	(209,888,661)			(119,689,114)
Increase / (Decrease) in trade and other payables	116,863,408	(337,718,925)		141,263,281
Cash generated from Operations		295,445,082		81,085,717
Income taxes paid (Net of Refund)		(41,179,129)		(56,304,155)
Net Cash Flow from Operating Activities			254,265,953	24,781,562
B. CASH FLOW FROM INVESTING ACTIVITIES				
(Purchase)of Fixed Assets including Capital Work in Progress	(1,062,421,689)			(738,028,553)
Sale Of Fixed Assets	68,580,564			–
Loss On Sale of Fixed Assets	(384,358)			(1,199,210)
Interest Received	14,729,743			2,643,750
(Increase)/Decrease in Investments	–			(14,510,750)
Dividend and Other Incomes	6,534,967			2,790,423
Net Cash (Used in)/from Investing Activities			(972,960,773)	(748,304,340)
C. CASH FLOW FROM FINANCING ACTIVITIES				
Redemption of Preference Share Capital	–			(62,165,000)
Refund Of Share Application Money	(60,464,000)			–
Proceeds from IPO	927,547,500			60,464,000
Proceeds from Borrowings	1,151,531,800			4,701,824,392
Repayments of Borrowings	(204,822,931)			(3,837,770,050)
Increase / (Decrease) in payables for capital goods	364,532			(111,612,994)
Interim Dividend including Dividend Distribution Tax	(23,397,930)			–
Interest and Finance charges	(145,711,728)			(65,868,656)
Net Cash (Used in)/from Financing Activities			1,645,047,244	684,871,692
Net Increase in Cash and Cash Equivalents			926,352,424	(38,651,086)
Cash and Cash Equivalents (Opening Balance)			28,526,312	67,177,398
Cash and Cash Equivalents (Closing Balance)			954,878,736	28,526,312

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Ceramics Ltd.

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

ANNEXURE - IV

INFORMATION PURSUANT TO PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956 :

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.	135548	State Code	11
Balance Sheet Date	31 (Date) 03 (Month) 2007 (Year)		

II. Capital Raised during the year *(Amount in Rs. Thousand)*

Public Issue	56215.00	Bonus Issue	NIL
Right Issue	NIL	Private Placement	NIL

III. Position of Mobilisation and Deployment of Funds *(Amount in Rs. Thousand)*

Total Liabilities	4542525.24	Total Assets	4542525.24

Sources of Funds

Paid up Capital	171000.00	Reserves and Surplus	1622336.33
Secured Loans	2477887.07	Unsecured Loans	173282.75
Deferred Tax Liability	98019.08		

Application of Funds

Net Fixed Assets	2628306.32	Investment	14610.75
Net Current Assets	1899608.16	Misc. Expenditure	NIL

IV. Performance of Company *(Amount in Rs. Thousand)*

Total Income	1797314.58	Total Expenditure	1402702.08
Profit before Tax	394612.50	Profit after Tax	282730.57
Earning per Share in Rs.(Annualised)	23.62	Dividend Rate %	12%

V. Generic Names of three Principal Products / Services of the Company. (as per monetary terms)

Item Code No. (ITC Code)	6907
Product Description	VITRIFIED TILES
Item Code No. (ITC Code)	7610
Product Description	ALUMINIUM SECTIONS

By order of the Board of Directors
For Euro Ceramics Ltd.

Place : Mumbai
Date : July 25, 2007

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

SECTION 212

A Statement pursuant to Section 212 (3) of the Companies Act, 1956 relating to Subsidiary Company is as under:

1. Name of the Subsidiary Company	Euro Merchandise (India) Limited
2. Financial Year ended on	March 31, 2007
3. Date on which it became the subsidiary of the Company	December 31, 2005
4. Shares of the Subsidiary held by the Company on the above dated	
a) Number and face value	190,000 Equity Shares of Rs. 10/- each aggregating to Rs. 1,900,000/-
b) Extent of holding	100%
5. The net aggregate of Profit/(Loss) of the Subsidiary so far as they concern the members of the Company	
a) Dealt within the accounts of the Company for the year ended March 31, 2007	NIL
b) Not dealt with in the account of the Company for the year ended March 31, 2007	Profit Rs. 22,182,323/-
6. The net aggregate of Profit / Loss of the Subsidiary for previous years since it became Subsidiary so far as they concern members of the Company	
a) Dealt within the accounts of the Company for the year ended March 31, 2007	NIL
b) Not dealt within the accounts of the Company for the year ended March 31, 2007	Profit Rs. 5,567,062/-
7. Changes in the holding Company's interest in the subsidiary between the end of the financial year of the subsidiary and the end of the holding Company's financial year.	Not Applicable
8. Material Changes which have occurred between the end of the aforesaid financial year of the subsidiary and the end of the holding Company's financial year in respect of:	
a) the subsidiaries fixed assets	Not Applicable
b) its investments	
c) moneys lent by the Subsidiary Company	
d) the money borrowed by it for any purpose other than that of meeting current liabilities.	

For and on behalf of the Board of Directors
For Euro Ceramics Ltd.

Place : Mumbai
Date : July 25, 2007

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting their third Annual Report of the Company for the year ended March 31, 2007.

Financial results

(Rupees in lacs)

Particulars	Current year	Previous year
Income		
Sales	3,928.13	1,458.12
Other income	0.14	–
Total Income	3928.27	1458.12
Total Expenditure	3,588.55	1,381.58
Profit before depreciation	339.72	76.54
Less: Depreciation	2.02	0.68
Profit before tax	337.70	75.86
Less: Provision for tax		
Current tax	93.84	24.34
Deferred tax	19.79	1.13
Fringe benefit tax	2.25	1.24
Net profit after tax	221.82	49.15

Operations

During the year under review, the Company has achieved total sales of Rs. 3,928.13 lacs as against Rs. 1,458.12 lacs in the previous year. showing a growth of 169.40%. The net profit before tax was higher by 345.16% at Rs. 337.70 lacs as compared with Rs. 75.86 lacs in the previous year. The net profit after tax grew by 351.31% to Rs. 221.82 lacs as compared with Rs. 49.15 lacs in the previous year. The Company expects better turnover and profitability in the coming years.

Future outlook

The Company is growing rapidly with a well established presence in Wall Tiles. There is well established marketing network and brand recognition for "Euro Wall Tiles". The Company has established institutional relationships with well known name in Indian Industry which are growing. Also, it is foreseen that in the near future there will be unprecedented growth in residential, commercial, retail and hotel segments. Accordingly, the Company is confident of a better future in the years to come.

Dividend

To conserve resources for future expansion, your Directors do not recommend payment of dividend for the year under review.

Directors

During the year Mr. Pratik K. Shah was appointed as an Additional Director with effect from October 1, 2006. and was also appointed as a Whole time Director with effect from same date. Mr. Nitesh P. Shah was also appointed as a Whole time Director of the Company with effect from October 1, 2006.

As per the provisions of the Companies Act, 1956, Mr. Talakshi L. Nandu retires by rotation and being eligible, offer himself for reappointment.

Directors' Responsibility Statement

The Directors of the Company confirm, pursuant to Section 217(2AA) of the Companies Act, 1956 that:

i. In the preparation of the annual accounts, the applicable accounting standards have been followed along with the proper explanations relating to material departures;

ii. They had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;

iii. They had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv. They had prepared the annual accounts on a going concern basis.

Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo:

The information required under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, is as follows:

The particulars regarding Conservation of Energy	:	N. A.
The particulars regarding Technology Absorption, Adoption and Innovation	:	N. A.

The information on foreign exchange earnings and outgo is contained in Schedule "X" comprising of Notes to accounts.

Public Deposits

Your Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Companies Act, 1956.

Particulars of Employees

There are no employees drawing remuneration more than the limits prescribed in Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars in the Report of the Board of Directors) Rules, 1988.

Auditors

M/s. Deepak Maru & Co., Chartered Accountants, retires at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Acknowledgement

Your Directors acknowledge with gratitude and wish to place on record, their deep appreciation of the continued support and co-operation received by the Company from the various Government Authorities, Shareholders, Bankers and Business Associates of the Company.

Your Directors place on record their deep appreciation of the dedication and commitment of your Company's employees at all levels and look forward to their continued support in the future as well.

For and on behalf of the Board of Directors

Nenshi L . Shah — Director

Nitesh P. Shah — Director

Place: Mumbai

Date: July 25, 2007

AUDITORS' REPORT

To,
The Members of
EURO MERCHANDISE (INDIA) LIMITED

1) We have audited the attached Balance Sheet of M/s. EURO MERCHANDISE (INDIA) LIMITED as at March 31, 2007 and also the Profit and Loss Account for the year ended on that date and the Cash Flow Statement for the year ended on that date both 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 have conducted our audit in accordance with the 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 from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

3) As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 issued by the Central Government of India in terms of Sub-Section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4) Further to our comments in the annexure referred to above, we report that:

   a. 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;

   b. 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 such books;

   c. The Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d. In our opinion, the Balance Sheet and Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Sub-Section (3C) of Section 211 of the Companies Act, 1956;

   e. On the basis of written representations received from the directors, and taken on record by the Board of Directors, as on March 31, 2007, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   f. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with Significant accounting policies, notes to 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:

      i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;

      ii) in the case of the Profit and Loss Account, of the profit of the company for the year ended on that date; and

      iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For DEEPAK MARU & CO.
Chartered Accountants

Deepak M. Maru
Partner
Membership No.: 49347

Place: Mumbai
Date: July 25, 2007

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1) In respect of Fixed Assets:

   a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.

   b) As explained to us, the management during the year at reasonable interval has physically verified the assets and no material discrepancies were noticed on such verification.

   c) The Company had closed down its trading activities at its Chennai Branch and sold all its assets in December 2006, which, in our opinion do not constitute substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company as a whole.

2) In respect of its Inventories:

   a) The inventory has been physically verified during the year by the management. In our opinion, the frequency of such verification is reasonable.

   b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.

   c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. The discrepancies noticed on verification between the physical stocks and the book records were not material.

3) In respect of Loans Taken / Granted:

   a) According to the information and explanation given to us, the Company has taken unsecured loans from five parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 64,882,382/- and the year end balance of loans taken from such parties was Rs. 44,164,812/-

b) According to the information and explanation given to us, the Company has granted loans to only one party covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 33,803/- and the year-end balance of loans given to such parties was Rs. NIL.

c) In our opinion, the rate of interest and other terms and conditions on which loans mentioned above have been taken/granted are not, prima facie, prejudicial to the interest of the Company.

d) In the absence of stipulations in respect of the terms of payment of principal amount and interest for the loans taken/granted, it is not possible to comment whether the principal and interest payments are regular.

4) In respect of register maintained under section 301 of the Companies Act, 1956:

a) In our opinion, and according to information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been so entered in the register required to be maintained under that section.

b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and aggregating during the year to Rs. 500,000/- or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.

5) In our opinion and according to the information and explanations given to us the company has not accepted any deposits from the public within the meaning of the provisions of section 58A or section 58AA or any other relevant provisions of the Act and the rules framed there under.

6) 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 with regards to purchases of inventory, fixed assets and with regards to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in such internal controls.

7) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

8) In our opinion the Company is not required to maintain cost records pursuant to the Rules made by the Central Government under section 209(1)(d) of the Companies Act, 1956.

9) In respect of Statutory Dues:

a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including Income tax, Sales tax, VAT, Wealth tax, Custom duty, Excise Duty, Cess and other material statutory dues applicable to it and there are no arrears outstanding as at the year end for a period of more than six months from the date they became payable. In respect of tax deducted/collected at source there were minor delays in deposit of dues with the authorities during the year.

b) According to the information and explanation given to us, there are no dues of Income tax, Sales Tax, VAT, Wealth tax, Customs duty, Excise duty and cess, which have not been deposited on account of any dispute except the following:

Name of the Statute	Nature of the dues	Amount (Rs.)	Period for which the amount relates	Forum where dispute is pending
Customs Act, 1962	Custom Duty including Anti dumping Duty and Penalties.	Rs. 1,385,286/-	2005 - 2006	Commissioner of Customs (Appeals).

10) The Company does not have any accumulated losses at the end of financial year and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

11) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to any of the banks during the year.

12) According to the information and explanations given to us, the Company has not granted loans and advances on the basis or security by way of pledge of shares, debentures and other securities.

13) The Company is not a chit fund or a nidhi/mutual benefit fund/society. Hence the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

15) According to the information and explanations given to us, the Company has not given guarantees for loans taken by others from banks or financial institutions.

16) In our opinion, the Company has not taken any term loans during the year.

17) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been utilized for long-term investment.

18) According to the information and explanations given to us, the Company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.

19) According to the information and explanations given to us, during the year covered by our audit report, the Company has not issued any Debenture.

20) The Company has not raised any money by public issues during the year.

21) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For DEEPAK MARU & CO.
Chartered Accountants

Deepak M. Maru
Partner
Membership No.: 49347

Place: Mumbai
Date: July 25, 2007

BALANCE SHEET

(Amount in Rupees)

	Schedule	As at March 31, 2007	As at March 31, 2006
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	A	1,900,000	10,700,000
Reserves and Surplus	B	37,849,385	15,667,062
		39,749,385	26,367,062
Loan Funds			
Secured Loans	C	136,735,018	43,669,604
Unsecured Loans	D	91,985,886	61,857,752
		228,720,904	105,527,356
Deferred Tax Liability		2,116,868	137,823
Total		270,587,158	132,032,241
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	1,741,139	1,355,451
Less :- Provision for Depreciation		202,051	74,226
Net Block		1,539,087	1,281,225
Investments	F	100,000	100,000
Current Assets, Loans and Advances			
Inventories	G	239,766,442	130,536,998
Sundry Debtors	H	93,157,774	50,383,017
Cash and Bank Balances	I	5,817,772	5,436,266
Loans and Advances	J	18,903,059	4,468,043
		357,645,047	190,824,324
Less :- Current Liabilities and Provision			
Current Liabilities	K	62,800,567	37,012,704
Provisions		25,896,410	23,160,604
		88,696,977	60,173,309
Net Current Assets		268,948,070	130,651,016
Miscellaneous Expenditure to the extent not w/off		–	–
Total		270,587,158	132,032,241
Significant Accounting Policies and Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Merchandise (India) Ltd.

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 25, 2007

PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	Schedule	For the year ended March 31, 2007	For the year ended March 31, 2006
INCOME			
Sales and Incomes from Operations		392,813,948	145,812,878
Other Incomes		13,750	–
		392,827,698	145,812,878
EXPENDITURE			
(Increase)/Decrease in Stock	L	(109,229,444)	(119,013,386)
Cost of Materials	M	367,861,525	210,702,730
Salaries, Wages and Employee Benefits	N	5,048,007	2,931,814
Administrative, Selling and Other Expenses	O	78,149,517	35,318,511
		341,829,605	129,939,669
Earnings Before Interest, Depreciation and Tax		50,998,093	15,873,209
Interest and Other Finance Expenses (Net)	P	17,025,463	8,218,937
Profit Before Depreciation		33,972,630	7,654,271
Depreciation		202,313	67,751
Profit Before Tax		33,770,317	7,586,520
Provision for Taxation			
- Current Tax		9,383,735	2,434,301
- Deferred Tax		1,979,045	113,324
- Fringe Benefit Tax		225,213	124,103
Profit After Tax		22,182,323	4,914,792
APPROPRIATIONS		–	–
Surplus Carried to Balance Sheet		22,182,323	4,914,792
		22,182,323	4,914,792
Basic and Diluted Earning Per Share (EPS) Rs.		116.75	42.66
(Face Value of Shares Rs.10/-)			
Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Merchandise (India) Ltd.

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 25, 2007

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
A SHARE CAPITAL		
Authorised		
200,000 Equity Shares of Rs.10/- each	2,000,000	2,000,000
Total	2,000,000	2,000,000
Issued, Subscribed and Paid up		
Subscribed, Issued and Paid up		
(190,000 Equity Shares of Rs.10/-each fully Paid)	1,900,000	1,900,000
Share Application Money	–	8,800,000
Total	1,900,000	10,700,000

	Balance as at March 31, 2006	Additions Deletions during the year	Balance as at March 31, 2007
B RESERVES AND SURPLUS			
Profit and Loss Account	5,567,062	22,182,323	27,749,385
Share Premium Account	10,100,000	–	10,100,000
Total	15,667,062	22,182,323	37,849,385
Previous year	4252270	11414792	15,667,062

	As at March 31, 2007	As at March 31, 2006
C SECURED LOANS		
The Cosmos Co-Op. Bank Ltd. (Secured Against stocks, book Debts and Personal Guarantee of the Directors of the Company)	40,245,162	38,501,550
Syndicate Bank	90,790,428	–
Indian Overseas Bank - Buyers Credit (Secured Against Stocks)	–	5,168,054
Bank of Baroda, Brussels Branch- Buyers Credit (Secured Against Stocks)	5,699,428	–
Total	136,735,018	43,669,604

D UNSECURED LOANS		
From Companies	52,878,527	43,590,822
From Directors	34,869,680	17,753,357
From Dealers - Security Deposit	4,237,679	513,573
Total	91,985,886	61,857,752

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

E FIXED ASSETS

PARTICULARS	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Cost as on Mar-31-2006	Additions during the year	Adjustments during the year	Cost as on Mar-31-2007	Upto Mar-31-2006	For the Year	On Deletions	As on Mar-31-2007	As on Mar-31-2007	As on Mar-31-2006
Computers										
- Kutch	36,500	12,200	–	48,700	9,678	6,551	–	16,229	32,471	26,822
- Mumbai	161,616	44,800	–	206,416	7,806	30,495	–	38,301	168,115	153,810
- Chennai	–	78,450	78,450	–	–	7,000	7,000	–	–	–
Land	–	272,600	–	272,600	–	–	–	–	272,600	–
Forklift	826,799	–	–	826,799	43,877	78,546	–	122,423	704,376	782,922
Office Equipments										
- Kutch	87,881	–	–	87,881	2,979	4,174	–	7,153	80,728	84,902
- Mumbai	–	132,343	–	132,343	–	166	–	166	132,177	–
- Chennai	25,250	208,607	233,857	–	3	4,993	4,996	–	–	25,247
Plant and Machinery										
Kutch	166,400	–	–	166,400	9,875	7,904	–	17,779	148,621	156,525
Motor Bike										
Chennai	–	43,792	43,792	–	–	2,810	2,810	–	–	–
Furniture and Fixtures										
- Chennai	51,005	2,724,831	2,775,836	–	9	59,674	59,683	–	–	50,996
Total	1,355,451	3,517,623	3,131,935	1,741,139	74,227	202,313	74,489	202,051	1,539,087	1,281,224
Previous Year	239,191	1,116,260	–	1,355,451	6,475	67,751	–	74,227	1,281,225	–

	As at March 31, 2007	As at March 31, 2006
F INVESTMENTS		
Non-trade		
Shares with The Cosmos Co-Op. Bank Ltd. (1,000 shares of Rs. 100/- each)	100,000	100,000
Total	100,000	100,000
G INVENTORIES		
Stock in Hand (As Valued and Certified by the Management)	239,766,442	130,536,998
	239,766,442	130,536,998
H SUNDRY DEBTORS		
(Unsecured, Considered Good)		
Due for period Exceeding Six Months	10,606,260	4,637,602
Due for period Less than Six Months	82,551,514	45,745,415
	93,157,774	50,383,017

SCHEDULES TO BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
I CASH AND BANK BALANCES		
Cash in hand	120,675	246,865
Balance with Schedule Bank :		
Current Accounts	3,722,405	1,521,358
Fixed Deposits	1,974,692	3,668,043
(Pledged with banks as Margin Money against Guarantees and Letter of Credit)		
	5,817,772	5,436,266

	As at March 31, 2007	As at March 31, 2006
J LOANS AND ADVANCES		
(Unsecured, Considered Good)		
Advances Recoverable in cash or kind or for value to be received	17,795,329	2,923,543
Deposits	1,107,730	1,544,500
Total	18,903,059	4,468,043

	As at March 31, 2007	As at March 31, 2006
K CURRENT LIABILITIES		
Sundry Creditors	39,407,826	21,437,591
[Out of the above, the total outstanding dues to small scale industrial undertaking are Rs. NIL, (Previous year Rs. NIL)] (Refer Note No. 13 of Schedule X)		
Advances Received	430,506	1,533,927
Sundry Creditors for Expenses	22,962,235	14,041,186
	62,800,567	37,012,704
Provisions		
Taxation (Net of Advance Tax)	2,689,599	977,368
Others	23,206,811	22,183,236
	25,896,410	23,160,604
Total	88,696,977	60,173,308

SCHEDULES TO PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	For the year ended March 31, 2007	For the year ended March 31, 2006
L (INCREASE)/DECREASE IN STOCK		
Opening Stock	130,536,998	12,757,730
(-) Closing Stock	239,766,442	130,536,998
(-) Goods Lost By Flood	–	1,234,118
Total	(109,229,444)	(119,013,386)
M COST OF MATERIALS		
Purchase Of Goods Traded	363,437,520	209,245,011
Packing Costs	4,424,005	1,457,719
Total	367,861,525	210,702,730
N SALARIES, WAGES AND EMPLOYEE BENEFITS		
Salaries	5,048,007	2,931,814
Total	5,048,007	2,931,814
O ADMINISTRATIVE, SELLING AND OTHER EXPENSES		
Advertisement Expenses	12,914,654	8,126,931
Auditors' Remunerations	28,090	19,081
Brokerage and Commissions	10,060,308	3,911,345
Donation	276,000	335,000
Insurance Charges	1,472,401	546,524
Miscellaneous Expenses	5,848,824	3,999,685
Freight Outwards	29,536,655	10,068,057
Other Selling Expenses	13,761,719	4,994,102
Directors' Remuneration	300,000	–
Preliminary Expenses W/Off.	–	6,607
Loss / (Profit) On Sale of Fixed Assets	(274,489)	–
Rent, Rates and Taxes	4,225,355	3,311,180
Total	78,149,517	35,318,511
P INTEREST AND OTHER FINANCE EXPENSES (NET)		
Interest Costs	4,460,777	2,504,872
Other Financial Charges	12,818,101	5,915,910
Less:- Interest Incomes From		
Interest on Fixed Deposits with Bank	253,415	159,105
Others	–	42,740
Total	17,025,463	8,218,937

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

I Basis of Accounting

The Financial Statements are prepared under the historical cost convention, on an accrual basis, and in accordance with the relevant provisions of the Companies Act, 1956 and the applicable mandatory Accounting Standards issued by the Institute of Chartered Accountants of India.

II Accounting Policies

The same sets of accounting policies are followed in these financial statements for the current financial year as those followed in the preceding financial year except otherwise stated herein.

III Fixed Assets

Fixed Assets are stated at historical cost less accumulated depreciation thereon and/or recoverable value in case of Impairment, if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

IV Depreciation

a) Depreciation is provided on Straight Line Method at the rates and in the manner specified in the Schedule XIV of the Companies Act, 1956.

b) Depreciation on the Fixed Assets added/disposed off /discarded during the period has been provided on pro-rata basis with reference to the month of addition/disposal/discarding.

V Borrowing Cost

Borrowing costs are recognized as an expense in the period in which they are incurred.

VI Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing on the date of transaction. Monetary Assets and Monetary Liabilities in foreign currency are stated at the period ended closing rates. The resulting exchange gain/loss is recognized in the profit and loss account. Exchange differences arising on account of conversion/translation of liabilities incurred for acquisition of the fixed assets are adjusted to the cost of the respective assets.

VII Investments

Long Term Investments are stated at cost less provision, if any, for permanent diminution in their value.

VIII Inventories

Inventories are valued at lower of cost and net realisable value. They include costs incurred in bringing them to their present location and condition.

Cost of inventories is computed on Weighted Average / FIFO basis.

IX Revenue Recognition

a) Sales are recorded net of returns.

b) Dividend income is accounted when the right to receive the same is established.

X Taxes on Income

Provision for taxation comprises of Current tax, Deferred Tax and Fringe Benefit Tax. Current tax Provision has been made in accordance with the Income Tax Act, 1961.

Deferred tax for timing differences between the book and tax profits for the period is accounted for, using the tax rates and laws that have been substantively enacted as of the balance sheet date.

Deferred tax assets arising from timing differences are recognized to the extent there is reasonable certainty that these would be realized in future.

Deferred tax assets are recognized on unabsorbed losses only if there is virtual certainty that such deferred tax asset can be realized against future taxable profit.

XI Impairment of Fixed Assets

Factors giving rise to any indication of impairment of the carrying amounts of the Company's Assets are appraised at each Balance Sheet date to determine and provide/ reverse an impairment loss. There is no such impairment in the carrying amount of the Company's Assets.

XII Provisions and Contingent Liabilities

Provisions are recognized when the Company has a legal and constructive obligation as a result of a past event, for which it is probable that a cash outflow will be required and a reliable estimate can be made of the amount of the obligation.

Contingent Liabilities are disclosed when the Company has a possible obligation or a present obligation and it is uncertain as to whether a cash outflow will be required to settle the obligation.

B) NOTES TO ACCOUNTS:

1. The Company closed down its trading activities at its Chennai Branch and sold all the assets of the branch in December 2006.

2. Contingent Liabilities not provided for in the books of accounts:

(Amount in Rupees)

	Current year	Previous year
a. Letter of credit	6,123,000	NIL
b. Bank Guarantee	NIL	3,23,643
c. Custom Duty	18,668,785	NIL

3. Managerial Remuneration:

	Current year	Previous year
Directors Salary and Allowances	Rs. 300,000	–
Percentage to Net Profit	0.89%	–

Note: The above remuneration is within the limits as calculated below

Computation of Net Profit u/s. 198 read with sec.309 (5) of the Companies Act, 1956.

(Amount in Rupees)

	Current year	Previous year
Profit as per Profit and Loss Account	33,770,317	7,586,520
Add: Managerial Remuneration	300,000	-----
Less: Profit on sale of fixed assets	274,489	-----
Total	**33,795,828**	**7,586,520**
Managerial Remuneration ceiling @ 10%	3,379,583	-----

4. Auditors Remuneration (including service tax):

(Amount in Rupees)

	Current year	Previous year
For Auditing	11,236	6,735
For Taxation, Legal Matters and Financial Consultations	16,854	12,346

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

5. Deferred Tax Liability / (Asset) at the year end comprise timing differences on account of:

(Amount in Rupees)

		Current year	Previous year
I	Depreciation	177,107	63,871
II	Expenditure/Provisions Disallowable	1,939,761	60,232

6. Earnings per Share (EPS) is calculated as under:

(Amount in Rupees)

		Current year	Previous year
I	Profits used as Numerator for calculating EPS		
	Net Profit After Tax	22,182,323	4,914,792
II	Denominator		
	Weighted average number of Equity Shares outstanding		
	- Basic and Diluted	190,000	115,205
III	Nominal Value of Share in (Rs.)	10	10

7. Disclosure in respect of Related Parties pursuant to Accounting Standard 18:

a) Holding Company

Euro Ceramics Limited

b) Name of the enterprises having same Key Management Personnel and/or their relatives as the Reporting enterprises:

Eurobond Industries Pvt. Ltd.	Euro Flooring Pvt. Ltd.	Subhnen Décor Pvt. Ltd.
National Laminate Corporation	Euro Developers Pvt. Ltd.	Subhnen Ply Pvt. Ltd.
Euro Multivision Ltd.	Euro Solo Energy Systems Ltd.	Subhnen Veneer Pvt. Ltd.
Euro Pratik Ispat Pvt. Ltd.	Kevin Impex Pvt. Ltd.	Kanch Ghar
Subhnen Finance & Investments Pvt. Ltd.	Laxmi Ply Agency	Metro Stationery Mart
Neelam Metal - Pune	NLS Enterprise Pvt Ltd.	Gurukul Enterprises Pvt. Ltd.
Neelam Ply & Laminates	Lyons Technologies Ltd.	Ladhabhai Sanganbhai Gala Charitable Trust
Tangent Furniture Pvt. Ltd.	Disti Enterprises Pvt. Ltd.	Vaman International Pvt. Ltd.
Monex Stationers	Zenith Corporation	Nova Enterprises
National Ply & Laminates		

c) Relatives of Key Management Personnel:

Nenshi L. Shah H.U.F.	Shantilal L. Shah	Pravin D. Gala
Laljibhai K. Shah H.U.F.	Gunvantiben N. Shah	Laljibhai K. Shah
Shantilal L. Shah H.U.F.	Hitesh S. Shah	Sushila H. Gala
Subhash L. Shah H.U.F.	Jayantilal Nishar	Rekhaben Nishar
Dhaval L. Shah	Subhash L. Shah	Kasturben T. Nandu
Shantaben L. Shah	Urmi P. Shah	Viral T. Nandu
Sonalben L. Shah	Parag K. Shah	Kumar P. Shah

d) Key Management Personnel:

Nenshi L. Shah	Nitesh P. Shah	Talakshi L. Nandu	Paresh K. Shah	Pratik K. Shah

During the year following transactions were carried out with the related parties in the ordinary course of business :

Transaction / Nature Relationship	Holding	Enterprises having common Key Management Personnel	Relative of Key Management Personnel	Key Management Personnel
Sales, Service and other income	– (–)	2,034,791 (10,014,683)	– (–)	– (–)
Sale of Fixed Assets	– (–)	– (–)	– (–)	– (–)
Purchase of goods and services	46,008,369 (9,851,198)	56,267,692 (10,875,059)	– (-)	180,000 (75,000)
Purchase of fixed assets	– (–)	63,178 (–)	– (–)	– (–)
Director's Remuneration	– (–)	– (–)	– (–)	300,000 (–)
Interest Received	– (–)	– (42,740)	– (–)	– (–)
Interest Paid/Payable	– (–)	97,183 (308,712)	– (–)	3,189,215 (1,524,394)
Loans/Advances Obtained	53,300,000 (600,000)	8,500,000 (59,763,317)	– (–)	36,000,000 (32,700,000)
Loans/Advances Given	– (13,350,000)	– (11,500,000)	– (–)	– (–)
Loans/Advance Repaid	– (–)	16,533,803 (21,500,000)	– (–)	18,700,000 (–)
Outstanding balance as at March 31, 2007				
Loans Payable	17,800,000 (–)	23,864,812 (239,437)	– (–)	34,869,680 (17,753,357)
Loans Receivable	– (–)	– (33,803)	– (–)	– (–)
Amount Receivable	– (–)	2,030,780 (–)	– (–)	– (–)
Amount Payable	29,460,045 (9,005,948)	17,879,662 (–)	– (–)	292,024 (73,315)

- *Figures of the Previous year have been given in brackets*
- *No amount in respect of the related parties have been written off / back.*
- *Related party relationship have been identified by the management and relied upon by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

8. Value of Goods Imported *(Amount in Rupees)*

		Current year	Previous year
I	Import Purchase	128,546,455	121,447,328
II	High seas Purchase	103,556,489	10,126,456

9. Expenditure in Foreign Currency (on actual Payment basis) *(Amount in Rupees)*

		Current year	Previous year
I	Foreign Traveling Expenses	119,954	–

10. Earnings in Foreign Currency *(Amount in Rupees)*

	Current year	Previous year
Foreign Exchange Earnings	2,059,950	95,525

11. Disclosure pursuant to Clause 32 of the Listing Agreement

a) Loans and Advances in the nature of Loans given to the Subsidiary: *(Amount in Rupees)*

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
i) Subsidiary Company	N.A.	N.A.	N.A.	N.A.

b) Loans and Advances in the nature of Loans given to the Firms/Companies in which Directors are interested: *(Amount in Rupees)*

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
i) Euro Multivision Ltd.	NIL	33,803	33,803	4,000,000

c) Investment by the loanee in the shares of the Company and /or its Subsidiary: *(Amount in Rupees)*

	Current year		Previous year	
Particulars	Balance as on March 31, 2007	Maximum Amount due at any time during the year	Balance as on March 31, 2006	Maximum Amount due at any time during the year
Investment by the loanee in the shares of the Company and /or its Subsidiary	NIL	NIL	NIL	NIL

12. Quantitative Details of Goods Traded

Particulars of Goods Traded	Opening Stock	Purchases	Closing Stock
Border Tiles (in pieces)	605,544	1,605,546	634,500
Décor Tiles (in pieces)	100,986	314,425	183,545
Sanitary Ware (in pieces)	–	8,609	7,996
Floor Tiles (in Boxes)	47,107	152,461	79,404
Porcelaino Tiles (in Boxes)	19,237	–	5,364
Rustic Tiles (in Boxes)	28,132	30,452	27,341
Vitrified Tiles (in Boxes)	4,325	–	–
Wall Tiles (in Boxes)	201,439	896,847	402,695

13. The amount due to Small Scale Industrial Undertakings (SSIs) is furnished under the relevant head, on the basis of information available with the Company regarding small-scale industry status of the suppliers. There are no amounts outstanding to such suppliers.The Company has not received any intimations from suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid/payable as required under the said Act have not been given.

14. a) For Cash Flow Statement- Refer Annexure I

b) For information as required under part IV of schedule VI to the Companies Act, 1956 - Refer Annexure II.

15. Figures of previous year have been regrouped / rearranged wherever necessary.

As per our attached report of even date
For **Deepak Maru & Co.**
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For **Euro Merchandise (India) Ltd.**

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 25, 2007

ANNEXURE - I

Cash Flow Statement

(Amount in Rupees)

	2006-2007			2005-2006
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		33,770,317		7,586,520
Adjustments for :				
Preliminary Exp. W/off	–			6,607
Dividend Income	(13,750)			–
Profit on Sale Of Fixed Assets	(274,489)			–
Depreciation	202,313			67,751
Interest and Finance Charges (net)	17,025,463	16,939,537		8,218,937
Operating Profit before working capital changes		50,709,854		15,879,815
Decrease / (Increase) in sundry debtors	(42,774,757)			(30,808,546)
Decrease / (Increase) in other current assets	(14,435,016)			3,782,606
Decrease / (Increase) in inventories	(109,229,444)			(117,779,268)
Increase / (Decrease) in trade and other payables	26,811,437	(139,627,780)		52,691,928
Taxes Paid (Net Of Refunds)		(7,896,715)		–
Net Cash (used in)/ from Operating Activities			(96,814,641)	(76,233,465)
B. CASH FLOW FROM INVESTING ACTIVITIES				
(Purchase) of Fixed Assets		(3,517,623)		(1,116,260)
Sale of Fixed Assets		3,057,446		–
Profit On Sale Of Fixed Assets		274,489		–
Dividend Income		13,750		–
Interest Received		253,415		201,845
Net Cash (used in)/ from Investing Activities			81,477	(914,415)
C. CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds / (Refund) of Share application money		(8,800,000)		2,700,000
Proceeds from issue of share capital		–		7,500,000
Proceeds from Borrowings		128,361,602		78,846,427
Repayment of Borrowings		(5,168,054)		–
Interest and Finance Charges paid		(17,278,878)		(8,420,782)
Net Cash (used in)/ from Financing Activities			97,114,670	80,625,645
Net increase in Cash and Cash Equivalents			381,506	3,477,766
Cash and Cash Equivalents (Opening Balance)			5,436,266	1,958,500
Cash and Cash Equivalents (Closing Balance)			5,817,772	5,436,266

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Merchandise (India) Ltd.

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 25, 2007

ANNEXURE - II

INFORMATION PURSUANT TO PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956 :

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details

Registration No.	145654	State Code	11
Balance Sheet Date	31 (Date) 03 (Month) 2007 (Year)		

II. Capital Raised during the year *(Amount in Rs. Thousand)*

Public Issue	NIL	Bonus Issue	NIL
Right Issue	NIL	Private Placement	NIL

III. Position of Mobilisation and Deployment of Funds *(Amount in Rs. Thousand)*

Total Liabilities	270587.16	Total Assets	270587.16
Sources of Funds			
Paid up Capital	1900.00	Reserves and Surplus	37849.39
Secured Loans	136735.02	Unsecured Loans	91985.89
Deferred Tax Liability	2116.87		
Application of Funds			
Net Fixed Assets	1539.09	Investment	100.00
Net Current Assets	268948.07	Misc. Expenditure	0.00

IV. Performance of Company *(Amount in Rs. Thousand)*

Total Income	392827.70	Total Expenditure	359057.38
Profit before Tax	33770.32	Profit after Tax	22182.32
Earning per Share in Rs.	116.75	Dividend Rate %	NIL

V. Generic Names of three Principal Products / Services of the Company. (as per monetary terms)

Item Code No. (ITC Code)	6901 00 10
Product Description	CERAMIC TILES

By order of the Board of Directors
For Euro Merchandise (India) Ltd.

Place : Mumbai
Date : July 25, 2007

Nenshi L. Shah
Director

Nitesh P. Shah
Director

CONSOLIDATED AUDITORS' REPORT

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have examined the attached Consolidated Balance Sheet of Euro Ceramics Limited and its subsidiary viz. Euro Merchandise (India) Limited as at March 31, 2007, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended.

These financial statements are the responsibility of the management of Euro Ceramics Limited. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit also 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 statements. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the subsidiaries have also been audited by us whose reports have been furnished and considered.

We report that the consolidated Financial Statements have been prepared by the Company in accordance with requirements of Accounting Standard AS 21, Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of above audited financial statements of Euro Ceramics Limited and audited financial statements of it's Subsidiary Company viz. Euro Merchandise (India) Ltd. are included in the consolidated financial statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports of Euro Ceramics Limited and Euro Merchandise (India) Limited, we are of the opinion that said Consolidated Financial Statements together with the notes thereon give a true and fair view in conformity with the accounting principles generally accepted in India.

a) In the case of Consolidated Balance Sheet, of the state of affairs of Euro Ceramic Group as at March 31, 2007.

b) In the case of the Consolidated Profit and Loss Account, of the consolidated results of operations of Euro Ceramic Group for the year then ended; and

c) In the case of the Consolidated Cash Flow Statement, of the consolidated Cash Flow of Euro Ceramic Group for the year then ended.

For DEEPAK MARU & CO.
Chartered Accountants

Deepak M. Maru
Partner
Membership No.: 49347

Place: Mumbai
Date: July 25, 2007

CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

	Schedule	As at March 31, 2007	As at March 31, 2006
SOURCES OF FUNDS			
Shareholders' Fund			
Share Capital	A	171,000,000	114,785,000
Share Application Money		–	69,264,000
Reserves and Surplus	B	1,647,642,673	494,509,191
		1,818,642,673	678,558,191
Loan Funds			
Secured Loans	C	2,614,622,089	1,540,111,136
Unsecured Loans	D	247,468,638	269,877,173
		2,862,090,727	1,809,988,309
Deferred Tax Liabilities		100,135,953	61,578,941
Total Funds Employed		4,780,869,353	2,550,125,441
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,013,881,754	1,706,227,684
Less : Accumulated Depreciation		199,520,572	86,029,118
Net Block		1,814,361,182	1,620,198,566
Capital Work In Progress		815,484,230	129,267,641
		2,629,845,412	1,749,466,207
Investments	F	460,750	461,100
Current Assets, Loans and Advances			
Inventories	G	767,484,017	448,079,893
Sundry Debtors	H	514,149,833	326,856,068
Cash and Bank Balances	I	960,696,508	33,962,580
Loans and Advances	J	321,521,736	244,794,154
		2,563,852,095	1,053,692,695
Less : Current Liabilities and Provisions	K		
Current Liabilities		374,181,829	250,250,731
Provisions		39,107,075	3,243,829
		413,288,904	253,494,560
Net Current Assets		2,150,563,191	800,198,134
Miscellaneous Expenditure		–	–
Total Funds Utilized		4,780,869,353	2,550,125,441
Significant Accounting Policies and Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Ceramics Ltd.

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	Schedule	For the year ended March 31, 2007	For the year ended March 31, 2006
INCOME			
Sales and Income from Operations		2,143,513,871	1,383,558,730
Other Income	L	5,348,717	1,590,423
		2,148,862,588	1,385,149,153
EXPENDITURE			
(Increase)/Decrease In Stock	M	(319,844,310)	(58,678,232)
Cost of Materials	N	937,878,608	481,221,694
Salaries, Wages and Employee Benefits	O	75,026,702	44,753,773
Manufacturing, Selling and Other Expenses	P	765,202,861	552,898,976
		1,458,263,861	1,020,196,211
Earnings Before Interest, Depreciation and Tax		690,598,727	364,952,942
Interest and Other Finance Expenses (Net)	Q	148,007,447	65,516,202
Profit Before Depreciation and Extra Ordinary Items		542,591,280	299,436,740
Depreciation		113,922,447	45,225,101
Profit before Tax		428,668,833	254,211,639
Provision for Taxation			
- Current Tax		83,257,696	21,978,539
- Fringe Benefit Tax		1,655,213	1,185,004
- Deferred Tax		38,557,012	27,939,086
Net profit		305,198,912	203,109,010
Balance Brought Forward		278,355,364	–
Profit Available for Appropriation		583,554,276	203,109,010
APPROPRIATIONS			
Interim Dividend		20,520,000	–
Corporate Tax on Interim Dividend		2,877,930	–
Transfer to General Reserve		10,000,000	–
Capital Redemption Reserve		–	62,165,000
Surplus Carried to Balance Sheet		550,156,346	140,944,009
		583,554,276	203,109,010
Earnings Per Share - Rs.		25.49	17.69
(Face Value of Rs. 10/- each)			
Significant Accounting Policies and Notes on Accounts	X		

Schedules referred to above form an integral part of the Accounts

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

By order of the Board of Directors
For Euro Ceramics Ltd.

Deepak M. Maru
Partner
Membership No. 49347

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

Place : Mumbai
Date : July 25, 2007

SCHEDULES TO CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
A SHARE CAPITAL		
Authorised		
20,000,000 Equity Shares of Rs. 10/- each	200,000,000	200,000,000
	200,000,000	200,000,000
Issued, Subscribed and Paid Up		
Equity Share Capital		
17,100,000 (Previous year 11,478,500) Equity Shares of Rs. 10 each fully paid	171,000,000	114,785,000
Out Of the Above :		
a) 8,608,875 (Previous year 8,608,875) Equity shares fully paid were issued as Bonus out of the Reserves.		
b) 5,621,500 (Previous year NIL) Equity shares fully paid up were issued by IPO through 100% Book Building Process at a premium of Rs. 155 per share.		
	171,000,000	114,785,000

B RESERVES AND SURPLUS		
Share Premium	1,085,387,500	214,055,000
Surplus as per Profit and Loss Account	550,156,346	278,355,364
General Reserve	10,000,000	–
Capital Reserve On Consolidation	2,098,827	2,098,827
Total	1,647,642,673	494,509,191

C SECURED LOANS		
From Banks		
a) Vehicle Loans	5,914,192	9,093,393
b) Term Loans	1,917,300,654	1,063,759,517
c) Cash Credit and Other Facilities	691,407,243	467,258,226
(Refer Note No.3 of Schedule X)		
Total	2,614,622,089	1,540,111,136

D UNSECURED LOANS		
From Directors	117,651,990	123,232,712
From Shareholders	10,763,204	39,942,288
From Companies	94,691,534	93,889,368
From Dealers -Security Deposits	24,361,910	12,812,805
Total	247,468,638	269,877,173

SCHEDULES TO CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

E FIXED ASSETS

PARTICULARS	GROSS BLOCK			DEPRECIATION BLOCK			NET BLOCK		
	Holding	Subsidiary	Consolidated as on Mar-31-2007	Holding	Subsidiary	Consolidated as on Mar-31-2007	Holding	Subsidiary	Consolidated as on 3Mar-31-2007
TANGIBLE ASSETS									
Land - Freehold	2,544,001	272,600	2,816,601	–	–	–	2,544,001	272,600	2,816,601
Building	376,652,137	–	376,652,137	22,047,288	–	22,047,288	354,604,849	–	354,604,849
Plant and Machinery	1,576,708,853	166,400	1,576,875,253	169,695,449	17,779	169,713,228	1,407,013,404	148,621	1,407,162,025
Furniture and Fixtures	29,289,603	–	29,289,603	2,555,008	–	2,555,008	26,734,595	–	26,734,595
Office Equipments	8,298,469	220,224	8,518,693	713,285	7,319	720,604	7,585,184	212,905	7,798,088
Vehicles	14,046,684	826,799	14,873,483	2,873,876	122,423	2,996,299	11,172,808	704,376	11,877,184
Computers	4,590,868	255,116	4,845,984	1,423,613	54,530	1,478,143	3,167,255	200,586	3,367,841
INTANGIBLE ASSETS									
Trade Mark Rights	10,000	–	10,000	10,000	–	10,000	–	–	–
Total	**2,012,140,615**	**1,741,139**	**2,013,881,754**	**199,318,521**	**202,051**	**199,520,572**	**1,812,822,095**	**1,539,087**	**1,814,361,182**
Previous Year	1,704,872,233	1,355,451	1,706,227,684	85,954,892	74,226	86,029,118	1,618,917,341	1,281,225	1,620,198,566

F INVESTMENTS

	As at March 31, 2007	As at March 31, 2006
Non-trade		
I Unquoted		
35,075 Shares of The Cosmos Co-Op. Bank Ltd.	350,750	350,750
1,000 Shares of The Cosmos Co-Op. Bank Ltd. (Subsidiary)	100,000	100,000
(Pledge with Bank)		
II Properties		
7 Shares of Sangam Arcade Co-Op. Housing Society Ltd.	–	350
III National Saving Certificate	10,000	10,000
Total	**460,750**	**461,100**

G INVENTORIES

	As at March 31, 2007	As at March 31, 2006
a) Finished Goods	545,038,982	230,266,980
b) Stores and Spares	33,841,964	6,828,966
c) Raw Materials	154,771,054	192,074,532
d) Packing Materials	8,357,866	3,093,304
e) Work In Process	14,167,016	9,094,708
f) Stock-In-Transit	11,307,135	6,721,403
(As Valued and Certified by the Management)		
Total	**767,484,017**	**448,079,893**

SCHEDULES TO CONSOLIDATED BALANCE SHEET

(Amount in Rupees)

	As at March 31, 2007	As at March 31, 2006
H SUNDRY DEBTORS *		
(Unsecured, Considered Good)		
Due for Period exceeding Six Months	62,745,183	11,886,504
Due for Period less than Six Months	451,404,650	314,969,564
Total	**514,149,833**	**326,856,068**
* Includes amount in respect of which the Company holds Deposits and Letter of Credit/Guarantees from Banks	12,401,425	15,564,310

I CASH AND BANK BALANCES		
Cash in Hand	1,708,011	1,986,103
Balance With Scheduled Banks		
Current Accounts	39,439,422	9,978,450
Fixed Deposits	919,549,075	21,998,027
(Of the total Fixed Deposits Rs. 171,549,075/- (Previous year Rs. 21,998,027/-) are pledged with banks as Margin Money against Guarantee and Letter of Credit and Rs. 748,000,000/- (Previous year Rs. NIL) are temporary investments of surplus funds of proceeds from IPO.)		
Total	**960,696,508**	**33,962,580**

J LOANS AND ADVANCES		
(Unsecured, Considered Good)		
Advances Recoverable in cash or in kind or for value to be received	284,308,669	218,251,096
Deposits	16,897,381	14,760,440
Balance With Central Excise, Sales Tax etc.	20,315,686	11,782,618
Total	**321,521,736**	**244,794,154**

K CURRENT LIABILITIES		
Sundry Creditors	222,013,115	161,818,016
[Out of the above, the total outstanding dues to small scale industrial undertakings are Rs. 3,019,694 (Previous year Rs. 1,190,993)]		
Advances From Customers	41,010,847	30,307,888
Other Liabilities	100,846,692	57,303,036
Interest Accrued But not due	10,311,175	821,791
	374,181,829	250,250,731
Provisions		
Taxation (Net of Advance Taxes)	37,899,776	2,062,713
Leave Encashment	1,207,299	1,181,116
	39,107,075	3,243,829
Total	**413,288,904**	**253,494,560**

SCHEDULES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	For the year ended March 31, 2007	For the year ended March 31, 2006
L OTHER INCOME		
Dividend on Long Term Investments	28,750	15,000
Miscellaneous Income	–	1,425,423
Interest on Fixed Deposit Kept from IPO Proceeds	4,719,967	–
Rent	600,000	150,000
Total	5,348,717	1,590,423

	For the year ended March 31, 2007	For the year ended March 31, 2006
M (INCREASE) /DECREASE IN STOCK		
Opening Stock		
Finished Goods	230,266,980	65,925,121
Work In Process	9,094,708	2,345,534
	239,361,688	68,270,655
Closing Stock		
Finished Goods	545,038,982	117,854,179
Work In Process	14,167,016	9,094,708
	559,205,998	126,948,887
Total	(319,844,310)	(58,678,232)

	For the year ended March 31, 2007	For the year ended March 31, 2006
N COST OF MATERIALS		
Raw Material Consumption	554,961,352	406,731,664
Purchase of Goods traded	344,681,150	52,508,377
Packing Material Consumption	38,236,106	21,981,653
Total	937,878,608	481,221,694

	For the year ended March 31, 2007	For the year ended March 31, 2006
O SALARIES, WAGES AND EMPLOYEE BENEFITS		
Salaries, Wages, and Bonus	62,667,870	36,870,446
Contributions to Provident and Other Funds	2,087,822	1,501,064
Welfare Expenses	10,271,010	6,382,263
Total	75,026,702	44,753,773

SCHEDULES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Amount in Rupees)

	For the year ended March 31, 2007	For the year ended March 31, 2006
P MANUFACTURING, SELLING AND OTHER EXPENSES		
Consumptions of Stores and Spares	8,785,611	22,844,657
Power and Fuel	371,527,011	259,406,915
Processing Charges	5,993,135	7,695,874
Brokerage and Commission	22,857,682	31,083,531
Advertisement	40,175,577	54,627,951
Auditors Remuneration	128,090	74,181
Repairs and Maintenance		
- Building	752,400	438,943
- Plant and Machinery	15,366,844	5,467,756
- Others	2,698,480	2,442,566
Director Remuneration	5,100,000	3,400,000
Director Sitting Fees	85,000	40,000
Donation	9,664,380	5,682,101
Freight Outward	29,536,655	76,189,986
Exchange Rate Differences	(1,414,312)	1,554,438
Loss on sale of Fixed Assets	109,869	1,199,210
Insurance	29,112,393	24,402,598
Preliminary Expenses Written Off	–	6,607
Rent, Rates and Taxes	15,064,473	10,375,821
Other Selling Expenses	172,743,452	20,409,750
Miscellaneous Expenses	36,916,121	25,556,091
Total	**765,202,861**	**552,898,976**

	For the year ended March 31, 2007	For the year ended March 31, 2006
Q INTEREST AND OTHER FINANCE EXPENSES		
Interest on Fixed Loans	85,983,263	23,937,730
Interest Others	58,169,146	36,045,305
Other Financial Charges	18,838,197	8,314,692
	162,990,606	68,297,727
Less : Interest Income		
Interest on Fixed Deposits With Banks	8,620,669	2,347,419
Other Interest	6,362,490	434,106
Total	**148,007,447**	**65,516,202**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A) SIGNIFICANT ACCOUNTING POLICIES:

I Basis of Consolidation

i) The consolidated financial statements (CFS) comprise the financial statement of Euro Ceramics Limited (the Company) and Euro Merchandise (India) Limited (incorporated in India and is a wholly owned subsidiary Company).

ii) The financial statements of the Company and its Subsidiary Company have been combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-company balances, intra-company transactions and unrealized profits or losses in accordance with Accounting Standard -21 "Consolidated Financial Statements," issued by the Institute Of Chartered Accountants of India.

iii) Euro Merchandise (India) Limited is a wholly owned subsidiary of the Company and therefore, the information pertaining to minority shareholders is not applicable in respect thereof.

iv) There is a shortage of cost to the Company of its investment in the subsidiary and the same is reflected by the capital reserve on consolidation shown in the CFS.

II Accounting Policies

The CFS have been prepared using uniform accounting policies, except stated otherwise, for like transactions and are presented to the extent possible, in the same manner as the Company's separate financial statements.

B) NOTES ON ACCOUNTS:

(Amount in Rupees)

		Current year	Previous year
1	Estimated amount of contracts remaining to be executed on capital account and not provided for	272,502,873	NIL
2	Contingent Liabilities not provided for in the books of accounts:		
	a Bills Discounted with Banks	26,630,541	11,310,767
	b. Letter of credit	59,859,125	NIL
	c. Guarantee Given	5,059,350	5,098,643
	d. Custom Duty	18,668,785	NIL

e. The Company has imported various Capital Goods under the Export Promotion Capital Goods Scheme (EPCG), of the Government of India, through various licenses, at concessional rates of Custom Duty on an undertaking to fulfill quantified exports within a period of eight years from the date of the respective licenses. The Custom Duty so saved amounts to Rs. 339,876,220 and the corresponding Export Obligation to be fulfilled is Rs. 2,719,009,760 as on the Balance Sheet date. If the said export is not made within the stipulated time period, the company is required to pay the said saved Custom Duty together with interest @15% p.a. There are two licenses in respect of which Export Obligation is entirely fulfilled by the close of the year, which is not included in the above figures. However, formal discharge from the obligation by discharge of license by the appropriate authorities is in progress.

3 Secured Loans :-

(Amount in Rupees)

		Current year	Previous year
a	Vehicle Loans		
	Are secured against Motor Car's and Personal Guarantee of the Directors of the Company.	5,914,192	9,093,393
b	Term Loans		
	Are secured against the First Charge created by mortgage on all the existing and future fixed assets situated at Bhachau (Kutch) and second charge created by hypothecation of current assets of the Company and against the collateral securities and Personal Guarantee given by the Directors and their Relatives.	1,917,300,654	1,063,759,517
c	Cash Credit and Other Facilities		
	Are secured against the First Charge created by Hypothecation of Stock and Book Debts and other current assets and second charge created on existing as well as future fixed assets of the Company situated at Bhachau (Kutch) and Against the personal Guarantee given by the Directors and their Relatives.	691,407,243	467,258,226

4. Deferred Tax Liability / (Asset) at the year end comprise timing differences on account of:

(Amount in Rupees)

		Current year	Previous year
I	Depreciation	98,103,388	64,018,315
II	Expenditure/Provisions Disallowable	2,032,565	(2,439,374)

5. Earnings per Share (EPS) is calculated as under:

(Amount in Rupees)

		Current year	Previous year
I	Profits used as Numerator for calculating EPS		
	Net Profit after Tax	305,198,912	203,109,010
II	Denominator		
	Number of Equity Shares outstanding		
	- Basic	11,971,344	11,478,500
	- Diluted	11,971,344	11,478,500
III	Nominal Value of Share in (Rs.)	10	10
IV	EPS - Basic as well as Diluted	25.49	17.69

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the year ended March 31, 2007

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

6. Disclosure in respect of Related Parties pursuant to Accounting Standard 18:

a) Name of the enterprises having same Key Management Personnel and/or their relatives as the Reporting enterprises:

Eurobond Industries Pvt. Ltd.	Euro Flooring Pvt. Ltd.	Subhnen Décor Pvt. Ltd.
Euro Multivision Ltd.	Euro Solo Energy Systems Ltd.	Subhnen Ply Pvt. Ltd.
Euro Pratik Ispat Pvt. Ltd.	Euro Developers Pvt. Ltd.	Subhnen Veneer Pvt. Ltd.
Subhnen Finance & Investments Pvt. Ltd.	Kevin Impex Pvt. Ltd.	Kanch Ghar
Neelam Metal - Pune	Laxmi Ply Agency	Metro Stationery Mart
Neelam Ply & Laminates	NLS Enterprise Pvt. Ltd.	Gurukul Enterprises Pvt. Ltd.
Tangent Furniture Pvt. Ltd.	Lyons Technologies Ltd.	Ladhabhai Sanganbhai Gala Charitable Trust
Monex Stationers	Disti Enterprises Pvt. Ltd.	Vaman International Pvt. Ltd.
National Ply & Laminates	Zenith Corporation	Nova Enterprises
National Laminate Corporation	Gala Enterprises	

b) Relatives of Key Management Personnel:

Nenshi L. Shah H.U.F.	Shantilal L. Shah	Pravin D. Gala
Laljibhai K. Shah H.U.F.	Gunvantiben N. Shah	Laljibhai K. Shah
Shantilal L. Shah H.U.F.	Hitesh S. Shah	Sushila H. Gala
Subhash L. Shah H.U.F.	Jayantilal Nishar	Rekhaben Nishar
Dhaval L. Shah	Subhash L. Shah	Kasturben T. Nandu
Shantaben L. Shah	Urmi P. Shah	Viral T. Nandu
Sonalben L. Shah	Parag K. Shah	Manjari H. Shah

c) Key Management Personnel:

Nenshi L. Shah	Pratik K. Shah	Kumar P. Shah
Talakshi L. Nandu	Paresh K. Shah	Nitesh P. Shah

During the year following transactions were carried out with the related parties in the ordinary course of business:

Nature of Transactions	Enterprises having common Key Management Personnel	Relative of Key Management Personnel	Key Management Personnel
Sales, Service and other income	221,315,493 (223,875,014)	– (–)	– (–)
Sale of Fixed Assets	67,896,206 (–)	– (–)	– (–)
Purchase of goods and services	62,077,989 (11,994,778)	– (–)	180,000 (75,000)
Purchase of fixed assets	1,190,610 (1,107,813)	– (–)	– (–)
Donation	2,700,000 (1,000,000)	– (–)	– (–)
Director's Remuneration/ Sitting Fees	– (–)	42,500 (111,600)	5,100,000 (3,400,000)
Interest Received	5,194,398 (42,740)	– (–)	– (–)
Interest Paid/Payable	272,945 (1,370,989)	2,932,677 (2,449,178)	14,984,411 (5,350,929)
Loans/Advances Obtained	64,314,000 (207,974,317)	15,000,000 (27,235,000)	199,830,000 (282,860,575)
Loans/Advances Given	24,350,000 (24,500,000)	– (–)	– (–)
Loans/Advance Repaid	51,463,466 (21,500,000)	12,514,588 (–)	246,817,000 (–)
Outstanding balance as at March 31, 2007			
Loans Payable	35,036,951 (129,787,327)	27,802,545 (22,867,578)	90,112,649 (126,811,551)
Loans Receivable	5,000,000 (33,803)	– (–)	– (–)
Amount Receivable	63,868,018 (50,329,198)	– (–)	– (–)
Amount Payable	19,901,868 (248,389)	– (148,225)	2,92,024 (73,315)

- *Figures of the Previous Year have been given in brackets.*
- *No amount in respect of the related parties have been written off / back.*
- *Related party relationships have been identified by the management and relied upon by the auditors.*

7. a) For Segment Information - Refer Annexure I

b) For Cash Flow Statement- Refer Annexure II

8. Previous years figures have been regrouped, rearranged and recasted wherever necessary.

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347
Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Ceramics Ltd.

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007

ANNEXURE I

CONSOLIDATED SEGMENTWISE FINANCIAL STATEMENT FOR THE YEAR ENDED MARCH 31, 2007.

I) Primary Segment - Business

(Amount in Rupees)

	CERAMIC TILES		ALUMINIUM SECTIONS		GOLD JEWELLERY		INTER-SEGMENTAL ELIMINATION		TOTAL	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
a) Segmental Revenue										
Sales to External Customers	1,950,230,127	1,178,409,541	193,283,744	184,693,189	–	20,456,000	–	–	2,143,513,871	1,383,558,730
Inter-segmental Revenue	–	–	–	–	–	–	–	–	–	–
Total Segmental Revenue	1,950,230,127	1,178,409,541	193,283,744	184,693,189	–	20,456,000	–	–	2,143,513,871	1,383,558,730
b) Segmental Results (PBIT)	765,627,860	363,382,325	28,194,717	29,715,797	–	1,345,428	–	–	793,822,577	394,443,550
Less: Interest and Finance Charges									148,007,447	65,516,201
									645,815,130	328,927,349
Less: Unallocable Expenses Net of Unallocable Income									217,146,297	74,715,711
Profit Before Tax and Exceptional Items									428,668,833	254,211,638
Loss / (Gain) due to Exceptional Items									–	–
Profit Before Tax									428,668,833	254,211,638
Less: Provision for Current Tax									83,257,696	21,978,539
Less: Provision for Deferred Tax									38,557,012	27,939,086
Less: Provision for Fringe Benefit Tax									1,655,213	1,185,004
Profit After Tax									305,198,912	203,109,010
c) Carrying amount of Segmental										
Assets	2,577,309,423	1,719,664,684	86,578,859	56,598,688	–	451,862	–	–	2,663,888,282	1,776,715,234
Unallocated Assets									2,530,269,975	1,026,904,767
Total Assets									5,194,158,257	2,803,620,001
d) Carrying amount of Segmental										
Liabilities	1,349,197,772	781,613,245	4,947,531	681,507	–	–	–	–	1,354,145,303	782,294,752
Unallocated Liabilities									2,021,370,281	1,342,767,058
Total Liabilities									3,375,515,584	2,125,061,810
e) Cost incurred to acquire Segment										
Fixed Assets during the year	271,007,805	612,903,222	7,244,867	1,659,554	–	–	–	–	278,252,672	614,562,776
Unallocated Assets									101,470,052	547,890,138
f) Depreciation / Amortization	373,919,635	35,894,692	1,614,563	1,171,941	–	–	–	–	375,534,198	37,066,633
Unallocated depreciation									53,134,635	8,158,468

II Primary Segment - Geographical

	2006-2007	2005-2006
The Company's operating facilities are located in India		
Domestic Revenues	2,012,175,253	1,329,085,628
Export Revenues	131,338,618	54,473,102
Total	2,143,513,871	1,383,558,730

ANNEXURE - II
Consolidated Cash Flow Statement

(Amount in Rupees)

	2006-2007			2005-2006
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		428,668,833		254,211,638
Adjustments for :				
Preliminary Expenses W/off	–			6,607
Depreciation	113,922,447			45,225,101
Interest and Finance Charges (net)	148,007,447			65,516,202
Dividend and Other Incomes	(5,348,717)			(1,590,423)
Loss On Sale Of Fixed Assets	109,869	256,691,046		1,199,210
Operating Profit before working capital changes		685,359,879		364,568,335
Decrease / (Increase) in sundry debtors	(187,293,765)			(121,637,607)
Decrease / (Increase) in other current assets	(76,720,006)			(188,283,794)
Decrease / (Increase) in inventories	(319,404,124)			(137,334,248)
Increase / (Decrease) in trade and other payables	123,592,749	(459,825,146)		165,491,202
Cash generated from Operations		225,534,733		82,803,888
Income taxes paid (Net of Refund)		(49,083,427)		(57,873,088)
Net Cash from Operating Activities			176,451,306	24,930,800
B. CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition of Subsidiary	–			(14,250,000)
(Purchase) of Fixed Assets including Capital Work in Progress	(1,065,939,311)			(738,145,050)
Sale of Fixed Assets including Capital Work in Progress	71,638,012			–
Loss on Sale of Fixed Assets	(109,869)			(1,199,210)
Interest Received	14,983,159			2,781,525
(Increase)/Decrease in Investments	–			(260,750)
Dividend and Other Incomes	5,348,717			1,590,423
Net Cash (used in)/from Investing Activities			(974,079,292)	(749,483,062)
C. CASH FLOW FROM FINANCING ACTIVITIES				
Redemption of Preference Share Capital	–			(62,165,000)
Proceeds from Share Application Money	–			37,964,000
Refund Of Share Application Money	(69,264,000)			–
Proceeds from issue of Share Capital	927,547,500			–
Proceeds from Borrowings	1,090,041,425			891,311,190
Repayments of Borrowings	(37,939,007)			–
Increase / (Decrease) in payables for capital goods	364,532			(111,612,994)
Interim Dividends and Dividend Distribution Tax	(23,397,930)			–
Interest and Finance Charges paid	(162,990,606)			(68,297,727)
Net Cash (used in)/from Financing Activities			1,724,361,914	687,199,469
Net increase in Cash and Cash Equivalents			926,733,928	(37,352,793)
Cash and Cash Equivalents (Opening Balance)			33,962,580	67,177,398
Cash and Cash Equivalents taken over from Subsidiary			–	4,137,975
Cash and Cash Equivalents (Closing Balance)			960,696,508	33,962,580

As per our attached report of even date
For Deepak Maru & Co.
Chartered Accountants

Deepak M. Maru
Partner
Membership No. 49347

Place : Mumbai
Date : July 25, 2007

By order of the Board of Directors
For Euro Ceramics Ltd.

Nenshi L. Shah
Managing Director

Paresh K. Shah
Director

Jayshree D. Soni
Company Secretary

Place : Mumbai
Date : July 25, 2007