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EURO CERAMICS LIMITED ■ Annual Report 2007-08

Cost. Customisation. Convenience.

The long and short of it is that Euro Ceramics Limited is shaking up its industry by leveraging these age-old mantras into a compelling business model.

Corporate information

Board of Directors Mr. Nenshi L. Shah *Chairman & Managing Director* Mr. Talakshi L. Nandu *Whole-time Director* Mr. Kumar P. Shah *Whole-time Director*	Mr. Paresh K. Shah *Whole-time Director* Mr. Shantilal L. Shah *Non Executive Director* Mr. Pravin D. Gala *Non Executive Director* *(up to July 30, 2008)*	Mr. Lalji K. Shah *Non Executive Director* Mr. Shivji K. Vikamsey *Independent Director* Mr. Raichand K. Shah *Independent Director* Mr. Anil M. Mandevia *Independent Director*	Mr. Amit G. Shah *Independent Director* Mr. Jatin R. Chhadva *Independent Director* *(w.e.f. July 30, 2008)* Mr. Nishit V. Shah *Independent Director* *(w.e.f. July 30, 2008)*

Company Secretary Ms. Jayshree D. Soni **Chief Executive Officer** Mr. Sushil Chudiwala	**Chief Financial Officer** Mr. Piyush Gupta **Vice President –Exports** Mr. Parag Shah	**Vice President-Sanitary Ware** Mr. Viral Nandu **Genearl Manager-Accounts and Finance** Mr. Chandresh Rambhia	**Vice President- Plant** Mr. T. P. Rao **Auditors** M/s. Deepak Maru & Co., Chartered Accountants

Bankers State Bank of India The Cosmos Co-op. Bank Ltd. State Bank of Saurashtra HDFC Bank Limited	**Registered Office** Boston House, Ground Floor, Suren Road, Chakala, Andheri (East), Mumbai - 400 093	**Factory** Survey No. 510, 511, 512, 517/1, Bhachau Dudhai Road, Bhachau (Kutch), Gujarat – 370 140	**Registrar & Share Transfer Agent** M/s. Intime Spectrum Registry Limited C-13, Pannalal Silk Mills Compound, L.B.S. Marg, Bhandup (West), Mumbai – 400 078

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Euro Ceramics today.

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 its 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.

Business

- Manufacturing vitrified ceramic tiles with an installed capacity of 79,971 MTPA.
- Manufacturing calcareous tiles with an installed capacity of 45,000 MTPA.
- Manufacturing sanitaryware with an installed capacity of 11,000 MTPA.
- Manufacturing aluminium extruded sections with a capacity of 1,800 MTPA.
- Trading in wall tiles, through its 100% subsidiary, Euro Merchandise (India) Ltd.
- Generating 10-MW of power through captive power plant based on lignite.

Management

- 1,000-plus professional team, headed by Mr. Nenshi L.Shah, Chairman & Managing Director.
- Promoters hold a 55.31% stake.

Mission

- Euro Ceramics is committed to serve society by providing quality products and services.
- We have dedicated ourselves to long-term growth and will practise 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 share of the global market.
- Suitable expansions related to our core strength in construction industry.
- Euro Ceramics will practise the best business standards and values and stand as a role model for the best of the medium-size enterprises to give maximum benefits to its shareholders.

Banking on

Quality

- ISO 9001:2000.
- ISO 13006/EN 176 Group B1a Certifications.

Presence

- Headquartered in Mumbai.
- Plant located at Bhachau, Kutch.
- Listed on the National Stock Exchange and the Bombay Stock Exchange.
- Marketing presence across India under the Euro brand.
- Runs 30 retail outlets across the country.

Projects

- Residential complex
- Commercial complex
- IT industry
- Banking sector
- Corporate offices
- Multiplexes
- Shopping complexes, malls
- Star hotels
- Hospitals
- Airports
- Government projects

Operations

Technology and equipment sourced from SACMI.

Promoter's holding

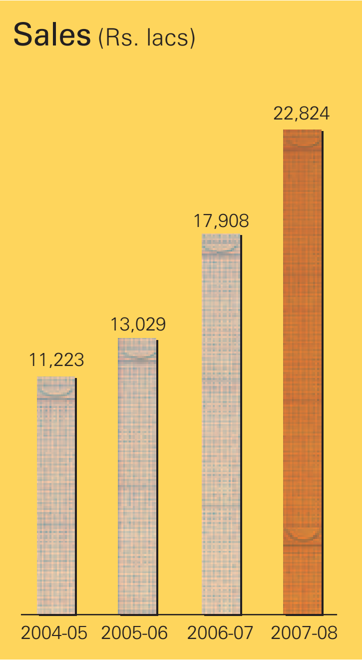
55.31%
as on
March 31, 2008

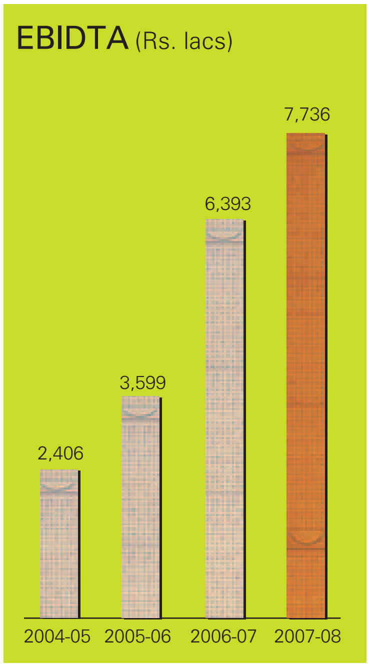
Employees

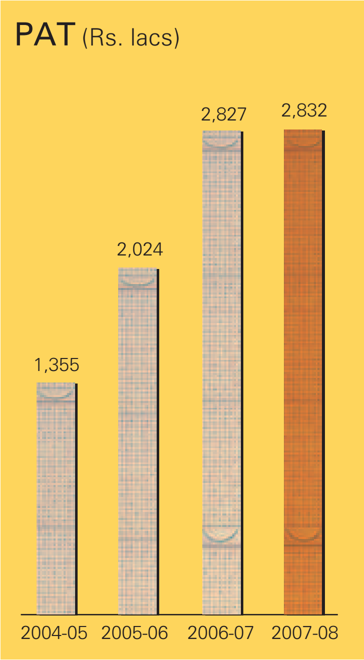
1090
employees
as on
March 31, 2008

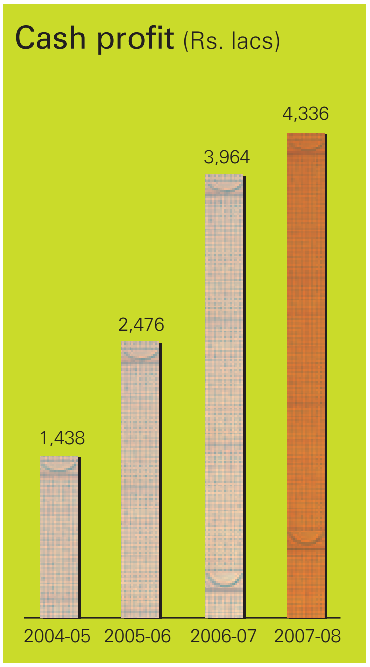
Market capitalisation

Rs. 210 crs
as on
March 31, 2008



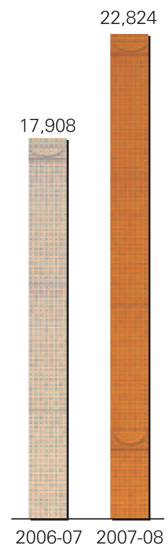




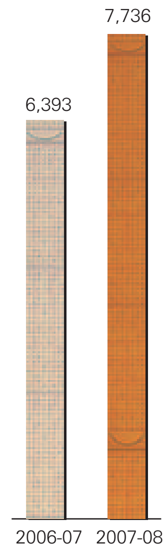


Highlights 2007-08

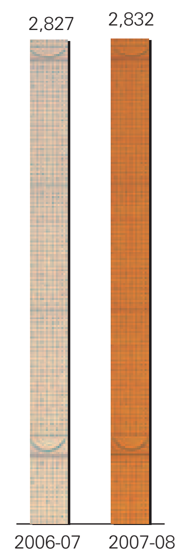
Sales
(Rs. lacs)



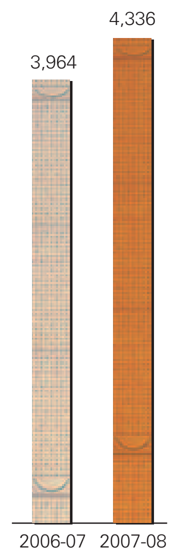
EBIDTA
(Rs. lacs)



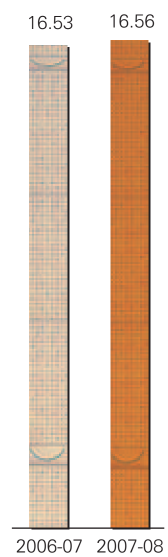
PAT
(Rs. lacs)



Cash profit
(Rs. lacs)



EPS
(Rs.)



Operations

• Reported 100% utilisation across the vitrified tile capacities and commenced commercial production at the calcareous tile plant in 2007-08.

• Reduced power and fuel cost as a proportion of the turnover by 167 bps to 19.07%.

Product score

Vitrified tiles

• Increased production by 9.12% — from 78,331 tonnes in 2006-07 to 85,472 tonnes.

• Nearly 90% of the output was classified as first-quality grade.

• Launched new designs.

Aluminium extrusions

• Increased production from 1,320 tonnes in 2006-07 to 1,408 tonnes.

Calcareous tiles

• Commissioned a 45,000-MTPA calcareous tiles facility in June 2007.

Credit ratings

• Achieved PR1+ rating from CARE, signifying strong capacity for timely payment of short-term debt and the lowest credit risk.

• Awarded LA+ rating from CARE, signifying adequate safety for the timely servicing of debt obligations with the tenure of more than a year. This rating signifies a low credit risk.

Marketing

• Launched a complete range of calcareous tiles i.e.; agglomerated marble under the Euro brand.

• Expanded its marketing presence across India and in international territories.

• Doubled exports to around Rs. 19 crores.

• Supplied in various SEZs.

• Introduced franchise outlets to exclusively market Euro products under the name 'Euro Stile Station'.

Post-balance sheet development

• Commissioned an 11,000-MTPA sanitaryware facility in April 2008 at a cost of around Rs. 77 crores.

Shareholder returns

Earnings per share	Book value (as on March 31, 2008)	Dividend
Rs. 16.56	Rs. 115.05	7.5%

CMD's overview

"We are the youngest in the industry, but we outperformed the industry sales growth with a 27% rise in our topline."

Mr. Nenshi L. Shah, *Chairman & Managing Director,* shares the Company's big picture.

Dear Shareholders,

What kind of a Company is Euro Ceramics? What distinctive difference will we make in our space?

These are the two questions that I am most frequently asked today.

Euro Ceramics is not another tile company. It is being positioned as a core ceramic Company. Our growth will be derived from a growing understanding of this material and how we can apply it in various ways to make a wider range and a better quality of products.

Euro Ceramics is not a run-of-the-mill ceramic products company. It is being positioned as a design-led, premium tile company. What we make will address customers who possess the desire and the capability to buy the best.

At the Company, we feel that a combination of these two statements represents the essence of an effective and enduring business model. This is why:

- It is our experience that the community of people who want to migrate to a better quality of products and services keeps growing all the time, recession or not. Most consumer segments are sensitive to the overall economic, national and international environments; the premium-end is not.

- It is our experience that the quality-conscious, upper-end customer rewards innovation and design better and quicker than any other income segment. In our business, this translates into a more effective coverage of costs, the availability of an attractive cash flow and a stronger availability to reinvest in more products and higher capacities.

- In our experience, a design-led company creates the expectation of superior quality. This creates a consumer pull, helps us reduce the promotions budget, enthuses our franchisees and helps us widen our distribution network faster.

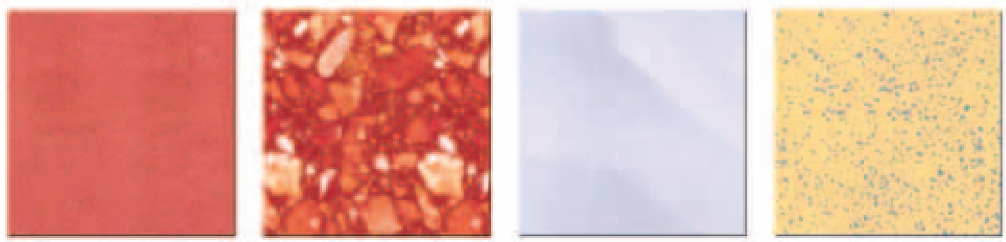
I am pleased to state that in 2007-08 we walked this talk. We leveraged our understanding of the ceramic material and extended from the manufacture of vitrified tiles to the commercial manufacture of calcareous tiles in June 2007 and sanitaryware in April 2008.

So what will this business model achieve for our Company?

One, there is a growing international respect for Euro Ceramics for its ability to fuse three globally established product categories into its business with speed and effectiveness. In our understanding, this combination of businesses is unique; companies have successfully scaled their individual product lines to achieve economies of scale and brand, but no Company has taken the absolutely lateral approach of widening its product breadth over scale within our sector.

Two, we expect to drive sustainable growth in terms of topline and bottomline for the Company over the foreseeable future, translating into superior value for all those who own shares in our Company.

Nenshi L. Shah
Chairman & Managing Director



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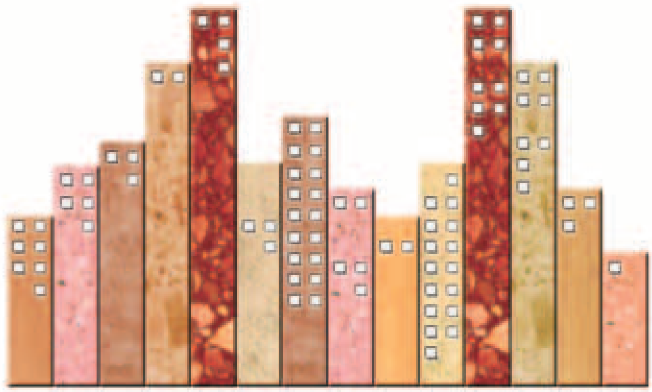
One Company?

We see four. One for vitrified tiles. One for calcareous tiles (agglomerated marble). One for sanitaryware. One for wall tiles.



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Diversified expansion?

We see an unprecedented increase in homes, offices, malls, hotels and hospitals. A migration to better products. A revolution in renovation.

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Product clutter?

We see selling more products – vitrified tiles, calcareous tiles, wall tiles and sanitaryware products — to the same institutional customers or through the same retail stores.

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Stretched financials?

We see one of the highest EBIDTA margins among ceramic solution Companies in India.

Our strengths

Brand
Euro's brand stands unmistakably for pride-enhancing superior quality, differentiated design and a wide range across all its products of manufacture or sale.

Business model
Euro's business model comprises the sale of products manufactured directly by itself, or of complementary products manufactured by other quality-committed manufacturers — a balance of manufactured and traded income.

Focus
Euro possesses a core ceramic competence in the manufacture of three different product lines within the space of a year and can lead to more products over time.

First mover
Euro is a pioneer. The Company was the first to enter the manufacture of tiles through vitrified flooring products (as opposed to others for whom it was an add-on product). The Company emerged as the first to manufacture calcareous tiles in the organised sector in India.

Range
Euro's products range addresses the needs of various pockets. The Company's vitrified tiles extend from Rs. 45 per sq. ft. to Rs. 120 per sq. ft. Its calcareous tiles extend from Rs. 175 per sq. ft to Rs. 300 per sq. ft. and sanitaryware products range from Rs. 2,500 a piece to Rs. 10,000 a piece.

Technology

Euro's SACMI technology solution for the manufacture of vitrified tiles has translated into improved efficiency, quicker operational stability, higher proportion of 'first quality' products and a lower downtime.

Location

Euro's plant in Kutch is close to raw material source, ports and to major markets.

Captive power plant

Euro's 10-MW lignite-based captive power plant has helped to meet complete captive needs, reduced cost, enhanced product quality and trimmed maintenance expenses.

Execution excellence

Euro's management commissioned and launched calcareous tiles (2007) and sanitaryware products (2008) successfully, indicating deep execution capabilities.

Positioning

Euro's margins remain the highest in India's organised vitrified and calcareous segments, generating adequate accruals for reinvestment.

Why are we optimistic about our prospects?

Economic outlook
India's per capita GDP (purchasing power parity) is expected to climb by almost 4% a year over the next 15 years.

Urbanisation
Half of the country's population is expected to be living in urban areas – the focus of the Company's products – contributing nearly as 75% of the country's GDP.

Population distribution and the age
Nearly 64% of India's total population is in the age group of 15 to 64 years.

Population and the labour force
The population of India grew by 17% in 1997-2007, while its labour force grew by 27%. In the next five years, India's population is expected to go up by 7% and its labour force by 10%.

Middle-class
Rising disposable incomes will help create a 583-mn-strong middle class, making India the fifth largest consuming economy by 2025. Maharashtra, proximate to the Company's location, has the highest urban middle class population of 16.4 million.

Demographic transformation
Indians with an annual income of US$57,000-US$115,000 accounted for 9 million in 2001-02. They are expected to reach 33 million by 2009-10.

Urban development
The Union Urban Development Ministry's Rs. 260,000-crore urban development plan will improve water supply, sewerage, sanitation and public transport,

creating the basis for enhanced demand of the Company's products. Funds worth Rs. 40,000 crore will be provided to states through the Centre's Jawaharlal Nehru National Urban Renewal Mission (JNNURM).

Growth of mega cities

All large Indian cities are expected to expand. From 15.1 mn in 1995, Mumbai is expected to grow to 33.2 mn by 2025, creating larger markets for the Company's products.

Retail penetration

The share of organised retail is expected to increase from around 3% to 8% by FY 2010, extending from metros to Tier-II cities and manifesting in malls, supermarkets and hypermarkets.

Leverage

The Indian society is becoming increasingly consumerist, with the number of credit cards having grown by 26% and debit cards by 113% annually over five years.

Consumer spending

Discretionary spending (lifestyle and premium products) will increase progressively to around 70% of most household's annual expense pie by 2025. India (12th in the world consumer market) is expected to account for 20% of the global consumer market by 2025.

Conversation with the Directors

"The ramp-up of two new businesses will be the highlights of our performance in 2008-09."

The Directors of Euro Ceramics review the Company's performance and prospects.

Were you happy with the performance of the Company in 2007-08?

Yes and no. On the one hand, we were pleased that the Company grew its total sales by 27% and maintained its EBDITA above 30%, indicating that we performed better than the industry average.

On the other hand, we were disappointed by the fact that we were compelled to write off Rs. 7.04 crores on account of derivative losses arising out of unexpected currency movements in the last quarter of 2007-08. This draw down was the singular reason why our profit after tax for 2007-08 increased only 0.15% over the previous year. We also encountered a delay in the commissioning of our sanitaryware product capacity, while there was a slow pick-up in the offtake of calcareous tiles on account of the concept marketing that these entailed.

Does this decline in profitability signal the end of a profitable quarter-on-quarter sequence?

We must take this opportunity to tell our shareholders that this is not the case by a long shot. The decline in profitability was largely on account of one-time derivative losses on our books. Had this loss not transpired, the Company would have reported a cash profit of 50.40 crore in 2007-08 as against Rs. 39.64 crore in 2006-07.

What were among the heartening aspects of the Company's performance during 2007-08?

We were fairly pleased with our topline increase of 27% over the previous year for a good reason: The fact that we reported a revenue increase higher than the industry average demonstrated that we got our sales mix

OUR UNDERSTANDING OF THE MARKET POTENTIAL FOR CALCAREOUS TILES WAS DERIVED FROM A SIMPLE REALITY: MARBLE IS AN ANCIENT PRODUCT AND ITS USE IN INDIA IS EXTENSIVE.

absolutely right. By this we mean, we optimised the products that we would manufacture and balanced the proportion of how much we would manufacture and what we would outsource. This is reflected in the numbers: we enhanced our sales revenues from Rs. 17,908 lacs in 2006-07 to Rs. 22,824 lacs in 2007-08.

We reported a consolidated turnover of Rs. 28,737 lacs in 2007-08, an increase of 34% over the previous year (including trading in wall tiles through our 100% subsidiary Euro Merchandise (India) Ltd). At Euro, we are of the conviction that a successful brand must be able to service the varied requirements of customers either through direct manufacture or through effective outsourcing.

At Euro, this is a deliberate strategy for some important reasons: it enables us to leverage our insight into cost-effective procurement and profitable marketing; it enables us to seed the market with selected products that we intend to directly manufacture at some point in the future; it enables us to capture consumer footfalls and loyalty with the prospect of making cross-sales. At Euro, the successful integration of this effective outsourcing with the Company's business model resulted in robust topline growth during the year under review.

Besides, we more than doubled exports to around Rs. 30 crores (including deemed export under SEZ supply) during 2007-08.

You spoke of the launch of calcareous tiles in 2007-08. What was the rationale behind the decision?

Our understanding of the market potential for calcareous tiles was derived from a simple reality: marble is an ancient product and its use in India is extensive. Although authenticated data is not available, it is estimated that the market for natural marble in India is worth around Rs. 2,000 crore and the country imports marbles valued at around Rs. 360 crore annually to cater to domestic demand. One of the reasons for the size of the country's marble market is the absence of suitable substitutes from organised manufacturers. At Euro, we were convinced that if we provided the customer with choice and cost-effectiveness, there would be a growing market for substitutes. It is with this perspective that the calcareous tile product (agglomerated marble) was introduced in 2007.

This is precisely what transpired in 2007. Natural Italian marble was priced at Rs. 205 per sq. ft. to Rs. 600 per sq. ft., while calcareous tiles were priced at Rs. 121 per sq. ft. to Rs. 300 per sq. ft. This differential helped to create a market in the country where previously none really existed.

Secondly, the niche Indian user has to import Italian marble, in bulk, considering the transit time and expense, and then needs to store it. This can be overcome by just-in-time supply of calcareous tiles.

Further, the tile cost generally varies around 4%-5% of the total construction cost.

AN INCREASING NUMBER OF SANITARYWARE ARE BOUGHT ALONG WITH VITRIFIED TILES TO ENHANCE CUSTOMER CONVENIENCE AND ENABLE US TO DERIVE A LARGER INCOME OUT OF CROSS-SALE OPPORTUNITIES.

But in the last three to four years, real estate market has boomed, and enhanced the total construction cost. As a result, the tile cost has declined as a percentage of total cost, attracting more buyers to go for niche products. Our success in this segment is reflected in the following realities: we successfully marketed calcareous tiles in 2007-08, and interestingly, our success inspired other companies to announce plans to enter this segment.

Going ahead, we expect to enhance the capacity utilisation of calcareous tiles on the one hand, and capture an increased market share of this product, on the other.

In last year's report, there was a significant focus on value-addition over the commodity strategy.

We are pleased to state that the strategy continued to be in profitable evidence during 2007-08. First the overview: value-added vitrified tiles (tiles that possess special effect, design and colour attract higher margins) as a proportion of our vitrified offtake increased.

Shareholders will be keen to understand how the Company's sanitaryware products fit into the existing product portfolio.

This is a good question. For a number of people, the manufacture of sanitaryware products might appear to be an unrelated diversification. It is not; it is completely synergic with our existing products for credible reasons:

- An increasing number of sanitaryware are bought along with vitrified tiles; their provision in the same storefront will enhance customer convenience and enable us to derive a larger income out of cross-sale opportunities.
- At Euro, we are positioning ourselves as a Company with a core competence in the management of ceramic material, using this skill to spin out varied – yet synergic – products like vitrified tiles, calcareous tiles, wall tiles and sanitaryware.

Euro has established a tradition of making a significant difference to each of the spaces of its presence. How will it make a difference in the sanitaryware segment?

It would be relevant for us to indicate here that the country does not lack credible sanitaryware brands. So shareholders would be inclined to ask what difference we can possibly make in this mature space. This is our answer: we are raising the standard of this segment. Our state-of-the-art plant is bought from SACMI, a world leader in ceramic industry. We have employed the latest techniques in our manufacturing facility to minimise human intervention and eliminate the scope of related errors. Besides, we have evolved in designs that are absolutely modern and

IT WOULD ALSO BE WORTH MENTIONING THAT AROUND 70% OF EURO'S SALES MIX COMPRISES SALES TO CORPORATES, WHICH IS QUITE DISTINCT FROM SALES MIX OF COMPETITORS.

international. The result is that over the coming months, we will introduce our exclusive sanitaryware range, that represents the best in international design and quality at domestic prices.

What challenges and opportunities do you foresee for the next year?

There is an apprehension of a real estate slowdown that could possibly stagger the offtake of housing stock – when prices are declining consumers generally tend to defer their purchases – however transitory this may be. There is also the fear of general inflation, rise in fuel costs, run-up costs in people retention as well as growing competition.

In the latter part of this report we have discussed in detail a number of initiatives that will enable us to derisk. Besides, we are encouraged by the fact that a number of real estate developers have embarked upon projects to develop properties multiple times larger than the aggregate size of properties they ever developed. Experts have indicated that the size of India's real estate industry will grow from US$57 billion in 2007 to US$90 billion by 2012, with tile-flooring accounting for around 4%-5% of the total construction cost.

Further, it would also be worth mentioning that around 70% of Euro's sales mix comprises sales to corporates, which is quite distinct from sales mix of competitors.

At Euro, we have positioned ourselves for the premium segment of this large market, resulting in adequate cash flow to fund an ongoing expansion in established and diversified, although integrated product lines.

The big opportunity is expected to emerge from the appreciation of the US dollar vis-à-vis the Indian rupee on the one hand, and the appreciation of the Chinese currency against the US dollar on the other. We are already witnessing the impact of Chinese products becoming more expensive in the international market and Indian products getting relatively cheaper. This combination will enable us to compete more effectively against imported products at home and carve out a large international market share as well. Indian manufacturers stand to gain as the country possesses a large availability of raw material than can be used in the manufacture of ceramic products, an edge not enjoyed by many nations.

At Euro, we expect to capitalise on these realities and enhance value for our shareholders through the full scale-up of the calcareous and sanitaryware businesses in 2008-09, resulting in enhanced cash flow that will be progressively used to retire debt and strengthen our gearing.

Management Discussion and Analysis

145,000

Rich Indian households with an annual income above US$50,000 in 2005.

405,000

Rich Indian households with an annual income above US$50,000 in 2015.

[Source: Dr. Yuwa Hedrick-Wong, Asia Pacific Economic Advisor to MasterCard Worldwide.]

Indian economy

India is the second largest emerging market economy, fourth largest global economy and the second fastest growing economy. It tops the AT Kearney list of emerging markets for global retailers and features among the top 10 FDI destinations.

GDP growth (%)

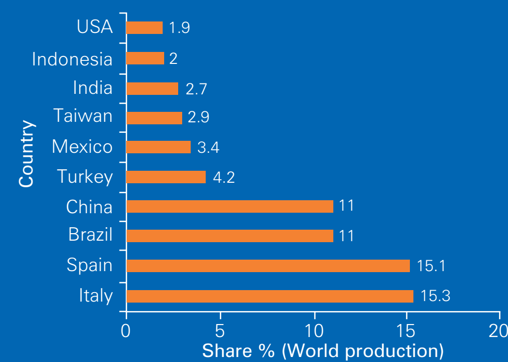
2005-06	2006-07	2007-08
9.4	9.6	9.0

Interestingly, this national growth is built on the edifice of an attractive increase in incomes. For instance, the wealth of the world's high net worth individuals (HNI) – the segment largely addressed by Euro – increased 11.4% to US$37.2 trillion in 2006 *[Source: World Wealth Report, released on June 27, 2007 by Merrill Lynch and Capgemini]*. Interestingly, the largest growth in HNI population occurred in India and Singapore, with increases of 20.5% and 21.2% respectively over the previous year.

Global overview

The US global ceramic tiles industry is growing at 6% annually. Asia, South America and the European Union represent the trio where ceramic tiles are largely manufactured. China, Brazil, Italy and Spain are the frontrunners in the industry space. The total production of ceramic tiles across the world stood at 6,900 million sq. mt. in 2007-08.

Top 10 producing countries (Share %)



[Source: ASCER]

Indian overview

The Rs. 15-billion ceramic tiles industry in India is the fifth largest in the world with a market share of 2.7%. The industry is accelerating at 15% annually, outperforming the global growth rate. It expects to emerge among the top three tile manufacturers in the world by 2010. The country produced 340 million sq. mt. of ceramic tiles during the year under review *[Source: ICCTAS]*.

AS A RESULT OF A STRONGER FISCAL CONTROL AND TAX COVERAGE, THE SHARE OF THE COUNTRY'S UNORGANISED SECTOR IN TILE MANUFACTURE DECLINED TO 44% IN 2007-08.

Around 56% of the Indian ceramic tiles industry is organised and represented by 16 large manufacturers. The unorganised share of the industry is controlled by around 200 manufacturers, 70% of them based in Gujarat. As a result of a stronger fiscal control and tax coverage, the share of the country's unorganised sector in tile manufacture declined to 44% in 2007-08.

Particulars	Ceramic tiles
World production	6,900 million sq.mt.
India's share	340 million sq.mt.
World ranking in production	5
Global industry growth rate	6%
Growth rate (domestic market)	15%
Organised sector	
Percent share of production	56
Number of units	16
Unorganised sector	
Percent share of production	44
Number of units	200

(Source: ICCTAS)

Growth drivers

Infrastructure growth: The housing sector is the biggest consumer of tiles, accounting for about 70% of the offtake while the country's commercial, retail and hospitality sectors account for the rest.

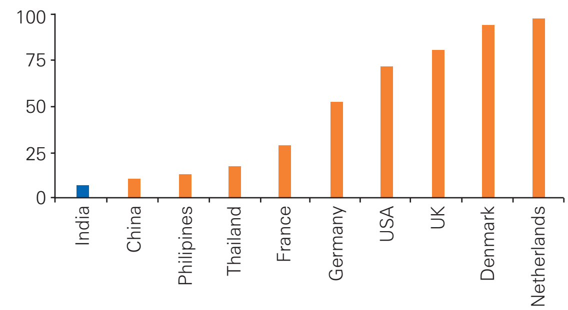
An increasing emphasis on infrastructure development and private participation – projected investment of US$450 billion by the end of the Eleventh Five-Year Plan (2007-12) – is expected to accelerate the growth of India's tile sector.

Real estate demand: India's real estate sector grew at 33% during the year under review. A Cushman & Wakefield report estimates that the cumulative demand for real estate in the country stands at 110-140 million sq. ft and is expected to reach around 1,000 million sq. ft by 2010. Urban India alone needs 12 million housing units with a scope for 400 townships across 30-35 cities in five years.

Similarly, the country's IT and ITeS sectors are estimated to require 150 million sq. ft across urban India by 2010. The organised retail industry is likely to require an additional 220 million sq. ft by 2010 *[Source: IBEF]*. As a result, the Indian real estate market is likely to grow from US$14 billion currently to around US$50 billion. The share of the real estate industry in the country's GDP increased from 5.25% in 2002-03 to 7% in 2007-08, but is still below the 15% share in developed economies.

Besides, mortgage debt as a percentage of GDP in India was less than 3%, compared with 50% in developed economies and over 20% in the rapidly growing Asian economies like Singapore, Taiwan and Malaysia, indicating that the Indian market could grow sustainably over the coming years.

A comparative study of mortgage to GDP ratio



[Source: EMF, Global Property guide, Crisil Research]

Nuclear family: The Indian social fabric is fast changing from joint families to nuclear equivalents and from *kuchcha* to *pucca*. As a result, total housing deficit is expected to increase from 19.8 mn, estimated in 2005, to 25.3 mn by 2011 *[Source: National Building Organisation].*

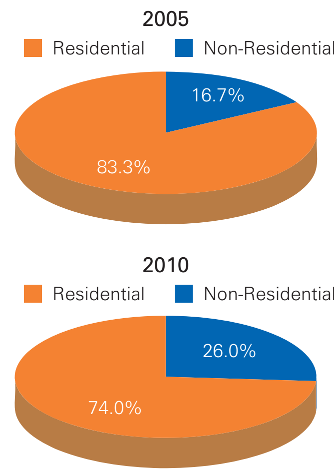
Growing Indian demand

(million sq. feet)

Sector	2005	2006-2010
Commercial	24.3	120-125
Hospitality	6-8	78
Residential	90-100	600-800
Retail	8-9	50
Total	**128.3-151.3**	**840-1055**

[Source: Cushman & Wakefield. Figures based on Mumbai, NCR, Bangalore, Hyderabad, Pune, Kolkata and Chennai data]

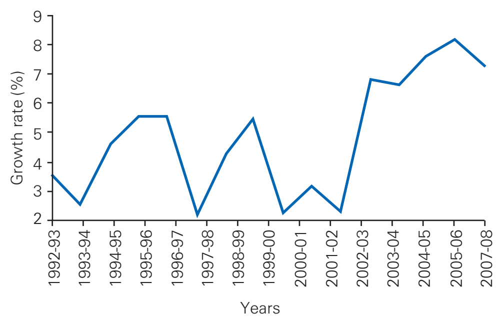
Projected share of the residential and commercial space in the Indian realty pie



[Source: India Infoline]

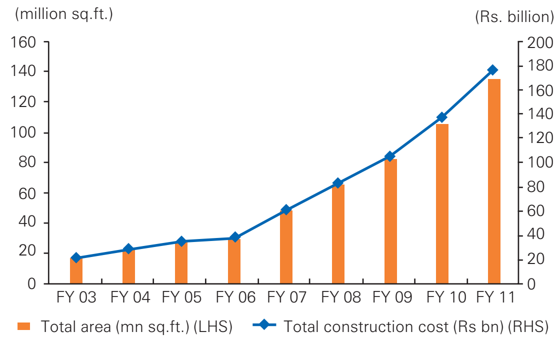
Affordability: The income patterns of urban housing consumers have undergone significant changes. The average cost of a suburban property was Rs. 2.2 mn when average salary levels were at Rs. 0.12 mn *(Source: HDFC, 1995)*. In 2001, the average annual income increased to Rs. 0.23 mn while property prices declined to Rs. 1.2 mn. In 2005, property prices hovered at Rs. 1.6 mn as against an annual income of Rs. 0.35 mn. This indicates the increasing affordability of real estate over the last 10 years, following a sharp increase in real income.

Growth in per capita income



[Source: Economic Survey 2007-08, Government of India]

Requirement of office space for the IT/ITeS sector



[Source: Crisil]

Wealth: The estimated cumulative liquid wealth of the affluent in India is poised to grow at 50% from US$203 billion to US$322 billion by 2009 *[Source: Datamonitor]*. The total number of Indian millionaires is expected to grow from 83,000 to 134,000 and the number of Indians with liquid wealth above US$100,000 is likely to grow from 711,000 to 1.1 million *[Source: Economic Times, September 22, 2006]*. The long-term outlook is as optimistic. A McKinsey Global study *(Indian Consumerism: Bird of Gold)* projects that the average real household disposable income will grow from Rs. 113,744 in 2005 to Rs. 318,896 by 2025, a CAGR of 5.3%.

IT-led growth: India was voted the best outsourcing destination, reflected in the 80% annual average growth in commercial IT space demand over four years *(Source: AT Kearney Survey)*. This has translated into an additional demand for commercial space, as well as adjoining residential and retail complexes.

Retail surge: Driven by an increasing disposable income and rising aspirations, the Indian retail industry is accelerating at 25% annually. It is projected to grow to a size of US$175-200 billion by 2016. The country's organised retail sector is expected to grow at 27% annually, from Rs. 530 billion in 2005-06 to around Rs. 1,797 billion by 2011, warranting an additional floor space of 127 million sq. ft by 2011 *[Source: KRC Research]*.

SWOT of the ceramic industry

Strengths

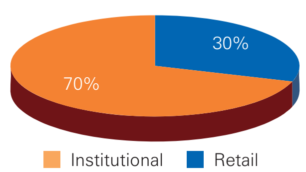
- A consolidated industrial environment with

Tile consumers can be broadly divided into two categories.

Institutional buyers: Institutional/project market buyers consist of large construction firms, corporate houses and government institutions. The segment accounts for large sales (60% of all sales in India).

Retail buyers: Retail buyers primarily comprise homebuilders. While volumes are lower, scattered and require the use of an extensive distribution network, operating margins are higher than in the institutional segment.

Sales break-up of Euro Ceramics



technological modernisation over the last 15 years.

- Indian production costs nearly 30% lower than that in Europe and the US.
- Availability of trained and expert personnel.

Weaknesses

- High degree of industrial fragmentation.
- Presence of a large number of small and medium-sized companies that fail to exploit economies of scale and have small operating margins.
- Price volatility due to industry fragmentation.

Opportunities

- A booming real estate sector in India.
- Fairly low per capita tile consumption, which is bound to increase over the coming years.

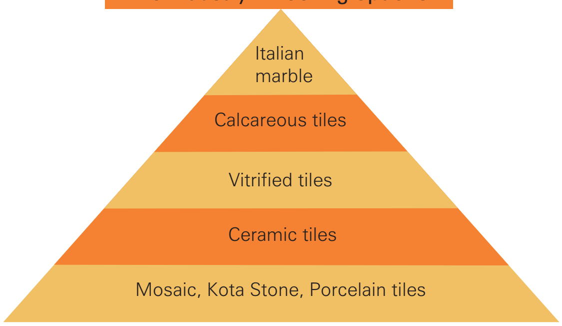
Threats

- Influx of low-cost tiles from Chinese manufacturers.
- Threat from the unorganised sector that operates outside the country's tax structure.

Divisional review

Tiles: Tiles account for roughly 3% of the total construction cost of a residence. India's ceramic industry size is estimated at Rs. 6,500 crore and expected to grow 15% annually *(Source: Indian Council of Ceramic Tiles and Sanitaryware)*. The tiles sector is segregated across categories like mosaic tiles, Kota stone and porcelain tiles (lower end) and white Italian marble (highest). Increased real estate development has created a robust demand for various construction materials, benefiting the ceramic tiles industry. Vitrified tiles and calcareous tiles accounted for around 90% of the Company's revenues in 2007-08.

Tile industry : Flooring options



Source : ICCTAS, CDEL Research

Vitrified tiles: Homogeneous clay bodies are fired at high temperatures to impart a low-water absorbent property, compared with ceramic tiles, which are more porous in nature. Ceramic tiles usually vary in length and width (± 5% is the internationally acceptable limit). This aberration is offset by using the 'grouting' technique, wherein a gap of about 5 mm is left between the tiles to cover up such dimensional inaccuracies that may occur in the lot. Vitrified tiles are harder and more abrasion resistant than ceramic tiles and therefore are ideally suited for flooring. The formats (sizes) possible in vitrified tiles are larger than that in ceramic tiles, which make them ideal for flooring.

VITRIFIED TILES HAVE A LONGER LIFE SPAN COMPARED WITH CERAMIC TILES. THIS MAKES DISCERNING CUSTOMERS WILLING TO PAY 7%-8% PREMIUM FOR QUALITY EURO TILES, DESPITE CHEAPER CHINESE OPTIONS.

Aluminium extrusions: India is one of the most attractive destinations for recycling aluminium. The demand for extrusion is growing at 8%-9% every year and is expected to touch 300,000 MT by 2010 – a 50% growth. Around 25% of the total aluminium consumption comes from recycled waste metal. Aluminium is increasingly becoming a replacement for other metals, with application in false ceilings, partitions, office cabins, window slidings and commercial premises, over wooden and metal frames.

Calcareous tiles: Calcareous tiles are high-value designer tiles, targeted at the price-inelastic upper segment of the market. These agglomerated marbles are made from marble chips bonded with resins, giving it an appearance similar to Italian marble.

Sanitaryware: The sanitaryware industry in India has grown significantly over the last few years with leading players doubling their production capacity. They also introduced battery casting and beam casting around the fast-firing cycle kiln technology, a prudent upgradation. The demand for premium sanitaryware is growing gradually, both in India and abroad. Sanitaryware did not account for the Company's revenues in 2007-08 as production commenced in 2008-09.

Human capital at Euro

The Company employed 1,090 people, enjoying a 97% retention rate in 2007-08. It hired professionals to train employees in leadership skills, team building, decision-making and soft skills. It conducted an annual Total Probability Management workshop to emphasise skill development and motivation. Various programmes were designed for new recruits around induction training sessions. The Company provided employees with facilities like schooling for their children, hospital, housing colony and transportation, among others.

Internal audit and control

The Company practises an adequate system of internal control and documented procedures, covering the 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. Consequently, the Company is in a strong position to detect fraud and/or irregularities, if any. They also ensure that financial and other records are 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 the adequacy of internal controls, as well as compliance with accounting standards.

Operational review

Capacity utilisation

The Company leveraged economies of scale through an investment in adequate capacity and high-asset utilisation. While the Company's vitrified capacity was utilised to the extent of 100%, the calcareous plant was relatively under-utilised on account of a gradual increase in market demand, product availability for only a part of the year and hassles related to commencement of production – issues which have since been corrected. The sanitaryware unit has been commissioned in 2008-09 and is expected to achieve a high capacity utilisation during the current financial year. The aluminium extrusions division also reported rated asset utilisation during the year under review.

Raw materials management

Raw materials accounted for around 30% of the Company's total revenue. Euro procured raw materials from domestic and global suppliers. Since proximity of the plant to raw material resource is critical to the Company's business, it prudently sourced majority of the raw materials from within a radius of 600 kms from its manufacturing location. Let us take a look at the various raw materials used in the manufacture of Company's products and their sources.

	Vitrified tiles	Aluminium extrusions	Calcareous tiles	Sanitaryware
Raw materials	• Ukraine clay • Soda feldspar • Potash feldspar • Ball clay • China clay	Aluminium scrap	• Marble waste and stones • Resins	• Potash feldspar • Soda feldspar • Ball clay • China clay
Source	Abundant in Rajasthan and Kutch, Ukraine clay is imported from Ukraine.	Imported from UAE	Abundant in Rajasthan, Gujarat and M.P; also imported from various countries across the globe.	Available in Rajasthan and Kutch; also imported from Europe.

EURO TRANSFORMED WASTE TO WEALTH THROUGH AGGLOMERATED MARBLE, WHICH IS MADE FROM WASTE MARBLE CHIPS AND STONE CHIPS.

90%

Production of first-pass products, 2007-08

85%

Production of first-pass products, 2006-07

Euro is strategically located near the Kandla and Mundra ports in Gujarat, which saves the transportation cost of raw materials and consumables which are imported. The plant is not far from the main consuming markets for finished products in Delhi and Mumbai. Moreover, both the markets are equidistant from the plant. This helps the Company reduce its payback period. Thanks to such geographical advantages, the Company succeeded in cutting down its logistics cost far below the industry average. More than 50% of the total output was sold within a 700 km radius of its plant in 2007-08.

Captive power plant

Euro's 10-MW captive power plant runs on lignite, which is abundant in Kutch. It enhances the Company's competitive advantage because tile-manufacturing processes are power-intensive. This power plant is catering to the power needs of each division of the Company with a sufficient surplus for the future needs of the sanitaryware division.

The Company enjoys a two-pronged advantage from the power plant. First, regular plant maintenance facilitates uninterrupted power supply, enhancing end-product quality. Second, the maintenance cost of the plant has also declined because of fewer breakdowns and power fluctuations.

Quality control

In a business marked by the need to achieve and maintain a high-quality consistency across different raw material and end production batches, Euro instituted stringent raw material appraisal standards across consistency, applications and treatments, leading to uniformity and predictable end-product quality. The unmatched quality of tiles from Euro depends largely on the technology imported from Sacmi, Italy.

As a result, the Company maintained its ISO 9001:2000 and ISO 13006/EN 176 Group B1a certifications. Its products enjoy appreciation from various institutions and corporates.

Technology edge

The Company imported an automated tile-manufacturing facility from Sacmi, ensuring that its products matched international standards. Euro strengthened its investments in technology and infrastructure upgradation through the following initiatives:

- In the calcareous segment, the Company used special superior quality resins as additives in the raw material mixing process to improve productivity.
- It upgraded its tile printing machines.
- It installed equipment timers to enhance fuel efficiency.
- It commissioned small machines to process smaller lots with multiple colours.
- It leveraged the use of robots and automated technology in its sanitaryware plant.

Marketing

In a business where it is imperative to market products wide and deep across rural and urban India as well as to individual and institutional customers, Euro Ceramics has blended the direct customer approach with its existing distribution network.

Effective cost-cutting

Euro reduced costs and enhanced its competitiveness through the following initiatives:

- Commissioned a coal-based hot air generator (HAG) to produce steam, which will be used in spray dryers to reduce fuel costs.
- Monitored fuel wastage through stringent documentation.
- Acquired raw material in finer forms to save electricity.
- Switched to diamond carbide from silicon carbide in tile polishing to increase speed and productivity on the one hand and reduce costs on the other.

In its direct customer approach, the Company has forged relationships with large corporates, architects, builders, contractors, dealers and engineers through its dedicated marketing executives. This approach has been reinforced through customised products, dependable supply and strategic relationships with industry giants, making it possible for the Company to align its growth with that of its fast-growing customers and enhance its brand in the process. The success of this approach and effectiveness of this business model is reflected in the fact that direct marketing constituted around 70% of the Company's sales in 2007-08.

The Company commissioned showrooms, studios and franchises – Euro Stile Stations – to display products in Mumbai, Ahmedabad, Surat, Hyderabad, Jaipur, Chennai, Udaipur, Bhubaneshwar and Coimbatore, among others. Franchise retail outlets increased from 10 to 30 and the Company plans to commission more such outlets in other cities.

The Company will cater to the growing affluence of the burgeoning commercial sector, requiring differentiated flooring solutions. It provides various tile formats including calcareous variants, resulting in a comprehensive flooring solution across price points.

Brand

In a business where it is imperative to provide the widest range just when the customer wants it, Euro manufactured the largest volume in its existence in 2007-08, even as it customised new finishes. This generated an attractive premium over competing products and about-8% top-up over the Company's basic line of products. More importantly, this strategy helped the Company enhance average realisations even when there was a decline in average industry realisations in 2007-08.

Research and development

Euro is respected for its product innovation. The Company invested Rs. 23.85 lacs in 2007-08 on research and development as against Rs. 19.12 lacs in 2006-07. It introduced specially glued bathroom tiles with an anti-skid facility during the year under review.

Outlook

Around 44% of the Indian ceramics industry is unorganised. The share of the organised sector is expected to increase over the coming years. Such trends throw up substantial opportunities for Companies like Euro.

Analysis of our financial statements: 2007-08 vs 2006-07

Increasing sales and profitability

• Net sales increased 27.45 % from Rs. 17,908 lacs in 2006-07 to Rs. 22,824 lacs in 2007-08.

• EBIDTA increased 21% from Rs. 6,393 lacs in 2006-07 to Rs.7,736 lacs in 2007-08.

• PAT increased from Rs. 2,827 lacs in 2006-07 to Rs. 2,832 lacs in 2007-08.

• Cash profit increased 9.36% from Rs. 3,964 lacs in 2006-07 to Rs. 4,336 lacs in 2007-08.

Shareholders' return in 2007-08

Earning per share	Book value per share	Dividend per share
Rs. 16.56	Rs. 115.05	Re. 0.75

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 reinvested surpluses into its business with the objective of repaying debt and strengthening its gross block. In view of this, it maintained a strict control of its asset-liability position at all times through a study of the periodic cash flow statement.

Margins

• The Company recorded an EBIDTA margin of 32.98% in 2007-08.

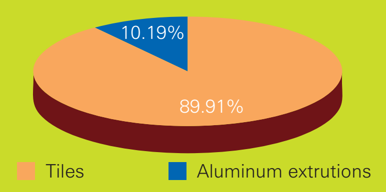
• It reported a net margin of 12.07% in 2007-08

• It also reported a cash profit margin of 18.48% during the year.

Revenue (net sales)

Revenue grew 27.45% in 2007-08 over 2006-07, primarily on account of volume growth, increase in the sale of its value added products, calcareous tiles. The premium products accounted for almost 90% of the sale.

By vertical: The Company derives it revenues from the sale of tiles (vitrified and calcareous) and Aluminum extrusions. The revenue distribution pie is as follows :



By geography: Domestic income grew 19.53% from Rs. 16,594 lacs in 2006-07 to Rs. 19,835 lacs in 2007-08, as a result of increasing consumer preference towards vitrified tiles, as well as enhanced commercial and retail sector growth. Exports grew 127.58% from Rs. 1,313 lacs in 2006-07 to Rs 2,989 lacs in 2007-08, due to new customers, repeat orders from existing global clients, and sales made in SEZ (deemed export)

By client: The Company caters to both retail and institutional clients. The revenue break-up between them is 30:70. The Company maintains a larger share of institutional clients as they are the largest buyers of the value-added tiles, with bulk orders.

Other income

Non-core income increased significantly by 697.43% from Rs. 79 lacs to Rs. 634 lacs, largely on account of the interest earned on the investment of the IPO proceeds in risk-free fixed deposits and exchange rate differences.

Cost analysis

Total operating cost increased by 35.59% from Rs. 11,594 lacs in 2006-07 to Rs. 15,722 lacs in 2007-08. The increase is on account of the growth in operational scale.

(Rs lacs)

	Absolute cost 2007-08	% of Net Sales 2007-08	Absolute cost 2006-07	% of Net Sales 2006-07
Cost of material (after adjusting stock of FG & WIP)	6923	30.33	3,998	22.32
Other manufacturing expenses	4,834	21.18	4,051	22.47
Employee cost	1,062	4.65	699	3.91
Administrative and selling and distribution expenses	2,903	12.72	2,846	15.96
Total expense	15,722		11,594	

A cost analysis of the key cost components reveals that material cost was the largest expense head for the Company;

Cost of materials: Cost of material as a percentage of net sales increased due to high inventories at the opening of the year. Otherwise it remained more or less constant.

Manufacturing costs: Inspite of an increase in operational scale, the manufacturing cost was maintained at almost the same level. There is a marginal decline as a percentage of sales as compared with the previous year. It mainly consists of stores and spares, power and fuel, repairs and maintenance.

Employee cost: With the wage bill for the Company increased significantly in absolute value due to the increase in the size of the team, following new unit of calcareous tiles and annual salary revision.

Administration and Selling and Distribution Cost: These costs generally comprise office expenses, insurance cost, marketing and advertisement expenses as well as freight and other selling expenses. The Company was able to control these cost and bringing them down marginally.

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. 5,938 lacs during the year under review, from Rs. 44,445 lacs in 2006-07 to Rs. 50,383 lacs in 2007-08, to fund increased capacities of calcareous tiles and diversification into sanitaryware.

Own fund: The Company's own fund comprise the equity share capital and reserves. It increased by 9.70%, from Rs. 17,933 lakhs in 2006-07 to Rs. 19,674 lakhs in 2007-08.

Share capital: The Company's share capital comprised 17,100,000 equity shares of the face value of Rs. 10 each. The Promoters continue to hold 55.31% stake in the Company's equity.

Reserves and surplus: The Company's reserves and surplus increased by 10.73% from Rs. 16,223 lacs as on March 31, 2007 to Rs. 17,964 lacs as on March 31, 2008, as a result of the plough-back of retained earnings of Rs. 2,682 lacs. The security premium account reduced by Rs. 941 lacs on account of adjustment of share issue expenses. The reserves comprised more than 91% of the shareholders' fund – reflecting the financial strength of the Company to fund capital-intensive projects through internal sources – growing the return on networth over the coming years. The debt-equity ratio stood at 1.56 as on March 31, 2008 as compared to 1.48 as on March 31, 2007.

External funds: The size and cost of debt creates the difference between a Company's success and failure. In the short-term, it impacts profitability, while over the long-term, it dictates the strength with which the Company is able to mobilise funds for projects.

The Company's reliance on external funds increased – the debt portfolio grew from Rs. 26,512 lacs as on March 31, 2007 to Rs. 30,709 lacs as on March 31, 2008 – a growth of only 15.83%. The short-term loans were largely used to meet working capital requirement, consequent to the growth in business operations, whereas the long-term loans were for the diversification into new business verticals.

Secured loans: It comprised more than 82% of the total external debt, an increase of by 2.30% during the year under review. Of the total, 20.02% was earmarked for working capital purposes; 9.35% of secured loans comprised foreign currency loans in the form of buyers' credit at a low coupon rate, reducing the Company's interest liability.

Unsecured loans: This primarily comprised loans drawn mainly from the Company's Directors and other Companies. Unsecured loans increased by 209.42% in 2007-08 due to the issuance of short-term, non-convertible unsecured debentures (NCD), of Rs. 2,500 lacs in March 2008 and increase in loan from Companies.

Interest: The Company's interest outflow increased from Rs. 1,310 lacs in 2006-07 to Rs. 3,093 lacs in 2007-08. This was mainly due to the derivative loss of Rs. 704 lacs in the current financial year. An increase in interest cost was also due to increase in the coupon rate as balance increase in the debt for working capital and capital expenditure. Further, the interest cost on debt taken for the calcareous tiles project has been debited in the Profit & Loss Account as the plant was put to use in the current year, capitalised in the previous year as per AS 16 of borrowing cost. This resulted in a rise in the average debt cost from 6.01% in 2006- 07 to 10,81% in 2007-08.

Application of funds

Fixed assets: The fixed assets of a company represent its competitive edge in terms of scalability and technological capability. Over the years, the Company invested continuously to create a sizeable fixed asset base. In 2007-08, the net block increased by 45.19% from Rs. 18,128 lacs as on March 31, 2007 to Rs 26,320 lacs as on March 31, 2008. The addition was due to the commissioning of the calcareous tiles plant. Capital work in progress mainly consist of capital expenditure on account of the sanitaryware segment. The 11,000-MTPA sanitaryware facility was commissioned in April 2008.

Depreciation: The Company consistently provided depreciation on the Straight Line method. Increase in the depreciation provision from Rs. 1,137 lacs in 2006-07 to Rs. 1504 lacs in 2007-08 was on account of a higher provision on an expanded production capacity in calcareous tiles. This additional depreciation provided a healthy tax shield for the Company.

Investments: There was no change in the total investments of the Company. The Company has a small investment portfolio of Rs. 146 lacs (0.29% of the capital employed as on March 31, 2008). Of this, the key investment comprises shares held in its 100% Subsidiary Company (Euro Merchandise (India) Ltd).

Working capital management: Working capital is essential to manage the dialy fund requirements for the operations. Working capital constituted 28.20% of the total capital employed, the outlay decreasing from Rs. 18,996 lacs as on March 31, 2007 to Rs. 14,207 lacs as on March 31, 2008 because of a decline in the cash and bank balance of the Company by over 72%; the Fixed Deposits kept out of the IPO proceeds as on March 31, 2007 was utilised in the current financial year in the sanitaryware project.

Inventory: Inventory increased from Rs. 5,279 lacs as on March 31, 2007 to Rs. 6,443 lacs as on March 31, 2008.

It grew mainly due to the increase in the work-in-process and raw materials for the calcareous tiles beside storage of colours and raw materials for vitrified tiles. Besides, maintenance of an increasing gross block necessitated the storage of large volumes of stores and spares.

Of the inventory as on March 31, 2008, raw material inventory constituted 32.86%, while the work-in-process constituted 12.28% of the inventory value. The inventory cycle for the Company stood at 103 days in 2007-08 compared to 108 days in 2006-07.

Debtors: The Company's debtors declined from Rs. 4,441 lacs as on March 31, 2007 to Rs. 4,408 lacs as on March 31, 2008. The Company reduced the debtors cycle from 91 days in 2006-07 to 70 days in 2007-08, as a result of more emphasis on the collection system.

Loans and advances: Loans and advances constituted 7.7% of the total current assets, increasing from Rs. 3,267 lacs as on March 31, 2007 to Rs. 3,857 lacs as on March 31, 2008. This comprised advances given to suppliers for raw materials and capital goods, security deposits given, MAT Credit, excise duty and vat refund balances – the advances recoverable in cash or in kind was Rs. 2,199 lacs as on March 31, 2008 (previous year Rs. 2,906 lacs).

Current liabilities: The Company's current liabilities decline from Rs. 3,176 lacs as on March 31, 2007 to Rs. 2,924 lacs as on March 31, 2008. Sundry creditors, the largest component under this head, decreased from Rs. 2,058 lacs as on March 31, 2007 to Rs. 1,813 lacs as on March 31, 2008. It accounted for 62% of the Company's current liabilities; the other liabilities include year-end provisions.

Provisions: The provisions include income tax payable net of advance tax, leave salary and proposed dividend for the current financial year.

Foreign exchange management

Foreign exchange transactions increased due to expanding global operations. Foreign exchange earning comprised export earnings, which accounted for more than 8% of the Company's total sales mix. During the year, the Company's forex earning was equivalent to Rs. 1861 lacs on FOB basis, compared with Rs. 971 lacs in 2006-07. Foreign exchange payout comprised purchase of raw materials and consumables as well as capital goods – resulting in a total outgo equivalent to Rs. 6,371 lacs. In 2007-08, the Company gained Rs. 353 lacs on account of exchange difference on maturity of some of the buyers credit and export sales.

Managing risks at Euro

RISK IS BEST DEFINED AS THE UNPREDICTABLE ADVERSITIES THAT CAN AFFECT THE PROFITABILITY OF AN ORGANISATION. RISK MANAGEMENT IS A SYSTEMATIC APPROACH TO IDENTIFY, ANALYSE AND CONTROL SUCH ADVERSITIES WHICH INCLUDE RISK PLANNING, ASSESSING RISK AREAS, DEVELOPING RISK-HANDLING OPTIONS AND MONITORING RISKS.

At Euro Ceramics, the risk management framework is designed with the following objectives:

- Identify possible risks and assess the protable impact.
- Look beyond mere mitigation and transform risks into opportunities.
- Develop a culture where employees are enthused to respond to risks with appropriate actions.
- Make the internal and external reporting structure more effective.

01 Industry risk

Any adverse real estate trend could affect the Company's topline.

Mitigation

- With the Indian economy growing in excess of 8.5% annually and rising income levels, the housing sector demand is set to grow significantly.
- Despite recent appreciation in property prices, the average price of residential unit to the average annual household income is at 5.29, still far below the highs (15.60) and the 10-year average of 6.82.
- A Nasscom-Deloitte study on the Indian IT industry predicts that the IT/ITeS sector's contribution to the country's GDP has increased to 5.2% in 2007 – up from 1.2% in 1998.
- The organised retail industry raked in US$25.44 billion turnover in 2007-08 as against US$16.99 billion in 2006-07 – a whopping 49.73% growth [Source: Credit Rating and Information Services of India].
- Around 50% of the 1.1-bn Indian population stays in barely liveable conditions. With surging incomes, housing demand (74% for all real estate demand) is expected to accelerate.

02 Business risk

Low-cost imports may depress margins.

Mitigation

- The Indian Government imposed an anti-dumping duty of Rs.155/sq. mt. on the import of vitrified tiles.
- The strengthening of the Chinese currency and weakening of the Indian currency vis-à-vis the US dollar represents an effective hedge.

03 Competition risk

The Company runs the risk of losing market share with intensified competition in the vitrified tiles segment.

Mitigation

- The Company's locational advantage, proximity to raw materials, use of cutting-edge technology and investment in captive power generation translated into an effective competitive advantage, reflected in one of the highest industry margins in 2007-08.
- Introduction of new designs in the vitrified segment successfully countered competition.
- Market was strengthened through enhanced recruitment, wider geographic coverage and investments in institutional relationships.
- The use of top-notch technologies translated into an attractively low production cost in the manufacture of calcareous tiles.
- The Company's entry into the sanitaryware segment enhanced prospects of cross-sale.

04 Marketing risk

The Company may not be able to market its products successfully, yielding market share.

Mitigation

- The Company has a dedicated team of more than 100 members engaged in direct selling.
- Around 70% of the Company's revenue was derived from institutional clients.
- Its clients were nationally dispersed.
- It invested in a nationally dispersed franchisee model marketed through exclusive storefronts branded as Euro Stile Stations.
- It has the flexibility to produce the required tiles in different batch sizes.

05 Brand risk

The loss of brand recall in a crowded market place could affect revenues.

Mitigation

- The Company marketed directly to institutional clients, which accounted for nearly 70% of its revenues in 2007-08.
- All the Company's products were marketed under the Euro brand name, an edge over unbranded competitors.
- The Company reinforced its brand through investments in media and trade promotions, resulting in visibility and consumer pull.

06 Cost risk

An increase in manufacturing costs could dent competitiveness.

Mitigation

- It installed a gasifier and hot air generator to produce gas and steam respectively, to be used in kiln and spray dryers to reduce the fuel cost.
- It monitored process-wise fuel consumption through documentation to minimise fuel consumption.
- It initiated the use of diamond carbides in the polishing machines, enhancing speed and productivity (higher output through fewer equipment).
- It modified processes to reduce electricity consumption; the use of finer materials translated into attractive savings.

07 Quality risk

Erratic quality could lead to a loss of reputation and clients.

Mitigation

- The Company was accredited with the ISO 9001:2000, an endorsement of its quality commitment.
- The first-quality proportion increased from 85% to 90%.
- The Company enjoys a robust market share in vitrified tiles, thanks to its superior product quality.

08 Locational risk

In a cost-sensitive business, transportation and logistics cost of raw material inflow and finished product distribution to consuming markets could be affected if there are long distances between the two.

Mitigation

- The raw materials for the manufacture of vitrified tiles are abundantly available in Rajasthan and Kutch, within a radius of 600 km from the plant.
- The Company imports raw materials through the Kandla and Mundra ports (within a radius of 45 km and 100 kms from the plant respectively).
- The Company's production unit is located in a lignite-rich belt, which assures low-cost fuel for the competitive production of power.
- The unit's distance from Delhi and Mumbai (around 700 km from each of the cities) ensures rapid customer-servicing and distinct logistics advantages in freight-intensive transportation.

09 Product substitution risk

The Company's vitrified tiles may be substituted by ceramic tiles, while its calcareous tiles may be replaced by imported marbles.

Mitigation

Vitrified tiles are perceived to be superior to ceramic tiles for the following reasons:

- These enjoy the advantages of hygiene, larger glaze, wider design range, better tensile strength, durability, lower maintenance cost, non-porosity; facilitate joint-free applications and can be effectively used in high-traffic areas.
- The proportion of vitrified tiles as a proportion of the overall tiles industry has grown.

Calcareous tiles represent the following advantages over imported marble:

- The price gap between vitrified tiles and imported marble tiles is vast; the introduction of calcareous tiles represents a perfect fit between these two price points, allowing the average Indian to upgrade to a better flooring option.
- The Company enjoys a first-mover's advantage in this nascent segment. It created a niche: even as imported marble is marketed between Rs. 205 and Rs. 600 per sq. ft, the calcareous alternative is available between Rs. 121 and Rs. 300 per sq. ft.

10 Funding risk

The Company's funding pattern could affect profitability.

Mitigation

- The Company's Rs. 77-crore sanitaryware project was funded through its IPO in 2007.
- It mobilised debt to expand into vitrified tiles, aluminium extrusions, calcareous tiles, captive power plant and technological enhancements.
- The Company generated Rs. 4,470 lacs in internal accruals in 2007-08 (profit after tax plus deferred tax plus depreciation, less proposed dividend).

11 Technology risk

Technology obsolescence might require huge reinvestments, draining free cash flow.

Mitigation

- The Company invested in contemporary imported technologies for the manufacture of vitrified tiles, calcareous tiles and sanitaryware products.
- It used special high-quality resin additives in calcareous tiles manufacture, enhancing productivity by 10%-15%.
- It added extra equipment to improve log quality in the manufacture of aluminium extrusions.
- It upgraded the printing equipment to derive superior tile impressions.
- It achieved high fuel efficiency by installing equipment timers.

12 Product and market risk

The demand for vitrified tiles could decline.

Mitigation

- India's per capita consumption of ceramic tiles at 0.15 sq. mtr. represents an attractive potential, compared with consumption in a peer country.
- As disposable incomes in India are rising, consumers are switching to vitrified tiles over competing alternatives for reasons of design, pricing, maintenance, structure, colours and durability.
- The vitrified tile segment (25% growth) outperformed the Indian tile industry average (15% growth) *[Source: ICTAS]*.

13 Customer attrition risk

The Company's over-dependence on institutional clients could be detrimental in the event of attrition.

Mitigation

- Euro enjoys an ongoing relationship with prominent industries like IT and software, retail, banking, construction and development, etc.
- The Company enjoys more than three years of working relations with many of its institutional clients.
- Around 50% of the business from institutional clients in 2007-08 was derived from existing customers.

Safety, health and environment

Safety

Air and sound pollution can potentially disturb the neighbouring community in the manufacture of ceramic tiles. As a responsible organisation, Euro Ceramics invested in the following safety measures:

- The compulsory use of face masks on the shop floor to protect from clay and soil dust.
- The mandatory use of ear plugs to protect from equipment noise.
- The mandatory use of hand gloves to protect against tile edges.
- The mandatory use of goggles in the power plant.
- The installation of fire extinguishers across the factory premises.
- Regular meetings for enhancing safety awareness.

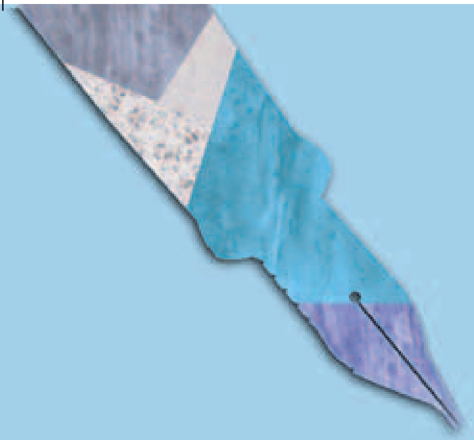
Health

Employees represent the most valuable asset at Euro Ceramics. The Company safeguarded employee health and well-being through the following initiatives:

- The Company provided meals to employees twice a day.
- It commissioned two first-aid dispensaries in its plant.
- It tied up with the neighbouring hospital to treat employees and their families.
- It conducted mandatory pre-employment medical check-ups.
- It organised regular health check-up camps by doctors of reputed hospitals.

Environment

- The Company ran two ETP plants to segregate clay and water, which were reused to a certain extent.
- The coal waste generated during power production was converted into bricks for captive use during capital expansions.
- The process waste water was recycled for gardening in the plant premises.



Directors' Report

Dear members

Your Directors have pleasure in presenting their Sixth Annual Report of the Company for the year ended March 31, 2008.

Financial results

The highlights of the financial results for the year ended March 31, 2008 are as follows:

(Rupees in lacs)

Particulars	Year ended March 31, 2008	Year ended March 31, 2007
Income:		
Sales	22,917.59	17,907.80
Less: Excise duty	94.01	–
Other income	633.90	79.49
Total income	23,457.48	17,987.29
Less: Total expenditure	15,721.66	11,594.14
Earning before interest, depreciation and tax	7,735.82	6,393.15
Less: Interest and other finance expenses	3,093.17	1,309.82
Profit before depreciation and tax	4,642.65	5,083.33
Less: Depreciation	1,504.03	1,137.20
Profit before tax	3,138.62	3,946.13
Less: Provision for tax	307.00	1,118.82
Net profit after tax	2,831.62	2,827.31
Add: Balance brought forward from the previous year	5,269.49	2,776.16
Profit available for appropriation	8,101.11	5,603.47
Appropriations :		
Proposed Dividend	128.25	205.20
Corporate tax on Proposed Dividend	21.80	28.78
Transfer to General Reserve	–	100.00
Surplus carried to Balance Sheet	7,951.06	5,269.49

Financial performance

During the year under review, the Company registered a 27.98% growth in sales from Rs. 17,907.80 lacs to Rs. 22,917.59 lacs. The sales growth was achieved mainly due to volume growth in vitrified tiles and increase in realisation in Aluminium Sections. The Company has also achieved a 21% increase in EBIDTA, from Rs. 6,393.15 lacs to Rs. 7,735.82 lacs. The Company made a net profit after tax of Rs. 2,831.62 lacs as against profit of Rs. 2,827.31 lacs in the previous year. PAT was impacted due to higher interest costs on fixed loans, since they were availed for the entire year as compared to the previous year, wherein the loans were taken towards the end of the year. In addition, the interest cost was also higher due to a one time loss from derivative transactions carried out in order to hedge the outstanding foreign currency loans. The derivative transaction was in the nature of a Swap product and was purely for hedging purposes. The Company does not carry out any such transaction for speculative or trading purposes. Profit after tax was also impacted due to higher depreciation since the Calcareous Tiles plant was commissioned during the year.

Credit rating

During the year under review, the Company was assigned the highest rating of 'PR1 +'(PR One Plus) rating by Credit Analysis & Research Ltd. (CARE) for its Rs. 50-crore commercial paper (CP)/short term debt (STD) programme. CARE also assigned high investment grade rating of LA + for the outstanding bank facilities as per recently issued RBI guidelines based on Basel II norms.

Issue of debenture and commercial paper

During the year under review, the Company issued and allotted 25 (twenty-five), 10.5% unsecured redeemable non-convertible debentures, having face value of Rs. 10,000,000 (Rupees One Crore only), each aggregating to Rs. 250,000,000 (Rupees Twenty Five Crores Only) to UTI Mutual Fund. Subsequently, these debentures were redeemed on April 7, 2008, and commercial paper to the tune of Rs. 250,000,000 (Rupees Twenty Five Crores) was issued to UTI Mutual Fund at the same coupon rate of 10.5 % with a maturity of less than one year.

Further on April 3, 2008, the Company issued and allotted 500,000 (five lacs), 10.20% secured redeemable non-convertible debentures having face value of Rs. 1,000 (Rupees One Thousand Only), each aggregating to Rs. 500,000,000 (Rupees Fifty Crores Only) to LIC Mutual Fund Liquid Fund, which are redeemable on March 3, 2009.

The successful placement of debentures and commercial paper during tight liquidity conditions, confirms the financial standing of your Company, and opens up future opportunities for tapping money markets for expansion needs.

Operational performance

a) Tile Division:

During the year under review, the Company's Tile Division showed commendable growth. The Calcareous Tiles Plant was successfully commissioned after an initial phase of trial runs. The Company's Vitrified Tiles continue to do well in the market place and enjoys headship. With the successful launching of calcareous tiles, the Company hopes to achieve growth in sales from this category as well.

b) Aluminium Division:

The quantity of Aluminium Sections sold during the year was higher at 1,447 MT as compared to 1,303 MT in the previous year. The produce of Aluminium Sections continues to enjoy superior demand in the market place. There was an increase in average realization to Rs. 160,798 per MT as compared to Rs. 147,406 per MT in the previous year.

c) Material cost:

The Company adopted various cost-cutting and value-enhancing measures in order to boost profitability. A significant saving was achieved in the cost of clay, by various input mix without compromising on quality.

d) Exports:

Export revenues for the year continued to show positive growth and amounted to Rs. 2,989 lacs as compared to Rs. 1,314 lacs in the previous year, showing an increase of 127.47%. The Company's products continue to enjoy good demand in the export markets. During 2007-08, vitrified tiles were exported to the US, U.K, U.A.E and Turkey, among others.

e) Sanitary ware Division:

The Company achieved major progress in completing the work on site with respect to Sanitaryware facility. Your Company would be one of the first Company in India, to produce world-class sanitary ware with the most modern designs, to appeal to the most discerning buyers. The sanitary ware would be produced by employing cutting technologies like Robots, etc. The Company is hopeful of doing well in the Sanitaryware market by leveraging on its existing brand, established customer base and distribution strengths.

Product upgradation

The Company has successfully launched Calcareous Tiles (Agglomerated Marble) in 2007-08. It has added a complete range of Calcareous Tiles in its product basket. The product sells among the upper rung of customers providing a cost-effective substitute for Italian Marble.

We have added new designs to our existing product line of Vitrified Tiles. The Company has developed scratch-free and virtually stain-free low-thickness tiles for wall-cladding.

Dividend

During 2007-08, the Board of Directors of the Company at their meeting held on July 7, 2008, declared interim dividend of Re. 0.75 per share (7.5%) on equity shares of Rs. 10 each. The outflow on account of the said interim dividend was Rs. 150.83 lacs including corporate dividend tax of Rs. 21.80 lacs.

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

In terms of Section 256 of the Companies Act, 1956, read with Article No. 196 of the Articles of Association of the Company, Mr. Shantilal L. Shah and Mr. Raichand K. Shah, Directors of the Company retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment. Your Directors recommend their reappointment as Directors of the Company.

Mr. Jatin R. Chhadva and Mr. Nishit V. Shah were appointed as Additional Directors of the Company w.e.f. July 30, 2008. In terms of Section 260 of the Companies Act, 1956, they hold office up to the date of the forthcoming Annual General Meeting. Member's approval for their appointment as Directors has been sought in the Notice convening the Annual General Meeting.

The terms of appointment of Mr. Talakshi L. Nandu, Mr. Kumar P. Shah and Mr. Paresh K. Shah, Wholetime Directors of the Company expired on March 31, 2008. The Board of Directors of the Company in their meeting held on March 28, 2008, has reappointed them as Wholetime Directors of the Company for a period of five years, w.e.f. April 1, 2008. The Company has greatly benefited from their expertise and experience. Taking into consideration their knowledge and experience, the Board commends to approve their reappointment as Wholetime Directors of the Company.

Utilization 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 cost	As on June 30, 2008
Capital expenditure	7,693.37	7,623.24
IPO expenses	835.20	942.84
General corporate purposes	746.91	746.00
Total	**9,275.48**	**9,312.08**

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 conduct its business with the highest level of integrity and transparency and implementing the best of 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 stock exchanges, a separate report on Corporate Governance forms part of the Directors' Report. Your Company is compliant with the requirements of the Listing Agreement and necessary disclosures have been made in this regard in the Corporate Governance Report.

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

Management Discussion and Analysis

Management Discussion and Analysis forms part of 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 Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, are given in Annexure – A attached to this Report.

Subsidiary

The Company has two subsidiaries, namely Euro Merchandise (India) Limited (EMIL) and Euro Glass Limited (EGL). The Company has acquired 1,500,000 equity shares of Rs. 10 each, of EGL on June 1, 2008 and accordingly it has become a subsidiary of the Company with a stake of 54.67%. The said Company was incorporated on October 31, 2007 and is under the pre-operative stage for setting up of a float glass project. As on March 31, 2008, EGL was not a subsidiary of the Company, hence the financial statements of EGL are not attached herewith.

Euro Merchandise (India) Limited is a wholly owned subsidiary of the Company and information pursuant to Section 212 of the Companies Act, 1956, with regard to EMIL is furnished in this report.

Public deposits

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

Particulars of employees

In accordance with Sub Section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, a statement of information relating to the employees has been given in the Annexure–I which forms part of the report.

The Board desires to place on record, its appreciation to all employees of the Company who, during the year review, with sustained dedicated effort, enabled the Company to deliver a good all-round record performance.

Auditors

M/s. Deepak Maru & Co., Chartered Accountants, Statutory Auditors of the Company, holds office until the conclusion of the ensuing Annual General Meeting and is eligible for reappointment. The Company has received letter from them to the effect that their reappointment, 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 reappointment 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 acknowledges with gratitude and wish to place on record, their deep appreciation of continued support and cooperation 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 30, 2008

Annexure - I

Information under Section 217 (2A) read with Companies (particulars of employees) Rules, 1975, and forming part of the Directors Report for the year ended March 31, 2008.

Name and (Age)	Qualifications	Designation/ nature of duties	Date of commencement of employment and (experience)	Gross remuneration	Last employment
Nenshi L. Shah (49 yrs)	Matriculation	Managing Director	April 1, 2003 (28 yrs)	2,100,000	Self employed
Talakshi L. Nandu (58 yrs)	Matriculation	Wholetime Director	April 1, 2003 (33 yrs)	2,100,000	Self employed
Kumar P. Shah (49 yrs)	S.Y.B.Com	Wholetime Director	April 1, 2003 (25 yrs)	2,100,000	Self employed
Paresh K. Shah (39 yrs)	M.Com	Wholetime Director	April 1, 2003 (18 yrs)	2,100,000	Self employed

Notes:

1. Designation denotes the nature of duties also.
2. Other terms and conditions are as per the service rules and conditions of the Company.
3. The nature of the employment of all the above employees is contractual.
4. Gross remuneration comprises of salary, commission, allowance, medical, other perquisites and Company's contribution to PF and superannuation funds.

Annexure – 'A' to Directors' Report

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

A. Conservation of energy

The Company continued its policy of giving priority to energy conservation measures including regular review of energy generation, distribution, consumption and control on utilisation of energy.

1. During the year under report, various energy conservation measures implemented by the Company include :

   a. Installation of a hot air generator (HAG) for generation of steam which will be used in the spray dryer to reduce the energy cost further.

   b. Conduction of an energy audit by an external agency of international repute, as it conducts every year as an energy conservation tool.

   c. Improvisation of power factor up to unity to achieve saving in maximum demand.

   d. Adoption of automatic cut-off system for turbo crusher, so that blunger motor stopped automatically when mixing completed.

   e. Arrangement of auto pressure controlling system for gasifire and HAG.

   f. Provision of electrical timers in the polishing machines, turbo blungers, which are the major power-consuming equipments, to control the idle running time.

   g. Maintaining optimum batch size.

2. Impact of the measures taken above for reduction of energy consumption and consequent impact on the cost of production of goods:

   The above measures have resulted in savings in energy consumption and consequent decrease in cost of production.

3. Total energy consumption and energy consumption per unit of production is given in 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

	Current year	Previous year
1. Electricity :		
i) Purchased		
Units (KWH)	1,417,404	606,360
Total amount (Rs.) *	9,366,664	6,119,300
Cost/unit (Rs.)	6.61	10.09
ii) Own generation		
(a) Through liquid fuel generator		
Units (KWH)	967,796	1,040,407
Units (KWH)/Ltrs. of LDO/HSD/furnace oil	2.15	2.95
Cost/unit (Rs.)	12.09	10.66
(b) Through steam turbine/generator		
Units (KWH)	29,159,300	25,204,505
Units (KWH)/ tonne of Fuel (Lignite)	641	870
Cost/unit (Rs.)	2.72	2.22
2. Propane/LPG gas		
Quantity (MT)	8,723.43	8,035.39
Total amount (Rs.)	315,339,819	257,780,744
Average rate (Rs./MT)	36,148.60	32,080.67
3. Furnace oil		
Quantity (Ltrs)	211,685	149,319
Total amount (Rs.)	5,071,498	2,941,063
Average rate (Rs./Ltrs.)	23.96	19.70
4. Coal :		
Quantity (MT)	4,848.07	3,968.83
Total amount (Rs.)	29,115,062	18,678,483
Average rate (Rs./MT)	6,005.50	4,706.29

b. Consumption per unit of production

	Current year	Previous year
i) Electricity (KWH/MT of Tiles)	343.98	334.66
ii) Electricity (KWH/MT of Aluminium Sections)	362.33	482.31
iii) Furnace oil (Ltrs./MT of Aluminium Sections)	150.34	113.12
iv) Propane/LPG gas (MT/MT of Vitrified Tiles)	0.09	0.10
v) Coal (MT/MT of Vitrified Tiles)	0.05	0.05

* 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 area in which R&D carried out by the Company:

1. The Company has developed scratch-free and virtually stain-free, low-thickness tiles for wall cladding.
2. Introduction of new designs in the existing product line of Vitrified tiles and in new product line of Agglomerated Marble with various input mix.
3. Introduction of fully automatic electro magnetic separator in the ball mill for removal of iron particles.
4. Maintaining the quality standards.

b) Benefits derived as results of above R&D.

The benefit to the Company resulting from R&D activities has been reflected in terms of:

1. Increase in market share in the global market with new business on the quality appeal.
2. Improvement in quality and production.
3. Better designing and high-aesthetic work in low-thickness tiles.

c) Future plan of action

1. Maintain the quality standard and continuous efforts to be made for reduction in cost of production.
2. Introducing the crusher unit and clay washing unit for better quality.
3. Continuous efforts to be made for introducing new product in bigger sizes of Vitrified Tiles.
4. To set new design in the Agglomerated Marbles, with different input mix.

d) Expenditure on Research and Development

	Current year (Rs.)	Previous year (Rs.)
I. Capital expenditure	1,589,395	1,404,482
II. Recurring expenditure	796,193	507,231
III. Total	2,385,588	1,911,713
IV. Total R&D expenditure as percentage to total turnover	0.10 %	0.10 %

2. Technology absorption, adoption and innovation

A) Efforts in brief made towards technology absorption, adoption and innovation

1. Installation of complete plant to manufacture an Agglomerated Marble, which is an artificial marble.
2. Installation of cutting machines.
3. Increases number of colour silos and slip storage tanks.
4. Introduction of screen printing machine.
5. Design grids developed in-house for bigger size tiles.
6. Introduction of new machines for wall cladding tiles.
7. The size of mould cavity is increased for getting quality product.
8. Carbide liners are used in press instead of SS.
9. Additional burners are fixed in kiln for better firing and high productivity.
10. Swing calibration is being used in third line polishing.

B) Benefits derived as a result of the above efforts

1. A complete range of Agglomerated Marble has been introduced in the market adding a new product in the product basket of the Company.
2. Improvement in the quality and reduction in the cost of production.
3. Able to introduce new product varieties of tiles of different sizes in different thickness, in the market.
4. Production flexibility increased to enable us to respond to the market demands in a faster way.

a. 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-the-art plant. (First phase of plant-1st line)	2003	Yes	Not Applicable
Complete machinery for manufacturing of the vitrified tiles with state-of-the-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-the-art plant. (For producing 900x900 and 600x1200 size tiles)	2006	Yes	Not Applicable
Complete machinery for manufacturing of the Agglomerated Marble with state-of-the-art plant.	2006	Yes	Not Applicable
Complete machinery for the manufacturing of the sanitary ware products with the state-of-the-art plant.	2007	No	It is under implementation and will be commissioned from April 2008
Machinery called water jet machines for producing the different sizes of vitrified tiles and with different designs	2007	No	It is under implementation and will be commissioned from July 2008

Report on Corporate Governance

1. Company's philosophy on code of governance

Corporate Governance is both the structure and relationships which determine corporate direction and performance. It comprises processes and structures by which the business and affairs of the Company are directed and managed, in order to enhance long-term shareholder value, through enhancing corporate performance and accountability, whilst taking into account the interests of all stakeholders. It is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values.

Good governance practices stem from the quality and mindset of the organisation. Euro Ceramics visualises 'Corporate Governance' as 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. Our Company, through Corporate Governance, strives for an exemplary shift in its work culture and provides a congenial environment to harmonise the goals of maximising the stakeholders' value and maintaining a customer-centric focus in all its dealings.

2. Board of Directors

a) Composition

The Board of Directors provides strategic direction and thrust to the operations of the Company. As on March 31, 2008, the Board of Directors of the Company has an optimum combination of Executive and Non-Executive Directors. The Board comprises four Executive Directors and seven Non-Executive Directors of which four are Independent Directors.

SEBI vide circular no. SEBI/CFD/DIL/CG/1/2008/08/04 dated April 8, 2008, has modified the existing Clause 49 of the Listing Agreement to the effect that if the Non-Executive Chairman is a Promoter or is related to Promoters or persons occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the Company should consist of Independent Directors. In order to comply with the revised Clause 49 of the Listing Agreement, our Company on July 30, 2008, has appointed two new Independent Directors and accepted the resignation of one Non-Executive Non-Independent Director of the Company. Thereafter, as on July 30, 2008, the Board comprises of total 12 Directors out of whom, six are Independent, four are Executive and two are Non-Executive Directors. Hence, the Company is complying with the provisions of revised Clause 49 of the Listing Agreement entered into with the stock exchanges.

b) Board procedure

The agenda for the Board Meetings and committee meetings, containing relevant information/ supporting data, as required, are distributed well in advance to all the Board members from time to time in a structured manner, to enable the Board to take informed decisions. When deemed expedient, the Board also approves by circular resolution important items of business which are permitted under the Companies Act, 1956, and which can not be deferred till the next Board Meeting.

Matter discussed at Board Meeting generally relate to 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 and last Annual General Meeting

During the year under review, the Board of Directors met seven times viz. April 20, 2007, July 25, August 18, October 25, November 22, January 23, 2008, March 28, 2008 and as required, the gap between two Board Meetings did not exceed four calendar months.

The attendance record of the Directors at Board Meetings held during the financial year 2007-08, number of Directorships held and position of membership/ Chairmanship of committees in Indian Public Limited Companies are given below:

Name	Nature of Directorship	No. of Board Meetings held	No. of Board Meetings attended	No. of other Directorship in other Public Companies	Membership/ Chairmanship of committees in other Companies		Whether attended the last AGM
Mr. Nenshi L. Shah	Chairman & Managing Director	7	7	6	1	1	YES
Mr. Shantilal L. Shah	Non-Executive Director	7	4	1	–	–	YES
Mr. Talakshi L. Nandu	Wholetime Director	7	2	3	–	–	YES
Mr. Kumar P. Shah	Wholetime Director	7	3	2	–	–	YES
Mr. Paresh K. Shah	Wholetime Director	7	7	3	–	–	YES
Mr. Lalji K. Shah	Non-Executive Director	7	2	1	–	–	YES
Mr. Pravin D. Gala*	Non-Executive Director	7	5	–	–	–	YES
Mr. Shivji K. Vikamsey	Independent Director	7	6	1	2	1	YES
Mr. Raichand K. Shah	Independent Director	7	1	1	–	–	YES
Mr. Anil M. Mandevia	Independent Director	7	5	1	–	–	NO
Mr. Amit G. Shah	Independent Director	7	6	1	–	–	NO

* Mr. Pravin D. Gala has resigned from the Board w.e.f. July 30, 2008, and on the same day Mr. Jatin R. Chhadva and Mr. Nishit V. Shah are appointed as Independent Directors of the Company.

None of the Directors of the Board serves as member of more than ten committees, nor are Chairman of more than five committees across all Companies in which he/she is a Director. Committees considered for this purpose are those specified in Clause 49 of the Listing Agreement i.e. Audit Committee and Shareholders'/Investor' Grievance Committee.

3. Committees of the Board

The Board has constituted three committees consisting of members of the Board. Details of the committee and other related information are provided hereunder:

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 a Chairman and Managing Director of the Company. The Statutory Auditors are also invited to the meetings. Ms. Jayshree D. Soni, Company Secretary, acts as Secretary to the Audit Committee. The committee oversees the work carried out by the management, internal auditors on the financial reporting process, the safeguards employed by them and such relevant matters as it finds necessary to entrust.

The Audit Committee met four times on April 20, 2007, July 25, October 25 and January 23, 2008, during the year under review and the number of meetings attended by each member during the year ended March 31, 2008 is as under:

Name of the member	Designation	No. of committee meetings	
		Held	Attended
Mr. Shivji Vikamsey	Chairman	4	4
Mr. Anil M. Mandevia	Member	4	3
Mr. Amit G. Shah	Member	4	4
Mr. Nenshi L. Shah	Member	4	4

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

The Committee has recommended the appointments of M/s. Deepak Maru & Co., Chartered Accountants, as the Statutory Auditors of the Company.

The terms of reference of this committee are wide. Besides having access to all the required information from 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 information contained in the records of our Company and external professional advice, if necessary.
- To investigate 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 it considers 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 external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with 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 judgement by management.
  - Qualifications in Draft Audit Report.
  - Significant adjustments arising out of audit.

- The going concern assumption.
- Compliance with accounting standards.
- Compliance with stock exchanges 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, external and internal auditors and the adequacy of internal control systems.

• Reviewing the adequacy of 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 suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

• Discussion with external auditors before the audit commences; nature and scope of audit as well as post audit discussion to ascertain any area of concern.

• Reviewing the Company's financial and risk management policies.

• To look into the reasons for substantial defaults in the payment to the depositors, debenture-holders, shareholders (in case of non-payment of declared dividends) and creditors.

• It shall have discussions with the auditors periodically, about internal control systems, the scope of audit including the 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

The committee comprises two Non-Executive Directors and two Executive Directors. The Shareholders'/ Investors' Grievance Committee met four times on May 7, 2007, July 25, October 25 and January 23, 2008, during the year under review, and the number of meetings attended by each member during the year ended March 31, 2008, is as under:

Name of the member	Designation	No. of committee meetings	
		Held	Attended
Mr. Shantilal L. Shah	Chairman	4	3
Mr. Kumar P. Shah	Member	4	1
Mr. Lalji K. Shah	Member	4	1
Mr. Paresh K. Shah	Member	4	4

Broad terms of reference

To examine and redress the complaints and grievances of the shareholders/investors of the Company such as transfer/transmission/demat/remat of shares, issue of duplicate, split-up, consolidation, renewal of share certificate, non-receipt of Annual Report, non-receipt of dividend, non-receipt of application money and other issues concerning the shareholders/investors.

The Committee also looks into matters which can facilitate/smoothen investor's services and relations. Wherever deemed expedient, it also directs the RTA to ensure prompt redressal of genuine complaints of investors. The committee also examines and recommends to the Board about appointment/removal of RTA and/or fees payable to them, etc.

Details of shareholders' complaints

The Company Secretary has been regularly interacting with Registrar and Share Transfer Agents (RTA) to ensure that the complaints/grievances of the shareholders/investors are attended to without delay, and where deemed expedient, the complaints are referred to the Chairman of the committee or discussed at its meetings.

A total of six complaints were received and replied to the satisfaction of the shareholder during the year ended March 31, 2008. There were no complaints outstanding as on March 31, 2008. No investor grievances remained unattended/pending for more than 30 days.

c) Remuneration Committee

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

During the year under review, two meeting were held on July 25, 2007 and March 28, 2008.

The composition of the Remuneration Committee as on March 31, 2008 is as follows:

Name of the member	Designation	No. of committee meetings	
		Held	Attended
Mr. Anil M. Mandevia	Chairman	2	1
Mr. Raichand K. Shah	Member	2	1
Mr. Lalji K. Shah	Member	2	–
Mr. Amit G. Shah	Member	2	2

Details of remuneration paid to the Directors during the year 2007-08 are as follows:

Executive Directors

The aggregate value of salary and perquisites paid for the year ended March 31, 2008, to the Managing Director and Wholetime Directors is as follows:

(Amount in Rupees)

Name	Designation	Salary	Perquisites or allowances	Total
Mr. Nenshi L. Shah	Managing Director	2,048,400	51,600	2,100,000
Mr. Talakshi L. Nandu	Wholetime Director	2,048,400	51,600	2,100,000
Mr. Kumar P. Shah	Wholetime Director	2,048,400	51,600	2,100,000
Mr. Paresh K. Shah	Wholetime Director	2,048,400	51,600	2,100,000

Non-Executive Directors

No remuneration is paid to Non-Executive Directors. They are paid by way of sitting fees at the rate of Rs. 2,500 for each meeting attended by them. The sitting fees paid during the financial year 2007-08 is as follows:

Name of the Director	Sitting fees paid (Rupees)	No. of shares held	No. of stock options granted
Mr. Shantilal L. Shah	10,000	Nil	Nil
Mr. Pravin D. Gala	12,500	236,400	Nil
Mr. Lalji K. Shah	5,000	151,600	Nil
Mr. Shivji K. Vikamsey	15,000	Nil	Nil
Mr. Raichand K. Shah	2,500	Nil	Nil
Mr. Anil M. Mandevia	12,500	Nil	Nil
Mr. Amit G. Shah	12,500	Nil	Nil

4. General Body Meetings and postal ballot

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

Financial year	AGM dates	Time	Location of the meeting
2004-05	September 30, 2005	4.00 p.m.	208, Sangam Arcade, Opp. Railway Station, Vile Parle (West), Mumbai- 400056
2005-06	August 24, 2006	2.30 p.m.	Boston House, Ground Floor, Suren Road, Chakala, Andheri (East), Mumbai- 400093
2006-07	September 28, 2007	10.30 a.m.	S.P.B.T. College, JVPD Scheme, Vile Parle (West), Mumbai- 400056

Special Resolutions

AGM held on September 30, 2005: No Special Resolution was passed.

AGM held on August 24, 2006: 1) A Special Resolution was passed for amendment of main object clause of Memorandum of Asssociation; 2) A Special Resolution was passed for alteration of Articles of Association

AGM held on September 28, 2007: 1) A Special Resolution was passed under Section 163 of the Companies Act, 1956, for maintenance of records viz i) register of members and ii) copies of annual returns, prepared under Section 159 of the Companies Act, 1956, of the Company, at the office of the Company's Registrar, M/s. Intime Spectrum Registry Limited.

Resolution passed through postal ballot

During the financial year 2007-08, consent of members of the Company was sought through postal ballot for the subject matters mentioned herein below

The postal ballot process was undertaken in accordance with the provisions of Section 192A of the Companies Act, 1956, read with the Companies (passing of the resolution by postal ballot) Rules, 2001.

Mr. Manish L. Ghia, practicing Company Secretary, was appointed as Scrutinizer for conducting the postal ballot process. The results of the postal ballot were announced on December 31, 2007.

The details of resolutions passed through postal ballot and the voting pattern for the same are as follows:

Sl. No.	Business	Postal ballot forms received		Valid votes cast		
		Total	Valid	Total	In favour	Against
1	Special Resolution under section 81 (1A) of the Companies Act, 1956, for issue of equity shares on preferential basis	311	286	10,833,073	10,832,277	796
2	Special Resolution under Section 81 (1A) of the Companies Act, 1956, for issue of FCCBs/GDRs/ADRs/Permissible Securities/Instruments.	311	281	10,832,071	10,831,221	850
3	Ordinary Resolution under Section 94 of the Companies Act, 1956 for increase in Authorized Shares Capital of the Company	311	280	10,832,036	10,831,699	337
4	Ordinary Resolution under Section 16 of the Companies Act, 1956, for alteration of Clause V of the Memorandum of Association.	311	278	10,831,636	10,831,284	352
5	Special Resolution for investment by FIIs up to 49% of the Equity Share Capital of the Company.	311	281	10,832,071	10,831,227	844
6	Special Resolution under Section 372A of the Companies Act, 1956, for making investments, loans and providing guarantee or security.	311	280	10,831,991	10,829,405	2,586

5. Disclosures

a) Related-party transactions

Related-party transactions are defined as transactions of the Company of material nature, with Promoters, Directors or with their relatives; its 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.

Details on material significant related-party transactions are given in the appended financial statement under Notes to the Accounts annexed to the financial statements.

b) Compliance by the Company

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

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

c) Code of conduct

The Company has laid down a code of conduct for the Directors, senior management and the employees of the Company. The code has been posted on the Company's website. 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.

d) Disclosure of Accounting Treatment

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

e) Disclosure of Risk Management

The Company has initiated the risk assessment and minimisation procedure which has been given in other section of this report.

f) CEO/CFO Certification

In terms of Clause 49 (V) of the Listing Agreement, Mr. Nenshi L. Shah, Chairman and Managing Director and Mr. Piyush Gupta, Chief Financial Officer, have submitted a certificate to the Board of Directors in the prescribed format for the year under review.

g) Review of Directors' Responsibility Statement

The Board, in its report, has confirmed that the annual accounts for the year ended March 31, 2008, have been prepared as per applicable accounting standards and policies, and that sufficient care has been taken for maintaining adequate accounting records.

6. Means of communication

• Quarterly results: Quarterly results are published in accordance with the provisions of the Listing Agreement. The results are published in English newspapers viz. Economic Times, Business Standard and in Marathi newspapers viz. Maharashtra Times, Mumbai Lakshadweep.

• Website: The Company's website, www.eurovitrified.com, contains a separate dedicated section – "Investor Relationship" – where shareholders information is available. Un-audited quarterly results, annual results and shareholding pattern, 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.

• The presentations, as and when made to the institutional investors and analysts, are also simultaneously displayed on the website of the Company.

• Management Discussion and Analysis forms part of the Annual Report.

7. General information for shareholders

a) Date, time and venue of Annual General Meeting

Date	:	September 30, 2008
Time	:	10.00 a.m.
Venue	:	S.P.B.T. College, JVPD Scheme, Vile Parle (West), Mumbai – 400056

b) Financial calendar (2008-09)

First quarterly results - Up to the end of July, 2008

Second quarterly results - Up to the end of October, 2008

Third quarterly results - Up to the end of January, 2009

Fourth quarterly results - Up to the end of April, 2009

c) Date of Book Closure

Wednesday, September 24, 2008 to Tuesday, September 30, 2008 (both days inclusive)

d) Dividend payment date

Not applicable

e) Listing on stock exchanges

Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE)

f) Stock Code/Symbol

BSE - 532823

NSE - EUROCERA

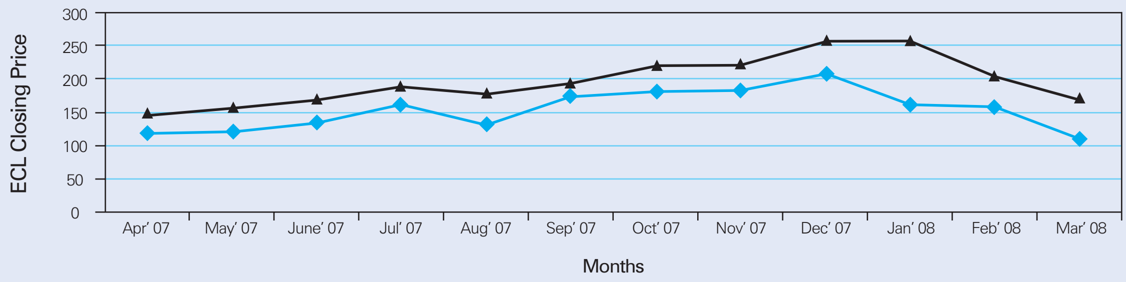
ISIN for CDSL and NSDL - INE649H01011

g) Market price data

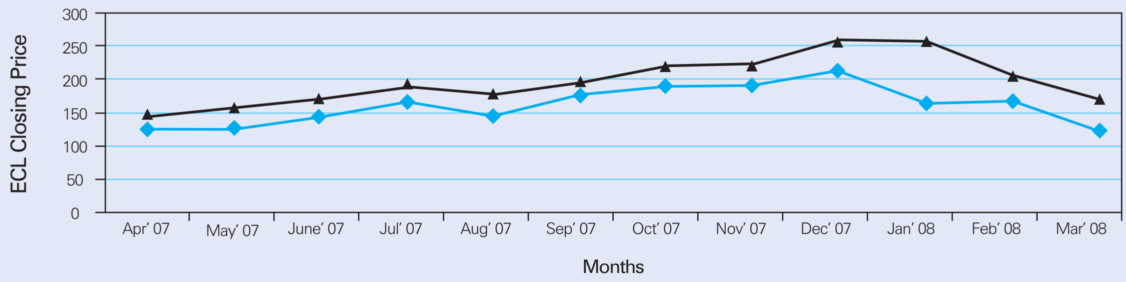
The monthly high and low quotations of shares traded on the Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE) during each month in 2007–08 are as follows:

Month	BSE		NSE	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
Apr '07	149.50	119.50	144.90	122.90
May '07	159.00	121.55	156.70	123.30
Jun '07	175.70	135.00	169.35	141.35
Jul '07	193.00	162.30	188.45	165.65
Aug '07	191.00	132.00	177.30	141.15
Sep '07	196.80	174.35	193.85	175.30
Oct '07	224.00	181.20	220.50	187.90
Nov '07	230.00	183.00	221.65	189.95
Dec '07	269.00	207.00	257.35	212.85
Jan '08	275.00	161.45	257.65	161.90
Feb '08	210.00	158.20	204.45	165.30
Mar '08	173.75	109.80	170.00	118.30

BSE Sensex ECL



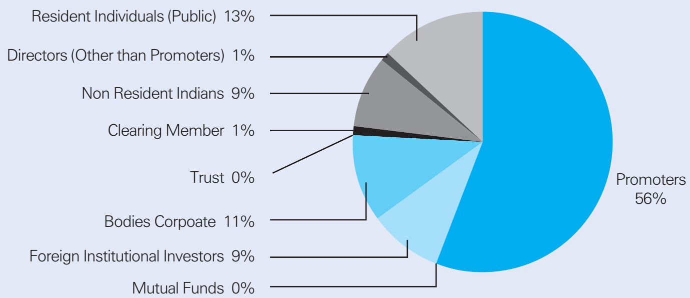
NSE Sensex ECL



h) Shareholding pattern as on March 31, 2008

Sr. No.	Category	Number of shares held	Percentage of shareholding (%)
1	Promoters	9,458,500	55.31
2	Mutual Funds	60,000	0.35
3	Foreign Institutional Investors	1,513,182	8.85
4	Bodies Corporate	1,934,751	11.31
5	Trust	242	0.00
6	Clearing Member	110,251	0.64
7	Non Resident Indians	1,602,951	9.37
8	Directors (other than Promoters)	236,400	1.38
9	Resident Individuals (Public)	2,183,723	12.77
	Total	17,100,000	100

Shareholding pattern



i) Distribution of shareholding as on March 31, 2008

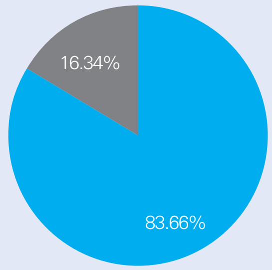
Category	Number of shareholders	% of total number of shareholders	Total number of shares	% of total number of shares
1 to 500	6,974	93.31	741,868	4.34
500 to 1,000	189	2.53	155,644	0.91
1,001 to 2,000	105	1.40	159,462	0.93
2,001 to 3,000	51	0.68	133,436	0.78
3,001 to 4,000	14	0.19	49,484	0.29
4,001 to 5,000	26	0.35	122,132	0.71
5,001 to 10,000	34	0.46	222,319	1.30
10,001 and above	81	1.08	15,515,655	90.74
Total	**7,474**	**100**	**17,100,000**	**100**

j) Share transfer system

All shares sent or transferred in physical form are registered by the Registrar and Share Transfer Agents within 30 days of the lodgement, if documents are found in order. Shares under objection are returned within two weeks. All requests for dematerialisation of shares 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. The Company obtains, from a practicing Company Secretary, a half-yearly certificate of compliance with the share transfer formalities as required under Clause 47 (c) of Listing Agreement entered into with stock exchanges and files a copy of the certificate with the concerned stock exchanges.

k) Dematerialisation of shares and liquidity

As on March 31, 2008, the total number of equity shares of the Company in dematerialisation form, stood at 14,305,162 shares (representing 83.66% of the Company's paid-up Equity Share Capital)



The trading in equity shares of the Company is permitted only in dematerialised form. Considering the advantages of trading in demat form, members are encouraged to consider dematerialisation of their shares, so as to avoid inconvenience in future. The Company has paid the listing fees for the year 2008–09.

l) 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.

m) Plant location

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

n) Registrar and Share Transfer Agents

M/s. Intime Spectrum Registry Limited has been appointed as one-point agency, for dealing with shareholders. Shareholders correspondence should be addressed to the Company's Registrar & Share Transfer Agent at the address mentioned below:

M/s. Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound,
L.B.S. Marg, Bhandup (West), Mumbai – 400 078
Tel: 91 22 2596 3838 • Fax: 91 22 2594 6969
E-mail: isrl@intimespectrum.com

o) Address for investor correspondence

Shareholders can contact the Company Secretary for share/secretarial related matters of the Company at the below mentioned address:

Ms. Jayshree D. Soni, *Company Secretary*
Euro Ceramics Limited
Boston House, Ground Floor, Suren Road, Chakala,
Andheri (East), Mumbai 400093
E-mail: investors@eurovitrified.com
Tel No.: 91 22 4019 4019 • Fax No.: 91 22 4019 4020

p) Subsidiary Companies

The Company has one material unlisted Subsidiary Company, namely Euro Merchandise (India) Limited (EMIL) and has appointed one Independent Director of the Company on the Board of the said Subsidiary.

For Euro Ceramics Limited

Nenshi L. Shah
Chairman and Managing Director

Place: Mumbai
Date: July 30, 2008

Declaration on compliance with code of conduct

It is hereby confirmed that the Company has adopted a code of conduct for the Board of Directors and senior management personnel of the Company and all have affirmed their adherence to the code during the year. The code has been posted on the Company's website (www.eurovitrified.com)

For Euro Ceramics Limited

Nenshi L. Shah
Chairman and Managing Director

Place: Mumbai
Date: July 30, 2008

Auditors Certificate on Clause 49, compliance – 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 year ended March 31, 2008, 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 the 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 and the representations made by the 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 Maru & Co.**
Chartered Accountants

Deepak M. Maru
Partner

Membership No: 49347

Place: Mumbai
Date: July 30, 2008

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, 2008 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 our 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 purpose 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, 2008, we report that none of the Director is disqualified as on March 31, 2008 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 present 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, 2008;

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

Place: Mumbai
Date: July 30, 2008

Deepak M. Maru
Partner

Membership No.: 49347

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 off 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 seven parties covered in the register maintained under section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 60,335,343/- and the year end balance of loans taken from such parties was Rs. 16,458,230/-

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. 46,402,043/- and the year-end balance of loans given to such parties was Rs. 28,619,268/-.

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. 5,00,000/- 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 & the rules framed there under.

(6) In our opinion and according to the information and explanations given to us, there is an adequate internal control procedure 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 weakness has been noticed in the internal control system in respect of these 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 Division 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, Tax deducted/collected at source, Provident

Fund, Employees' State Insurance, 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, except for some minor delays in depositing them with the appropriate 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 or financial institutions 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 following guarantees for loans taken by its Subsidiary Euro Merchandise (India) Ltd. from banks, however the terms of issue of said guarantee are not prejudicial to the interest of the Company:

Sr. No.	Date of Guarantee	Guarantee Favouring	Amount (Rs.)	Guarantee on Account of
1.	14-12-2007	Barclays Bank PLC	5.0 crores	Letter of Credit limit.
2.	08-01-2007	Syndicate Bank	14.0 crores	Working Capital & Term Loan
3.	13-09-2007	The Cosmos Co-op. Bank Ltd.	16.2 crores	Working Capital, Term Loan and Letter of Credit limit.
	Total		**35.2 crores**	

(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 utilised 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 issued Non Convertible Unsecured Debentures.

(20) The monies raised by way of Public Issue, have been utilised 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

Place: Mumbai — **Deepak M. Maru**
Date: July 30, 2008 — *Partner*

Membership No.: 49347

Balance Sheet

(Amount in Rupees)

	Schedule	As at March 31, 2008	As at March 31, 2007
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	A	171,000,000	171,000,000
Reserves & Surplus	B	1,796,361,672	1,622,336,331
		1,967,361,672	1,793,336,331
Loan Funds			
Secured Loans	C	2,534,757,315	2,477,887,071
Unsecured Loans	D	536,170,930	173,282,752
		3,070,928,245	2,651,169,823
Deferred Tax Liabilities		126,468,767	98,019,085
Total Funds Employed		**5,164,758,684**	**4,542,525,239**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,981,712,958	2,012,140,615
Less : Accumulated Depreciation		349,721,753	199,318,521
Net Block		2,631,991,205	1,812,822,095
Capital Work In Progress		1,097,496,422	815,484,230
		3,729,487,627	2,628,306,325
Investments	F	14,610,750	14,610,750
Current Assets, Loans & Advances			
Inventories	G	644,337,180	527,910,619
Sundry Debtors	H	440,792,796	444,147,309
Cash & Bank Balances	I	265,081,387	954,878,736
Loans & Advances	J	385,650,861	326,723,474
		1,735,862,225	2,253,660,138
Less : Current Liabilities & Provisions	K		
Current Liabilites		292,443,998	317,634,498
Provisions		22,757,920	36,417,476
		315,201,918	354,051,974
Net Current Assets		**1,420,660,307**	**1,899,608,164**
Miscellaneous Expenditure (to the extent not written off)		–	–
Total Funds Utilised		**5,164,758,684**	**4,542,525,239**
Significant Accounting Policies & 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 30, 2008

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 30, 2008

Profit and Loss Account

(Amount in Rupees)

	Schedule	For the year ended March 31, 2008	For the year ended March 31, 2007
INCOME			
Sales & Income from Operations		2,291,758,875	1,790,779,613
Less: Excise Duty		9,400,991	–
		2,282,357,884	1,790,779,613
Other Income	L	63,389,971	7,949,279
		2,345,747,855	**1,798,728,892**
EXPENDITURE			
(Increase)/Decrease In Stock	M	(44,799,984)	(210,328,848)
Cost of Materials	N	737,066,810	610,096,772
Salaries, Wages and Employee Benefits	O	106,179,659	69,958,013
Manufacturing, Selling & Other Expenses	P	773,719,357	689,688,339
		1,572,165,842	**1,159,414,276**
Earnings Before Interest, Depreciation & Tax		773,582,013	639,314,616
Interest & Other Finance Expenses (Net)	Q	309,317,193	130,981,984
Profit Before Depreciation		**464,264,819**	**508,332,633**
Depreciation		150,403,232	113,720,134
Profit Before Tax		**313,861,587**	**394,612,499**
Provision for Taxation			
– Current Tax		32,263,683	73,873,961
– MAT Credit		(32,263,683)	–
– Deferred Tax		28,449,672	36,577,967
– Fringe Benefit Tax		2,250,000	1,430,000
Net Profit		**283,161,915**	**282,730,571**
Balance Brought Forward		526,948,832	277,616,191
Profit Available for Appropriation		**810,110,747**	**560,346,762**
APPROPRIATIONS			
Proposed Dividend		12,825,000	20,520,000
Corporate Tax on Dividend		2,179,609	2,877,930
General Reserves		–	10,000,000
Capital Redemption Reserves		–	–
Surplus Carried to Balance Sheet		795,106,138	526,948,832
		810,110,747	**560,346,762**
Basic & Diluted Earnings Per Share - Rs.		16.56	23.62
(Face Value of Rs. 10/- Each)			
Significant Accounting Policies & 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 30, 2008

Place : Mumbai
Date : July 30, 2008

Schedules to Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
A SHARE CAPITAL		
Authorised		
35,000,000 Equity Shares of Rs. 10/- each	350,000,000	200,000,000
Total	**350,000,000**	**200,000,000**
Issued, Subscribed & Paid Up		
Equity Share Capital		
17,100,000 (Previous Year 17,100,000) Equity Shares of Rs. 10 each fully Paid up	171,000,000	171,000,000
Total	**171,000,000**	**171,000,000**

	Balance as at April 1, 2007	Additions during the year	Deductions/ Adjustments during the year	Balance as at March 31, 2008
B RESERVES AND SURPLUS				
Share Premium (Refer Note No. 1 of Schedule "X")	1,085,387,500	–	94,131,966	991,255,534
General Reserves	10,000,000	–	–	10,000,000
Surplus as per P & L A/c	526,948,831	268,157,306	–	795,106,138
Total	**1,622,336,331**	**268,157,306**	**94,131,966**	**1,796,361,672**
Previous Year	**491,671,191**	**1,130,665,140**	**–**	**1,622,336,331**

	As at March 31, 2008	As at March 31, 2007
C SECURED LOANS		
From Banks		
a) Vehicle Loans	14,964,532	5,914,192
b) Term Loans & Buyers Credit	2,012,224,875	1,917,300,654
c) Cash Credit Facilities	507,567,908	554,672,225
Refer Note No. 4 of Schedule "X"		
Total	**2,534,757,315**	**2,477,887,071**

D UNSECURED LOANS		
From Directors	61,080,425	82,782,310
From Shareholders & Others	10,000,000	10,763,204
From Companies	134,718,230	59,613,007
From Banks	58,210,344	–
From Dealers - Security Deposits	22,161,931	20,124,231
Non Convertible Unsecured Debentures	250,000,000	–
Refer Note No.5 of Schedule "X"		
Total	**536,170,930**	**173,282,752**

Schedules to Balance Sheet

(Amount in Rupees)

E FIXED ASSETS

PARTICULARS		GROSS BLOCK				DEPRECIATION				NET BLOCK	
		Cost as on Mar-31-2007	Additions	Deletions	Cost as on Mar-31-2008	Upto Mar-31-2007	For the Year	On Deletions	As on Mar-31-2008	As on Mar-31-2008	As on Mar-31-2007
TANGIBLE ASSETS											
I	Land - Freehold	2,544,001	29,704,496	1,233,090	31,015,407	-	-	-	-	31,015,407	2,544,001
II	Building	376,652,137	76,555,828	-	453,207,965	22,047,289	12,808,071	-	34,855,360	418,352,605	354,604,849
III	Plant & Machinery	1,319,274,614	841,365,400	-	2,160,640,014	136,660,230	105,731,060	-	242,391,290	1,918,248,724	1,407,013,404
IV	Furniture & Fixtures	29,434,904	2,252,020	-	31,686,924	2,555,008	1,916,997	-	4,472,005	27,214,919	26,734,595
V	Office Equipments	8,153,168	1,634,414	-	9,787,582	713,285	420,448	-	1,133,733	8,653,849	7,585,184
VI	Vehicles	14,046,684	13,712,083	-	27,758,767	2,873,876	1,824,554	-	4,698,430	23,060,337	11,172,808
VII	Computers	4,590,868	1,088,340	-	5,679,208	1,423,613	820,646	-	2,244,259	3,434,949	3,167,255
VIII	Power Project	257,434,239	4,492,852	-	261,927,091	33,035,220	26,881,456	-	59,916,676	202,010,415	
INTANGIBLE ASSETS											
IX	Trade Mark Rights	10,000	-	-	10,000	10,000	-	-	10,000	-	-
	Total	**2,012,140,615**	**970,805,433**	**1,233,090**	**2,981,712,958**	**199,318,521**	**150,403,232**	**-**	**349,721,753**	**2,631,991,205**	**1,812,822,095**
	Previous Year	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

	As at March 31, 2008	As at March 31, 2007
F INVESTMENTS		
NON-TRADE INVESTMENTS		
I Unquoted		
35,075 Shares of The Cosmos Co-Op. Bank Ltd. (Pledged with Bank)	350,750	350,750
II National Saving Certificate	10,000	10,000
TRADE INVESTMENTS		
III Shares of Subsidiary	14,250,000	14,250,000
Euro Merchandise (India) Ltd. (190,000 Equity Shares of Rs. 10/- each fully paid up at a premium of Rs. 65/- per share)		
Total	**14,610,750**	**14,610,750**

G INVENTORIES		
a) Finished Goods	285,296,013	305,465,584
b) Stores & Spares	52,079,356	33,841,964
c) Raw Materials & Consumables	211,764,243	154,771,054
d) Packing Materials	6,630,722	8,357,866
e) Work In Process	79,136,571	14,167,016
f) Stock-in-Transit	9,430,275	11,307,135
(As Valued & Certified by the Management)		
Total	**644,337,180**	**527,910,619**

Schedules to Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
H SUNDRY DEBTORS		
(Unsecured, Considered Good)		
Due for Period exceeding Six Months	81,518,123	52,138,923
Due for Period less than Six Months	359,274,673	392,008,386
Refer Note No.6 of Schedule "X"		
Total	440,792,796	444,147,309

I CASH & BANK BALANCES		
Cash & Cheques in Hand	3,560,487	1,587,336
Balance With Scheduled Banks		
- Current Accounts	16,693,768	35,717,017
- Recurring Deposits	800,000	–
- Fixed Deposits	244,027,133	917,574,383
Refer Note No.7 of Schedule "X"		
Total	265,081,387	954,878,736

J LOANS & ADVANCES		
(Unsecured, Considered Good)		
Advances recoverable in cash or in kind or for value to be received	219,927,845	290,618,137
MAT Credit to be Availed	32,263,683	–
Deposits	16,005,901	15,789,651
Balance With Central Excise, Sales Tax etc.	117,453,432	20,315,686
Total	385,650,861	326,723,474

K CURRENT LIABILITIES		
Sundry Creditors		
- Due to Small Sacle Industrial Units	–	1,177,856
- Due to Micro, Small and Medium Enterprises	2,030,539	–
- Others	179,313,715	204,582,680
Refer Note No.8 of Schedule "X"		
Advances From Customers	7,593,268	40,580,341
Other Liabilites	100,897,671	60,982,445
Interest Accrued But not due	2,608,805	10,311,176
	292,443,998	317,634,498
Provisions		
Taxation (Net of Advance Taxes)	8,677,653	35,210,177
Proposed Dividend	12,825,000	–
Leave Encashment	1,255,267	1,207,299
	22,757,920	36,417,476
Total	315,201,918	354,051,974

Schedules to Profit and Loss Account

(Amount in Rupees)

	For the year ended March 31, 2008	For the year ended March 31, 2007
L OTHER INCOME		
Dividend	15,000	15,000
Interest on FD - IPO	25,859,572	4,719,967
Miscellanies Receipt	(4,069)	–
Rent Received	2,182,133	1,800,000
Exchange Rate Difference	35,299,365	1,414,312
Profit on Sale of Land	37,970	–
Total	**63,389,971**	**7,949,279**

M (INCREASE) /DECREASE IN STOCK		
Opening Stock		
Finished Goods	305,465,584	100,209,044
Work In Process	14,167,016	9,094,708
	319,632,600	109,303,752
Closing Stock		
Finished Goods	285,296,013	305,465,584
Work In Process	79,136,571	14,167,016
	364,432,584	319,632,600
(Increase) /Decrease	**(44,799,984)**	**(210,328,848)**

N COST OF MATERIALS		
Raw Material Consumption	660,962,039	554,961,351
Purchase of Goods traded	20,628,419	21,323,319
Packing Material Consumption	55,476,352	33,812,102
Total	**737,066,810**	**610,096,772**

O SALARIES, WAGES & EMPLOYEE BENEFITS		
Salaries, Wages, and Bonus	83,226,552	57,599,181
Contributions to Providend & Other Funds	2,812,421	2,087,822
Welfare Expenses	20,140,686	10,271,010
Total	**106,179,659**	**69,958,013**

Schedules to Profit and Loss Account

(Amount in Rupees)

	For the year ended March 31, 2008	For the year ended March 31, 2007
P MANUFACTURING, SELLING & OTHER EXPENSES		
Consumptions of Stores & Spares	14,599,459	8,785,611
Power & Fuel	435,287,509	371,527,011
Processing Charges	6,805,601	5,993,135
Brokerage & Commission	11,203,323	12,797,374
Advertisement	32,066,936	29,023,081
Audit Fees	250,000	100,000
Repairs & Maintenance		
- Building	524,413	752,400
- Plant & Machinery	21,791,819	15,366,844
- Others	4,374,785	2,698,480
Director Remuneration	8,400,000	4,800,000
Director Sitting Fees	70,000	85,000
Donation	7,315,368	9,388,380
Insurance	28,335,551	27,639,992
Loss on Sale of Fixed Assets	–	384,358
Rent, Rates & Taxes	11,897,292	12,039,118
Freight Outwards	91,556,407	115,593,096
Other Selling Expenses	52,193,569	41,626,479
Miscellaneous Expenses	47,047,325	31,087,980
Total	**773,719,357**	**689,688,339**

Q INTEREST & OTHER FINANCE EXPENSES		
Interest on Fixed Loans	163,746,594	84,393,640
Interest Others	76,909,765	53,708,369
(Profit)/Loss from Derivatives / SWAP	70,401,860	–
Other Financial Charges	10,304,979	7,609,719
	321,363,198	145,711,728
Less : Interest Income		
Interest on Fixed Deposits With Banks	11,587,653	8,367,254
Other Interest	458,352	6,362,490
Total	**309,317,193**	**130,981,984**

Notes to the financial statements For the year ended March 31, 2008

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 & 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 capitalised 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 capitalised as a part of the cost of such asset up to the date when such assets is ready for its intended use. A qualifying asset is the one that necessarily takes a substantial period to get ready for intended use.

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

V Foreign Currency Transactions

a) Transactions in foreign currency are accounted at the exchange rate prevailing on the date of transaction. Rate fluctuation between the transaction date and the settlement date in respect of revenue transactions are recognised in Profit & Loss account and in respect of acquisition of the fixed assets are adjusted to the cost of the respective assets.

b) All export proceeds / import payables not realised at the year end are restated at the rate prevailing at the year end. The exchange difference arising there on has been recognised as income / expenses in the current year's Profit & Loss account.

c) Monetary Assets & Liabilities denominated in Foreign Currency are translated at year end exchange rates and the Profit/Loss so determined is recognised in the Profit & Loss account.

d) (i) As per the Provisions of the AS 11 of the ICAI, the profit/loss on cancellation or renewal of derivative instruments such as forward contract and option contract undertaken to hedge exchange fluctuation/price risks are recognised as income/expenses in the Profit & Loss account for the year.

(ii) Option contract open at the year end are recognised at the year end rate and the Mark to Market difference taken to revenue account.

VI Investments

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

VII Inventories

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

b) Work in Progress and finished goods are valued at lower of cost and net realizable value. Cost comprises of direct materials, direct labour, other costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

c) 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 recognised on accrual basis.

c) Interest Income is recognised 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

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

Fund are charged to the profit & 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 ended.

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

X Taxes on Income

a) 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.

b) 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.

c) Deferred tax assets arising from timing differences are recognised to the extent there is reasonable certainty that these would be realised in future.

d) Deferred tax assets are recognised on unabsorbed losses only if there is virtual certainty that such deferred tax asset can be realised 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

a) Provisions are recognised 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.

b) 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 had issued 5,621,500 equity shares of Rs. 10 each at a premium of Rs. 155, through a Book Building Initial Public Offering (IPO) in February 2007. The principal objects of the issue and the expenditure incurred upto March 31, 2008 on such objects pursuant to clause 43 of the listing agreement are as under:

(Rupees in Lacs)

Particulars	Estimated Utilization Amount	Actual Utilization upto March 31, 2008
a. Setting up of manufacturing facilities for Sanitary Ware Products project at Bhachau, Kutch	7,693.37	7,039.95
b. General Corporate Purposes	1,156.91	746.00
c. Public Issue Expenses	835.20	942.84
Total	**9,685.48**	**8,728.79**

The Balance of unutilised IPO proceeds were kept in Fixed Deposits and current account with bank and will be utilised in due course. The share issue expenses have been adjusted against the share premium account

(Amount in Rupees)

	Current Year	Previous Year
2. Estimated amount of contracts remaining to be executed on capital account and not provided for.	636,767,764	272,502,873

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

(Amount in Rupees)

	Current Year	Previous Year
a. Bills Discounted with Banks	69,406,253	26,630,541
b. Letter of Credit	110,960,854	53,736,125
c. Bank Guarantees	5,403,375	5,059,350
d. Guarantees given to the Banks for the loans taken by the Euro Merchandise (India) Ltd., (100 % Subsidiary)	352,000,000	–

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. 352,231,231/- and the corresponding Export Obligation to be fulfilled is Rs. 2,402,945,292/- 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. Formal discharge from the obligation by the appropriate authorities is in progress in respect of the Licenses of which Export Obligation is entirely fulfilled by the close of the year.

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

4. **Secured Loans** *(Amount in Rupees)*

		Current Year	Previous Year
a.	Vehicle Loans	14,964,532	5,914,192
	Are secured against vehicles specified in the respective agreements & Personal Guarantee of the Directors of the Company.		
b.	Term Loans & Buyers Credit	2,012,224,875	1,917,300,654
	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 hypothe--cation of current assets of the Company and against the collateral securities & Personal Guarantee given by the Directors and their Relatives.		
c.	Cash Credit & Other Facilities	507,567,908	554,672,225
	Are secured against the first charge created by hypothe--cation of Stock & Book Debts & 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.		

5. Unsecured Loans include Unsecured Redeemable Non Convertible Debentures (NCDs) issued by the Company amounting to Rs. 25 Crores (25 Debentures of Face Value of Rs. 1 Crore each) (Previous Year Rs. NIL).

6. Sundry Debtors include amount in respect of which the Company holds Letter of Credit / Guarantees from Banks of Rs. NIL (Previous Year Rs. 12,401,425/-).

7. Out of the total Fixed Deposits of Rs. 244,027,133/-, Fixed Deposits amounting to Rs. 180,126,133/- (Previous Year Rs. 169,574,383/-) are pledged with banks as Margin Money against Guarantee & Letter of Credit issued by the Bank on behalf of the Company and balance Rs. 63,901,000/- (Previous Year Rs. 748,000,000/-) are temporary investments of surplus funds of proceeds from IPO.

8. The Company has received intimations from suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and accordingly the amounts outstanding to such suppliers has been disclosed. Being the first year of such disclosure corresponding previous year figures have not been given.

9. Sales and Income from Operation includes Rs. 19,287,251/- (Previous Year Rs. 3,307,847/-) being Export Incentives in the nature of Advance License benefit.

10. Pursuant to the announcement on "Accounting for Derivatives" issued by the Institute of Chartered Accountants of India, the Company has charged to profit and loss account the mark-to-market losses amounting to Rs. 28,698,167/- (Previous Year Rs. NIL), on the outstanding derivative / Swap contracts as on March 31, 2008 along with the losses of Rs. 41,703,693/- (Previous Year Rs. NIL) on settled contracts. The Company does not hold or issue derivative / Swap financial instruments for trading or speculative purposes.

11. **Managerial Remuneration** *(Amount in Rupees)*

	Current Year	Previous Year
Director's Salary & Allowances	8,400,000	4,800,000
Percentage to Net Profit	2.61%	1.20%

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

Computation of Net Profit as per sec.349 read with sec.309 (5) and sec.198 of the Companies Act, 1956.

(Amount in Rupees)

	Current Year	Previous Year
Profit as per Profit & Loss A/c.	313,861,587	394,612,499
Add: Managerial Remuneration	8,400,000	4,800,000
Add: Loss on sale of fixed assets	–	384,358
Less: Profit on sales of fixed assets	37,970	–
Total	**322,223,617**	**399,796,857**
Managerial Remuneration ceiling @ 10%	32,222,362	39,979,686

12. **Auditors Remuneration (including service tax)**

(Amount in Rupees)

	Current Year	Previous Year
For Audit	280,900	112,240
For Taxation, Consultancy and Certification Fees	169,664	56,120
For IPO Certification Fees	–	112,240

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

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

(Amount in Rupees)

		Current Year	Previous Year
I	Depreciation	126,102,600	97,926,281
II	Expenditure / Provisions		
	Disallowable	366,167	92,804

14. 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	283,161,915	282,730,570
II	Denominator		
	Weighted average number of Equity Shares outstanding		
	- Basic	17,100,000	11,971,344
	- Diluted	17,100,000	11,971,344
III	Nominal Value of Share in (Rs.)	10	10
IV	Earnings Per Share (Basic as well as Diluted)	16.56	23.62

15. The Accounting Standard – AS 15 (revised 2005) on Employee Benefits issued by the Institute of Chartered Accountants of India, has been adopted by the Company.

a) Defined Contribution Plan

The Company has recognised the following amounts in Profit & Loss account as contributions to funds.

(Amount in Rupees)

Particulars	Current Year
Employer's Contribution to Provident Fund	2,811,581
Employer's Contribution to Employees' State Insurance	89,445

b) Defined Benefit Plan : Gratuity

The Company has Group Gratuity Policy managed by LIC. The below mentioned disclosure have been obtained from LIC.

(Amount in Rupees)

		As on March 31, 2008
I	Changes in the present value of obligations	
	Present value of obligations as at April 1, 2007	1,314,687
	Interest cost	98,602
	Current Service Cost	848,088
	Benefits Paid	70,673
	Actuarial (gain)/Loss on obligations	237,147
	Present value of obligations as at March 31, 2008	2,427,851
II	Changes in the fair value of plan assets	
	Fair value of plan assets at April 1, 2007	1,801,109
	Expected return on plan assets	196,475
	Employer's Contributions	848,087
	Benefits paid	70,673
	Actuarial Gain / (Loss) on Plan assets	NIL
	Fair value of plan assets at March 31, 2008	2,774,998
III	Table showing fair value of plan assets	
	Fair value of plan assets at April 1, 2007	1,801,109
	Actual return on plan assets	196,475
	Contributions	848,087
	Benefits Paid	70,673
	Fair value of plan assets at March 31, 2008	2,774,998
	Funded status	347,147
	Excess of Actual over estimated return on plan assets	NIL
	(Actual rate of return = Estimated rate of return as ARD falls on March 31)	
IV	Actuarial Gain/(Loss) recognised	
	Actuarial gain/(Loss) for the year –Obligation	(237,147)
	Actuarial gain/(Loss) for the year - plan assets	NIL
	Total gain/(Loss) for the year	(237,147)
	Actuarial gain/(Loss) recognised in the year	(237,147)
V	The amounts to be recognised in the balance sheet and statements of profit and loss	
	Present value of obligations as at March 31, 2008	2,427,851
	Fair value of plan assets as at March 31, 2008	2,774,998
	Funded status	347,147
	Net Asset/(Liability) recognised in balance sheet	(347,147)

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

(Amount in Rupees)

		As on March 31, 2008
VI	Expenses Recognised in statement of Profit & Loss	963,844
VII	Principal Actuarial Assumptions used at the Balance Sheet Date	
	Discount Rate	8%
	Salary Escalation	5%

Notes:

a) The estimated future salary increases take account of inflation, seniority, promotion and other retirement factors such as supply and demand in the employment market.

b) This being the first year of implementation of AS – 15 (Revised) previous year figures are not given.

16. Amount of exchange difference (net) included / (excluded) in additions to the Fixed Assets Rs. 8,306,511/- (Previous Year (Rs. 27,696,290/-))

17. Derivative Instruments and Unhedged Foreign Currency Exposure

(Amount in Rupees)

Sr. No.	Particulars	Current Year	Previous Year
	(a) Foreign Currency SWAP outstanding:		
1.	ECB loan of USD 10,00,000 (Previous Year USD 30,00,000) swapped against CHF	CHF 1,186,500	CHF 3,664,700
2.	ECB loan of USD 6,25,000 (Previous Year 6,41,000) swapped against CHF	CHF 750,187.50	CHF 789,712
3.	Rupee loan of Rs. 880 Lacs (Previous Year Nil) notionally converted in USD and swapped against CHF	CHF 2,627,568.77	–
	(b) Unhedged Foreign Currency Exposure:		
1.	ECB Loan	USD 153,965.10	USD 14,613,882.85
2.	ECB Loan	EURO 2,631,317.49	EURO 2,631,317.49
3.	Outstanding Creditors for Purchase of Raw Material, Consumables & Spares	USD 45,396.00	USD 9,000.00
4.	Outstanding Creditors for Purchase of Raw Material, Consumables & Spares	EURO 107,925.00	EURO 104,095.00

17. Derivative Instruments and Unhedged Foreign Currency Exposure Contd.

(Amount in Rupees)

Sr. No.	Particulars	Current Year	Previous Year
5.	Outstanding Creditors for Capital Goods	–	USD 612,500.00
6.	Outstanding Debtors	USD 900,506.39	USD 1,050,428.88
7.	Advance to Creditors for Purchase of Raw Material, Consumables & Spares	USD 522,084.94	USD 484,472.79
8.	Advance to Creditors for Purchase of Raw Material, Consumables & Spares	EURO 60,804.38	–
9.	Advance to Creditors for Capital Goods	EURO 106,862.00	EURO 435,000.00
10.	Advance from Debtors	USD 19,621.75	USD 20,447.00

18. 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	Euro Agro
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 Multimedia & Communication Pvt. Ltd.	Vaman International Pvt. Ltd.
National Ply & Laminates	Zenith Corporation	Nova Enterprises
National Laminate Corporation	Gala Enterprises	Euro Foundation
Euro Aluminium Industries Ltd.	Euro Glass Ltd.	Euro Solar Power Pvt. Ltd.
Euro India Cylinders Ltd.	Euro Mineral Corporation	

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

(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	27,504,666 *(46,008,369)*	257,825,413 *(219,280,702)*	– *(–)*	– *(–)*
Sale of Fixed Assets	– *(–)*	– *(67,896,206)*	178,000 *(–)*	– *(–)*
Purchase of goods and services	– *(–)*	7,416,878 *(5,810,297)*	– *(–)*	– *(–)*
Purchase of fixed assets	– *(–)*	1,267,424 *(1,127,432)*	70,000 *(–)*	– *(–)*
Donation	– *(–)*	6,776,813 *(2,700,000)*	– *(–)*	– *(–)*
Director's Remunera--tion/Sitting Fees	– *(–)*	– *(–)*	27,500 *(42,500)*	8,400,000 *(4,800,000)*
Interest Received	– *(–)*	217,225 *(5,194,398)*	– *(–)*	– *(–)*
Interest Paid/Payable	– *(–)*	1,358,387 *(175,762)*	2,377,084 *(2,932,677)*	6,689,399 *(11,795,196)*
Loans/Advances Taken	– *(–)*	85,255,000 *(55,814,000)*	29,647,101 *(15,000,000)*	209,801,975 *(163,830,000)*
Loans/Advance Repaid	– *(–)*	79,968,909 *(34,929,663)*	6,263,204 *(12,514,588)*	196,091,000 *(228,117,000)*
Loans/Advances Given	51,100,000 *(53,300,000)*	91,525,000 *(24,350,000)*	– *(–)*	– *(–)*
Loans/Advance Received Back	40,497,957 *(–)*	96,525,000 *(34,929,663)*	*(–)*	*(–)*

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

Nature of Transactions	Subsidiary	Enterprises having common Key Management Personnel	Relative of the Key Management Personnel	Key Management Personnel
Outstanding balance as at March 31, 2008				
Loans Payable	– (–)	16,458,230 (11,172,139)	21,539,341 (27,802,545)	32,489,733 (55,242,969)
Loans Receivable	28,402,043 (17,800,000)	– (5,000,000)	– (–)	– (–)
Amount Receivable	1,839,858 (29,460,045)	53,393,684 (61,837,238)	– (–)	– (–)
Amount Payable	–	310,393 (2,022,206)	2,107,760 (–)	5,163,591 (–)

- Figures of the Previous Year have been given in brackets
- No amounts 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.

19. Disclosure pursuant to Clause 32 of the Listing Agreement

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

(Amount in Rupees)

Particulars	Current Year		Previous Year	
	Balance as on March 31, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. Due at any time during the year
i) Wholly Owned Subsidiary - Euro Merchandise (India) Ltd.	28,402,043	28,402,043	17,800,000	21,800,000
ii) Staff Advances & Loans - are given in the ordinary course of the business	2,615,113	2,899,658	1,349,403	1,555,000

(b) Loans & Advances in the nature of Loans given to the firms/Companies in which Directors are interested:

(Amount in Rupees)

Particulars	Current Year		Previous Year	
	Balance as on March 31, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. Due at any time during the year
i) Euro Multivision Ltd.	168,002	18,000,000	5,000,000	5,000,000

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

(c) Investment by the above loanees in the shares of the Company and /or its Subsidiary:

(Amount in Rupees)

Particulars	Current Year		Previous Year	
	Balance as on March 31, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. 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

20. 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.

21. 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

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 30, 2008

Place : Mumbai
Date : July 30, 2008

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
Tile Division (M.T.)	124,971	79,971	90,222	78,331
Aluminium Section (M.T.)	1,800	1,800	1,408	1,320

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.)
Tiles (In Metric Tonnes)	17,725	299,519,000	90,158	2,021,647,818	17,789	284,927,243
(Previous Year)	*7,932*	*98,233,716*	*68,538*	*1,556,015,802*	*17,725*	*299,519,000*
Aluminium Section (In Metric Tonnes)	42	5,946,584	1447	232,674,729	3	368,770
(Previous Year)	*25*	*1,975,328*	*1,303*	*192,070,259*	*42*	*5,946,584*
Trading Goods – Ceramic Tiles (Sq. Mtr.)	–	–	114,233	21,433,074	–	–
(Previous Year) (Boxes)	–	–	*100,056*	*21,771,847*	–	–
Others	–	–	–	6,602,263	–	–
(Previous Year)	–	–	–	*20,921,705*	–	–
Total		**305,465,584**		**2,282,357,884**		**285,296,013**
Total (Previous Year)		*100,209,044*		*1,790,779,613*		*305,465,584*

- 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	47,362.97	66,357,629	48,370.84	141,350,111
II Feldspar	61,156.96	60,602,564	45,633.85	45,195,706
III Quartz	2,215.26	2,407,865	1,387.06	1,424,670
IV Marble & Stones	7,004.83	26,397,720	-----	-----
V Resin	451.47	38,652,084	-----	-----
VI Aluminium Scrap	1,782.76	196,215,218	1443.05	157,004,329
VII Other	-----	270,328,959	----	209,986,536
Total	**119,974.25**	**660,962,039**	**96,834.80**	**554,961,352**

d) Purchase of Trading Goods

	Current Year		Previous Year	
	Sq. Mtrs.	(Rs.)	Boxes	(Rs.)
I Ceramic Tiles	114,233	20,628,419	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 & Consumables	231,557,281	179,941,271
II Stores & Spares	5,862,448	3,721,022
III Capital Goods	378,173,872	695,363,601
IV Trading Goods	20,628,419	21,323,319

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

	Current Year	Previous Year
I Foreign Traveling Expenses	904,445	1,785,069

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

	Current Year		Previous Year	
	%	(Rs.)	%	(Rs.)
I Raw Materials				
Imported	59.94	396,211,105	46.89	260,227,458
Indigenous	40.06	264,750,934	53.11	294,733,894
Total	**100.00**	**660,962,039**	**100.00**	**554,961,352**
II Stores & Spares				
Imported	23.70	3,460,162	24.44	2,147,449
Indigenous	76.30	11,139,297	75.56	6,638,162
Total	**100.00**	**14,599,459**	**100.00**	**8,785,611**

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

	Current Year	Previous Year
Amount Remitted	–	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 Rupees)*

	Current Year	Previous Year
a. Foreign Currency	186,120,395	97,077,256

Annexure - II

SEGMENTWISE FINANCIAL STATEMENT FOR THE YEAR ENDED MARCH 31, 2008.

I) PRIMARY SEGMENTS - BUSINESS

	Tiles		Aluminium Sections		Inter- Segmental Elimination		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
a) Segmental Revenue								
Sales to External Customers	2,059,084,146	1,597,495,869	232,674,729	193,283,744	-	-	2,291,758,875	1,790,779,613
Less : Excise Duty	9,400,991	-	-	-	-	-	9,400,991	-
	2,049,683,155	1,597,495,869	232,674,729	193,283,744	-	-	2,282,357,884	1,790,779,613
Inter-segmental Revenue	-	-	-	-	-	-	-	-
Total Segmental Revenue	2,049,683,155	1,597,495,869	232,674,729	193,283,744	-	-	2,282,357,884	1,790,779,613
b) Segmental Results (PBIT)	729,755,244	714,546,062	14,871,785	28,194,717	-	-	744,627,029	742,740,779
Less: Interest & Finance Charges							309,317,193	130,981,985
							435,309,836	611,758,794
Less: Unallocable Expenses Net of Unallocable Income							121,448,248	217,146,297
Profit Before Tax & Exceptional Items							313,861,588	394,612,497
Loss / (Gain) due to Exceptional Items							-	-
Profit Before Tax							313,861,588	394,612,497
Less: Provision for Current Tax							32,263,683	73,873,961
Add: MAT Credit							(32,263,683)	-
Less: Provision for Deferred Tax							28,449,672	36,577,967
Less: Provision for Fringe Benefit Tax							2,250,000	1,430,000
Profit After Tax							**283,161,916**	**282,730,570**
c) Carrying amount of Segmental Assets	4,005,594,538	2,479,046,899	74,768,291	86,578,859	-	-	4,080,362,830	2,565,625,758
Unallocated Assets							1,749,319,526	2,530,269,975
Total Assets							**5,829,682,356**	**5,095,895,733**
d) Carrying amount of Segmental Liabilities	1,936,616,265	1,077,278,074	13,460,266	4,947,531	-	-	1,950,076,531	1,082,225,605
Unallocated Liabilities							1,562,522,399	2,021,015,277
Total Liabilities							**3,512,598,930**	**3,103,240,882**
e) Cost incurred to acquire Segment Fixed Assets during the year	892,832,090	267,490,182	1,386,212	7,244,867	-	-	894,218,302	274,735,049
Unallocated Assets							76,587,131	101,470,052
f) Depreciation / Amortization	110,401,091	58,970,936	2,124,584	1,614,563	-	-	112,525,675	60,585,499
Unallocated depreciation							37,877,558	53,134,635

II) PRIMARY SEGMENTS - GEOGRAPHICAL

	2007-08	2006-07
The Company's operating facilities are located in India		
Domestic Revenues	1,983,456,986	1,659,440,995
Export Revenues	298,900,898	131,338,618
Total	2,282,357,884	1,790,779,613

Annexure III

Cash Flow Statement

(Amount in Rupees)

Particulars	2007-08			2006-07
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		**313,861,587**		**394,612,498**
Adjustments for :				
Depreciation	150,403,232			113,720,134
Interest & Finance Charges (net)	309,317,193			130,981,985
Dividend & Other Incomes	(63,352,001)			(6,534,967)
(Profit) / Loss On Sale Of Fixed Assets	(37,970)	396,330,454		384,358
Operating Profit Before Working Capital Changes		**710,192,041**		**633,164,007**
Decrease / (Increase) in sundry debtors	3,354,513			(164,085,586)
Decrease / (Increase) in other current assets	(26,663,704)			(80,608,085)
Decrease / (Increase) in inventories	(116,426,561)			(209,888,661)
Increase / (Decrease) in trade and other payables	(53,747,324)	(193,483,076)		116,863,408
Cash Generated from Operations		**516,708,965**		**295,445,082**
Income taxes paid (Net of Refund)		(63,225,816)		(41,179,129)
Net Cash from Operating Activities			**453,483,149**	**254,265,953**
B. CASH FLOW FROM INVESTING ACTIVITIES				
(Purchase)of Fixed Assets including Capital Work in Progress	(1,252,817,625)			(1,062,421,689)
Sale Of Fixed Assets	1,233,090			68,580,564
Profit/ (Loss) On Sale of Fixed Assets	37,970			(384,358)
Interest Received	12,046,005			14,729,743
Dividend & Other Incomes	63,352,001			6,534,967
Net Cash (used in)/from Investing Activities			**(1,176,148,559)**	**(972,960,773)**
C. CASH FLOW FROM FINANCING ACTIVITIES				
Refund Of Share Application Money	-			(60,464,000)
Proceeds from IPO	-			927,547,500
Proceeds from Borrowings	419,758,432			1,151,531,800
Repayments of Borrowings	-			(204,822,931)
Increase / (Decrease) in payables for capital goods	28,604,792			364,532
Interim Dividend including Dividend Distribution Tax	-			(23,397,930)
Share Issue Expenses	(94,131,966)			-
Interest and Finance Charges paid	(321,363,198)			(145,711,728)
Net Cash (used in)/From Financing Activities			**32,868,060**	**1,645,047,244**
Net increase in Cash and Equivalents			**(689,797,349)**	**926,352,425**
Cash and Cash Equivalents (Opening Balance)			954,878,736	28,526,312
Cash and Cash Equivalents (Closing Balance)			265,081,387	954,878,736

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 30, 2008

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 30, 2008

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) 2008 (Year)		

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

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

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

Total Liabilities	5164758.68	Total Assets	5164758.68
Sources of Funds			
Paid up Capital	171000.00	Reserves and Surplus	1796361.67
Secured Loans	2534757.31	Unsecured Loans	536170.93
Deferred Tax Liability	126468.77		
Application of Funds			
Net Fixed Assets	3729487.63	Investment	14610.75
Net Current Assets	1420660.31	Misc. Expenditure	NIL

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

Total Income	2345747.85	Total Expenditure	2031886.27
Profit before Tax	313861.59	Profit after Tax	283161.92
Earning per Share in Rs. (Annualised)	16.56	Dividend Rate %	7.50%

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)	6810
Product Description	AGGLOMERATED MARBLE
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 30, 2008

Nenshi L. Shah	Paresh K. Shah	Jayshree D. Soni
Managing Director	*Director*	*Company Secretary*

A Statement pursuant to Section 212 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, 2008
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 (b) Extent of Holding	 190,000 Equity Shares of Rs. 10/- each aggregating to Rs. 1,900,000/- 100%
5. Net aggregate amount of Profit/(Loss) of the Subsidiary so far as it concerns the members of the Holding Company and is dealt with in account of Holding Company 1. For financial year ended on March 31, 2008 2. For previous financial year of the Subsidiary since it became a Subsidiary Company	 NIL NIL
6. Net aggregate amount of Profit/(Loss) of the Subsidiary so far as it concerns the members of the Holding Company and is not dealt with in account of Holding Company 1. For financial year ended March 31, 2008 2. For previous financial year of the Subsidiary since it became a Subsidiary Company	 Profit Rs. 31,073,964/- Profit Rs. 27,749,385/-
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 (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.	Not Applicable

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

Place : Mumbai	**Nenshi L. Shah**	**Paresh K. Shah**	**Jayshree D. Soni**
Date : July 30, 2008	*Managing Director*	*Director*	*Company Secretary*

Directors' Report

Dear Members,

Your Directors have pleasure in presenting their 4th Annual Report of the Company for the year ended March 31, 2008.

Financial Results:

(Rupees in Lacs)

Particulars	Current Year	Previous Year
Income:		
Sales	6,128.22	3,928.13
Other Income	0.15	0.14
Total expenditure	5,649.28	3,588.55
Profit before Depreciation	479.09	339.72
Less: Depreciation	1.61	2.02
Profit before Tax	**477.48**	**337.70**
Less: Provision for Tax		
Current Tax	161.79	93.84
Deferred Tax	1.51	19.79
Fringe Benefit Tax	3.44	2.25
Net Profit After Tax	**310.74**	**221.82**
E.P.S. (Basic & Diluted) (Rs.)	**163.55**	**116.75**

Operations:

During the year under review the Company has achieved total sales of Rs. 6,128.22 lacs compared to Rs. 3,928.13 lacs in the previous year achieving a growth of 56 %. The Net Profit before tax was higher by 41.39 % at Rs. 477.48 lacs as compared to Rs. 337.70 lacs in the previous year. The Net Profit after tax grown by 40 % at Rs. 310.74 lacs as compared to Rs. 221.82 lacs in the previous year. The EPS has grown by 40 % and stood at Rs. 163.55 as compared to Rs. 116.75. Thus giving high returns to shareholders thereby increasing their Net worth. The Company expects better turnover and profitability in the coming years.

Future Outlook:

The Company is growing at a rapid pace with a well established presence in "Wall Tiles". After an overwhelming response to our existing products; the Company has expanded concepts of wall tiles and has added in new product line in the form of C. P. fittings & Sanitaryware. The Company has approached new suppliers over the globe and will supply all the products by giving a complete bathroom solution.

Further the Company is planning to develop the supplier base in India, by way of contract manufacturing or complete outsourcing under its control which will give quality products, timely supply and low inventory storage at the Company's end.

To reach the needs of common people, the Company has entered into franchise model to display and sell exclusive Euro products in the name of "Euro Stile Station".

Dividend:

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

Directors:

As per the provisions of the Companies Act, 1956, Mr. Nenshi L. Shah, Director of the Company retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for reappointment. Your Directors recommend his re-appointment as Director of the Company.

As your Company has become a "material Subsidiary Company" of Euro Ceramics Limited, a listed Company, in terms of Clause 49 of the listing agreement; Mr. Amit G. Shah, Independent Director of the Holding Company is appointed as Director of the Company with effect from December 20, 2007. In terms of Section 260 of the Companies Act, 1956, he holds office up to the date of the forthcoming Annual General Meeting. Members approval for his appointment as Director has been sought in the notice convening the Annual General Meeting.

Directors' Responsibility Statement:

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the

Directors of the Company confirm 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 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 the 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:

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 : Nil

The particulars regarding Technology Absorption, Adoption and innovation : Nil

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 Section 58A and 58AA of the Companies Act, 1956.

Particulars of Employees:

There are no employees drawing remuneration more than the limit 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, Mumbai, retires at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

Secretarial Compliance Certificate:

Pursuant to Section 383A of the Companies Act, 1956, a certificate from M/s. Manish Ghia & Associates, a Company Secretary in whole time practice, regarding status on compliance of the provisions of the Companies Act, 1956 by the Company is annexed herewith.

Acknowledgement:

Your Directors acknowledges 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 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 30, 2008

Compliance Certificate

Registration No. : 11- 145654
Authorised Capital : Rs. 2,000,000/-

To,
The Members,
Euro Merchandise (India) Limited
Boston House, Ground floor,
Suren Road, Chakala,
Andheri (East), Mumbai - 400093

We have examined the registers, records, books and papers of **Euro Merchandise (India) Limited** (hereinafter referred to as "the Company") as required to be maintained under the Companies Act, 1956, (hereinafter referred to as "the Act") and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on **March 31, 2008** (Financial Year). In our opinion and to the best of our information and according to the examinations carried out by us and explanations furnished to us by the Company, its officers and agents, we certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained Registers as stated in Annexure 'A' to this certificate, as per the provisions and the rules made thereunder and all entries therein have been duly recorded.
2. The Company has filed the forms and returns as stated in Annexure 'B' to this Certificate, with the Registrar of Companies, Maharashtra and the Company has paid the necessary additional fees for the documents which are filed after the time prescribed under the Act. The Company was not required to file any documents with the Regional Director, Central Government and Company Law Board or other authorities.
3. The Company, being Public Limited Company, has the minimum prescribed paid-up share capital. As on March 31, 2008, the paid-up share capital of the Company was Rs. 1,900,000/- and the restrictive provisions of Section 3(1)(iii) of the Act are not applicable.
4. The Board of Directors duly met 8 (eight) times respectively on April 3, 2007, July 25, 2007, August 17, 2007, November 1, 2007, December 6, 2007, December 20, 2007, December 31, 2007 and February 14, 2008 during the financial year, as per information and explanation given by the management, proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose. The Company has not passed any resolution by circulation.
5. The Company was not required to close its Register of Members during the financial year under review.
6. The Annual General Meeting for the financial year ended on March 31, 2007 was held on September 27, 2007. As per information and explanation given by the management, the Company has given adequate notice to the members of the Company and the resolutions passed there at were duly recorded in the Minutes Book maintained for the purpose.
7. Two Extra-Ordinary General Meetings were held on May 1, 2007 and December 1, 2007 during the financial year after giving due notice to the members of the Company and the resolutions passed there at were duly recorded in the Minutes Book maintained for the purpose.
8. The Company has not advanced any loan to its Directors or Companies or firms or companies referred to under section 295 of the Act.
9. The Company has complied with the provisions of section 297 of the Act in respect of contracts specified in that section.
10. The Company has made the necessary entries in the register maintained under Section 301 of the Act.
11. As there are no such transactions falling within the purview of Section 314 of the Act, the Company has not obtained any approvals from the Board of Directors, members or the Central Government as the case may be.
12. The Company has not issued any duplicate share certificates during the financial year.
13. The Company:
    (i) has not made any allotment / transfer / transmission of securities during the financial year.
    (ii) was not required to deposit any amount in a separate Bank Account as no dividend was declared during the financial year.
    (iii) was not required to post warrants for dividend to the members of the Company as no dividend was declared during the financial year.
    (iv) does not have any amount lying on accounts of unpaid dividend account, application money due for refund, matured deposits, matured debentures and the interest accrued

thereon which have remained unclaimed or unpaid for a period of seven years and which is required to transfer to Investors Education and Protection Fund.

(v) duly complied with the requirements of Section 217 of the Act.

14. The Board of Directors of the Company is duly constituted. The appointment of additional Director has been made in accordance with the provisions of the Act. There was no appointment of alternate Director or Director to fill casual vacancy during the financial year.

15. The Company has not appointed any Managing Director / Whole-time Director during the year under review.

16. The Company has not appointed any sole selling agents during the financial year.

17. The Company was not required to obtain any approval of the Central Government, Company Law Board, Regional Director or such other authorities as may be prescribed under the various provisions of the Act.

18. The Directors have disclosed their interest in other firms / Companies to the Board of Directors pursuant to the provisions of the Act and the Rules made thereunder.

19. The Company has not issued any shares or other securities during the financial year.

20. The Company has not bought back any shares during the financial year.

21. The Company has not issued any preference shares or debentures. Hence the question of redemption of the same does not arise.

22. There was no transaction, which necessitates the Company to keep in abeyance rights to dividend, rights shares and bonus shares pending registration to transfer of shares.

23. The Company has not invited / accepted any deposits falling within the purview of section 58A of the Companies Act, 1956.

24. The amount borrowed by the Company from the Banks during the financial year are within the borrowing limits of the Company and the necessary resolutions as per section 293(1)(d) of the Act have been passed in duly convened Extraordinary General Meeting.

25. The Company has not made any investments / loans and advances, or given guarantees or provided securities to other bodies corporate during the financial year.

26. The Company has not altered the provisions of the Memorandum of Association with respect to the situation of the Company's registered office from one state to another during the financial year.

27. The Company has altered the provisions of the Memorandum of Association with respect to the objects of the Company during the financial year and complied with the provisions of the Act.

28. The Company has not altered the provisions of the Memorandum of Association with respect to the name of the Company during the financial year.

29. The Company has not altered the provisions of the Memorandum of Association with respect to the share capital of the Company during the financial year.

30. The Company has not altered the Articles of Association during the financial year.

31. There was no prosecution initiated against or show cause notices received by the Company under the Act and no fines and penalties or any other punishment was imposed on the Company during the financial year.

32. The Company has not received any security deposits from its employees during the financial year.

33. The Company has not deducted any contribution towards Provident Fund during the financial year.

For **Manish Ghia & Associates**
Company Secretaries

Place: Mumbai
Date: July 30, 2008

Manish L. Ghia
Partner
Membership No. ACS 7254
C. P. No. 3531

Annexure - “A”

Registers maintained by M/s. Euro Merchandise (India) Limited:

(i) Register of Members u/s. 150 of the Act.
(ii) Minutes Book of Board Meeting u/s. 193 of the Act.
(iii) Register of Directors u/s. 303 of the Act.
(iv) Register of Directors’ ShareHolding u/s. 307 of the Act.
(v) Register of particulars of contracts in which Directors are interested u/s. 301 of the Act.
(vi) Minutes Book of General Meeting u/s. 193 of the Act.
(vii) Register of Proxies.
(viii) Register of Share Certificates.
(ix) Books of Account and other records u/s. 209 of the Act.

The Company has also maintained the following registers during the year under review:

(i) Register of transfer / transmission of shares.
(ii) Register of Charges.
(iii) Register of Fixed Assets.

Annexure - “B”

Forms and returns as filed by M/s. Euro Merchandise (India) Limited, with the Registrar of Companies during the financial year ended on March 31, 2008

A) With the Registrar of Companies, Maharashtra

Sr. No.	Form No.	Relevant Section	Description	Date of filing	Whether filed within prescribed time Yes/No	If delay in filing whether requisite additional fee paid Yes / N.A.
1	23	192	Particulars of Special Resolution passed at the Extraordinary General Meeting held on May 1, 2007 to alter Object Clause of the Memorandum of Association of the Company by adding new object clauses 40 to 175.	07.05.2007	Yes	N.A.
2	20B	159 (1)	Schedule – V (Annual Return) as on the date of Annual General Meeting held on September 27, 2007	19.10.2007	Yes	N.A.
3	23AC and 23ACA	220 (1)	Schedule – VI (Annual Accounts) for the year ended March 31, 2007	19.10.2007	Yes	N.A.
4	66	383A	Compliance Certificate for the year ended March 31, 2007	19.10.2007	Yes	N.A.
5	8	125	Particulars of creation of charges dated December 17, 2007 for Rs. 5 Crore in favour of Barclays Bank.	24.12.2007	Yes	N.A.
6	32	303	Particulars of appointment of Mr. Amit Shah as an Additional Director of the Company w. e. f. December 20, 2007.	14.01.2008	Yes	N.A.
7	32	303	Particulars of change in designation of Mr. Pratik Shah from Whole Time Director to Director of the Company w.e.f. December 31, 2007.	02.02.2008	No	Yes
8	23	192	Particulars of Ordinary Resolution passed at the Extraordinary General Meeting held on December 1, 2007 to increase managerial remuneration of Mr. Pratik Shah and Mr. Nitesh Shah.	19.02.2008	No	Yes

B) With the Office of the Regional Director, Western Region Bench - Nil

C) With the Office of the Ministry of Corporate Affairs (Central Government) at Delhi – Nil

D) With any other Authorities as prescribed under the Act - Nil

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, 2008 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 & 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 & 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, 2008, we report that none of the Director is disqualified as on March 31, 2008 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, 2008;
      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

Jaymin P. Shah
Partner
Membership No.: 118113

Place: Mumbai
Date: July 30, 2008

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 off 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 six parties covered in the register maintained under section 301 of the Companies Act,

1956. The maximum amount involved during the year was Rs. 55,657,678/- and the year end balance of loans taken from such parties was Rs. 32,607,678/-

b) According to the information and explanation given to us, the Company has not granted loans to any party covered in the register maintained under section 301 of the Companies Act, 1956.

c) In our opinion, the rate of interest and other terms and conditions on which loans mentioned above have been taken 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, 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 & 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 dispute	Amount the dues	Period for which (Rs.) relates	Forum where the amount is pending
Customs Act, 1962	Custom Duty including Anti dumping Duty and Penalties.	Rs.17,745,254/-	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 term loans taken during the year were utilised for the purpose for which they were taken.

(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 utilised 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

Jaymin P. Shah
Partner
Membership No.: 118113

Place: Mumbai
Date: July 30, 2008

Balance Sheet

(Amount in Rupees)

	Schedule	As at March 31, 2008	As at March 31, 2007
SOURCES OF FUNDS			
Shareholder's Funds			
Share Capital	A	1,900,000	1,900,000
Reserves & Surplus	B	68,923,348	37,849,385
		70,823,348	39,749,385
Loan Funds			
Secured Loans	C	256,526,424	136,735,018
Unsecured Loans	D	55,830,822	91,985,886
		312,357,246	228,720,904
Deferred Tax Liability		2,267,781	2,116,868
Total Funds Employed		**385,448,375**	**270,587,158**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,168,579	1,741,139
Less :- Accumulated Depreciation		362,567	202,051
Net Block		1,806,011	1,539,087
Investments	F	100,000	100,000
Current Assets, Loans & Advances			
Inventories	G	224,124,074	239,766,442
Sundry Debtors	H	319,504,870	93,157,774
Cash & Bank Balances	I	29,228,443	5,817,772
Loans & Advances	J	31,176,426	19,180,276
		604,033,814	357,922,264
Less :- Current Liabilities & Provision			
Curent Liabilities	K	182,606,411	62,800,567
Provisions		37,885,039	26,173,627
		220,491,450	88,974,194
Net Current Assets		**383,542,364**	**268,948,070**
Miscellaneous Expenditure to the extent not w/off		-	-
Total Funds Utilised		**385,448,375**	**270,587,158**
Significant Accounting Policies & 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

Jaymin P. Shah
Partner
Membership No. 118113

Place : Mumbai
Date : July 30, 2008

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

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 30, 2008

Profit and Loss Account

(Amount in Rupees)

	Schedule	For the year ended March 31, 2008	For the year ended March 31, 2007
INCOME			
Sales & Incomes From Operations		612,821,642	392,813,948
Other Incomes		15,000	13,750
		612,836,642	**392,827,698**
EXPENSES			
(Increase)/Decrease In Stock	L	15,642,368	(109,229,444)
Cost of Materials	M	442,446,261	367,861,525
Salaries, Wages and Employee Benefits	N	10,714,293	5,048,007
Administrative, Selling & Other Expenses	O	63,714,763	78,149,517
		532,517,685	**341,829,605**
Earnings Before Interest, Depreciation & Tax		80,318,957	50,998,093
Interest & Other Finance Expenses (Net)	P	32,410,334	17,025,463
Profit Before Depreciation		**47,908,623**	**33,972,630**
Depreciation		160,516	202,313
Profit Before Tax		**47,748,107**	**33,770,317**
Provision for Taxation			
- Current Tax		16,179,162	9,383,735
- Deferred Tax		150,913	1,979,045
- Fringe Benefit Tax		344,068	225,213
Net Profit		**31,073,964**	**22,182,324**
Balance Brought Forward		27,749,385	5,567,062
Profit Available for Appropriation		**58,823,349**	**27,749,385**
APPROPRIATIONS			
Proposed Dividend		-	-
Corporate Tax on Dividend		-	-
General Reserves		-	-
Capital Redemption Reserves		-	-
Surplus Carried to Balance Sheet		58,823,349	27,749,385
		58,823,349	**27,749,385**
Basic & Diluted Earnings Per Share - Rs.		163.55	116.75
(Face Value of Rs. 10/- Each)			
Significant Accounting Policies & 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

Jaymin P. Shah
Partner
Membership No. 118113

Place : Mumbai
Date : July 30, 2008

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

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 30, 2008

Schedules to Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
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 & Paid Up		
Subscribed,Issued & Paid up	1,900,000	1,900,000
(190,000 Equity Shares of Rs. 10/-each fully Paid)		
Total	**1,900,000**	**1,900,000**

	Balance as at April 1, 2007	Additions during the year	Deductions/ Adjustments during the year	Balance as at March 31, 2008
B RESERVES AND SURPLUS				
Profit & Loss Account	27,749,384	31,073,964	-	58,823,348
Share Premium Account	10,100,000	-	-	10,100,000
Total	**37,849,384**	**31,073,964**	**-**	**68,923,348**
Previous Year	15,667,062	22,182,324	-	37,849,385

	As at March 31, 2007	As at March 31, 2006
C SECURED LOANS		
(a) Term Loans	25,787,458	5,699,428
(b) Cash Credit & Other Facilities	230,738,966	131,035,590
Total	**256,526,424**	**136,735,018**

D UNSECURED LOANS		
From Companies	37,833,585	57,116,206
From Directors	11,208,230	34,869,680
From Dealers - Security Deposit	6,789,007	-
Total	**55,830,822**	**91,985,886**

Schedules to Balance Sheet

(Amount in Rupees)

E FIXED ASSETS

Description of the Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	Opening on April 1, 2007	Additions	On Deletion	Closing on March 31, 2008	Opening on April 1, 2007	For the year	Deductions	Closing on March 31, 2008	As on March 31, 2008	As on March 31, 2007
Computers										
- Kutch	48,700	26,780	-	75,480	16,229	9,962	-	26,191	49,289	32,471
- Mumbai	206,416	104,350	-	310,766	38,301	44,545	-	82,846	227,920	168,115
Land	272,600	-	-	272,600	-	-	-	-	272,600	272,600
Forklift	826,799	-	-	826,799	122,422	78,761	-	201,183	625,616	704,377
Office Equiptments										
- Kutch	87,881	6,700	-	94,581	7,153	4,452	-	11,605	82,976	80,728
- Mumbai	132,343	97,538	-	229,881	166	8,432	-	8,598	221,282	132,177
Plant & Machinery										
- Kutch	166,400	32,240	-	198,640	17,779	9,025	-	26,804	171,836	148,621
Furniture & Fixture										
- Kutch	-	159,832	-	159,832	-	5,340	-	5,340	154,492	-
Total	**1,741,139**	**427,440**	**-**	**2,168,579**	**202,051**	**160,516**	**-**	**362,567**	**1,806,011**	**1,539,088**
Previous Year	1,355,451	3,517,623	3,131,935	1,741,139	74,227	202,313	74,489	202,051	1,539,087	1,281,225

	As at March 31, 2008	As at March 31, 2007
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 & Certified by the Management)	224,124,074	239,766,442
Total	224,124,074	239,766,442

H SUNDRY DEBTORS

Due for period Exceeding Six Months	86,269,735	10,606,260
Due for period Less than Six Months	233,235,136	82,551,510
(Unsecured, Considered Good)		
Total	319,504,870	93,157,770

Schedules to Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
I CASH & BANK BALANCES		
Cash, Foreign Currency & Cheques in hand	223,479	120,675
Balance with Schedule Bank		
Current Accounts	6,738,272	3,722,405
Fixed Deposits (Pledged with banks as Margin Money against Guarantees & Letter of credit)	22,266,692	1,974,692
Total	**29,228,443**	**5,817,772**

J LOANS & ADVANCES		
(Unsecured & Considered Good)		
Advances recoverable in cash or kind or for value to be received	31,176,426	18,072,546
Deposits	-	1,107,730
Total	**31,176,426**	**19,180,276**

K CURRENT LIABILITIES		
Sundry Creditors		
- Due to Micro, Small and Medium Enterprises	-	-
- Others	180,389,692	39,407,826
Advances Received	221,560	430,506
Other Liabilities	1,995,159	22,962,235
	182,606,411	62,800,567
Provisions		
For Taxation (Net of Advance Taxes Paid)	19,490,046	2,966,816
Others	18,394,993	23,206,811
	37,885,039	26,173,627
Total	**220,491,450**	**88,974,194**

Schedules to Profit and Loss Account

(Amount in Rupees)

	For the year ended March 31, 2008	For the year ended March 31, 2007
L (INCREASE) /DECREASE IN STOCK		
Opening Stock	239,766,442	130,536,998
(-) Closing Stock	224,124,074	239,766,442
Total	**15,642,368**	**(109,229,444)**

M COST OF MATERIALS		
Purchase of Goods Traded	440,110,004	363,437,520
Packing Costs	2,336,257	4,424,005
Total	**442,446,261**	**367,861,525**

N SALARIES, WAGES & EMPLOYEE BENEFITS		
Salaries & Employee Benefits	10,714,293	5,048,007
Total	**10,714,293**	**5,048,007**

O ADMINISTRATION, SELLING & OTHER EXPENSES		
Advertisement Expenses	1,539,501	12,914,654
Audit Fees	28,090	28,090
Brokerage & Commissions	8,805,361	10,060,308
Donation Expenses	1,243,620	276,000
Insurance Charges	1,349,733	1,472,401
Miscellaneous Expenses	7,755,684	5,848,824
Freight Outwards	17,501,068	29,536,655
Other Selling Expenses	20,481,951	13,761,719
Directors Remuneration	700,000	300,000
Profit On Sale of Fixed Assets	-	(274,489)
Rent, Rates & Taxes	4,309,755	4,225,355
Total	**63,714,763**	**78,149,517**

P INTEREST & OTHER FINANCE EXPENSES (NET)		
Interest Costs	24,877,405	4,460,777
Other Financial Charges	8,267,744	12,818,101
	33,145,149	17,278,878
Less:- Interest Income on Fixed Deposits with Bank	734,815	253,415
Total	**32,410,334**	**17,025,463**

Notes to the financial statements For the year ended March 31, 2008

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 recognised as an expense in the period in which they are incurred.

VI Foreign Currency Transactions

a) Transactions in foreign currency are accounted at the exchange rate prevailing on the date of transaction. Rate fluctuation between the transaction date and the settlement date in respect of revenue transactions are recognised in Profit & Loss account and in respect of acquisition of the fixed assets are adjusted to the cost of the respective assets.

b) All import payables at the year end are restated at the rate prevailing at the year end. The exchange difference arising there on has been recognised as income / expenses in the current year's Profit & Loss account.

c) Monetary Assets & Liabilities denominated in Foreign Currency are translated at year end exchange rates and the Profit/Loss so determined are recognised in the Profit & Loss account.

VII Investments

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

VIII Inventories

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

b) 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

a) 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.

b) 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.

c) Deferred tax assets arising from timing differences are recognised to the extent there is reasonable certainty that these would be realised in future.

d) Deferred tax assets are recognised on unabsorbed losses only if there is virtual certainty that such deferred tax asset can be realised 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 recognised 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.

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

(B) NOTES TO ACCOUNTS

1. Secured Loans

(Amount in Rupees)

	Current Year	Previous Year
a. Term Loans	25,787,458	5,699,428
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 hypothe- -cation of current assets of the Company and against the collateral securities & Personal Guarantee given by the Directors and their Relatives		
b. Cash Credit & Other Facilities	230,738,966	131,035,590
Are secured against the first charge created by hypothe- -cation of Stock & Book Debts & 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.		

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

(Amount in Rupees)

	Current Year	Previous Year
a. Letter of Credit	69,612,000	6,123,000
b. Bank Guarantee	NIL	NIL
c. Custom Duty	36,988,372	18,668,785

3. Managerial Remuneration *(Amount in Rupees)*

	Current Year	Previous Year
Director's Salary & Allowances	700,000	300,000
Percentage to Net Profit	1.44%	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 & Loss A/c.	47,748,107	33,770,317
Add: Managerial Remuneration	700,000	300,000
Less: Profit on sale of fixed assets	NIL	274,489
Total	**48,448,107**	**33,795,828**
Managerial Remuneration ceiling @ 10%	**4,844,811**	**3,379,583**

4. Auditors Remuneration (including service tax)

(Amount in Rupees)

	Current Year	Previous Year
For Auditing	11,236	11,236
For Taxation, Legal Matters and Financial Consultations	16,854	16,854

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

	Current Year	Previous Year
I Depreciation	317,921	177,107
II Expenditure/Provisions Disallowable	1,949,860	1,939,761

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

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	31,073,964	22,182,323
II	Denominator		
	Weighted average number of Equity Shares outstanding		
	- Basic & Diluted	190,000	190,000
III	Nominal Value of Share in (Rs.)	10	10
IV	EPS (Rs.)	163.55	116.75

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.
Euro Multivision Ltd	Euro Developers Pvt. Ltd.	Subhnen Ply Pvt. Ltd.
Euro Pratik Ispat Pvt. Ltd.	Euro Solo Energy Systems Ltd	Euro Agro
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 Multimedia & Communication Pvt. Ltd.	Vaman International Pvt. Ltd.
National Ply & Laminates	Zenith Corporation	Nova Enterprises
National Laminate Corporation	Gala Enterprises	Euro Foundation
Euro Aluminium Industries Ltd.	Euro Glass Ltd.	Euro Solar Power Pvt. Ltd.
Euro India Cylinders Ltd.	Euro Mineral Corporation	

(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
Manjari H. Shah		

(d) Key Management Personnel:

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

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

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 the Key Management Personnel	Key Management Personnel
Sales, Service and other income	– *(–)*	18,111,959 *(2,034,791)*	– *(–)*	– *(–)*
Sale of Fixed Assets	– *(–)*	– *(–)*	– *(–)*	– *(–)*
Purchase of goods and services	27,504,666 *(46,008,369)*	41,392,736 *(56,267,692)*		180,000 *(180,000)*
Purchase of fixed assets	– *(–)*	– *(63,178)*	– *(–)*	– *(–)*
Donation	– *(–)*	1,000,000 *(–)*	– *(–)*	– *(–)*
Director's Remuneration	– *(–)*	– *(–)*	– *(–)*	700,000 *(300,000)*
Interest Received	– *(–)*	– *(–)*	– *(–)*	– *(–)*
Interest Paid/Payable	– *(–)*	99,717 *(97,183)*	– *(–)*	3,713,980 *(3,189,215)*
Loans/Advances Taken	51,100,000 *(53,300,000)*	21,096,341 *(8,500,000)*	– *(–)*	64,675,410 *(36,000,000)*
Loans/Advance Repaid	40,497,957 *(–)*	21,019,220 *(–)*	*(–)*	53,467,180 *(–)*
Loans/Advances Given	– *(–)*	9,700,000 *(–)*	– *(–)*	– *(–)*
Loans/Advance Received Back	– *(–)*	9,700,000 *(16,533,803)*	– *(–)*	– *(18,700,000)*
Outstanding balance as at March 31, 2008				
Loans Payable	28,402,043 *(17,800,000)*	3,314,812 *(23,864,812)*	– *(–)*	8,739,656 *(34,869,680)*
Loans Receivable	– *(–)*	– *(–)*	– *(–)*	– *(–)*
Amount Receivable	– *(–)*	10,162,729 *(2,030,780)*	– *(–)*	– *(–)*
Amount Payable	1,839,858 *(29,460,045)*	98,490 *(17,879,662)*	– *(–)*	2,493,476 *(292,024)*

- 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.

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

		Current Year	Previous Year
I	Import Purchase	99,709,548	128,546,455
II	High seas Purchase	55,969,698	103,556,489

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

(Amount in Rupees)

		Current Year	Previous Year
I	Foreign Traveling Expenses	93,142	119,954

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

	Current Year	Previous Year
Foreign Exchange Earnings	–	2,059,950

11. Disclosure pursuant to Clause 32 of the Listing Agreement

(a) Loans & Advances in the nature of Loans given to the Subsidiary:

(Amount in Rupees)

	Current Year		Previous Year	
Particulars	Balance as on March 31, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. Due at any time during the year
i) Subsidiary Company	N.A.	N.A.	N.A.	N.A.

(b) Loans & 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, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. Due at any time during the year
i) Euro Multivision Ltd.	NIL	NIL	NIL	33,803

(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, 2008	Maximum Amt. Due at any time during the year	Balance as on March 31, 2007	Maximum Amt. 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

Notes to the financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

12. Quantitative Details of Goods Traded

Particulars of Goods Traded	Opening Stock	Purchases	Closing Stock
Border Tiles (in pieces)	634,500	1,242,366	633,404
Décor Tiles (in pieces)	183,545	353,674	152,553
Sanitary Ware (in pieces)	7,996	5,182	5,653
Bathroom Fittings (in pieces)	–	4,475	4,475
Floor Tiles (in Boxes)	79,404	145,887	53,704
Porcelaino Tiles (in Boxes)	5,364	2,074	2,763
Rustic Tiles (in Boxes)	27,341	41,578	21,911
Vitrified Tiles (in Boxes)	–	–	–
Wall Tiles (in Boxes)	402,695	775,248	306,390

13. The Company has not received any intimation 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 and recasted wherever necessary.

As per our attached report of even date

For **Deepak Maru & Co.**
Chartered Accountants

Jaymin P. Shah
Partner
Membership No. 118113

Place : Mumbai
Date : July 30, 2008

By order of the Board of Directors

For **Euro Merchandise (India) Ltd.**

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 30, 2008

Annexure I

Cash Flow Statement

(Amount in Rupees)

Particulars	2007-08			2006-07
A CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		**47,748,107**		**33,770,317**
Adjustments for :				
Dividend Income	(15,000)			(13,750)
Profit on Sale Of Fixed Assets	-			(274,489)
Depreciation	160,516			202,313
Interest & Finance Charges (net)	32,410,334	32,555,850		17,025,463
Operating Profit Before Working Capital Changes		**80,303,957**		**50,709,854**
Decrease / (Increase) in sundry debtors	(226,347,096)			(42,774,757)
Decrease / (Increase) in other current assets	(649,341)			(14,435,016)
Decrease / (Increase) in inventories	15,642,368			(109,229,444)
Increase / (Decrease) in trade and other payables	114,994,026	(96,360,043)		26,811,437
Taxes Paid (Net Of Refunds)		(11,346,811)		(7,896,715)
Net Cash (used in)/from Operating Activities			**(27,402,897)**	**(96,814,641)**
B CASH FLOW FROM INVESTING ACTIVITIES				
(Purchase) of Fixed Assets		(427,440)		(3,517,623)
Sale of Fixed Assets		-		3,057,446
Profit On Sale Of Fixed Assets		-		274,489
Dividend Income		15,000		13,750
Interest Received		734,815		253,415
Net Cash (used in)/from Investing Activities			**322,375**	**81,478**
C CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds / (Refund) of Share application money		-		(8,800,000)
Proceeds from Borrowings		83,636,342		128,361,602
Repayment of Borrowings		-		(5,168,054)
Interest and Finance Charges paid		(33,145,149)		(17,278,878)
Net Cash (used in)/from Financing Activities			**50,491,193**	**97,114,670**
Net Increase in Cash and Equivalents			**23,410,671**	**381,507**
Cash and Cash Equivalents (Opening Balance)			5,817,772	5,436,265
Cash and Cash Equivalents (Closing Balance)			29,228,443	5,817,772

As per our attached report of even date

For **Deepak Maru & Co.**
Chartered Accountants

Jaymin P. Shah
Partner
Membership No. 118113

Place : Mumbai
Date : July 30, 2008

By order of the Board of Directors

For **Euro Merchandise (India) Ltd.**

Nenshi L. Shah
Director

Nitesh P. Shah
Director

Place : Mumbai
Date : July 30, 2008

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) 2008 (Year)		

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

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

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

Total Liabilities	385448.37	Total Assets	385448.37
Sources of Funds			
Paid up Capital	1900.00	Reserves and Surplus	68923.35
Secured Loans	256526.42	Unsecured Loans	55830.82
Deferred Tax Liability	2267.78		
Application of Funds			
Net Fixed Assets	1806.01	Investment	100
Net Current Assets	383542.36	Misc. Expenditure	NIL

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

Total Income	612836.64	Total Expenditure	565088.54
Profit before Tax	47748.11	Profit after Tax	31073.96
Earning per Share in Rs.	163.55	Dividend Rate %	NIL

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

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

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

Place : Mumbai
Date : July 30, 2008

Nenshi L. Shah
Director

Nitesh P. Shah
Director

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, 2008, 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 & 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, 2008.

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 30, 2008

Consolidated Balance Sheet

(Amount in Rupees)

	Schedule	As at March 31, 2008	As at March 31, 2007
SOURCES OF FUNDS			
Shareholders' Funds:			
Share Capital	A	171,000,000	171,000,000
Reserves & Surplus	B	1,852,924,863	1,647,642,673
		2,023,924,863	1,818,642,673
Loan Funds			
Secured Loans	C	2,791,283,739	2,614,622,089
Unsecured Loans	D	563,599,709	247,468,638
		3,354,883,448	2,862,090,727
Deferred Tax Liabilities		128,736,548	100,135,953
Total Funds Employed		**5,507,544,859**	**4,780,869,353**
APPLICATION OF FUNDS			
Fixed Assets			
Gross Block	E	2,983,881,537	2,013,881,754
Less : Accumulated Depreciation		350,084,320	199,520,572
Net Block		2,633,797,216	1,814,361,182
Capital Work In Progress		1,097,496,422	815,484,230
		3,731,293,638	2,629,845,412
Investments	F	460,750	460,750
Current Assets, Loans & Advances			
Inventories	G	868,451,096	767,484,017
Sundry Debtors	H	759,376,167	514,149,833
Cash & Bank Balances	I	294,309,830	960,696,508
Loans & Advances	J	387,479,628	321,521,736
		2,309,616,722	2,563,852,095
Less : Current Liabilities & Provisions	K		
Current Liabilites		491,578,286	374,181,829
Provisions		42,247,966	39,107,075
		533,826,252	413,288,904
Net Current Assets		**1,775,790,470**	**2,150,563,191**
Miscellaneous Expenditure		-	-
Total Funds Utilised		**5,507,544,859**	**4,780,869,353**
Significant Accounting Policies & 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 30, 2008

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 30, 2008

Consolidated Profit and Loss Account

(Amount in Rupees)

	Schedule	For the year ended March 31, 2008	For the year ended March 31, 2007
INCOME			
Sales & Income from Operations		2,883,147,443	2,143,513,871
Less: Excise Duty		9,400,991	-
		2,873,746,452	2,143,513,871
Other Income	L	61,904,971	5,348,717
		2,935,651,423	**2,148,862,588**
EXPENDITURE			
(Increase)/Decrease In Stock	M	(29,340,502)	(319,844,310)
Cost of Materials	N	1,158,079,997	937,878,608
Salaries, Wages and Employee Benefits	O	116,932,080	75,026,702
Manufacturing, Selling & Other Expenses	P	835,895,992	765,202,861
		2,081,567,567	**1,458,263,861**
Earnings Before Interest, Depreciation & Tax		854,083,856	690,598,727
Interest & Other Finance Expenses (Net)	Q	341,727,527	148,007,447
Profit Before Depreciation & Extra Ordinary Items		512,356,329	542,591,280
Depreciation		150,563,749	113,922,447
Profit Before Tax		**361,792,580**	**428,668,833**
Provision for Taxation			
– Current Tax		48,442,845	83,257,696
– MAT Credit		(32,263,683)	-
– Deferred Tax		28,600,585	38,557,012
– Fringe Benefit Tax		2,594,068	1,655,213
Net Profit		**314,418,765**	**305,198,912**
Balance Brought Forward		550,156,346	278,355,364
Profit Available for Appropriation		**864,575,111**	**583,554,276**
APPROPRIATIONS			
Proposed Dividend		12,825,000	20,520,000
Corporate Tax on Dividend		2,179,609	2,877,930
General Reserves		-	10,000,000
Capital Redumption Reserves		-	-
Surplus Carried to Balance Sheet		849,570,503	550,156,346
		864,575,111	**583,554,276**
Earnings Per Share - Rs.		18.39	25.49
(Face Value of Rs. 10/- Each)			
Significant Accounting Policies & 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 30, 2008

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 30, 2008

Schedules to Consolidated Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
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 & Paid Up		
Equity Share Capital		
17,100,000 Equity Shares of Rs. 10 each fully Paid up	171,000,000	171,000,000
Total	**171,000,000**	**171,000,000**

B RESERVES AND SURPLUS		
Share Premium	991,255,534	1,085,387,500
Surplus as per P & L A/c	849,570,502	550,156,346
General Reserve	10,000,000	10,000,000
Capital Reserve On Consolidation	2,098,827	2,098,827
Total	**1,852,924,863**	**1,647,642,673**

C SECURED LOANS		
From Banks		
a) Vehicle Loans	14,964,532	5,914,192
b) Term Loans & Buyers Credit	2,038,012,333	1,917,300,654
c) Cash Credit & Other Facilities	738,306,874	691,407,243
Total	**2,791,283,739**	**2,614,622,089**

D UNSECURED LOANS		
From Directors	72,288,655	117,651,990
From Shareholders	10,000,000	10,763,204
From Companies	144,149,772	94,691,534
From Banks	58,210,344	-
From Dealers -Security Deposits	28,950,938	24,361,910
Non Convertible Unsecured Debentures	250,000,000	-
Total	**563,599,709**	**247,468,638**

Schedules to Consolidated Balance Sheet

(Amount in Rupees)

E FIXED ASSETS

PARTICULARS OF ASSETS	GROSS BLOCK			DEPRECIATION BLOCK			NET BLOCK		
	Holding	Subsidiary	Consolidated as on March 31, 2008	Holding	Subsidiary	Consolidated as on March 31, 2008	Holding	Subsidiary	Consolidated as on March 31, 2008
TANGIBLE ASSETS									
Land - Freehold	31,015,407	272,600	31,288,007	-	-	-	31,015,407	272,600	31,288,007
Building	453,207,965	-	453,207,965	34,855,360	-	34,855,360	418,352,605	-	418,352,605
Plant and Machinary	2,160,640,014	198,640	2,160,838,654	242,391,290	26,804	242,418,094	1,918,248,724	171,836	1,918,420,560
Furniture & Fixtures	31,686,924	159,832	31,846,756	4,472,005	5,340	4,477,345	27,214,919	154,492	27,369,411
Office Equipments	9,787,582	324,462	10,112,044	1,133,733	20,203	1,153,935	8,653,849	304,259	8,958,108
Vehicles	27,758,767	826,799	28,585,566	4,698,430	201,183	4,899,613	23,060,337	625,616	23,685,953
Computers	5,679,208	386,246	6,065,454	2,244,259	109,037	2,353,296	3,434,949	277,209	3,712,158
Power Project	261,927,091	-	261,927,091	59,916,676	-	59,916,676	202,010,415	-	202,010,415
INTANGIBLE ASSETS									
Trade Mark Rights	10,000	-	10,000	10,000	-	10,000	-	-	-
Total	**2,981,712,958**	**2,168,579**	**2,983,881,537**	**349,721,753**	**362,567**	**350,084,320**	**2,631,991,205**	**1,806,011**	**2,633,797,216**
Previous Year	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

	As at March 31, 2008	As at March 31, 2007
F INVESTMENTS		
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) (Pledge with Bank)	100,000	100,000
II National Saving Certificate	10,000	10,000
Total	**460,750**	**460,750**

G INVENTORIES		
a) Finished Goods	509,409,929	545,038,982
b) Stores & Spares	52,079,356	33,841,964
c) Raw Materials & Consumables	211,764,243	154,771,054
d) Packing Materials	6,630,722	8,357,866
e) Work In Process	79,136,571	14,167,016
f) Stock-In-Transit	9,430,275	11,307,135
(As Valued & Certified by the Management)		
Total	**868,451,096**	**767,484,017**

Schedules to Consolidated Balance Sheet

(Amount in Rupees)

	As at March 31, 2008	As at March 31, 2007
H SUNDRY DEBTORS		
Due for Period exceeding Six Months	167,787,858	62,745,183
Due for Period less than Six Months	591,588,310	451,404,650
(Unsecured, Considered Good)		
Total	**759,376,167**	**514,149,833**

I CASH & BANK BALANCES		
Cash & Cheques in Hand	3,783,966	1,708,011
Balance With Scheduled Banks		
Current Accounts	23,432,039	39,439,422
Recurring Deposits	800,000	-
Fixed Deposits	266,293,825	919,549,075
(Of the total Fixed Deposits Rs. 169,574,383 (Pr. Yr. 171,549,075/-) are pledged with banks as Margin Money against Guarantee & Letter of Credit and Rs. 668,691,816 (Pr. Yr. Rs. 748,000,000/-) are temporary investments of surplus funds of proceeds from IPO.)		
Total	**294,309,830**	**960,696,508**

J LOANS & ADVANCES		
(Unsecured, Considered Good)		
Advance Recoverable in cash or in kind or for		
value to be received	221,756,612	284,308,669
MAT Credit to be availed	32,263,683	–
Deposits	16,005,901	16,897,381
Balance With Central Excise, Sales Tax etc.	117,453,432	20,315,686
Total	**387,479,628**	**321,521,736**

K CURRENT LIABILITIES		
Sundry Creditors		
- Due to Micro, Small and Medium Enterprises	2,030,539	1,177,856
- Others	358,150,669	220,835,259
Advances From Customers	7,814,828	41,010,847
Other Liabilites	120,973,444	100,846,692
Interest Accrued But not due	2,608,805	10,311,176
	491,578,286	374,181,829
Provisions		
Taxation (Net of Advance Taxes)	28,167,699	37,899,776
Proposed Dividend	12,825,000	-
Leave Encashment	1,255,267	1,207,299
	42,247,966	39,107,075
Total	**533,826,252**	**413,288,904**

Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the year ended March 31, 2008	For the year ended March 31, 2007
L OTHER INCOME		
Dividend Income	30,000	28,750
Interest on FD - IPO	25,859,572	-
Miscellaneous Receipt	(4,069)	4,719,967
Rent Received	682,133	600,000
Exchange Rate Differences	35,299,365	1,414,312
Profit on Sale of Fixed Assets	37,970	-
Total	**61,904,971**	**6,763,029**

M (INCREASE) /DECREASE IN STOCK		
Opening Stock		
Finished Goods	545,038,982	230,266,980
Work In Process	14,167,016	9,094,708
	559,205,998	239,361,688
Closing Stock		
Finished Goods	509,409,929	545,038,982
Work In Process	79,136,571	14,167,016
	588,546,500	559,205,998
Total	**(29,340,502)**	**(319,844,310)**

N COST OF MATERIALS		
Raw Material Consumption	660,962,039	554,961,352
Purchase of Goods traded	439,305,349	344,681,150
Packing Material Consumption	57,812,609	38,236,107
Total	**1,158,079,997**	**937,878,608**

O SALARIES, WAGES & EMPLOYEE BENEFITS		
Salaries, Wages, and Bonus	93,978,973	62,667,870
Contributions to Providend & Other Funds	2,812,421	2,087,822
Welfare Expenses	20,140,686	10,271,010
Total	**116,932,080**	**75,026,702**

Schedules to Consolidated Profit and Loss Account

(Amount in Rupees)

	For the year ended March 31, 2008	For the year ended March 31, 2007
P MANUFACTURING, SELLING & OTHER EXPENSES		
Consumptions of Stores & Spares	14,599,459	8,785,611
Power & Fuel	435,287,509	371,527,011
Processing Charges	6,805,601	5,993,135
Brokerage & Commission	20,008,684	22,857,682
Advertisement	33,606,437	40,175,577
Auditors Remuneration	278,090	128,090
Repairs & Maintenance		
- Building	524,413	752,400
- Plant & Machinery	21,791,819	15,366,844
- Others	4,374,785	2,698,480
Director Remuneration	9,100,000	5,100,000
Director Sitting Fees	70,000	85,000
Donation	8,558,988	9,664,380
Loss on Sale of Fixed Assets	-	109,869
Insurance	29,684,357	29,112,393
Rent, Rates & Taxes	14,707,047	15,064,473
Freight Outward	109,057,474	29,536,655
Other Selling Expenses	72,675,520	172,743,452
Miscellaneous Expenses	54,765,809	36,916,121
Total	**835,895,992**	**766,617,174**

Q INTEREST & OTHER FINANCE EXPENSES		
Interest on Fixed Loans	163,746,594	85,983,263
Interest Others	102,640,905	58,169,146
(Profit)/Loss from Derivatives / SWAP	70,401,860	-
Other Financial Charges	17,718,988	18,838,197
	354,508,347	162,990,606
Less : Interest Income		
Interest on Fixed Deposits With Banks	12,322,468	8,620,669
Other Interest	458,352	6,362,490
Total	**341,727,527**	**148,007,447**

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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 has 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 unrealised 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	636,767,764	272,502,873
2	**Contingent Liabilities not provided for in the books of accounts:**		
a	Bills Discounted with Banks	69,406,253	26,630,541
b.	Letter of credit	180,572,854	59,859,125
c.	Bank Guarantees	5,403,375	5,059,350
d.	Custom Duty	36,988,372	18,668,785

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. 352,231,231/- and the corresponding Export Obligation to be fulfilled is Rs. 2,402,945,292/- 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. The Licenses in respect of which Export Obligation is entirely fulfilled by the close of the year, formal discharge from the obligation by the appropriate authorities is in progress.

3. Secured Loans *(Amount in Rupees)*

		Current Year	Previous Year
a	Vehicle Loans	14,964,532	5,914,192
	Are secured against vehicles specified in the respective agreements & Personal Guarantee of the Directors of the Company.		
b	Term Loans & Buyers Credit	2,038,012,333	1,917,300,654
	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 hypothe--cation of current assets of the Company and against the collateral securities & Personal Guarantee given by the Directors and their Relatives.		
c	Cash Credit & Other Facilities	738,306,874	691,407,243
	Are secured against the first charge created by hypothe--cation of Stock & Book Debts & 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.		

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

4. Unsecured Loans include Unsecured Redeemable Non Convertible Debentures (NCD) issued by the Company amounting to Rs. 25 Crores (25 Debentures of Face Value of Rs. 1 Crore each) (Previous Year Rs. NIL).

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

(Amount in Rupees)

		Current Year	Previous Year
I	Depreciation	126,420,521	98,103,388
II	Expenditure/Provisions Disallowable	2,316,027	2,032,565

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	314,418,765	305,198,912
II	Denominator		
	Number of Equity Shares		
	outstanding		
	- Basic	17,100,000	11,971,344
	- Diluted	17,100,000	11,971,344
III	Nominal Value of Share in (Rs.)	10	10
IV	EPS – Basic as well as Diluted (Rs.)	18.39	25.49

7. 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 Developers Pvt. Ltd.	Subhnen Ply Pvt. Ltd.
Euro Pratik Ispat Pvt. Ltd.	Euro Solo Energy Systems Ltd.	Euro Agro
Subhnen Finance & Investments Pvt. Ltd.	Kevin Impex Pvt. Ltd.	Kanch Ghar

7. 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: (Contd.)

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 Multimedia & Communication Pvt. Ltd.	Vaman International Pvt. Ltd.
National Ply & Laminates	Zenith Corporation	Nova Enterprises
National Laminate Corporation	Gala Enterprises	Euro Foundation
Euro Aluminium Industries Ltd.	Euro Glass Ltd.	Euro Solar Power Pvt. Ltd.
Euro India Cylinders Ltd.	Euro Mineral Corporation	

(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	
Manjari H. Shah		

(d) Key Management Personnel:

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

Notes to the Consolidated financial statements For the year ended March 31, 2008

X SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS *(Contd.)*

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 the Key Management Personnel	Key Management Personnel
Sales, Service and other income	275,937,372 *(221,315,493)*	– *(–)*	– *(–)*
Sale of Fixed Assets	– *(67,896,206)*	178,000 *(–)*	– *(–)*
Purchase of goods and services	48,809,614 *(62,077,989)*	– *(–)*	180,000 *(180,000)*
Purchase of fixed assets	1267,424 *(1,190,610)*	70,000 *(–)*	– *(–)*
Donation	7,776,813 *(2,700,000)*	– *(–)*	– *(–)*
Director's Remuneration/ Sitting Fees	– *(–)*	27,500 *(42,500)*	9,100,000 *(5,100,000)*
Interest Received/ Receivable	217,225 *(5,194,398)*	– *(–)*	– *(–)*
Interest Paid/Payable	1,458,104 *(272,945)*	2,377,084 *(2,932,677)*	10,403,379 *(14,984,411)*
Loans/Advances Taken	106,351,341 *(64,314,000)*	29,647,101 *(15,000,000)*	274,477,385 *(199,830,000)*
Loans/Advance Repaid	100,988,129 *(34,929,663)*	6,263,204 *(12,514,588)*	249,558,180 *(228,117,000)*
Loans/Advances Given	101,225,000 *(24,350,000)*	– *(–)*	– *(–)*
Loans/Advance Received Back	106,225,000 *(51,463,466)*	– *(–)*	– *(18,700,000)*

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 the Key Management Personnel	Key Management Personnel
Outstanding balance as at March 31, 2008			
Loans Payable	19,773,042 *(35,036,951)*	21,539,341 *(27,802,545)*	41,229,389 *(90,112,649)*
Loans Receivable	– *(5,000,000)*	– *(–)*	– *(–)*
Amount Receivable	63,556,413 *(63,868,018)*	– *(–)*	– *(–)*
Amount Payable	408,883 *(19,901,868)*	2,107,760 *(–)*	7,657,067 *(292,024)*

- 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.

8. a) For Segment Information – Refer Annexure I

   b) For Cash Flow Statement– Refer Annexure II

9. 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

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 30, 2008

Place : Mumbai
Date : July 30, 2008

Annexure - I

CONSOLIDATED SEGMENTWISE FINANCIAL STATEMENT FOR THE YEAR ENDED MARCH 31, 2008.

I) PRIMARY SEGMENTS - BUSINESS

	Tiles		Aluminium Sections		Inter- Segmental Elimination		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
a) Segmental Revenue								
Sales to External Customers	2,650,472,714	1,950,230,127	232,674,729	193,283,744	-	-	2,883,147,443	2,143,513,871
Less : Excise Duty	9,400,991	-	-	-	-	-	9,400,991	-
	2,641,071,723	1,950,230,127	232,674,729	193,283,744	-	-	2,873,746,452	2,143,513,871
Inter-segmental Revenue	-	-	-	-	-	-	-	-
Total Segmental Revenue	2,641,071,723	1,950,230,127	232,674,729	193,283,744	-	-	2,873,746,452	2,143,513,871
b) Segmental Results (PBIT)	810,096,570	765,627,860	14,871,785	28,194,717	-	-	824,968,355	793,822,577
Less: Interest & Finance Charges							341,727,527	148,007,447
							483,240,828	645,815,130
Less: Unallocable Expenses Net of Unallocable Income							121,448,248	217,146,297
Profit Before Tax & Exceptional Items							**361,792,580**	**428,668,833**
Loss / (Gain) due to Exceptional Items							-	-
Profit Before Tax							**361,792,580**	**428,668,833**
Less: Provision for Current Tax							48,442,845	83,257,696
Add : MAT Credit							(32,263,683)	-
Less: Provision for Deferred Tax							28,600,585	38,557,012
Less: Provision for Fringe Benefit Tax							2,594,068	1,655,213
Profit After Tax							**314,418,765**	**305,198,912**
c) Carrying amount of Segmental Assets	4,217,283,293	2,577,309,423	74,768,291	86,578,859	-	-	4,292,051,584	2,663,888,282
Unallocated Assets							1,749,319,526	2,530,269,975
Total Assets							6,041,371,110	5,194,158,257
d) Carrying amount of Segmental Liabilities	2,441,463,583	1,349,197,772	13,460,266	4,947,531	-	-	2,454,923,849	1,354,145,303
Unallocated Liabilities							1,562,522,399	2,021,370,281
Total Liabilities							4,017,446,248	3,375,515,584
e) Cost incurred to acquire Segment Fixed Assets during the year	1,175,271,722	271,007,805	1,386,212	7,244,867	-	-	1,176,657,934	278,252,672
Unallocated Assets							76,587,131	101,470,052
f) Depreciation / Amortization	110,561,607	59,173,249	2,124,584	1,614,563	-	-	112,686,191	60,787,812
Unallocated depreciation							37,877,558	53,134,635

II) PRIMARY SEGMENTS - GEOGRAPHICAL

	2007-08	2006-07
The Company's operating facilities are located in India		
Domestic Revenues	2,584,246,545	2,012,175,253
Export Revenues	298,900,898	131,338,618
Total	2,883,147,443	2,143,513,871

Annexure II

Consolidated Cash Flow Statement

(Amount in Rupees)

Particulars	2007-08			2006-07
A. CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit before tax		**361,792,580**		**428,668,833**
Adjustments for :				
Depreciation	150,563,749			113,922,447
Interest & Finance Charges (net)	341,727,527			148,007,447
Dividend & Other Incomes	(61,867,001)			(5,348,717)
(Profit) / Loss On Sale Of Fixed Assets	(37,970)	430,386,305		109,869
Operating Profit Before Working Capital Changes		**792,178,885**		**685,359,879**
Decrease / (Increase) in sundry debtors	(245,226,334)			(187,293,765)
Decrease / (Increase) in other current assets	(22,070,180)			(76,720,006)
Decrease / (Increase) in inventories	(100,967,079)			(319,404,124)
Increase / (Decrease) in trade and other payables	88,839,632	(279,423,961)		123,592,749
Cash Generated from Operations		**512,754,924**		**225,534,732**
Income taxes paid (Net of Refund)		(74,572,627)		(49,083,427)
Net Cash from Operating Activities			**438,182,297**	**176,451,305**
B. CASH FLOW FROM INVESTING ACTIVITIES				
(Purchase) of Fixed Assets including Capital Work in Progress	(1,253,245,065)			(1,065,939,311)
Sale of Fixed Assets including Capital Work in Progress	1,233,090			71,638,012
Profit on Sale of Fixed Assets	37,970			(109,869)
Interest Received	12,780,820			14,983,159
Dividend & Other Incomes	61,867,001			5,348,717
Net Cash (used in)/From Investing Activities			**(1,177,326,184)**	**(974,079,292)**
C. CASH FLOW FROM FINANCING ACTIVITIES				
Refund Of Share Application Money	-			(69,264,000)
Proceeds from issue of Share Capital	-			927,547,500
Proceeds from Borrowings	492,792,721			1,090,041,425
Repayments of Borrowings	-			(37,939,007)
Increase / (Decrease) in payables for capital goods	28,604,801			364,532
Dividends and Dividend Distribution Tax	-			(23,397,930)
Share Issue Expenses	(94,131,966)			-
Interest and Finance Charges paid	(354,508,347)			(162,990,606)
Net Cash (used in)/From Financing Activities			**72,757,209**	**1,724,361,914**
Net Increase in Cash and Equivalents			**(666,386,678)**	**926,733,928**
Cash and Cash Equivalents (Opening Balance)			960,696,508	33,962,580
Cash and Cash Equivalents (Closing Balance)			294,309,830	960,696,508

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 30, 2008

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 30, 2008