

## **REPORT ON CORPORATE GOVERNANCE**

Corporate Governance is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. Good governance practices stem from the culture and mindset of the Organization. As stake holders across the globe evince keen interest in the practices and performance of Companies, Corporate Governance has emerged on the center stage.

### **COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE:**

The Company's philosophy on Corporate Governance envisages attainment of the highest levels of transparency, accountability and equity in all facets of its Operations, and in all its interactions with its stake holders, including share holders, employees, lenders, Government and the society at large. The Company believes that all its actions must serve the underlying goal of enhancing overall shareholder value on a sustained basis.

As a Company engaged in the business of manufacture of Hydraulic Products for a large variety of end users, the Company's principal objective is to deliver to its customers, quality products and a pro-active satisfactory services. The Company complies with the Listing Requirements of the Stock Exchanges where its shares are listed.

The Company's policy therefore, envisages the assurance of product quality, transparency, accountability and integrity in its Operations and in its relation with all stakeholders i.e. customers, suppliers, investors, employees, the Government and other associates. The details of compliance are as follows:

## **BOARD OF DIRECTORS:**

At the core of our Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Company. We believe that an active, well informed and Independent Board is necessary to ensure the highest standards of Corporate Governance.

### Composition

The Board comprises of Executive and Non-Executive Directors who are eminent persons with considerable professional experience in various fields. There are two Executive Directors. Mr C P Rangachar, the Managing Director and Mr S Yamanoi, the whole time director. All others are Non-Executive Directors. The Non-Executive Directors bring independent judgment in the Board deliberations and decisions. During the year, the Company had a Non- Executive Chairman and more than one third of the Directors were Independent Directors.

The Company has not had any pecuniary relationship / transaction with any of the Non-Executive Directors of the Company.

Attendance of each Director at the Board of Directors meetings during the year and at the last Annual General Meeting , the number of Directorship and Committee Membership held by them in domestic public companies as at March 31, 2011 are as indicated below:

Director	Whether Promoter/ Executive/ Non- Executive/ Independent/ Non- Independent	Attendance particulars		* LOA	No of outside Directorship held	No. of Board Committees of other Companies in which a member	Chairman/ Member of Board Committees of other Companies in which a member
		Board Meeting	Last AGM				
1. Mr. Y Mukaide ( Chairman)	Non- Executive & Non- Independent (Collaborator)	1	Yes	Yes	-	-	-
2. Mr. Y Sakakibara	Non- Executive & Non- Independent (Collaborator)	-	-	Yes	-	-	-
3. Mr. S Yamanoi	Non- Executive & Non- Independent (Collaborator)	4	Yes	Yes	-	-	-
4. Mr. R Srinivasan	Non- Executive & Independent	5	Yes	-	11	3 4	Chairman Member
5. Mr. V Balaji Bhat	Non- Executive & Independent	5	Yes	-	4	5 4	Chairman Member
6. Capt N S Mohanram	Non- Executive & Independent	4	Yes	Yes	-	-	-
7. Dr. Premchander	Non- Executive & Independent	4	Yes	Yes	1	-	-
8. Mr. C P Rangachar- Managing Director	Executive & Non- Independent (Promoter Group)	5	Yes	-	4	1	Member

\* LOA- Leave of Absence.

### Board Meetings

As per the Listing Agreement, the Board of Directors must meet at least four times in a year, with a maximum time gap of four months between any two meetings.

During the financial year 2010-11, our Board met five times on 22/05/2010, 24/07/2010, 03/09/2010, 23/10/2010, & 24/01/2011.

The information as required under Annexure – I A to clause 49 of the listing agreement is being regularly placed before the Board.

### Board committee:

As per the Listing Agreement, no director can be a member of more than ten committees or act as Chairman of more than five committees across all Companies in which he is a director. None of the directors of our Company were members in more than ten committees nor acted as Chairman of more than five committees across all Companies in which they were directors.

### **CODE OF CONDUCT:**

The Company's Code of Conduct as adopted by the Board of Directors, is applicable to all Directors, Senior Management and employees of the Company. This code is derived from the principles of good corporate governance, good corporate citizenship and exemplary personal conduct. The code is available on the Company's Corporate Website. All the Board members and senior Management of the Company have affirmed compliance with the Code of Conduct for the financial year ended 31<sup>st</sup> March, 2011. A certificate to this effect, duly signed by the Managing Director is annexed thereto.

## **AUDIT COMMITTEE:**

The Audit Committee of the Board and its constitution is in conformation with the requirements of section 292A of the Companies Act, 1956 and also in conformation with requirements of Clause 49(II)(A) of the Listing Agreement.

The Audit Committee of the Board, inter alia, provides reassurance to the Board of the existence of an effective internal control environment that ensures:

- Efficiency and effectiveness of Operations.
- Safeguarding of assets and adequacy of provisions for all liabilities.
- Reliability of financial and other management information and adequacy of disclosures
- Compliance with all relevant statutes.

The Audit Committee is empowered, pursuant to its terms of reference, inter alia, to:

- a) Investigate any activity within its terms of reference.
- b) Seek information from any employee.
- c) Obtain outside legal or other professional advice.
- d) To secure attendance of outsiders with relevant expertise, if it considers necessary.

The terms of reference of the Audit Committee are as under:

- a) Oversight of the Company's financial reporting process and the disclosures of the financial information to ensure that the financial statements are correct, sufficient and credible.
- b) Recommending to the Board the appointment and removal of external auditors, fixation of audit fees and approval for payment for any other services.
- c) Reviewing, with management, the annual financial statements before submission to the Board for approval with particular reference to

- Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of Clause (2AA) of section 217 of the Companies Act, 1956
  - Any changes in accounting policies and practices
  - Major accounting entries involving estimates based on the exercise of judgment by the management
  - Significant adjustments made in the financial statements arising out of audit findings
  - Compliances with listing and other legal requirements relating to financial statements
  - Disclosure of any related party transactions
  - Qualifications in the draft audit report
- d) Reviewing, with the management, statutory and internal auditors, the adequacy of the internal control systems.
  - e) Reviewing the adequacy of the internal audit functions, including the structure of the internal audit department, approval of the audit plan and its execution and frequency of audit plan.
  - f) Discussion with internal auditors any significant findings and follow up thereon.
  - g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
  - h) Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as has post-audit discussion to ascertain any area of concern.
  - i) Reviewing of management letters issued by statutory auditors.
  - j) Reviewing the Company's financial and risk management policies.
  - k) Looking into reasons for substantial defaults in the payment to depositors, debenture holders, shareholders (in case of non-payment of declared dividend) and creditors.

- l) Seek assistance from statutory auditors in such areas and in such manner as desired by the audit Committee from time to time.
- m) Reviewing the Management Discussion and Analysis of financial condition and results of operations.
- n) Reviewing with the Management, the quarterly financial statements before submission for approval.
- o) Appointment of Chief Financial Officer (CFO) after the assessing the qualifications, experience & background of the candidate.

The role, terms of reference and the authority and powers of the Audit Committee are in conformity with the requirements of the Companies Act 1956 and of the Listing Agreement.

Though the financial results are sent to the Audit Committee and the Board at the same time, the Audit Committee reviews the quarterly and yearly financial results and places a report on the same to the Board for its consideration and approval.

As at the year end, the Audit Committee comprises of Mr. V Balaji Bhat, Chairman besides Mr. R Srinivasan, Capt N S Mohanram and Mr. C P Rangachar. While Mr. V Balaji Bhat, Mr. R Srinivasan and Capt N S Mohanram are Non-Executive & Independent Directors, Mr. C P Rangachar is an Executive Director. The Vice President - Finance and representatives of Internal and Statutory Auditors are invitees to the meeting.

The Compliance Officer functions as Secretary to the Committee.

All the members are financially literate and have relevant finance and/or audit exposure. Mr. V Balaji Bhat is a financial expert.

During the year, four meetings of the Audit Committee were held, the dates being 22/05/2010, 24/07/2010, 23/10/2010, & 24/01/2011.. The quorum as required under Clause 49(II)(B) was maintained at all the meetings.

**The composition of the Audit Committee as at 31<sup>st</sup> March, 2011 and the attendance of the members at the Audit Committee Meetings are as follows:**

Director	No of Meetings held during the year	No of Meetings attended during the year
Mr. V Balaji Bhat (Chairman)	4	4
Mr R Srinivasan	4	4
Capt N S Mohan Ram	4	3
Mr. C P Rangachar	4	4

The Chairman of the Audit Committee Mr.V Balaji Bhat was present at the Annual General Meeting held on 3<sup>rd</sup> September, 2010.

**REMUNERATION COMMITTEE:**

The purpose of the Remuneration Committee of the Board shall be to discharge the Board's responsibilities relating to the compensation of the Company's executive directors, non-executive directors and senior management. The Committee has overall responsibility for approving and evaluating the executive directors, non-executive directors and senior management compensation plans, policies and programs.

The Company's remuneration strategy is to attract and to retain high caliber talents. The remuneration policy, therefore, is market- lead and takes into account the competitive circumstances of business so as to attract and to retain quality, talent and leverage performance significantly.

As at the year end, the Remuneration Committee comprises of three Non-executive & Independent Directors, Mr. R Srinivasan as Chairman besides Mr. V Balaji Bhat and Dr. Premchander as members.

During the year, no meetings of the Remuneration Committee were held.

## **SHARES TRANSFERS AND INVESTORS GRIEVANCE COMMITTEE:**

The Shares Transfers and Investors Grievance Committee is authorized to:

1. Monitor the system of share transfer, transmission, sub-division, consolidation, De-Materialization and Re-Materialization.
2. Deal with all investor related issues including redressed Complaints from shareholders relating to transfer of shares, non-receipt of Balance Sheet etc
3. To delegate such powers to Companies Officers, as may be necessary including powers to approve transfers, transmissions, authenticate share certificates and to take actions in relation to shareholder related matters.

During the year, the Board has authorized Mr H M Narasinga Rao, CFO & Mr S Antony Cruz, Compliance Officer to be the member of share transfer committee to look into share transfer related matters and to the grievances of investors. The proceedings are to be reported at the Board Meetings for the Board to take note of.

Committee Meeting held during the year is as follows:

Director	No of Meetings held during the year	No of Meetings attended during the year
Mr. H M Narasinga Rao	6	6
Mr. S Antony Cruz	6	6

**The statistics of shareholders complaints received/redressed during the year is furnished below:**

Sl. no	Nature of Complaints	Received	Addressed	Pending
1	Complaints with regard to non-receipt of share certificates	1	1	-
2	Complaints with regard to non-receipt of Dividend warrant	6	6	-
3	Complaints with regard to non-receipt of Annual Report	3	3	-
4	Others( complaints received through SE/SEBI)	2	2	-
	<b>TOTAL</b>	<b>12</b>	<b>12</b>	<b>-</b>

### **SUBSIDIARY COMPANIES:**

The Company does not have any material non-listed Indian subsidiary company and hence it is not mandatory to have an Independent Director on the Board of such subsidiary company. The Audit Committee reviews the financial statements, particularly, the investments made by the Company's non-listed subsidiary companies. The minutes of unlisted subsidiary companies have been placed before the Board for their attention.

The accounts of all subsidiary companies are placed before the Directors of the Company on a regular basis and the attention of the directors is drawn to all significant transactions and arrangements entered into by the subsidiary companies.

### **DISCLOSURES:**

#### **(A) Related Party transactions:**

During the financial year ended 31<sup>st</sup> March 2011, besides the transactions reported in Note 5 of Schedule 12 to the Financial Statements in the Annual Report, there were no other material related party transactions. These transactions do not have any potential conflict with the interest of the Company at large. Further, there are no material individual transactions that are not in the normal course of business or not on arm's length basis.

#### **(B) Disclosure of accounting treatment:**

The Company has followed all relevant Accounting Standards while preparing the Financial Statements.

#### **(C) Risk Management:**

The Company has in place an integrated approach to manage risks inherent in various aspects of our business. The Company has established procedures to periodically place before the Board the risk assessment and minimization

procedures being followed by the Company and steps taken by it to mitigate these risks.

**(D) Proceeds from public issue, right issue, preferential issue etc:**

The Company has not raised any capital during the year ended 31<sup>st</sup> March, 2011.

**(E) Remuneration of Directors**

Details of remuneration paid to the Executive Directors for the year 2010-11 \*: (In Rupees)

Description	31st March 2011	
	C P Rangachar (Managing Director)	S Yamanoi (Whole Time Director)
Salary	4,550,000	1,538,148
Contribution to Provident and Superannuation Fund	1,120,500	110,747
Monetary Value of Perquisite	616,192	728,000
Leave salary for the year	350,000	-
2Commission	1,816,961	-
<b>Total *</b>	<b>8,053,653</b>	<b>2,376,895</b>

\* excludes charge for gratuity as separate actuarial valuation figures are not available

There are no stock options issued to the Managing Director.

Commission payable to Non – Executive Directors:

Director	Amount payable (Rs.)
Mr. Y Mukaide	268,455
Mr. Y Sakakibara	268,455
Mr. R Srinivasan	268,455
Mr. Balaji Bhat	268,455
Capt N S Mohanram	268,455
Dr Premchander	268,455

### **Non-Executive Directors:**

The compensation of the Non-Executive Directors is in the form of sitting fees and commission not exceeding 1% of the net profits of the Company so long as the Company has a whole time Director and / or Managing Director, as recommended by the remuneration committee and Board of Directors and approved by the shareholders.

The Non-Executive Directors were in receipt of sitting fees of Rs 5625/- per meeting upto 31/10/2010 and Rs.10,000/- from 01/01/2011 on wards.

Sitting Fees paid to Non-Executive Directors :

Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Shares Transfers and Investors Grievance Committee Meeting	Total (Rs)
Mr. Y Mukaide	1	-	-	-	5,625
Mr. Y Sakakibara	-	-	-	-	-
Mr. R Srinivasan	5	4	-	-	59,375
Mr. V Balaji Bhat	5	4	-	-	59,375
Capt N S Mohanram	4	3	-	-	48,125
Dr. Premchander	4	-	-	-	26,875
				TOTAL	199,375

None of the Non-Executive Directors hold shares or debentures of the Company.

There is no notice period and severance pay. No stock options have been given to any of the directors.

### **(F) Management Discussion and Analysis :**

The management's discussion and analysis report forms part of Annual Report.

### **CEO/CFO CERTIFICATION:**

The Managing Director being the Chief Executive Officer (CEO) and the Vice President– Finance being the Chief Financial Officer (CFO) have certified to the Board in accordance with Clause 49(V) of the Listing Agreement pertaining to CEO/CFO certification for the financial year ended March 31,2011, which is annexed there to.

### **GENERAL BODY MEETING:**

Particulars of the past three Annual General Meetings held is furnished below:

Location, date and time of last three Annual General Meetings held:

Year	Date	Location	Time
2007-08	8 <sup>th</sup> September 2008	Hotel Woodlands (P) Ltd, Raja Ram Mohan Roy Road, Bangalore-560025	10.00 am
2008-09	26 <sup>th</sup> August 2009	Regd Office: PB16, Whitiefield Road, Whitefield. Bangalore-560066	10.00 am
2009-10	3 <sup>rd</sup> September,2010	Hotel Woodlands (P) Ltd, Raja Ram Mohan Roy Road, Bangalore-560025	10.00 am

The Company has passed a special resolution in AGM held on 3<sup>rd</sup> September,2010 re appointing Mr. P Rangachar as a Managing Director of the Company for a period of 5(five) years commencing from 1<sup>st</sup> May,2010 and fix the remuneration for the first 3(three) years, that is from 01.05.2010 to 30.04.2013. At the same meeting the Company has also passed a special resolution re-appointing Mr. S Yamanoi as Whole time director for a period of 3(Three) years with effect from 1<sup>st</sup> April,2010, and fixed the remuneration.