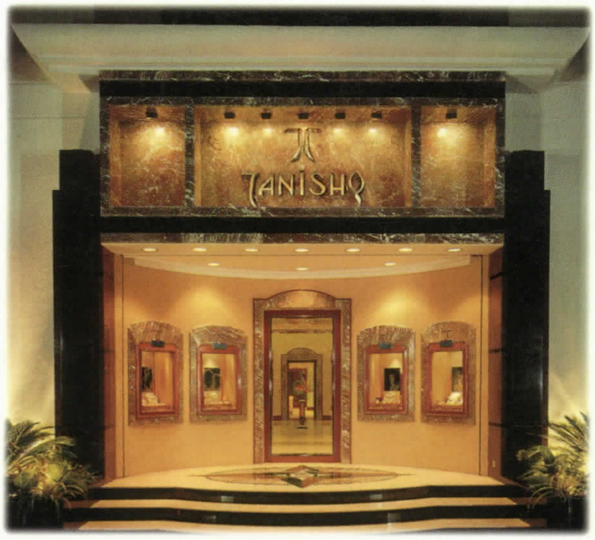
TITAN INDUSTRIES LIMITED



ANNUAL REPORT

1996 - 97

DIRECTORS

A. L. Mudaliar
Chairman
Xerxes Desai
Vice Chairman & Managing Director
J. J. Bhabha
M. S. Srinivasan
Farrokh Kavarana
Ishaat Hussain
T. K. Balaji
A. C. Mukherji
K. Rajaraman

SENIOR VICE PRESIDENTS

I. K. Amitha
R. C. Hari Rao
Bhaskar Bhat
K. F. Kapadia

VICE PRESIDENTS

C. R. Menon
V. Rajaram
B. G. Dwarkanath
M. S. Shantharam
Bijou Kurien
Jacob Kurian

SENIOR GENERAL MANAGER

H. K. Azeez Khan

GENERAL MANAGERS

C. G. Yathiraju
S. Sreenivasa Babu
Rafeekh Ahmed
S. K. Nandy
N. V. Narayana
K. S. Subramanian
C. S. Vishwanath
Manoj Chakravarti
Gopal Shukla
S. Ramadoss

BANKERS

Canara Bank, ANZ Grindlays Bank

AUDITORS

A. F. Ferguson & Co. (Chartered Accountants)

REGISTERED OFFICE

3, SIPCOT Industrial Complex, Hosur 635 126

SHARE DEPARTMENT

Tata Share Registry Limited, Unit: Titan Industries Limited,
Shalaka, Maharshi Karve Road, Mumbai 400 021

NOTICE

The Thirteenth Annual General Meeting of Titan Industries Limited will be held at the Registered Office of the Company, at 3 SIPCOT Industrial Complex, Hosur 635 126, on Friday, 26th September 1997, at 3.30 p.m. to transact the following business :

1. To receive and adopt the Directors' Report and Audited Profit and Loss Account for the year ended 31st March 1997 and the Balance Sheet as at that date.

2. To declare a dividend of 33% on equity shares.

3. To appoint Directors in place of Mr. J J Bhabha, Mr. F K Kavarana and Mr. Ishaat Hussain who retire by rotation and are eligible for reappointment.

4. To appoint a Director in place of Mr. M S Srinivasan who holds office upto the date of this Annual General Meeting in terms of Section 262 of the Companies Act, 1956, read with Article 118 of the Articles of Association of the Company, who offers himself for reappointment and in respect of whom the Company has received notices in writing from some Members proposing his candidature for the office of Director.

5. To consider and, if thought fit, to pass with or without modification, the following resolution as a special resolution :

   "RESOLVED that in partial modification of the resolution passed at the Extraordinary General Meeting held on 24th March 1995, the issue of shares, debentures, bonds and/or any other securities/instruments for an aggregate value not exceeding Rs. 300 crores, may also be denominated in and made, either partly or wholly, for the equivalent in US Dollars or in any other foreign currency."

6. To consider and, if thought fit, to pass with or without modification, the following resolution as a special resolution :

   "RESOLVED that A F Ferguson & Co. be and are hereby reappointed as Auditors of the Company, to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting, to audit the accounts of the Company for the financial year 1997-98 on a remuneration of Rs. 8,00,000/- plus out of pocket, travelling and living expenses."

Notes:

(a) The relative explanatory statement pursuant to Section 173 of the Companies Act, 1956, in respect of business under item nos. 4 to 6 above are annexed hereto.

(b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.

(c) The Register of Members and the Transfer Books of the Company will be closed from Thursday, 14th August 1997 to Saturday, 30th August 1997, both days inclusive.

(d) The dividend on the shares as recommended by the Directors for the year ended 31st March 1997, if declared at the Meeting, will be payable on or after 26th September 1997, in accordance with the resolution to be passed by the Shareholders of the Company, to those

Members whose names stand on the Register of Members of the Company as on 30th August 1997.

(e) Members are requested to inform the Company's Registrars and Share Transfer Agents viz., Tata Share Registry Limited, before 16th September 1997 :

  (i) the changes, if any, in their registered addresses alongwith the pin code number.

  (ii) the permanent Income-tax Account Number allotted to them by the Income-tax authorities.

(f) Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends upto the financial year ended 31st March 1993, have been transferred to the General Revenue Account of the Central Government. Members who have a valid claim to the unclaimed dividend referred to above may claim the same from the Registrar of Companies, Tamil Nadu, Bank of Baroda Building, 5th Floor, 82 Bank Road, Coimbatore 641 018.

(g) For the convenience of Members, the Company will provide a coach service from Bangalore on the day of the Meeting. The coaches will leave for Hosur at 2.00 p.m. from Queen's Statue (Cubbon Park main entrance), Bangalore, and bring the Members back to Bangalore after the Meeting.

Registered Office : BY ORDER OF THE BOARD OF DIRECTORS,

3, SIPCOT Industrial Complex
Hosur 635 126

G Mohana Sundaram

4 August 1997 Asst. Company Secretary

ANNEXURE TO NOTICE

1. As required by Section 173 of the Companies Act, 1956, the following explanatory statement sets out all material facts relating to the business mentioned under item nos. 4, 5 and 6 of the accompanying Notice dated 4th August 1997.

2. **Item No. 4 :** Mr. M S Srinivasan was appointed as a Director of the Company on 16th November 1996 by the Board of Directors to fill the casual vacancy of Mr. S Arvind. In terms of Section 262 of the Companies Act, 1956, read with Article 118 of the Articles of Association of the Company, Mr. M S Srinivasan holds office upto the date of the forthcoming Annual General Meeting being the date upto which Mr. S Arvind would have held office had he not resigned.

   Mr. M S Srinivasan is the Chairman and Managing Director of Tamilnadu Industrial Development Corporation Ltd (TIDCO) which is the co-promoter of the Company.

   Notices in writing have been received from some Shareholders of the Company signifying their intention of proposing Mr. M S Srinivasan as a candidate for the office of Director. The Directors recommend that he be appointed as a Director of the Company.

   Mr. M S Srinivasan may be deemed to be interested in this item of business as it relates to his appointment.

3. **Item No. 5 :** At the Extraordinary General Meeting of the Company held on 24th March 1995, the Members had, pursuant to the provisions of Section 81 of the Companies Act, 1956, authorised the Board of Directors of the Company to issue equity shares, preference shares, debentures (both convertible and non-convertible), bonds, equity-linked securities and/or any other securities/instruments for an aggregate value not exceeding Rs. 300 crores or its equivalent in US Dollars, as the case may be.

   The present resolution seeks to modify this resolution so as to enable the Company to also issue securities/instruments denominated in US Dollars or in other foreign currencies, which will give greater flexibility to the Company. No increase in the limit is being sought.

   None of the Directors of the Company has any concern or interest in this item of business.

4. **Item No. 6 :** Since the shareholding pattern of the Company is such that the provisions of Section 224A of the Companies Act, 1956, are applicable, the reappointment of A F Ferguson & Co., as Auditors of the Company is required to be made by a special resolution.

   None of the Directors of the Company has any concern or interest in this item of business.

Registered Office :
3, SIPCOT Industrial Complex
Hosur 635 126

4 August 1997

BY ORDER OF THE BOARD OF DIRECTORS,

G Mohana Sundaram
Asst. Company Secretary

DIRECTORS' REPORT

TO THE MEMBERS OF TITAN INDUSTRIES LIMITED

The Directors are pleased to present the Thirteenth Annual Report and the Audited Statement of Accounts for the year ended 31st March 1997.

FINANCIAL RESULTS

	1996-97	1995-96
	Rs. in lakhs	
Income	**42,145.06**	35,366.45
Expenditure	**32,073.27**	27,618.69
Gross profit	**10,071.79**	7,747.76
Interest	**5,639.83**	3,422.16
Depreciation	**1,651.63**	1,568.40
Profit before taxes	**2,780.33**	2,757.20
Provision for taxes	**358.66**	—
Profit after taxes	**2,421.67**	2,757.20
Add : Transfer from debenture redemption reserve	**—**	200.00
Add : Profit brought forward	**2,770.63**	1,627.18
Amount available for appropriation	**5,192.30**	4,584.38
Appropriations :		
Debenture redemption reserve	**28.00**	28.00
Dividend paid on preference shares	**308.45**	90.63
Proposed dividend on equity shares	**1,395.12**	1,395.12
Tax on dividend	**139.51**	—
Transfer to general reserve	**250.00**	300.00
Balance carried forward	**3,071.22**	2,770.63

The year 1996-97, marking the tenth year of operations, was expected to be a year of major income and profit growth for the Company as it expanded its overseas operations and simultaneously ramped up four new projects in India: retailing of jewellery through the new Tanishq showrooms, the newly introduced capability to make high quality steel cases and solid link bracelets for overseas markets, the introduction of a stunning new range of table clocks and the commissioning of the sheetmetal bracelet plant. In the event, the last year of the first decade of operations proved to be the most difficult in our short history.

The demand for horological products in India failed to grow during the year and actually registered a decline in most price bands, bar the lowest where we had only a nominal presence. And, of course, it was not the horological industry alone that failed to register growth - the malaise was widespread. 1996-97 witnessed a dramatic downturn in consumer sentiment and spending, affecting a large number of goods, particularly consumer durables. The first signs emerged even before the commencement of the year, but cautionary signs were ignored even as two governments single-mindedly pursued monetarist policies intended to curb inflation. In the event, the dear money policy of the Government of India swelled your Company's interest bill and cost it dear in terms of profit.

Profit was impacted not only by consequent under-utilisation of newly created capacity and capability, but also by an exceptional spurt in wages and salaries, combined with increases in sales taxes and excise duties and the impact on export operations of a rupee which remained steady against the dollar despite domestic inflation and which actually appreciated against a host of European and Asian currencies.

These events, however, have not in any way altered your Company's commitment to its basic business strategies and objectives, though they have triggered certain tactical moves to improve profitability, as described later in this report.

Despite various constraints, sales grew by 16.5% to Rs. 408.52 crores, with exports growing by about 50% to reach Rs. 55.66 crores. Gross profit improved by 29% from Rs. 77.48 crores in the previous year to over Rs. 100 crores, inclusive of a profit of Rs. 10.13 crores from the sale to an investment affiliate of a part of your Company's holding in Timex Watches Limited. After providing for interest and depreciation, the Profit before Taxes was Rs. 27.80 crores, as against Rs. 27.57 crores in 1995-96.

Consequent to the introduction of Minimum Alternate Tax (MAT), although your Company had no income tax liability, it provided for an amount of Rs. 3.58 crores as MAT, which will be available to meet future liabilities of income tax. Profit after Tax is, therefore, Rs. 24.22 crores, compared with Rs. 27.57 crores in the previous year.

DIVIDEND

At the Board meeting held on 20th March 1997, the Directors declared an interim dividend on Preference shares, and accordingly dividend per share was paid as under :

11% Preference shares of Rs. 100 each	Rs. 11.00
13% Preference shares of Rs. 100 each	Rs. 13.00
13% Preference shares of Rs. 100 each (allotted on 30.4.96)	Rs. 12.00
13.5% Preference shares of Rs. 100 each (allotted on 1.3.97)	Rs. 1.15
14% Preference shares of Rs. 100 each (allotted on 1.10.96)	Rs. 7.00

No further dividend is proposed on the preference shares as the interim dividend covers the contractual requirement of Rs. 3.08 crores.

After payment of dividend on preference shares, the distributable profit is Rs. 18.35 crores (Rs. 25.39 crores in the previous year). Despite the decline in distributable profit, the Directors recommend a dividend on equity shares of Rs. 3.30 per share (33%) as in the previous year, but, unlike last year, free of tax, with the newly introduced Dividend Tax, amounting to Rs. 1.39 crores, constituting an additional charge on the Company's profit. The recommended dividend reflects your Management's confidence in its business strengths and prospects.

FINANCE

The financials reflect the conscious decision of your Company to minimise cut back in production and to convert what would otherwise have been idle capacity into product saleable in the near future, a decision which made good commercial sense in view of the very real possibility of sales exceeding productive capacity in 1997-98. However, the consequent levels of inventory resulted in higher interest costs and a larger requirement of funds.

In the belief that interest rates would be progressively reduced, your Company arranged its additional requirements of funds in the form of short term borrowings so as not to lock in at high interest rates. In the event, its policy was vindicated when interest rates started moving down in March following the 1997 Union Budget and still further thereafter following the announcement of the new monetary policy by the Reserve Bank of India.

Your Company intends to take the opportunity presented by the lower level of interest rates now prevailing and the easier access to low-cost foreign currency denominated funds to restructure its borrowings during the current year.

The Directors have taken an "in principle" decision to issue what are commonly referred to as "Swiss Convertible Bonds" aggregating US $ 20 million. These Bonds can be converted into shares of your Company within a 7-year period at a pre-agreed premium over the market price at the time of the issue of the Bonds.

The Directors have also taken an "in principle" decision to make a Rights Issue in the ratio 1:4. The timing and issue price are yet to be determined.

The Company expects to significantly reduce its working capital requirement during the current year through a planned reduction in inventories. This drive should release upwards of Rs. 50 crores to meet the needs of the capital expenditure and investment programme of the current year.

These measures will greatly strengthen the Company's Balance Sheet.

During the year under review, the Company raised Rs. 23 crores by way of private placement of preference shares taking the share capital of your Company as at 31 March 1997 to Rs. 75.28 crores, inclusive of a total of Rs. 33 crores of preference shares. In addition, the Company availed of rupee term loans aggregating to Rs. 49 crores from commercial banks, other borrowings of Rs. 41.80 crores and incremental intercorporate deposits of Rs. 22.15 crores. In the aggregate, the Company raised a total of Rs. 138 crores from various sources during the year under review.

During the year, borrowings totalling Rs. 51 crores were repaid, capital expenditure of Rs. 26 crores was incurred on expansion and diversification programmes, and Rs. 3 crores was invested in the share capital of affiliate companies.

As on 31 March 1997, the company held fixed deposits of Rs. 2.62 crores from the public, shareholders and employees. There were no overdue deposits other than unclaimed deposits amounting to Rs. 25.02 lakhs.

During the year under review, the Company made payments aggregating to over Rs. 103 crores by way of central, state and local taxes and duties.

DOMESTIC OPERATIONS

WATCHES

At the watch plant in Hosur, the first phase of enhancement of capacity from 3.50 million to 4.18 million per annum was completed. The second phase for the enhancement to 5.00 million commenced and will be completed during the current financial year.

The year was marked by a significant increase in the output of the new plant to make complex steel cases and solid steel bracelets. The plant for the manufacture of complex sheet metal bracelets, which was commissioned in the last quarter of 1995-96, made good progress.

A significant event during the year was the entirely in-house development of a slim movement with a thickness of 1.75 mm and the launch of a new range of slim watches. Your R&D Division has subsequently been able to develop an even slimmer movement which is a mere 1.15mm thick - one of the slimmest movements available in the world. In December 1996, your Company received a National Award for Research and Development.

Despite recessionary conditions, 3.42 million units were sold in the domestic market as against 3.40 million in the previous year. The market share of your Company, together with Timex watches, stands close to two thirds of Indian made quartz analog watches and over one fourth of the total number of watches sold in India during the year inclusive of mechanical and electronic watches, both indigenous and imported, whether legally or otherwise.

The showroom chain continued to grow and there are now 90 Titan showrooms across 54 towns and cities in the country. The programme for the multibrand "TimeZone" showrooms has successfully commenced. The emphasis on after-sales-service continues, providing the consumer with the level of total satisfaction that has been our constant preoccupation.

With the introduction of the new economy range, Sonata, your Company will be in greater competition with assembly units that make use of smuggled components. Your Company has entered this segment after a great deal of thought, primarily because of our belief that all customers - irrespective of the price they pay - deserve to receive a product worthy of the price being paid which, unfortunately, is rarely the case in the low-priced market segment. The initial launch has evoked a good response and it is expected that Sonata will contribute significantly to future sales and profit.

JEWELLERY

The production of jewellery was 44,000 pieces, up by 10% from the year before. Production was partly constrained by delays in opening Tanishq showrooms which are the principal outlets for the sale of your Company's jewellery. These delays were largely the result of difficulties in securing real estate and local government approvals, so unfortunately characteristic of the Indian scene. Nevertheless, the Company's chain of Tanishq showrooms was triumphantly launched during the year with the opening of large and exquisite outlets in Chennai, Bangalore, Mumbai and Delhi.

While Tanishq jewellery has drawn praise and evoked a very favourable reaction among consumers, the fact that our collection was initially confined to only 18 karat gold jewellery, mostly gem-set, proved to be a limiting factor in the attainment of volume objectives. Work, therefore, commenced in right earnest on the creation of a new collection of 22 karat gold jewellery based on traditional Indian design themes. Tanishq's 22 karat collection has been launched recently and has evoked a most enthusiastic and, indeed, very gratifying response.

While the Company believes that an 18 karat gold alloy is the most suited for jewellery - and is, in fact, the world standard for fine gold jewellery - the existence of a very strong consumer preference in India for 22 karat gold jewellery cannot be wished away. Our entry into this market segment will, it is hoped, accelerate the trend towards an official hallmarking process which will significantly benefit the consumer who, today, is often the recipient of substantially undercarataged jewellery masquerading under the 22 karat label.

In addition to the introduction of 22 karat ethnic jewellery, the current financial year will see a significant increase in the number of Tanishq showrooms as new outlets are opened in Calcutta, Ahmedabad, Hyderabad, Pune and in several other towns. By the end of the financial year, Tanishq will have over 40 outlets in over 30 towns, representing India's first jewellery store chain.

We believe that we now have in place virtually all the elements needed to constitute significant competitive advantage in the domestic market: a wide, rapidly growing and greatly appreciated design portfolio; vastly superior workmanship; the finest refining and alloying facilities for delivering different caratages, hardnesses and colours of gold; attractive prices; exchange schemes; a large and efficient manufacturing base; and a national retail presence. The Company's Jewellery Division brims with new-found confidence and the conviction that it will revolutionise the way in which jewellery is made and marketed in India, in much the same way that the Watch Division did in the preceding decade.

TABLE CLOCKS

The production and sale of the Company's range of table clocks progressed as scheduled during the year, with production going up five times and sales almost six times to 3.63 lakh clocks. The product portfolio will considerably expand in the current year as will distribution in retail outlets. We expect Titan Clocks to be a significant new force in the time-piece and gift markets, with its fabulous array of beautifully designed and attractively priced products.

INTERNATIONAL OPERATIONS

1996-97 saw a sharp increase in exports which rose by about 50% from Rs. 37.40 crores to Rs. 55.66 crores, with watches accounting for Rs. 40.99 crores and jewellery accounting for Rs. 13.97 crores. Sales improved despite unsatisfactory economic and trading conditions in many of the countries in which we sell our products.

Titan International Marketing Limited (TIML), our London based affiliate which markets products in Europe and the Middle East, made significant progress. It sold over 100,000 watches worth US $ 6 million in the European market and over 280,000 watches worth another US $ 6 million in the Middle East market. Jewellery sales were US $ 2.60 million and US $ 0.76 million respectively. TIML currently sells through 1600 outlets in 13 countries of Europe and 900 outlets in 9 countries in the Middle East. A special word of thanks is due to the staff of this affiliate and to the loyal band of distributors who have served it so well.

While the Middle East operation is a profitable one, the European operation will continue to derive support from India for at least another two years as it consolidates its position in a highly competitive and high cost market. Though the European marketing effort has proved to be an expensive proposition from a simple "money-in, money-out" point of view, it has added considerably to the world-wide prestige of the brand and has helped, in a very significant way, to hone your Company's skills in the design, manufacture, marketing and distribution of watches. Titan's entry into the European market has added a new dimension even to India's image as an industrial and exporting nation. Its success is being closely monitored by friend and foe alike and its progress has received strong support from departments and agencies of the Government of India.

Titan Watches & Jewellery (Asia Pacific) Ltd (TAPL) also made significant progress. It sold about 55,000 watches worth US $ 2 million and jewellery worth US $ 1.1 million. It currently sells through 250 outlets in 8 countries. TAPL not only serves a number of markets in South and South East Asia, but also launched in the prestigious Australian market just prior to Christmas of 1996. As part of the Australian launch, your Company participated in the New Horizons programme of the Government of Australia designed to enhance industrial, trading, educational and cultural ties between India and Australia. TAPL is currently working on its Russian launch.

While your Company has been selling jewellery in the US market on a limited scale, a major thrust with both watches and jewellery, earlier planned for the current year, has been rescheduled to the following year in view of the major demands that crucially important market will make on funds and management time and the still incomplete learning from the European venture. However, your Company remains firmly committed to its globalisation programme and will continue to move forward at the maximum possible speed consistent with its obligations to its various stakeholders.

PROFESSIONAL RECOGNITION

Your Company continued to receive accolades from professional bodies for excellence in many aspects of operations including being adjudged, for the third time in a row, as one of Asia's 200 Leading Companies (including one out of ten from India) by the Far Eastern Economic Review/ Citibank; being voted India's most admired consumer durables company for the fifth year in a row in a poll conducted by A&M-MARG; being ranked eleventh among India's most respected companies by Business World; winning a large number of prestigious advertising awards in India and, as mentioned earlier, receiving an award for Research and Development from the Government of India.

ASSOCIATE COMPANIES

Titan International Holdings B.V. (TIHBV), the Company's wholly owned subsidiary in the Netherlands, whose accounts are annexed, ended the year with a small profit. The funds employed in TIHBV were NLG 14.88 million (US $ 8 million) and were deployed in funding its marketing associates such as TIML and TAPL as also incurring initial brand building and product development costs which will be amortised over time and recouped through royalty payments.

Timex Watches Limited, like your Company, had a difficult year with sales, both in volume and value terms, falling below levels achieved in 1995-96. In spite of this, Timex has posted a small profit.

Titan Time Products Limited sold over 4 million Electronic Circuit Boards during the year under review and made a profit of Rs. 27 lakhs. During the year, the share capital was enhanced to Rs. 2 crores, of which your Company, along with other associate companies, holds 74%, the balance being held by the Economic Development Corporation of Goa. Titan Time Products Limited paid a maiden dividend of 12%.

Titan Properties Limited continues to make progress on the housing project for our employees in Hosur. The first phase of over 400 houses and related infrastructure is expected to be completed by October 1997.

During April 1996, your Company acquired a controlling interest in RDI Print and Publishing Pvt. Ltd. at an attractive price. RDI publishes the highly profitable Reader's Digest monthly magazine in India under licence from the Reader's Digest Association, USA. The latter has conveyed its interest in acquiring the publishing business at a fair price. RDI also has a fully owned subsidiary, Samrat Holdings which recently bought a part of your Company's holding in Timex Watches Limited. These shares were acquired out of the proceeds from the sale to certain Tata Group companies, several years ago, of the shares which Samrat earlier held in Titan Industries. These funds, till recently, were locked in capital-gains-tax savings-bonds. Your Company's funds have thus been freed for other purposes. RDI declared dividends aggregating to Rs. 1.02 crores during the year yielding a 38% return on the investment made by your Company.

EMPLOYEES

The Company now has close to 3900 employees of whom 3235 are in manufacturing, 430 at various sales offices and 235 at the corporate head office.

As a result of the three-year wage agreement signed with the Union last year and the increased remuneration of other categories of staff, payments and provisions for employees went up significantly to Rs. 48.13 crores (from Rs. 32.20 crores in the previous year) inclusive of a one-time lumpsum payment of Rs. 3.23 crores in terms of the agreement.

Industrial relations at all locations are cordial and constructive. The highly talented and dedicated individuals who work in Titan are not only crucially important stakeholders in your Company but are also its most vital, as also an appreciating asset, and the Directors are fully seized of the importance of nurturing it.

COMMUNITY INITIATIVES

Your Company not only continues to support the communities in which it functions, but has been laying greater emphasis on its corporate citizenship role. Apart from providing employment to 180 disabled persons, your Company has been actively involved in such developmental activities as establishing ancilliary units in conjunction with NGOs for the employment of the disabled; supporting a rehabilitation unit for the physically disabled, an eye clinic and a primary health centre, all managed by NGOs; participating in drinking water and employment generation schemes; and providing about 40 scholarships every year for higher education to students of Dharmapuri district. Over 150 employees have volunteered for community development work and are being formally trained to be of service to their community in such areas as environment, health, education, sports and culture. Your Company has played an active role in the Tata Council for Community Initiatives (TCCI), particularly in organising the start-up of its activities in relation to urban issues in Bangalore. Programmes on waste management, providing vocational training for school drop-outs and improving road safety have been initiated.

GOVERNMENT POLICY

During the year under review, your Company received strong support from the Government of India and its diplomatic representation abroad in its confrontation with the Basel Fair Authorities and the Swiss Horological Federation. Your Directors are immensely grateful for the support received. It is most unfortunate that certain Swiss watch-making interests have sought to thwart Titan's thrust into the European market and attempted to extract trade concessions from the Government of India through coercive and discriminatory policies against Indian companies and products seeking to exhibit at the International Fair in Basel. As a result of the firm stand taken by the Government of India, the realisation has begun to dawn on Swiss watch-making circles that the stand initially taken by them was erroneous and counter-productive.

Your Company's repeated representations for a reduction in excise duties on watches - which represent an insignificant contribution to the coffers of the Central Government but are a significant subsidy to the smuggling fraternity - bore no fruit whatever. On the contrary, excise duties on the vast majority of your Company's products were significantly increased from 10% to 13%. In addition, the VABAL scheme, which had helped to make your Company's products more competitive abroad, was summarily scrapped and replaced by significantly less advantageous schemes. This development can only make the export effort, already impeded by domestic inflation and the appreciation of the Rupee against most European currencies, more of an uphill task. The reduction in import duties, while welcome, is more advantageous to assemblers than to the four Indian watch making majors who have made large investments in component manufacture.

However, the direct tax reductions contained in the Union Budget for 1997-98 and the interest rate reductions heralded in the Credit Policy announced in April 1997, represent a significant break with the past, and will benefit your Company during the current year.

The year under review also saw sharp increases in sales tax levies by several states including Tamil Nadu and Andhra Pradesh which, for years, levied sales taxes well below the norm. The exemption from sales tax enjoyed by the Dehra Dun Unit expired in March 1997.

PROSPECTS

While the current year presents many challenges, it promises to be significantly better than 1996-97. Your Company will benefit from the investments made in previous years to expand the production base and market reach as well as from various measures that have been instituted to improve productivity and profitability. Adversity, it is said, has its uses. The experiences of the preceding year have served to spur the determination to be exceptionally successful. Ambitious targets have been set for the year and trends during the first quarter have been very encouraging.

DIRECTORS

Mr J J Bhabha, Mr F K Kavarana and Mr Ishaat Hussain retire by rotation and are eligible for reappointment.

During the year, the Tamilnadu Industrial Development Corporation Limited (TIDCO) nominated Mr M S Srinivasan, their Chairman and Managing Director, and Mr K Rajaraman, their Executive Director, as Directors of the Company in place of Mr S Arvind and Mr R N Choubey. Your Directors have placed on record their appreciation of the services rendered by Mr Arvind and Mr Choubey during their tenure on the Board. In terms of the Articles of Association and the Companies Act, 1956, Mr Srinivasan holds office upto the forthcoming Annual General Meeting. The Company has received notices from some members signifying their intention to propose Mr Srinivasan as candidate for the office of Director.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the support received from shareholders, financial institutions, banks, the watch trade, suppliers and customers as also of the very commendable efforts made by the management and staff in a difficult year.

SUBSIDIARY COMPANIES

The statement under section 212 of the Companies Act, 1956, is annexed together with the Annual Report of the wholly owned subsidiary of the Company, Titan International Holdings BV, together with the Annual Report of its wholly owned subsidiary, Titan Watches & Jewellery International (Asia-Pacific) Pte Ltd.

PARTICULARS OF EMPLOYEES

Information to be provided under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 the Report and Accounts are being sent to all shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Act. Any shareholder interested in obtaining a copy of the said statement may write to the Assistant Company Secretary at the Registered Office of the Company.

SECTION 217(1)(e) OF THE COMPANIES ACT

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, the required information relating to "Conservation of Energy, Technology, Absorption and Foreign Exchange Earnings and Outgo" is annexed.

AUDITORS

Members will be requested at the Annual General Meeting to appoint auditors for the current year and to fix their remuneration.

BY ORDER OF THE BOARD OF DIRECTORS,

A L Mudaliar
Chairman

Bangalore, 4 August 1997

ANNEXURE TO THE DIRECTORS' REPORT

(Additional information given in terms of Notification 1029 of 31.12.1988 issued by the Department of Company Affairs)

A. CONSERVATION OF ENERGY

Steps have been taken to conserve an aggregate of 26,800 KWH per month through the following :

- Running of a solar water heating system for the canteen at the Watch Division in Hosur.
- Improvisations in the compressed air system.
- Achievement of an average power factor of 0.95 against the minimum requirement of 0.85.

B. TECHNOLOGY ABSORPTION

a) Research & Development

The Research & Development Department has accreditation from the Department of Scientific and Industrial Research and is responsible for the in-house development of the new slim movement which was introduced in November 1996 and which won the Company a National Award for Research & Development in December 1996. Subsequently, another movement of only 1.15 mm thickness (including the battery) has been developed and it is expected that watches incorporating this movement will be launched in the market in 1998.

The Company incurred a total expenditure of Rs. 76.26 lakhs during the year inclusive of capital expenditure of Rs. 6.91 lakhs.

b) Technology Absorption, Adaptation and Innovation

1. Technologies like double coining, multi axis CNC machining and hot forging have been mastered for mass production levels for the manufacture of cases and bracelets.
2. Several manual semi-automatic operations for movement component manufacturing have been automated.
3. The plants for the manufacture of integrated metal bracelets and table clocks have been established; and various technologies associated with bracelet and clock manufacturing viz., special pressing, polishing, tools, plastic injection moulding, etc. have been successfully absorbed and implemented.

C. FOREIGN EXCHANGE EARNED AND USED

The Company has earned Rs. 5,571.14 lakhs in foreign exchange and used Rs. 8,847.67 lakhs.

BY ORDER OF THE BOARD OF DIRECTORS,

A L Mudaliar
Chairman

Bangalore, 4 August 1997

AUDITORS' REPORT

TO THE MEMBERS OF TITAN INDUSTRIES LIMITED

We have audited the attached balance sheet of Titan Industries Limited as at 31st March, 1997 and also the profit and loss account of the Company for the year ended on that date, annexed thereto, and report that :

1. As required by the Manufacturing and other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the annexure referred to in paragraph 1 above :
   (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 the books ;
   (c) the balance sheet and profit and loss account dealt with by this report are in agreement with the books of account ;
   (d) in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view :
      (i) in the case of the balance sheet, of the state of affairs of the Company as at 31st March, 1997; and
      (ii) in the case of the profit and loss account, of the profit for the year ended on that date.

For A.F. Ferguson & Co.
Chartered Accountants

H.L. Shah
Partner

Bangalore, 23 June 1997

ANNEXURE TO THE AUDITORS' REPORT

Annexure referred to in paragraph 1 of the Auditors' Report to the Members of Titan Industries Limited on the Accounts for the year ended 31st March, 1997.

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. Most of the fixed assets have been physically verified by the management during the year. As explained to us, no serious discrepancies were noticed on such verification. In our opinion, the frequency of physical verification of assets is reasonable.
2. None of the fixed assets has been revalued during the year.
3. The stocks of finished goods, stores, spare parts and raw materials have been physically verified by the management at reasonable intervals. The stocks in possession of third parties have been verified by the management, in most cases, with reference to certificates obtained from them and/or other relevant documents.
4. The procedures followed by the management for physical verification of stocks are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on physical verification of stocks as compared to the book records were not significant and have been properly dealt with in the books of account.
6. In our opinion, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. The Company has not taken any loans from companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, where the terms and conditions were prima facie prejudicial to the interest of the Company. We are informed that there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.
8. The Company has not granted any loans to companies, firms or other parties listed in the register maintained under Section 301 of the Companies Act, 1956, where the terms and conditions were prima facie prejudicial to the interest of the Company. We are informed that there are no companies under the same management within the meaning of Section 370 (1B) of the Companies Act, 1956.
9. In respect of loans and advances in the nature of loan given by the Company, where stipulations have been made, the parties are repaying the principal amounts as stipulated or as rescheduled and are also regular in the payment of interest, where applicable.
10. In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items purchased are of a special nature and comparable alternative quotations are not available, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchases of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.
11. In our opinion and according to the information and explanations given to us and, having regard to our comments in 10 above, where transactions have been made with different parties, the transactions of purchase of goods and materials and sale of goods, materials and services, 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.50,000 or more in respect of each party, have been made at prices which are reasonable having regard to the prevailing market prices for such goods, materials or services as available with

the Company, or the prices at which transactions for similar goods or services have been made with other parties.

12. As explained to us, the Company has a regular procedure for the determination of unserviceable or damaged stores, raw materials and finished goods and adequate provision for the same has been made in the accounts.
13. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Section 58A of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted.
14. As explained to us, the Company's operations do not generate any by-products and, in our opinion, reasonable records have been maintained by the Company for the sale of scrap.
15. In our opinion, the Company has an adequate internal audit system commensurate with the size and nature of its business.
16. We are informed that maintenance of cost records has not been prescribed by the Central Government under Section 209 (1)(d) of the Companies Act, 1956, in respect of the Company's products.
17. According to the records of the Company, provident fund and employees state insurance dues have been regularly deposited during the year with the appropriate authorities.
18. There are no undisputed amounts payable in respect of income-tax, wealth tax, sales tax, customs duty and excise duty as at 31st March, 1997 which are outstanding for a period of more than six months from the date they became payable.
19. In our opinion and according to the information and explanations given to us, personal expenses have not been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
20. The Company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
21. In respect of its service activities, the Company has a reasonable system of recording receipts, issues and consumption of components and stores commensurate with its size and the nature of its business. The system provides for a reasonable allocation of materials to the relative jobs but it is not considered necessary by the management to allocate man-hours consumed to relative jobs. In our opinion, there is a reasonable system for authorisation at proper levels, and adequate system of internal control commensurate with the size of the Company and the nature of its business, on issue of stores and allocation of stores to jobs.
22. In respect of the Company's trading activity, we are informed that there are no damaged stocks.

For A.F. Ferguson & Co.
Chartered Accountants

H.L. Shah
Partner

Bangalore, 23 June 1997

BALANCE SHEET
as at 31 March 1997

	Schedule	Rupees in lakhs 31-3-97	31-3-96
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	A	7527.63	5227.63
Reserves and surplus	B	11724.53	11145.94
Loan funds			
Secured loans	C	18696.59	19945.13
Unsecured loans	D	18117.34	10388.70
TOTAL		56066.09	46707.40
APPLICATION OF FUNDS			
Fixed assets	E		
Gross block, at cost		30969.91	28513.32
Less : Depreciation		8172.74	6555.96
Net block		22797.17	21957.36
Advances on capital account and capital work in progress, at cost		488.47	1009.57
		23285.64	22966.93
Investments	F	2699.72	2831.50
Current assets, loans and advances	G		
Inventories		22619.03	15253.69
Sundry debtors		7810.41	7784.63
Cash and bank balances		457.74	1385.10
Loans and advances		6841.77	4389.34
		37728.95	28812.76
Less :			
Current liabilities and provisions	H		
Current liabilities		5894.45	6387.62
Provisions		1753.77	1516.17
		7648.22	7903.79
Net current assets		30080.73	20908.97
TOTAL		56066.09	46707.40
Notes	K		

PER OUR REPORT ATTACHED
FOR A. F. FERGUSON & CO.
Chartered Accountants

H. L. Shah
Partner

Bangalore, 23 June 1997

K. F. Kapadia
Sr. Vice President - Finance

G. Mohana Sundaram
Asst. Company Secretary

FOR AND ON BEHALF OF THE BOARD,

A. L. Mudaliar
Chairman

Xerxes Desai
Vice Chairman & Managing Director

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1997

			Rupees in lakhs	
INCOME	**Schedule**		**Current Year**	Previous Year
Sales			40851.98	35071.95
Other income	I		1293.08	294.50
TOTAL			42145.06	35366.45
EXPENDITURE				
Operating and other expenses	J		28466.45	24825.05
Excise duty			3606.82	2793.64
Depreciation			1651.63	1568.40
Interest			5639.83	3422.16
TOTAL			39364.73	32609.25
PROFIT FOR THE YEAR			2780.33	2757.20
TAXES			358.66	—
PROFIT AFTER TAXES			2421.67	2757.20
Transfer from debenture redemption reserve			—	200.00
Profit brought forward			2770.63	1627.18
Amount available for appropriation			5192.30	4584.38
Appropriations				
Transfer to debenture redemption reserve		28.00		28.00
Dividend paid on preference shares (subject to deduction of tax)		308.45		90.63
Proposed dividends (1996 : subject to deduction of tax)				
Equity shares		1395.12		1395.12
Tax on proposed dividend		139.51		—
Transfer to general reserve		250.00		300.00
			2121.08	1813.75
Balance carried to balance sheet			3071.22	2770.63
Notes	K			

PER OUR REPORT ATTACHED
FOR A. F. FERGUSON & CO.
Chartered Accountants

H. L. Shah
Partner

Bangalore, 23 June 1997

FOR AND ON BEHALF OF THE BOARD,

A. L. Mudaliar
Chairman

Xerxes Desai
Vice Chairman & Managing Director

K. F. Kapadia
Sr. Vice President - Finance

G. Mohana Sundaram
Asst. Company Secretary

		Rupees in lakhs	
		31-3-97	31-3-96
"A" SHARE CAPITAL			
Authorised			
8,00,00,000 equity shares of Rs. 10 each		8000.00	8000.00
40,00,000 (1996 : 20,00,000) redeemable cumulative preference shares of Rs. 100 each		4000.00	2000.00
		12000.00	10000.00
Issued and subscribed			
4,22,76,270 equity shares of Rs. 10 each, fully paid up		4227.63	4227.63
7,50,000 11% redeemable cumulative preference shares of Rs. 100 each, fully paid up		750.00	750.00
12,50,000 (1996 : 2,50,000) 13% redeemable cumulative preference shares of Rs. 100 each, fully paid up		1250.00	250.00
3,00,000 (1996 : Nil) 13.5% redeemable cumulative preference shares of Rs. 100 each, fully paid up		300.00	—
10,00,000 (1996 : Nil) 14% redeemable cumulative preference shares of Rs. 100 each, fully paid up		1000.00	—
		7527.63	5227.63

		Rupees in lakhs	
		31-3-97	31-3-96
"B" RESERVES AND SURPLUS			
Capital reserve			
As per last balance sheet		13.23	13.23
Share premium account		6172.69	6172.69
Debenture redemption reserve			
As per last balance sheet	185.58		357.58
Transfer from profit and loss account	28.00		28.00
	213.58		385.58
Transfer to profit and loss account	—		200.00
		213.58	185.58
Investment allowance reserve account			
As per last balance sheet		1038.81	1038.81
General reserve			
As per last balance sheet	965.00		665.00
Transfer from profit and loss account	250.00		300.00
		1215.00	965.00
Balance in profit and loss account		3071.22	2770.63
		11724.53	11145.94

	Rupees in lakhs 31-3-97	31-3-96
" C " SECURED LOANS		
13.5% debentures, fully paid up	1312.50	1312.50
12.5% debentures, fully paid up	568.91	568.91
15.5% debentures, fully paid up - Second series	—	500.00
15% debentures, fully paid up		57.00
Foreign currency term loans from the International Finance Corporation, Washington	1066.39	2219.93
Term loans from financial institutions	3376.59	3741.03
Term loans from banks	6673.75	5400.00
Interest free sales tax loan	99.96	99.96
Other term loans	1172.13	1505.00
Cash credit account secured by hypothecation of book debts, inventories, stores and spares	4426.36	4540.80
	18696.59	19945.13

		Rupees in lakhs 31-3-97	31-3-96
" D " UNSECURED LOANS			
Fixed deposits		262.34	553.70
Short term loans and advances			
Loan from a bank	1000.00		1000.00
Loans from others	2980.00		—
Deposits from companies	9050.00		6835.00
		13030.00	7835.00
Other loans and advances			
Term loans from banks	3625.00		2000.00
Others	1200.00		—
		4825.00	2000.00
		18117.34	10388.70

"E" FIXED ASSETS

Rupees in lakhs

	GROSS BLOCK				DEPRECIATION		NET BLOCK	
	Cost as at 1-4-1996	Additions	Deductions	Cost as at 31-3-1997	For the year	As at 31-3-1997	As at 31-3-1997	As at 31-3-1996
Land - freehold	98.38	—	—	98.38	—	—	98.38	98.38
Land - leasehold	42.70	—	0.46	42.24	—	—	42.24	42.70
Buildings	2717.19	554.40	—	3271.59	91.21	391.42	2880.17	2416.98
Plant, machinery and equipment	23914.21	1448.57	11.23	25351.55	1404.95	7170.07	18181.48	18145.65
Furniture, fixtures and equipment	1505.83	492.89	25.53	1973.19	129.16	558.88	1414.31	1066.73
Vehicles	235.01	79.87	81.92	232.96	26.31	52.37	180.59	186.92
TOTAL	28513.32	2575.73	119.14	30969.91	1651.63	8172.74	22797.17	
As at 31-3-1996	24357.04	4220.11	63.83	28513.32	1568.40	6555.96		21957.36
Advances on capital account and capital work in progress, at cost							488.47	1009.57
							23285.64	22966.93

		Rupees in lakhs 31-3-97	31-3-96
" F " INVESTMENTS — LONG TERM			
Trade investments			
Quoted			
50,00,000 (1996 : 95,00,000) fully paid equity shares of Rs. 10 each in Timex Watches Limited (45,00,000 shares sold during the year)		500.00	950.00
Unquoted			
1,00,000 (1996 : 1,00,000) fully paid equity shares of Rs. 100 each in Tata Industries Limited	100.00		100.00
5,00,000 (1996 : 2) fully paid equity shares of Rs. 10 each in Titan Time Products Limited (1996 : Rs. 20)	50.00		—
1,00,000 fully paid equity shares of Rs. 10 each (1996 : 10,000 of Rs. 100 each) in Titan Properties Limited	10.00		10.00
501 (1996: 501) fully paid equity shares of Rs. 100 each in Titan Mechatronics Limited	0.50		0.50
251 (1996 : 251) fully paid equity shares of Rs. 100 each in Titan Holdings Limited	0.25		0.25
60,000 (1996 : 60,000) fully paid equity shares of Rs. 10 each in Questar Investments Limited	18.00		18.00
85,000 (1996 : Nil) fully paid equity shares of Rs. 10 each in RDI Print & Publishing Pvt. Ltd...	266.72		—
15,000 (1996 : Nil) fully paid equity shares of Rs. 10 each in Tanishq India Pvt. Ltd.	1.50		—
		446.97	128.75
Investment in subsidiary company - unquoted			
8,108 (1996 : 8,108) fully paid equity shares of NLG 1,000 each in Titan International Holdings BV		1638.03	1638.03
Others - unquoted			
7,46,328 (1996 : 6,78,480) units of Rs. 10 each of the Unit Trust of India including 67,848 (1996 : Nil) bonus units received during the year (Repurchase price Rs. 109.34 lakhs; 1996 : Rs. 108.90 lakhs)		114.72	114.72
		2699.72	2831.50
Aggregate amount of quoted investments		500.00	950.00
Aggregate amount of unquoted investments		2199.72	1881.50
Market value of quoted investments		1600.00	4892.50

	Rupees in lakhs		
	31-3-97		31-3-96
" G " CURRENT ASSETS, LOANS AND ADVANCES			
Inventories			
Consumable stores		602.25	405.45
Loose tools		162.99	165.71
Stock-in-trade			
Raw materials and bought-out components	5858.69		4836.98
Work in progress	5239.28		3937.41
Finished goods	10755.82		5908.14
		21853.79	14682.53
		22619.03	15253.69
Sundry debtors (unsecured and considered good)			
Over six months	3749.53		1427.78
Others	4060.88		6356.85
		7810.41	7784.63
Cash and bank balances			
Cash and cheques on hand	76.33		682.67
With scheduled banks — in current accounts	66.45		674.95
— on deposit	304.24		—
— in transit	10.72		27.48
		457.74	1385.10
Loans and advances (unsecured and considered good)			
Advances recoverable in cash or in kind or for value to be received	5759.88		3759.60
Due from subsidiaries	1064.93		507.50
Tax payments, net of provision	—		68.12
Balances with customs and excise authorities	16.96		54.12
		6841.77	4389.34
		37728.95	28812.76

		Rupees in lakhs	
		31-3-97	31-3-96
" H " CURRENT LIABILITIES AND PROVISIONS			
Current liabilities			
Sundry creditors	5031.44		6030.01
Unclaimed dividends	31.13		32.10
Interest accrued but not due on loans	831.88		325.51
		5894.45	6387.62
Provisions			
Provision for taxation	131.33		—
Proposed dividend	1395.12		1395.12
Retiring gratuities	208.66		111.55
Others	18.66		9.50
		1753.77	1516.17
		7648.22	7903.79

	Rupees in lakhs	
" I " OTHER INCOME	Current Year	Previous Year
Interest from dealers, staff loans and bank deposits — gross (tax deducted at source on interest received Rs. 0.29 lakhs; 1996 : Rs. 1.15 lakhs)	59.88	51.25
Income from trade investments — gross (tax deducted at source Rs. 31.91 lakhs; 1996 : Rs. 9.11 lakhs)	135.31	36.86
Dividend from units of Unit Trust of India (tax deducted at source Rs. 3.12 lakhs; 1996 : Rs. 4.06 lakhs)	13.57	17.64
Profit on sale of investments	1012.50	41.63
Miscellaneous income	71.82	147.12
	1293.08	294.50

SCHEDULE FORMING PART OF THE ACCOUNTS

" J " OPERATING AND OTHER EXPENSES			Rupees in lakhs Current Year	Previous Year
Raw materials and components consumed			19521.29	14900.25
Loose tools, stores and spare parts consumed			1582.54	1336.29
Purchase of finished goods			389.11	361.93
Payments to and provisions for employees				
Salaries and wages		3850.21		2591.55
Company's contribution to provident and other funds		216.36		124.44
Welfare expenses		640.91		453.42
Gratuity		105.28		50.42
			4812.76	3219.83
Other expenses				
Power and fuel		527.93		397.30
Repairs to buildings		54.48		53.58
Repairs to plant and machinery		111.85		98.63
Advertising		3601.48		2961.80
Selling and distribution expenses		658.10		590.90
Insurance		266.03		179.77
Rent		390.55		373.30
Rates and taxes		730.28		676.70
Travel		520.52		561.34
General expenses		1598.40		1490.13
			8459.62	7383.45
Auditors' remuneration				
Audit fees		8.00		6.00
Fees for taxation matters		2.00		2.00
Fees for other services		0.52		1.23
Reimbursement of expenses		0.78		1.01
			11.30	10.24
Directors' fees			0.40	0.31
Decrease/(Increase) in work in progress and finished goods				
Closing stocks				
Work in progress	5239.28			3937.41
Finished goods	10755.82			5908.14
		15995.10		9845.55
Opening stocks				
Work in progress	3937.41			3857.94
Finished goods	5908.14			3753.96
		9845.55		7611.90
			(6,149.55)	(2,233.65)
			28627.47	24978.65
Less : Expenses capitalised			161.02	153.60
			28466.45	24825.05

SCHEDULE FORMING PART OF THE ACCOUNTS

"K" NOTES TO THE ACCOUNTS

1. Accounting policies :

The accounts are prepared under the historical cost convention and materially comply with the applicable accounting standards. The significant accounting policies followed by the Company are as stated below:

i. Fixed Assets : Capitalised at acquisition cost including directly attributable cost.

ii. Depreciation : Depreciation has been provided on the straight line method in accordance with the Companies Act, 1956.

iii. Foreign currency transactions : Foreign exchange transactions are recorded at the exchange rates prevailing on the date of the transaction.

Foreign currency liabilities incurred for the acquisition of fixed assets are translated at exchange rates prevailing on the last working day of the accounting year or forward cover rates, as applicable. The net variation arising out of the said translation is adjusted to the cost of fixed assets.

Outstanding foreign currency assets and liabilities are restated at year end rates. The net loss or gain arising on restatement/settlement is adjusted to the profit and loss account.

iv. Investments : Long term investments are valued at acquisition cost.

v. Inventories : Consumable stores and loose tools are valued at cost. All other inventories are valued at lower of cost and net realisable value. The cost of various categories of inventory is determined as follows :

a) Consumable stores, loose tools, raw materials and components are valued on a monthly moving weighted average rate.

b) Work in progress and manufactured goods are valued on full absorption cost method based on the annual average cost of production.

c) Traded goods are valued at annual average cost of purchases.

vi. Product warranty expenses : Product warranty costs are determined based on past experience and provided for in the year of sale.

vii. Retirement benefits : Contribution to the provident fund is made monthly at a pre-determined rate to the Provident Fund Trust and debited to the profit and loss account on an accrual basis.

Gratuity liability and leave encashment benefit is provided on an actuarial basis.

Contribution to the superannuation fund is made annually at a pre-determined rate to the Superannuation Trust and debited to the profit and loss account on an accrual basis.

2. Estimated amount of contracts remaining to be executed on capital account and not provided for is Rs. 1514.65 lakhs (1996 : Rs. 1213.93 lakhs).

3. Contingent liabilities not provided for :

i) Guarantees given by the Company Rs. 1100 lakhs (1996 : nil).

ii) Claims against the Company not acknowledged as debts :

Sales tax matters Rs. 3424 lakhs (1996 : nil).

4. a) The 11% redeemable cumulative preference shares are redeemable at par at the end of 7 years from the date of allotment (i.e., 31st March, 1995). However, they may be redeemed either at the option of the Company or by the Holder(s) at any time after the expiry of 24 months from the date of allotment.

b) The 13% redeemable cumulative preference shares aggregating Rs. 250 lakhs are redeemable at par at the end of 7 years from the date of allotment (i.e., 1st January 1996). However, they may be redeemed either at the option of the Company or by the Holder(s) at any time after the expiry of

18 months from the date of allotment. In case of withdrawal of certain tax benefits, the Company at its option will pay an enhanced preference dividend or redeem the preference shares or convert the preference shares into 18% secured convertible debentures with a term not exceeding 18 months.

c) The 13% redeemable cumulative preference shares aggregating Rs. 1000 Lakhs are redeemable at par at the end of 7 years from the date of allotment (i.e., 30th April, 1996). However, they may be redeemed either at the option of the Company or by the Holder(s) at any time after the expiry of 18 months from the date of allotment. In case of withdrawal of certain tax benefits, they may be redeemed at the option of the holder.

d) The 13.5% redeemable cumulative preference shares aggregating Rs. 300 Lakhs are redeemable at par at the end of 7 years from the date of allotment (i.e., 1st March, 1997). However, they may be redeemed either at the option of the Company or by the Holder(s) at any time after the expiry of 18 months from the date of allotment. In case of withdrawal of certain tax benefits, they may be redeemed at the option of the holder.

e) The 14% redeemable cumulative preference shares aggregating Rs. 1000 Lakhs are redeemable at par at the end of 7 years from the date of allotment (i.e., 1st October 1996). However, they may be redeemed either at the option of the Company or by the Holder(s) at any time after the expiry of 18 months from the date of allotment. In case of withdrawal of certain tax benefits, the Company will redeem the preference shares.

5. a) The 13.5% debentures are secured by a legal mortgage on an immovable property of the Company.

   b) Further, the Company has also created an additional security :

   (i) by way of an equitable mortgage of the Company's immovable property relating to the Watch Plant situated at Hosur; and

   (ii) by hypothecation of its movable assets (save and except book debts) both present and future, subject to a prior charge on inventories in favour of banks for providing working capital and specific charge on assets covered under notes 10(b) and 13(a) below.

6. The 13.5% debentures are redeemable at par at the end of ten years from the date of allotment (i.e. 15th June 1987), with the Company having an option to redeem the same at any time after the end of seven years from the date of allotment either fully or partly on a *pro rata* basis or by draw of lots or on any other basis.

7. The 12.5% debentures are secured by :

   a) a legal mortgage on an immovable property of the Company; and

   b) an equitable mortgage of the Company's immovable property relating to the Watch Plant located at Hosur.

   c) Further, the Company has also created an additional security by hypothecation of its movable assets (save and except the current assets and book debts), both present and future, relating to the Watch Plant located at Hosur subject to a prior charge on specific assets covered under notes 10 (b) and 13 (a) below.

8. The 12.5% debentures are redeemable at par on 30th September, 1999.

9. The foreign currency term loans from the International Finance Corporation, Washington, are secured by the securities stated in 5 (b) above.

10. The term loans from financial institutions shown under secured loans include :

    a) Loan of Rs. 69 lakhs (1996 : Rs. 549 lakhs) secured by the securities stated in 5 (b) above.

    b) Loan of Rs. 71.19 lakhs (1996: Rs. 126.63 lakhs) which is secured by a first charge on certain specified assets.

    c) Loan of Rs. 3236.40 lakhs (1996 : Rs. 3065.40 lakhs) which is secured/to be secured by the securities stated below :

    (i) to be secured by a first mortgage and charge in favour of the financial institution of all the Company's immovable properties, both present and future; and

(ii) secured by a first charge by way of hypothecation of all the Company's movables, both present and future (save and except book debts), subject to the prior charges created in favour of the Company's Bankers for the working capital requirement of the Company and subject to a prior charge on specific assets covered under notes 10(b) above and 13(a) below.

11. The term loan from banks shown under secured loans include :

a) loan of Rs. 875 lakhs (1996 : Rs. 1000 lakhs) secured by a first charge on the movable assets of the Company, both present and future (save and except current assets and book debts).

b) loan of Rs. 4798.75 lakhs (1996 : Rs. 3400 lakhs) secured by a first charge on the movable and immovable properties of the Company, both present and future.

c) loan of Rs. 1000 lakhs (1996 : Rs. 1000 lakhs) secured by a first charge on the movable assets and to be secured by an equitable mortgage of immovable properties of the Company, both present and future.

12. The interest free sales tax loan is secured by a second charge by way of an equitable mortgage of the Company's immovable property relating to the Watch Plant located at Hosur and hypothecation of assets except inventories and book debts.

13. The other term loans shown under secured loans, include :

a) loans of Rs. 428.13 lakhs (1996 : Rs. 575 lakhs) secured by a first charge on assets purchased out of these amounts.

b) loan of Rs. 744 lakhs (1996 : Rs. 930 lakhs) which is secured / to be secured as follows :

(i) a first charge by way of hypothecation of all the movable assets and mortgage of all lands and immovable properties of the Company, both present and future.

(ii) a pledge of the shares of its wholly owned subsidiary.

(iii) all receivables to the Company from its subsidiary.

14. a) The security covered under notes 5(a) and 7(a) above rank pari passu.

b) The security covered under notes 5(b), 7(b) & (c), 9, 10(a) & (c), 11 and 13(b) above rank pari passu.

15. Sundry creditors include Rs. 209.47 lakhs (1996 : Rs. 164.07 lakhs) payable to small scale and ancillary industries.

16. Exchange fluctuation on foreign currency loans taken for acquisition of fixed assets capitalised is Rs. 18.09 lakhs (1996 : Rs. 7.86 lakhs).

Exchange gain (net), included in profit and loss account is Rs. 140.44 lakhs (1996 : Rs. 52.11 lakhs).

17. Sales includes sale of scrap Rs. 146.35 lakhs (1996 : Rs. 134.41 lakhs), sale of accessories Rs. 1383.15 lakhs (1996 : Rs. 1214.41 lakhs), income from services provided Rs. 446.25 lakhs (1996 : Rs. 584.08 lakhs) and is net of all discounts including cash discount of Rs. 113.78 lakhs (1996 : Rs. 72.24 lakhs).

18. Interest expense disclosed in the profit and loss account is net of Rs. 29.56 lakhs (1996 : Rs. 137.13 lakhs), being the amount capitalised and Rs. 265.89 lakhs (1996 : nil) being interest received on advances.

19. Interest on fixed loans and debentures amounts to Rs. 5208.61 lakhs (1996 : Rs. 2931.05 lakhs).

20. Maximum amount due by the Company's Officers at any time during the year was Rs. 0.10 lakhs (1996 : Rs. 0.22 lakhs). Balance as on 31st March, 1997 Rs. nil (1996 : Rs. 0.10 lakhs).

21. The Managing Director's remuneration of Rs. 23.75 lakhs (1996 : Rs. 24.55 lakhs) is inclusive of contribution to provident and other funds Rs. 1.50 lakhs (1996 : Rs. 1.35 lakhs), perquisites Rs. 4.25 lakhs (1996 : Rs. 3.22 lakhs) and commission Rs. 12.00 lakhs (1996 : Rs. 14.58 lakhs).

Computation of net profit under Section 309(5) of the Companies Act, 1956 for the current year is as under :

	Rupees in lakhs 1997	1996
Profit before taxes as per Profit and Loss Account	**2780.33**	2757.20
Add: Managing Director's remuneration	**23.75**	24.55
Director's fees	**0.40**	0.31
Depreciation provided in the accounts for the current year	**1651.63**	1568.40
Loss on sale of fixed assets as per books (net)	**1.09**	—
Profit on sale of fixed assets as per Section 349 of the Companies Act, 1956	**23.45**	25.34
	4480.65	4375.80
Less: Depreciation as per Section 350 of the Companies Act, 1956 for the current year	**2599.13**	2632.82
Profit on sale of fixed assets as per books (net)	**—**	8.34
Profit on sale of investments	**1012.50**	41.63
Net profit	**869.02**	1693.01

22. The provisions of Industries (Development and Regulation) Act, 1951, relating to licensed capacity are not applicable to the Company. The installed capacity is 4.18 million watches per annum (1996 : 3.73 million watches), 60,000 jewellery pieces per annum (1996 : 60,000) and 0.65 million table clocks (1996 : 0.5 million). The installed capacities are as certified by the management and relied upon by the auditors without verification, being a technical matter.

23. The Company produced 42,42,320 watches (1996 : 37,71,234 watches) sold 39,03,661 watches Rs. 33,916.69 lakhs (1996 : 38,31,207 watches — Rs. 30,987.42 lakhs) and had a Closing Stock of 7,34,742 watches — Rs. 6,410.27 lakhs (1996 : 3,96,083 watches — Rs. 3,460.81 lakhs; 1995 : 4,56,056 watches — Rs. 3,236.23 lakhs).

    The Company produced 44,040 jewellery pieces (1996 : 39,538 jewellery pieces), purchased 355 jewellery pieces (1996 : nil) sold 37,326 jewellery pieces — Rs. 3,153.49 lakhs (1996 : 20,372 jewellery pieces — Rs. 1,695.63 lakhs) and had a closing stock of 31,574 jewellery pieces — Rs. 3,261.14 lakhs (1996 : 24,505 jewellery pieces — Rs. 2,221.83 lakhs; 1995 : 5,339 jewellery pieces — Rs. 448.58 lakhs).

    The Company produced 5,56,542 Table Clocks (1996 : 93,197) sold 3,63,562 Table Clocks — Rs. 1,409.04 lakhs (1996 : 67,483 Table Clocks — Rs. 167.57 lakhs) and had a closing stock of 2,18,694 Table Clocks — Rs. 843.26 lakhs (1996 : 25,714 Table Clocks — Rs. 41.74 lakhs; 1995 : nil).

24. The Company purchased 47,743 watches (1996 : 60,593 watches), sold 40,897 watches — Rs. 305.99 lakhs (1996 : 43,778 watches — Rs. 288.43 lakhs) and had a closing stock of 36,869 watches — Rs. 203.91 lakhs (1996 : 30,023 watches — Rs. 183.76 lakhs; 1995 : 13,208 watches — Rs. 69.15 lakhs).

25. The Company purchased 46,370 clocks (1996 : nil), sold 29,818 clocks Rs. 91.02 lakhs (1996 : nil) and had a closing stock of 16,552 clocks Rs. 37.24 lakhs (1996 : nil; 1995 : nil).

26. Analysis of raw materials and components consumed :

	Rupees in lakhs 1997	1996
Precious metals (1997 : 524 Kgs.) (1996 : 498 Kgs.)	**2312.41**	2280.63
Components	**12971.09**	9561.20
Other materials	**3868.48**	2876.60
Sundry charges	**369.31**	181.82
	19521.29	14900.25

27. Value of imports on CIF basis :

	Rupees in lakhs 1997	1996
Raw materials and components	**6212.23**	4489.63
Stores and spares	**471.20**	346.67
Capital goods	**1118.40**	1647.77
	7801.83	6484.07

28. Expenditure in foreign currency (on payment basis) on account of :

	Rupees in lakhs 1997	1996
Royalty & Technical Fees	**15.35**	—
Interest	**142.59**	240.09
Others	**884.76**	769.37

29. Amount remitted by the Company in foreign currency on account of dividends :

		31.3.97	31.3.96
(i)	Number of Shareholders	**17**	13
(ii)	Number of Equity Shares on which dividend was paid	**1,16,675**	1,02,740
(iii)	Year to which the dividend related	**1995-96**	1994-95
(iv)	Amount remitted (net of tax) (Rs. in lakhs)	**3.14**	2.47

30. Earnings in foreign exchange :

	Rupees in lakhs	
	1997	1996
Export of goods on FOB basis	5566.03	3740.27
Interest	5.11	2.92

31. Value of imported and indigenous raw materials and components consumed and the percentage of each to the total consumption :

	1997		1996	
	Rupees in lakhs	%	Rupees in lakhs	%
Imported				
CIF Value	5910.00	30	4029.07	27
Customs duties	1467.10	8	684.19	5
	7377.10	38	4713.26	32
Indigenous	12144.19	62	10186.99	68
	19521.29	100	14900.25	100

32. Expenditure directly attributable to research and development (including capital expenditure of Rs. 6.91 lakhs; (1996 : Rs. 20.04 lakhs) is estimated at Rs. 76.26 lakhs (1996 : Rs. 112.79 lakhs).

33. The figures of the previous year have been regrouped/recast, where necessary.

34. Balance Sheet Abstract and Company's General Business Profile :

I. REGISTRATION DETAILS

REGISTRATION NO.

		1	1	0	4	1

STATE CODE

1	8

BALANCE SHEET DATE

DATE		MONTH		YEAR	
3	1	0	3	9	7

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN Rs. THOUSANDS)

PUBLIC ISSUE	RIGHT ISSUE
NIL	NIL
BONUS ISSUE	PREFERENTIAL ALLOTMENT
NIL	230000

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN Rs. THOUSAND)

TOTAL LIABILITIES	TOTAL ASSETS
6371431	6371431

SOURCE OF FUNDS

PAID-UP CAPITAL	RESERVES & SURPLUS
752763	1172453
SECURED LOANS	UNSECURED LOANS
1869659	1811734

APPLICATION OF FUNDS

NET FIXED ASSETS	INVESTMENTS
2328564	269972
NET CURRENT ASSETS	MISC. EXPENDITURE
3008073	NIL
ACCUMULATED LOSSES	
NIL	

IV. PERFORMANCE OF COMPANY (AMOUNT IN Rs. THOUSANDS)

TURNOVER	TOTAL EXPENDITURE
4214506	3936473
+ ✓ – PROFIT/LOSS BEFORE TAX	+ ✓ – PROFIT/LOSS AFTER TAX
278033	242167
EARNING PER SHARE IN Rs.	DIVIDEND RATE %
5.00	33

V. GENERIC NAMES OF THE THREE PRINCIPAL PRODUCTS OF THE COMPANY

ITEM CODE NO. (ITC CODE)

			9	1	.	0	2

PRODUCT DESCRIPTION

							W	A	T	C	H	E	S

ITEM CODE NO. (ITC CODE)

			9	1	.	0	3

PRODUCT DESCRIPTION

								C	L	O	C	K	S

ITEM CODE NO. (ITC CODE)

			7	1	.	1	3

PRODUCT DESCRIPTION

					J	E	W	E	L	L	E	R	Y

SIGNATURE TO SCHEDULES "A" TO "K"
FOR AND ON BEHALF OF THE BOARD

A. L. Mudaliar
Chairman

Xerxes Desai
Vice Chairman & Managing Director

K. F. Kapadia
Sr. Vice President - Finance

G. Mohana Sundaram
Asst. Company Secretary

Bangalore, 23 June 1997

CASH FLOW STATEMENT

for the year ended 31 March 1997

	Current Year	Previous Year
	Rupees in lakhs	
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	2,780.33	2,757.20
Adjustments for :		
Depreciation	1,651.63	1,568.40
Exchange difference (net)	(140.44)	(52.11)
Financial lease payments	3.68	67.81
(Profit)/loss on sale of fixed assets (net)	1.09	(8.34)
(Profit)/loss on sale of investments (net)	(1,012.50)	(41.63)
Interest received	(59.88)	(51.25)
Dividend received	(148.88)	(54.50)
Interest paid	5,639.83	3,422.16
Operating profit before working capital changes	8,714.86	7,607.74
Adjustments for :		
(Increase)/Decrease in sundry debtors	(25.78)	(4,426.35)
(Increase)/Decrease in inventories	(7,365.35)	(4,046.64)
(Increase)/Decrease in loans and advances	(2,520.55)	(2,462.06)
Increase/(Decrease) in current liabilities	(386.90)	1,597.97
Cash generated from operations	(1,583.71)	(1,729.34)
Interest received	59.88	51.25
Interest paid	(5,639.83)	(3,422.16)
Direct taxes paid	(298.72)	(33.76)
NET CASH FROM OPERATING ACTIVITIES	(7,462.39)	(5,134.01)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to fixed assets (including capital work in progress and advances on capital account)	(2,054.63)	(3,984.65)
Proceeds from sale of fixed assets	83.20	48.74
Purchase of investments	(318.22)	(1,259.53)
Proceeds from sale of investments	1,462.50	651.51
Dividends received	148.88	54.50
NET CASH USED IN INVESTING ACTIVITIES	(678.27)	(4,489.43)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of preference share capital	2,300.00	250.00
Proceeds from new borrowings	11,464.75	18,774.81
Repayment of borrowings	(4,984.65)	(7,604.16)
Financial lease payments	(3.68)	(67.81)
Dividends paid	(1,703.57)	(1,359.15)
Exchange difference	140.44	52.11
NET CASH USED IN FINANCING ACTIVITIES	7,213.29	10,045.80
NET CASH FLOWS DURING THE YEAR (A+B+C)	(927.37)	422.36
CASH AND CASH EQUIVALENTS (OPENING BALANCE)	1,385.10	962.74
CASH AND CASH EQUIVALENTS (CLOSING BALANCE)	457.74	1,385.10

FOR AND ON BEHALF OF THE BOARD,

A. L. Mudaliar, Chairman

Xerxes Desai, Vice Chairman & Managing Director

K. F. Kapadia, Sr. Vice President - Finance

G. Mohana Sundaram, Asst. Company Secretary

Bangalore, 23 June 1997.

AUDITORS' CERTIFICATE

We have checked the above Cash Flow Statement of Titan Industries Limited, derived from the audited annual financial statements for the year ended 31 March 1997, with the books and records maintained in the ordinary course of business and found the same to be in accordance therewith.

FOR A. F. FERGUSON & CO.
Chartered Accountants

H. L. Shah
Partner

Bangalore, 23 June 1997

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO SUBSIDIARY COMPANIES :

1.	Name of Subsidiary	Titan International Holdings B.V.	Titan Watches & Jewellery International (Asia-Pacific) Pte Ltd
2.	Financial year of the Subsidiary	31st March 1997	30th June 1997
3.	Share of the Subsidiary held by Titan Industries Limited on the above date -		
	a) Number of shares and face value	8,108 Equity shares of NLG 1000 each (fully paid up)	Nil*
	b) Extent of Holding	100%	Nil*
4.	Net aggregate amount of Profit/(Loss) of the Subsidiary so far as they concern the members of Titan Industries Limited		
	a) Dealt with in the accounts of Titan Industries Limited for the year ended 31 March 1997	Nil	Nil
	b) Not dealt with in the accounts of Titan Industries Limited for the year ended 31 March 1997	NLG 18,260	SGD 6,156
5.	Net aggregate amount of Profit/(Loss) for previous financial years of the Subsidiary since it became Subsidiary so far as they concern the members of Titan Industries Limited		
	a) Dealt with in the accounts of Titan Industries Limited for the year ended 31 March 1997.	Nil	Nil
	b) Not dealt within the accounts of Titan Industries Limited for the year ended 31 March 1997	NLG 42,233	SGD 36,320

* 100,000 equity shares of SGD1 comprising 100% of the equity share capital are held by Titan International Holdings BV

BY ORDER OF THE BOARD OF DIRECTORS,

A. L. Mudaliar
Chairman

Bangalore, 4 August 1997

TITAN INTERNATIONAL HOLDINGS B. V.

Amsterdam

MANAGEMENT REPORT

The Board of Directors is pleased to present the Annual Report and Accounts of the Company for the financial year ended March 31, 1997.

OVERVIEW OF ACTIVITIES

The state of affairs of the Company at the closing of the financial year is adequately presented in the Balance Sheet and the Profit & Loss Account attached hereto.

During the year under review, the Company invested approximately NLG 2.3 million in trademarks and brand building. This expense will be amortized over a period of 10 years and adjusted against royalty income.

The Company is expected to incur additional brand building expenses in the near future.

FUTURE DEVELOPMENTS

The Management does not anticipate any major changes during the coming financial year.

POST BALANCE SHEET EVENTS

On April 22, 1997, the Company borrowed US $ 5,000,000 from the Hongkong Bank in Bahrain. These funds will be used for investment in trademarks/brand building, and in affiliated companies operating in Europe, the Middle East and the Far East.

THE MANAGING DIRECTORS

F. K. Kavarana   X. S. Desai   A. L. Mudaliar

Amsterdam, June 27, 1997.   V. I. Nangia   M. N. Ramdas

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TITAN INTERNATIONAL HOLDINGS B. V.

We have audited the annual accounts for the purpose of filing with the Chamber of Commerce of TITAN INTERNATIONAL HOLDINGS B. V. for the year ended March 31, 1997. These annual accounts are the responsibility of the Company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in. The Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual accounts give a true and fair view of the financial position of the Company as of March 31, 1997 and of the result for the year then ended in accordance with accounting principles generally accepted in. The Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of The Netherlands Civil Code applying certain restrictions allowed by Article 396 of that Part.

As further explained in note 4, the Company has capitalized costs incurred in respect of the acquisition of trademarks and related brand building expenses. Realizability of this significant asset depends on the flow of royalty income in the future.

Amstelveen, The Netherlands, June 27, 1997.   ARTHUR ANDERSON & CO.

BALANCE SHEET AS AT 31 MARCH 1997

(after proposed appropriation of results)

ASSETS	NOTES	1997 NLG	1996 NLG
Fixed Assets			
Intangible Assets	(4)	8,916,994	7,377,343
Investments	(5)	5,651,900	5,651,900
		14,568,894	13,029,243
Current Assets			
Royalties Receivable	(6)	87,408	17,277
Receivables on affliated company	(7)	178,642	141,361
Other receivables and prepaid expenses		8,457	4,970
Cash at Banks		13,540	41,617
		288,047	205,225
TOTAL ASSETS		14,856,941	13,234,468
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity	(8)		
Share Capital		8,108,000	8,108,000
Retained earnings		60,493	42,233
		8,168,493	8,150,233
Provision for Deferred Taxes	(12)	57,740	22,740
Long-term Liabilities	(9)	5,067,866	2,776,396
Current Liabilities			
Loans	(10)	516,695	—
Due to affiliated company	(11)	682,267	1,817,194
Due to third parties	(9)	318,721	388,545
Interest payable on loans	(10)	9,907	
Accounts payable and accrued expenses		35,252	79,360
		1,562,842	2,285,099
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		14,856,941	13,234,468

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 1997

OPERATING INCOME (EXPENSES)	NOTES	1997 NLG	1996 NLG
Royalty Income		1,707,978	483,713
Dividend Income		17,962	—
General and administrative expenses		(219,236)	(295,369)
Technical Assistance Fee	(13)	145,400	—
Amortization expense		(759,519)	(175,769)
Net operating income (expenses)		892,585	12,575
FINANCIAL INCOME (EXPENSES)			
Interest income		5,278	91,849
Interest expenses		(144,328)	—
Other Income		21,801	—
Currency exchange differences		(722,076)	(42,453)
Net financial income (expenses)		(839,325)	49,396
Result before provision for income taxes		53,260	61,971
Provision for income taxes	(12)	(35,000)	(22,740)
NET RESULT FOR THE YEAR		18,260	39,231

The accompanying notes form part of these accounts

NOTES TO THE ANNUAL ACCOUNTS MARCH 31, 1997

1 (a) GROUP AFFILIATION AND PRINCIPAL ACTIVITIES

The Company incorporated on November 23, 1993 is a limited liability company with its statutory seat in Amsterdam, The Netherlands.

The principal activity of the Company is the holding and financing of group companies and the exploitation of trademarks. These accounts are appended to the Accounts of the parent company, Titan Industries Limited, India.

(b) RELATED PARTY TRANSACTIONS

Royalty and interest income is generated primarily through affiliated companies.

2. BASIS OF PRESENTATION

The accompanying annual accounts have been prepared in accordance with principles of accounting generally accepted in The Netherlands.

For comparison purposes certain minor reclassifications have been made in the 1996 figures.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) GENERAL

Assets and liabilities are stated at face value unless indicated otherwise.

(b) INTANGIBLE ASSETS

The initial expenses incurred in connection with the incorporation of the Company are capitalised and amortized on a straight-line basis over a period of five years. The Company carries acquisition, registration and brand building expenses associated with its trademarks at cost. These costs are amortized on a straight line basis over a period of ten years. Amortization commences upon commencement of operation of the trademarks.

(c) INVESTMENTS

Since no significant influence can be exercised, the investments in subsidiaries are stated at historical cost price or, in case of a permanent impairment of the value of the investment, at market value.

(d) FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Dutch guilders at rates of exchange applicable at the balance sheet date.

Transactions in foreign currencies are translated at the rates in effect at the dates of transactions. Exchange gains or losses are reflected in the profit and loss account.

			NLG 1997	NLG 1996
Exchange rates used at year-end are :	CHF	1	1.3009	1.3877
	FRF	100	33.3910	32.8200
	GBP	1	3.0833	2.5231
	USD	1	1.8789	1.6534
	SGD	1	1.3003	1.1730

(e) **DEFERRED TAXES**

The value of intangible assets for tax purposes is different from the value in the statutory accounts. The deferred taxes related to these differences are determined on the basis of the tax rate in effect at year end.

(f) **RECOGNITION OF INCOME AND EXPENSES**

Income and expenses, including taxation, are recognised and reported on an accrual basis. Dividend income is recognised upon receipt.

4. INTANGIBLE ASSETS

The amount represents incorporation expenses and expenses associated with trademarks (see note 3b) and is specified as follows :

	NLG 1997	NLG 1996
Incorporation expenses	33,09	33,099
Accumulated depreciation	(22,214)	(15,594)
Book value of incorporation expenses	10,885	17,505
Total cost of trademarks at the beginning of the year	7,528,987	1,720,093
Additions during the year, net	2,299,170	5,808,894
Total cost of trademarks before accumulated amortization	9,828,157	7,528,987
Amortization accumulated	(922,048)	(169,149)
Trademarks at the end of the year	8,906,109	7,359,838
Total intangible assets	8,916,994	7,377,343

Capitalized expenses associated with Trademarks are expected to be recovered through royalty income from affiliates. The management is confident that sufficient royalties will be earned to cover the costs incurred.

The Company is expected to incur additional brand building expenses in the near future.

The additions during the year were charged out by affiliated companies at March 31, 1997.

5. INVESTMENTS

	% held	NLG 1997	NLG 1996
TITAN INTERNATIONAL MARKETING LTD., UK			
Representing all of the 6% redeemable non-cumulative preference shares	81	5,077,738	5,077,738
TITAN INTERNATIONAL INVESTMENTS B.V., The Netherlands, 45,276 shares at NLG 10 each	49	452,760	452,760
TITAN WATCHES & JEWELLERY INTERNATIONAL (ASIA PACIFIC) PTE LTD., Singapore 1,00,000 shares of S$ 1 each	100	121,402	121,402
Total investments stated at cost		5,651,900	5,651,900

TITAN INTERNATIONAL MARKETING LTD., UK :

Additional information of Titan International Marketing Ltd., England is based on unaudited financial statements as of March 31, 1997.

The Shareholders' equity as at March 31, 1997consisted of 2,000,000, 6% redeemable non-cumulative preferred shares and 480,000 ordinary shares with a par value of GBP 1 each.

	GBP	NLG
Net loss for the year	1,154,305	3,559,069
Shareholders' equity as on March 31, 1997	(317,576)	(979,182)

On June 27, 1997 this entity's share capital was enhanced by 1,000,000 6% redeemable non-cumulative preferred shares of GBP 1 each. The shareholders' equity as of this date is thus GBP 544,584 (NLG 1,679,116).

TITAN INTERNATIONAL INVESTMENTS B. V., THE NETHERLANDS :

The shareholders' equity of Titan International Investments B. V. as of March 31, 1997 and the results for the year then ended are NLG 713,303 and NLG (42,278) respectively based on audited financial statements.

TITAN WATCHES & JEWELLERY INTERNATIONAL (ASIA PACIFIC) PTE. LTD., SINGAPORE

Additional information of Titan Watches & Jewellery International (Asia Pacific) Pte. Ltd. is based on unaudited financial statements as of March 31, 1997.

	SGD	NLG
Shareholders' equity	122,271	158,989
Net income for the year	751	977

NLG equivalents are stated at year end exchange rate for presentation purposes.

6. ROYALTIES RECEIVABLE

			NLG 1997	NLG 1996
TITAN WATCHES & JEWELLERY INTERNATIONAL (ASIA PACIFIC) PTE. LTD., Singapore	SGD	67,222	87,408	12,277

7. RECEIVABLE ON AFFILIATED COMPANY

	NLG 1997	NLG 1996
TITAN INTERNATIONAL INVESTMENTS B. V.	178,642	141,361

8. SHAREHOLDER'S EQUITY

The authorised share capital of the Company is NLG 10,000,000 (1996 : NLG 10,000,000) divided into 10,000 shares of NLG 1,000 each. At the balance sheet date a total of 8,108 shares were issued and fully paid-in.

Movements in the shareholder's equity accounts are as follows :

	NLG 1997	NLG 1996
Share Capital		
Authorized share capital	10,000,000	10,000,000
Not issued	(1,892,000)	(1,892,000)
Issued and paid-in share capital	8,108,000	8,108,000
Retained earnings		
Retained earnings carried forward	42,233	3,002
Result for the year	18,260	39,231
Retained earnings	60,493	42,233
Total shareholder's equity	8,168,493	8,150,233

9. LONG TERM LIABILITIES

Amounts are related to the acquisition of several Trademarks and Brand names, related fees and brand building expenses;

			NLG 1997	NLG 1996
Third Party				
Due on December 21, 1996	CHF	280,000	—	388,545
Due on December 21, 1997	CHF	245,000	318,721	339,977
Parent Company				
NLG account			2,299,170	—
USD account	USD	1,473,580	2,768,696	2,436,419
			5,386,587	3,164,941

The amount payable of CHF 245,000 on December 21, 1997 is recorded under "Current Liabilities" on the Balance Sheet as of March 31, 1997.

In addition to the amounts recorded above under "Third Party", the Company has a contingent liability amounting to CHF 220,000 with respect to the acquisition of a trademark.

No redemption term has been agreed with the parent company no redemption is expected within the next year.

10. LOANS

Loans payable as at March 31, 1997 relate to two loans aggregating USD 275,000 (equivalent to NLG 516,695) from the subsidiary and an affiliated company. The loans accrue interest at 6.7% p.a. and are payable on demand.

11. DUE TO AFFILIATED COMPANY

	NLG 1997	NLG 1996
Titan International Marketing Ltd., UK	681,657	1,816,584
Others	610	610
	682,267	1,817,194

12. INCOME TAXES

The provision for deferred taxes has been stated net of company's tax loss carry forward position.

13. DIRECTORS AND EMPLOYEES

The Company has one employee.

The services supplied by this employee are not for the benefit of the Company. Accordingly, the related costs are fully charged to an affiliated company.

The Company had five unremunerated directors during the year. No loans or advances have been given to or received from the Directors.

The Company has no supervisory Directors.

OTHER INFORMATION

1. PROPOSED APPROPRIATION OF RESULTS

Subject to the provision under Dutch law that no dividends can be declared until all losses have been recovered, profits are at the disposal of the Annual General Meeting of Shareholders in accordance with Article 27 of the Company's Articles of Incorporation.

The Management proposes not to declare a dividend and to add the net result for the year to the retained earnings.

TITAN WATCHES & JEWELLERY INTERNATIONAL (ASIA PACIFIC) PTE LTD.

(Incorporated in the Republic of Singapore)

DIRECTORS' REPORT

The Directors submit their report together with the audited accounts of the Company for the period from 1 April 1996 to 30 June 1997.

1. DIRECTORS

The names of the Directors in office at the date of this report are :—

C. R. MENON
PATRICK R. McGOLDRICK
X. S. DESAI
K. F. KAPADIA

2. PRINCIPAL ACTIVITIES

The principal activities of the Company are that of importers and exporters, traders in watches and jewellery items.

There have been no significant changes in the nature of these activities during the period.

During the period under review, the Company launched their watches in Australia and Bangladesh. Substantial expenditure on advertising, brand building and product promotion was incurred, and a high degree of awareness about Titan has been created in these markets.

3. SUBSIDIARIES

During the financial period, the Company did not acquire or dispose of any subsidiary companies.

4. ACCOUNTS

Net profit for the period after taxation : S$ 6,156.

5. RESERVES OR PROVISIONS

There were no material transfers to or from provisions and reserves during the period.

6. ISSUE OF SHARES

There were no shares or debentures issued during period.

7. ARRANGEMENT FOR DIRECTORS TO ACQUIRE BENEFITS

Neither at the end of the financial period, nor at any time during that period, did there subsist any arrangements, to which the Company is a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

8. DIRECTORS' INTEREST IN SHARES

None of the Directors of the Company who held office at the end of the financial period had, according to this register required to be kept under Section 164 of the Companies Act, Cap 50, any interest in shares of the Company.

9. DIVIDENDS

Dividends paid since the end of the Company's last financial period were as follows:—

A final dividend of 20% less tax at 26% amounting to $ 14,800 in respect of the previous period and included in the previous directors' report.

No dividend has been paid or proposed for the financial period under review.

10. BAD AND DOUBTFUL DEBTS

Before the Profit and Loss Account and Balance Sheet were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary. At the date of this report, the Directors are not aware of any circumstances which would render it necessary to write off any debts or make a provision for doubtful debts in respect of these accounts.

11. CURRENT ASSETS

Before the Profit and Loss Account and Balance Sheet were made out, the Directors took reasonable steps to ascertain that current assets of the Company which were unlikely to realise in the ordinary course of business their book values have been written down to their estimated realisable values. At the date of this report, the Directors are not aware of any circumstances which would render the values attributable to current assets in these accounts misleading.

12. CHARGES ON ASSETS AND CONTINGENT LIABILITIES

As at the date of this report :—

(i) there are no charges on the assets of the Company which have arisen since the end of the financial period to secure the liabilities of any other person.

(ii) there are no contingent liabilities which have arisen since the end of the financial period.

13. CONTINGENT OR OTHER LIABILITIES ENFORCEABLE AFTER END OF FINANCIAL PERIOD

No contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the Directors, will or may affect the ability of the Company to meet its obligations as and when they fall due.

14. OTHER CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in the report or accounts which would render any amount stated in the accounts misleading.

15. UNUSUAL ITEMS

In the opinion of the Directors, the results of the operations during the financial period have not been substantially affected by any item, transaction or event of a material and unusual nature.

16. SUBSEQUENT EVENTS

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period in which this report is made.

17. **DIRECTORS' BENEFITS**

Since the date of incorporation, no Director has received or has become entitled to receive a benefit by reason of a contract made by the Company with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

18. **SHARE OPTIONS GRANTED**

No options were granted during the period to take up unissued shares of the Company.

19. **SHARE OPTIONS EXERCISED**

During the period, there were no shares issued by virtue of the exercise of options to take up unissued shares of the Company.

20. **UNISSUED SHARES UNDER OPTION**

There were no unissued shares under option as at the end of the financial period.

21. **AUDITORS**

The auditors, Messrs H. WEE & CO., Certified Public Accountants, Singapore, have expressed their willingness to accept re-appointment.

On behalf of the Board

	Patrick R McGoldrick	C. R. Menon
4 August 1997	Director	Director

AUDITORS' REPORT

TO THE MEMBERS OF TITAN WATCHES & JEWELLERY INTERNATIONAL (ASIA-PACIFIC) PTE LTD.

We have audited the accounts set out on pages 46 to 48 in accordance with Statements of Auditing Guideline and Statements of Auditing Practice and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered appropriate in the circumstances.

In our opinion :-

(a) the accounts are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 and Statements of Accounting Standard and so as to give a true and fair view of :-

 (i) the state of affairs of the Company as at 30 June 1997 and of the results of the Company for the period ended on that date; and

 (ii) the other matters required by Section 201 of the Act to be dealt with in the accounts.

(b) the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

H. WEE & CO.
Certified Public Accountants,

4 August 1997 Singapore

BALANCE SHEET

as at June 30, 1997

	Note		1997	1996
SHARE CAPITAL			S$	S$
Authorised				
1,000,000 ordinary shares of S$ 1 each			1,000,000	1,000,000
Issued and fully paid up				
1,00,000 ordinary shares of Rs. S$ 1 each			100,000	100,000
PROFIT AND LOSS ACCOUNT			27,676	21,520
			127,676	121,520
Represented by:-				
FIXED ASSETS	3		4,059	—
DEFERRED EXPENDITURE	4		44,839	
PRELIMINARY EXPENSES	5		1,749	3,497
CURRENT ASSETS				
Stocks		760,793		603,608
Trade debtors		835,638		246,978
Other Letters	6	64,980		—
Fixed deposits		15,000		15,000
Cash at bank		86,966		62,573
Cash in hand		—		300
			1,763,377	928,459
Less: CURRENT LIABILITIES				
Trade creditors and accruals	7		1,681,748	781,636
Provisions for taxation			14,600	14,000
Proposed dividend			—	14,800
			1,686,348	810,436
NET CURRENT ASSETS			77,029	118,023
			127,676	121,520

The attached significant accounting policies and notes to the accounts form an integral part of the accounts.

PROFIT AND LOSS ACCOUNT

for the period from 1 April 1996 to 30 June 1997

	Note		1-4-96 30-6-97	19-5-95 to 31-3-96
			S$	S$
NET PROFIT FOR THE PERIOD			8,456	50,320
After charging:-				
Auditors' remuneration		3,000		2,300
Depreciation	3	239		2,040
Loss on exchange		16,100		6,119
Preliminary expenses written off	5	1,748		1,748
TAXATION - PROVISION FOR THE PERIOD	8		(2,300)	(14,000)
NET PROFIT FOR THE PERIOD AFTER TAXATION			6,156	36,320
DIVIDEND PROPOSED:				
20% NET OF TAX OF 26%			—	(14,800)
RETAINED EARNINGS			6,156	21,520
RETAINED EARNINGS BROUGHT FORWARD			21,520	—
RETAINED EARNINGS CARRIED FORWARD			27,676	21,520

The attached significant accounting policies and notes to the accounts form an integral part of the accounts.

NOTES TO THE ACCOUNTS — 30 JUNE 1997

1. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accounts expressed in Singapore dollars are prepared in accordance with the historical cost convention.

B. Depreciation

Depreciation is calculated on the straight line method to write off the cost of the assets over their estimated useful lives. The rates used are:-

	Per annum
Computer hardware	$33^1/_3$%
Computer software	100%
Furniture and fittings (< $ 2,000)	100%

C. Preliminary Expenses

Preliminary expenses which consist of the incorporation expenses of the Company will be written off over 3 years.

D. Stocks

Stocks are stated at the lower of cost (cost being determined on a first-in-first-out basis) and net realisable value.

E. Income Tax

The tax expense is determined on the basis of tax effect accounting, using the liability method and is applied to all significant timing differences. Deferred tax benefits are not recognised unless there is reasonable expectation of their realisation.

F. Deferred Expenditure

These were travelling expenses incurred in exploring new markets to establish the brand of products and are being amortised over a three-year period in which income would be derived.

G. Foreign Currencies Conversion

Assets and liabilities in foreign currencies are converted into Singapore dollars at rates of exchange closely approximate to those ruling at the end of the period and profit and loss account items are converted at rates ruling on transactions dates.

The difference arising on conversion is reflected in the profit and loss account.

2. GENERAL

The principal activities of the Company are that of importers, exporters and traders in watches and jewellery items.

The Company has changed its financial year-end from March to June and as such this set of accounts covers the period from 1 April 1996 to 30th June 1997.

3. FIXED ASSETS

	Balance at 1-4-96	Additions	Disposal	Balance at 30-6-97	Balance at 31-3-96
Cost	S$	S$	S$	S$	S$
Computer Hardware	—	4,298	—	4,298	—
Computer Software	990	—	—	990	990
Furniture & fittings	1,050	—	—	1,050	1,050
	2,040	4,298	—	6,338	2,040
Accumulated Depreciation					
Computer Hardware	—	239	—	239	—
Computer Software	990	—	—	990	990
Furniture & fittings	1,050	—	—	1,050	1,050
	2,040	239	—	2,279	2,040
Net Book Value	—	—	—	4,059	—

4. DEFERRED EXPENDITURE

	1997 S$	1996 S$
Cost	67,259	—
Amount Amortized	22,420	—
	44,839	—

5. PRELIMINARY EXPENSES

	1997 S$	1996 S$
Cost	5,245	5,245
Amount written off	(3,496)	(1,748)
Balance carried forward	1,749	3,497

6. OTHER DEBTORS

	1997 S$	1996 S$
Amount due from immediate holding company	27,795	—
Staff Advance	1,500	—
Prepayments	35,685	3,648
	64,980	3,648

7. TRADE CREDITORS AND ACCRUALS

These include amounts due to related parties of S$ 1,171,588 (1996 : S$ 760,132)

8. TAXATION

	1997 S$	1996 S$
Current period's provision	100	14,000
Previous period's under provision	2,200	—

9. HOLDING COMPANIES

The Company is a wholly owned subsidiary of TITAN INTERNATIONAL HOLDINGS B.V., a Company incorporated in the Netherlands. Its ultimate holding company is Titan Industries Ltd., a company incorporated in India.

10. RELATED PARTIES TRANSACTIONS

Significant transactions with related parties during the financial period.

	1997 S$	1996 S$
Purchases	3,380,037	1,261,807
Royalty expense	80,091	14,707

11 COMPARATIVES

The figures of the previous financial period have been regrouped/recast, where necessary.

STATEMENT BY DIRECTORS

We C. R. MENON and PATRICK R. McGOLDRICK, being two of the Directors of TITAN WATCHES & JEWELLERY (ASIA PACIFIC) PTE LTD., do hereby state that, in the opinion of the Directors, the accompanying Balance Sheet, Profit and Loss Account together with the notes thereon are drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 1997 and of the results of the business of the Company for the period then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE BOARD

	Patrick R McGoldrick	C. R. Menon
4 August 1997	Director	Director


TITAN
Delhi
Paris
New York
Sydney
Tokyo

TATA DONNELLEY