

## Offer for Sale by the President of India

acting through and represented by the Joint Secretary, Ministry of Shipping, Government of India (the "Selling Shareholder")  
of Equity Shares in



### DREDGING CORPORATION OF INDIA LIMITED (A Government of India Undertaking)

OFFER FOR SALE BY THE SELLING SHAREHOLDER OF UP TO 5,600,000 EQUITY SHARES OF RS. 10 EACH AT A PRICE OF RS. [●] IN CASH AGGREGATING RS. [●] MILLION (HEREIN AFTER REFERRED TO AS THE "OFFER"). THE OFFER WOULD CONSTITUTE 20% OF THE PAID-UP CAPITAL OF DREDGING CORPORATION OF INDIA LIMITED. ("THE COMPANY").

THE EQUITY SHARES BEING OFFERED FOR SALE ARE LISTED ON THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED, THE STOCK EXCHANGE, MUMBAI, THE DELHI STOCK EXCHANGE ASSOCIATION LTD. AND THE CALCUTTA STOCK EXCHANGE ASSOCIATION LTD. THE EQUITY SHARES ARE TRADEABLE ON THESE STOCK EXCHANGES. FOR FURTHER DETAILS SEE "TERMS OF THE OFFER" ON PAGE 39 OF THIS PRELIMINARY SALE DOCUMENT.

#### The Price Band for the Offer will be decided by the Selling Shareholder and advertised by the Selling Shareholder prior to the Bid Opening Date as decided by them.

The Equity Shares being offered pursuant to this Offer are already listed. As advised by the Securities and Exchange Board of India ("SEBI"), the SEBI Guidelines for public issues/offers do not apply to a listed company facilitating one of the shareholders to dispose off its holdings through an offer for sale such as this Offer. However, the Selling Shareholder has decided to voluntarily adopt the SEBI Guidelines, particularly the guidelines for the 100% Book Building Process, save for certain deviations. Pursuant to the decision of the Selling Shareholder, a maximum of 50% of the Offer shall be available for allocation on a discretionary basis to Qualified Institutional Buyers. Further, not less than 25% of the Offer shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 25% of the Offer shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Offer Price. The Selling Shareholder reserves the right, at its sole discretion, to transfer the Equity Shares to Retail Individual Bidders at a differential lower price as compared to the price for QIBs and Non-Institutional Bidders. The Selling Shareholder is solely responsible for this decision and the consequences thereof.

#### THE COMPANY

The Company was incorporated on March 29, 1976 under the Companies Act, 1956 as a private company limited by shares. Subsequently the word 'private' was deleted from the name of the Company on January 11, 1977 in view of it being a government company. The Company became a public company limited by shares with effect from March 10, 1992. The Company's Registered Office is at Core - 2, First Floor, 'Scope Minar', Plot No.2A&2B, Laxminagar, District Center, Delhi-110091, India. Telephone: + 91-11- 2244 8528, Fax: + 91-11- 2244 8527, Registered Office E-mail: [dci\\_ro@vsnl.net](mailto:dci_ro@vsnl.net). The Company's registered office was originally located at Room No.404, Transport Bhavan 1, Parliament Street, New Delhi - 110 001, India. Subsequently in 1976, it was moved to Room No.528, Transport Bhavan 1, Parliament Street, New Delhi - 110 001, India and then in 1990 it was moved to 212, Kanishka Shopping Plaza, 19, Ashok Road, New Delhi - 110 001, India. In May 2003, the registered office of the Company was moved to its current address, Core - 2, First Floor, 'Scope Minar', Plot No.2A&2B, Laxminagar, District Center, Delhi-110091, India. The Company's Head Office is at 'Dredge House', Port Area, Visakhapatnam - 530 035, Andhra Pradesh, India, Telephone: + 91- 891- 2564866, Fax: + 91-891- 2560581, E-mail: [dci\\_ho@satyam.net.in](mailto:dci_ho@satyam.net.in), Website: [www.dredge-india.com](http://www.dredge-india.com) Grams: DREDGINDIA

#### SEBI DISCLAIMER

The shares offered under this sale offer being already listed on the Stock Exchanges, the SEBI Guidelines for public issues/offers are not applicable to this sale offer by the Selling Shareholder. The Selling Shareholder has on its own volition decided to follow the process that is substantially similar to the process specified in the SEBI Guidelines. However, this document does not constitute an offer document or prospectus in terms of the SEBI Guidelines. This is not a document issued by or on behalf of the Company. This document has been voluntarily forwarded by the Selling Shareholder to SEBI for seeking its guidance/suggestions and the Selling Shareholder has on its own volition also decided on, among others, the terms of the Offer, Price Band, allocation pattern etc. SEBI's guidance to the Selling Shareholder should not in any way be construed or deemed that the sale document has been cleared or approved by SEBI. SEBI does not take any responsibility either for the financial soundness of any scheme or the projects or for the correctness of the statements made or opinions expressed in the sale document. The Company has confirmed that the requirements under the listing agreements have been complied with.

#### RISK IN RELATION TO THE FIRST OFFER TO THE PUBLIC

This is the first Offer of Equity Shares of the Dredging Corporation of India Limited to the public. Although the Equity Shares of the Company are listed, there has been in the past a limited public participation in the equity share capital of the Company. The Offer Price will be determined, on the basis of assessment of market demand as per the Book Building Process, by the Government of India in consultation with the Book Running Lead Managers (the "BRLMs") and should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are transferred pursuant to the Offer. No assurance can be given regarding an active or sustained trading in the Equity Shares of the Company nor regarding the price at which the Equity Shares will be traded after the Offer.

#### GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Offer unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Offer. The Equity Shares of the Dredging Corporation of India Limited are already quoted on the Stock Exchanges. The Price Band and final pricing decided by the Selling Shareholder may be different from the prices quoted on the Stock Exchanges. For taking an investment decision, investors must rely on their own examination of the Dredging Corporation of India Limited and the Offer including the risks involved. The Equity Shares offered in the Offer have not been recommended or approved by SEBI, nor does SEBI guarantee the accuracy or adequacy of this Preliminary Sale Document. Specific attention of the investors is invited to the summarized and detailed statements in 'Risk Factors as Perceived by the Company' beginning on page 12 of this Preliminary Sale Document.

#### THE COMPANY'S ABSOLUTE RESPONSIBILITY

The Dredging Corporation of India Limited having made all reasonable inquiries, accepts responsibility for and confirms that this Preliminary Sale Document contains all information with regard to the Dredging Corporation of India Limited, which is material in the context of the Offer, that the information contained in this Preliminary Sale Document is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Preliminary Sale Document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. The Company has made disclosures from time to time in compliance with the terms of the listing agreements with the Stock Exchanges.

#### THE SELLING SHAREHOLDER'S ABSOLUTE RESPONSIBILITY

It is the Selling Shareholder's absolute responsibility to provide and disseminate information about the terms of the Offer in the Preliminary Sale Document and during the Offer process.

#### FILING

In relation to this Offer, the Ministry of Disinvestment has endorsed letters to the BRLMs vide which the Department of Company Affairs, Ministry of Finance, Government of India has noted, in the case of a similar transaction of offer for sale of shares in a listed company by the Government, that SEBI has informed that the Offer document is to be called a "Preliminary Sale Document" and accordingly, therefore, the Ministry of Disinvestment may file the same with the Registrar of Companies, along with the requisite fee so that it can be placed on record for public inspection. Accordingly, a copy of this Preliminary Sale Document along with the supporting documents is being filed with the Registrar of Companies for public inspection. See "General Information-Filing" on page 29 of this Preliminary Sale Document.

#### BOOK RUNNING LEAD MANAGERS TO THE OFFER

#### REGISTRAR TO THE OFFER



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#### OFFER PROGRAM

**BID/OFFER OPENS ON: FEBRUARY 26, 2004**

**BID/OFFER CLOSURES ON: MARCH 4, 2004**

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**SECTION I: GENERAL  
DEFINITIONS, ABBREVIATIONS AND TECHNICAL TERMS**

**Definitions and Conventional Terms**

<b>Term</b>	<b>Description</b>
'DCI' or 'our Company' or 'the Company' or 'Dredging Corporation of India Limited'	Dredging Corporation of India Limited, a public company limited by shares incorporated under the Companies Act.
'we', 'us' and 'our'	Unless the context otherwise requires, refers to Dredging Corporation of India Limited in Sections other than Section II of this document.

**Offer Related Terms**

<b>Term</b>	<b>Description</b>
Articles/Articles of Association	Articles of Association of the Company.
Auditors	The statutory auditors of the Company, M/s Sriramamurthy & Co, Chartered Accountants appointed for fiscal 2004.
Banker(s) to the Offer	The banks which are clearing members and registered with SEBI as Banker to the Offer at which the Public Offer Account will be opened..
Bid	An offer made during the Bidding Period by a prospective investor to acquire the Equity Shares of the Company at a price within the Price Band including all revisions and modifications thereto.
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form and payable by the Bidder on submission of the Bid in the Offer.
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to purchase Equity Shares of the Company and which will be considered as the application for transfer of the Equity Shares in terms of this Preliminary Sale Document.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Preliminary Sale Document.
Bidding Period/ Offer Period	The period between the Bid/ Offer Opening Date and the Bid/ Offer Closing Date inclusive of both days and during which prospective Bidders can submit their Bids.
Bid / Offer Closing Date	The date after which the Syndicate Members will not accept any Bids for the Offer, which shall be the date notified in a widely circulated English national newspaper and a Hindi national newspaper.
Bid / Offer Opening Date	The date on which the Syndicate Members shall start accepting Bids for the Offer, which shall be the date notified in a widely circulated English national newspaper and a Hindi national newspaper.
Board of Directors/Board	The Board of Directors of the Company or a committee thereof.
Book Building Process/Method	Book Building route as provided in the SEBI Guidelines as amended from time to time. The Selling Shareholder has voluntarily decided to adopt the SEBI Guidelines particularly the guidelines for the 100% Book Building process and the processes, procedures and practices which are generally followed in the 100% book building procedure save certain deviations mentioned in 'Terms of the Offer' in Section II of this document.
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Offer, in this case being Kotak Mahindra Capital Company Limited and Enam Financial Consultants Private Limited.
Brokers to the Offer	Brokers registered with any recognized stock exchange, appointed by the Syndicate Members.
CAN/ Confirmation of Allocation Note	The note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares in the Book Building Process.
Companies Act / the Act	The Companies Act, 1956, as amended from time to time.
Cut-off Price /Cut-off	The Offer Price finalized by the Selling Shareholder in consultation with the BRLMs.
Depositories Act	The Depositories Act, 1996, as amended from time to time.

<b>Term</b>	<b>Description</b>
Depository	A body corporate registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time.
Depository Participant	A depository participant as defined under the Depositories Act.
Designated Date	The date on which funds are transferred from the Escrow Account to the Public Offer Account after the Final Sale Document is filed with RoC for public inspection following which the Equity Shares shall be transferred to Successful Bidders.
Designated Stock Exchange	NSE
Director(s)	Director(s) of the Company unless otherwise specified.
DPE Guidelines	Guidelines relating to the administration of PSUs issued by the Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, Government of India.
Escrow Account	The account opened with Escrow Collection Bank(s) in favor of which the Bidder will issue cheques or drafts in respect of the Bid Amount when submitting a Bid.
Escrow Agreement	The agreement entered into between the Syndicate, the Company, the Selling Shareholder, Escrow Collection Banks and the Registrar for collection of the Bid Amounts and refunds to the Bidders of the amounts due to them.
Escrow Collection Bank(s)	The banks which are clearing members and registered with SEBI as Banker to the Offer at which the Escrow Account for the Offer will be opened.
Equity Shares	Equity Shares of the Company of Rs. 10 each unless otherwise specified in the context thereof.
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed there under.
FII/ Foreign Institutional Investor	Foreign institutional investor (as defined in SEBI (Foreign Institutional Investors) Regulations, 1995) registered with SEBI under applicable laws in India.
FCVIs/FCVFs/Foreign Venture Capital Funds	Foreign venture capital funds registered with SEBI and as defined in the SEBI (Foreign Venture Capital Investors) Regulations, 2000.
Final Sale Document	The final sale document to be filed with the RoC for public inspection containing, inter alia, the Offer Price that is determined at the end of the Book Building Process, the size of the Offer and certain other information, after Pricing Date.
Financial Year/fiscal/FY	The twelve months ended March 31 of a particular year.
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form in case of joint Bids.
Gol/Government	The Government of India.
Indian GAAP	Generally Accepted Accounting Principles in India.
I.T. Act	The Income Tax Act, 1961, as amended from time to time, except as stated otherwise.
Major Ports	Ports designated under the Major Ports Trust Act, 1963. These 12 ports are under the administrative control of the MoS and include Kolkatta Port Trust, Paradip Port, Visakhapatnam Port, Chennai Port, Tuticorin Port, Cochin Port, New Mangalore Port, Mormugao Port, Mumbai Port, Jawaharlal Nehru Port, Kandla Port and Ennore Port .
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, being 0% to 100% of the Bid Amount.
Memorandum/ Memorandum of Association	The Memorandum of Association of the Company.
Memorandum of Understanding	The Memorandum of Understanding dated January 23, 2004 executed between the Selling Shareholder, the BRLMs and the Company.
Non-Institutional Bidders	All Bidders that are not Qualified Institutional Buyers or Retail Individual Bidders and who have Bid for Equity Shares and whose bid is for an amount more than Rs. 50,000.

<b>Term</b>	<b>Description</b>
Non-Institutional Portion	That portion of the Offer being a minimum of 25% of the Offer available for allocation to Non-Institutional Bidders i.e. 1,400,000 Equity Shares of Rs.10 each.
Non Residents	All Bidders who are not NRIs or FIIs and are not persons resident in India.
NRI/ Non Resident Indian	Non-resident Indian, is a person resident outside India, as defined in FEMA and who is a citizen of India or a Person of Indian Origin, and as defined under FEMA (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
Offer/Offer for Sale/Offering	The Offer for Sale by the Selling Shareholder of upto 5,600,000 Equity Shares of Rs. 10 each of the Company at the Offer Price in terms of this Preliminary Sale Document.
Offer Price	The final price at which Equity Shares will be transferred in terms of this Preliminary Sale Document. The Offer Price will be decided by the Selling Shareholder in consultation with the BRLMs on the Pricing Date. After the determination of the Offer Price, the Selling Shareholder shall transfer the Equity Shares allocated to QIBs and Non-Institutional Bidders at the Offer Price. Notwithstanding what is stated above, the Selling Shareholder reserves the right, at its sole discretion, after determination of the Offer Price to transfer the Equity Shares to Retail Individual Bidders at a differential lower price as compared to the Offer Price at which Equity Shares will be transferred to Non-Institutional Bidders and QIBs.
Pay-in-Date	Bid / Offer Closing Date or the last date specified in the CAN sent to Bidders, as applicable.
Pay-in-Period	This term means (i) with respect to Bidders whose payment has not been waived by the Syndicate Members and are therefore required to pay the maximum Bid Amount into the Escrow Account, the period commencing on the Bid/Offer Opening Date and extending until the Bid/Offer Closing Date, and (ii) with respect to Bidders whose payment has been initially waived by the Syndicate Members and are therefore not required to pay the maximum Bid Amount into the Escrow Account on or prior to the Bid/Offer Closing Date, the period commencing on the Bid/Offer Opening Date and extending until the closure of the Pay-in Date
Preliminary Sale Document	This document which does not have complete particulars on the Offer Price at which the Equity Shares are offered and the size of the Offer. It will be filed with RoC for public inspection at least three days before the Bid/ Offer Opening Date.
Pricing Date	The date on which the Selling Shareholder, in consultation with the BRLMs, finalizes the Offer Price.
Price Band	Price band of a minimum price (floor of the price band) and the maximum price (cap of the price band) which shall be advertised by the Selling Shareholder prior to the Bid Opening Date as decided by them and includes any revisions thereof.
Promoter	The Government of India.
Public Offer Account/ Offer for Sale Account	Account opened with the Bankers to the Offer to receive monies from the Escrow Account for the Offer on the Designated Date
Qualified Institutional Buyers or QIBs	Public financial institutions as specified in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, State Industrial Development Corporations, insurance companies registered with the Insurance Regulatory Development Authority, provident funds with a minimum corpus of Rs.250 million and pension funds with a minimum corpus of Rs.250 million.
Registered Office of the Company	Core- 2, First Floor, Scope Minar, Plot No.2A&2B, Laxminagar, District Center, Delhi 110091.
Registrar/Registrar to the Offer	The Registrars to the Offer, in this case being Karvy Consultants Limited having its registered office as indicated on the cover page of this Preliminary Sale Document.
Retail Individual Bidder(s)	Individual Bidders (including HUFs and NRIs) who Bid for Equity Shares for an amount of not more than Rs.50,000 in any of the Bidding options in the Offer.
Retail Portion	That portion of the Offer being a minimum of 25% of the Offer available for allocation to Retail Individual Bidders i.e. 1,400,000 Equity Shares of Rs.10 each.

<b>Term</b>	<b>Description</b>
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid price in any of their Bid cum Application Forms or any previous Revision Form(s).
SCRA	Securities Contracts (Regulation) Act, 1956, as amended from time to time.
SCRR	Securities Contracts (Regulation) Rules, 1957, as amended from time to time.
SEBI Act	Securities and Exchange Board of India Act, 1992, as amended from time to time.
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI effective from January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time.
Selling Shareholder	The Gol as represented or acting through the Joint Secretary, Ministry of Shipping, GOI.
Stock Exchanges	CSE, DSE, NSE and BSE where the Equity Shares of the Company are listed.
Successful Bidders	The Bidders to whom Equity Shares are allocated and transferred pursuant to this Offer.
Syndicate	The BRLMs and the Syndicate Members.
Syndicate Agreement	The agreement to be entered into among the Selling Shareholder, the Company, BRLMs and the Syndicate Members in relation to the collection of Bids in this Offer.
Syndicate Members	Kotak Securities Limited and Enam Securities Private Limited.
Tenth Five-Year Plan	The Gol's tenth five-year plan, prepared by the Planning Commission of India and published in fiscal 2003, containing the Gol's projections for all areas of economic growth in India including shipping, port traffic and dredging and including data incorporated into the tenth five-year plan from a sub group report.
TRS/Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid.
Underwriters	The BRLMs and Syndicate Members.
Underwriting Agreement	The agreement between the Underwriters, the Selling Shareholder and the Company to be entered into on (or after) the Pricing Date.
U.S. GAAP	Generally Accepted Accounting Principles in the United States of America.

In this Preliminary Sale Document, references to "allocation" of Equity Shares in this Offer, unless the context otherwise requires, also include a reference to "transfer" of Equity Shares.

In this Preliminary Sale Document, any discrepancies in any table between total and the sum of the amounts listed are due to rounding off.

### Glossary of Abbreviations

Abbreviation	Full Form
ACCT	Assistant Commissioner of Commercial Tax
ACCT(A)	Assistant Commissioner of Commercial Tax (Appeal)
AS	Accounting Standards issued by the Institute of Chartered Accountants of India
AGM	Annual General Meeting
A.O.	Assessing Officer
BSE	The Stock Exchange, Mumbai
CDSL	Central Depository Services Limited
CEGAT	Customs and Excise Gold Control Appellate Tribunal
CIT(A)	Commissioner of Income Tax (Appeals), Visakhapatnam or Hyderabad, as the context requires
CSE	The Calcutta Stock Exchange Association Ltd.
DCL	Deputy Commissioner of Labor, Government of Andhra Pradesh
DCCT	Deputy Commissioner of Commercial Tax
DCCT(A)	Deputy Commissioner of Commercial Tax (Appeal)
DRC	Dredge Repair Company of India Limited (In Members Voluntary Liquidation)
DSE	The Delhi Stock Exchange Association Ltd.
DGM	Deputy General Manager
DGS/DG Shipping	Director General of Shipping
DGPS	Differential Global Positioning System
DPE	Department of Public Enterprises
DVLM	Draught Volume Load Monitoring System
EGM	Extraordinary General Meeting
Enam	Enam Financial Consultants Private Limited
ERP	Enterprise Resource Planning
EPS	Earnings Per Share
FCNR Account	Foreign Currency Non Resident Account
FIDIC	International Federation of Consulting Engineers
FIPB	Foreign Investment Promotion Board
GATS	General Agreement on Trade in Services
GIR Number	General Index Registry Number
GM	General Manager
HUF	Hindu Undivided Family
IHC	IHC Holland, a dredger building company incorporated under the laws of Netherlands
IPA	Indian Ports Association
ITAT	Income Tax Appellate Tribunal
JCCT(A)	Joint Commissioner of Commercial Tax (Appeal)
JCIT	Joint Commissioner of Income Tax
JGM	Joint General Manager
JMU	Jahazi Mazdoor Union

<b>Abbreviation</b>	<b>Full Form</b>
JNPT	Jawaharlal Nehru Port Trust
KAT	Karnataka Appellate Tribunal
KMCC	Kotak Mahindra Capital Company Limited
KPT	Kandla Port Trust
KOPT	Kolkata Port Trust
MoS	Ministry of Shipping
NAV	Net Asset Value
NRE Account	Non Resident External Account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OAT	Original Appellate Tribunal
OEM	Original Equipment Manufacturers
PAN	Permanent Account Number
PSP	Private Sector Participation
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RoC	Registrar of Companies, National Capital Territory of Delhi and Haryana
SEBI	Securities and Exchange Board of India constituted under the SEBI Act
STO	Sales Tax Officer
VRS	Voluntary Retirement Scheme

### **Glossary Of Technical And Industry Terms**

<b>Term</b>	<b>Description</b>
anchor pontoons	A floating structure (normally rectangular in shape) used for lifting anchors.
berths	A structure on the waterfront alongside which ships are tied up.
daily rate dredging	Where payment is made on a per day basis depending on the number of hours worked
draught	Depth from water level to the keel of the ship ( the lowest point of the ship)
floating staff	Personnel onboard the floating craft of the Company
<i>in situ</i>	Sitting in undisturbed state
jetties	Small structures alongside which ships are berthed
hopper capacity	Volume of the Hopper (normally given in cubic meters)
hopper dredgers	Dredgers which also have hoppers (tanks to store the material)
horse power	A unit of power equal to 746 watts
hydraulic ram	A shaft operated by hydraulic power
shore staff	Personnel other than the floating staff
siltation	The process by which sediment is carried by moving water and accumulates on the bottom of rivers, bays, seabeds and the floor/bed of other water bodies.
spud pole	This is a pole placed on the rear of the dredger and is used to hold the dredger in position. The dredger can pivot around the spud pole.

## FORWARD-LOOKING STATEMENTS

Statements in this Preliminary Sale Document which contain words or phrases such as “believe”, “expect”, “estimate”, “anticipate”, “intend”, “plan”, “aim”, “anticipate”, “future”, “objectives”, “goals” or other words or phrases of similar import or variations of such expressions are “forward-looking statements”.

All forward-looking statements are subject to risks, uncertainties and assumptions about the Company that may cause actual results to differ materially from those suggested by the relevant forward-looking statements.

Important factors that could cause actual results to differ materially from the Company’s expectations include, among others:

- Changes in laws, regulations and policies that apply to the Indian and international dredging and shipping industry;
- General economic and business conditions in India;
- The Company’s ability to successfully implement its strategy, its growth and expansion plans and technological changes;
- Changes in the value of the Indian rupee and other currency changes;
- Changes in the Indian and international interest rates;
- Increasing competition in and the conditions of the Indian and international dredging and shipping industries;
- Changes in political conditions in India; and
- Changes in the foreign exchange control regulations in India.

For further discussion of factors that could cause the Company’s actual results to differ materially from its expectations, see “Risk Factors as perceived by the Company”, “Our Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Preliminary Sale Document. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. None of the Selling Shareholder, the Company, any Underwriter or any of their respective affiliates has any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition.

The Selling Shareholder, the Company and the BRLMs will ensure that investors in India are informed of material developments until the completion of the necessary formalities at the Stock Exchanges.

## CERTAIN CONVENTIONS; USE OF MARKET DATA

Except where the context otherwise requires, all references to "India" contained in this Preliminary Sale Document mean the Republic of India, all references to the "U.S." or "U.S.A.", or to the "United States" are to the United States of America. Unless the context indicates or otherwise requires, references to "we", "us", "our", the "Company" or "our Company" or "DCI" mean Dredging Corporation of India Limited. All references to the "Selling Shareholder", the "Gol", the "Government" or the "Central Government" mean the Government of India.

### STATISTICAL AND MARKET DATA

Statistical and market data relating to the dredging industry in this Preliminary Sale Document are derived from the MoS, the Gol, the Tenth Five-Year Plan of the Gol, the Company's internal operating data, the annual reports of the Major Ports and the Company's correspondence with the Major Ports. The Company has also relied on industry publications for certain discussions of industry trends. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured.

The availability of up-to-date and precise data both for the international dredging industry and in particular for the Indian dredging industry is more limited than is the case for other industries. This is partly a result of the limited number of market participants, as well as the fact that dredging companies and customer ports are generally government-owned or privately-held. Such data as are available may not be up-to-date. For example, the Gol's Tenth Five-Year Plan was published in fiscal 2003, and so contains only projected figures for all periods subsequent to fiscal 2001.

In addition, measurement of annual dredging volumes differs between the Major Ports in India and between the Company's operating data and those of the individual Major Ports. This is a result of different quantitative measures of dredging and methods of recording data between the Major Ports and between the Company and individual Major Ports. As a result, the Company has estimated its market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and the Company's correspondence with the Major Ports for fiscal 2002 and fiscal 2003. For the Company's total dredging volumes and capacity utilization figures provided in this Preliminary Sale Document the Company has used its internal operating data that are reported to the MoS. The Company generally reports higher dredging volumes as compared to the annual reports of the Major Ports as a result of the Company recording actual volumes dredged as per industry practice, based on hopper volume measurement. Major Ports and other dredging customers generally record dredging volumes on an in situ basis, where the volume is derived from the change in the depth of the dredging area. See "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".

Although the Company believes statistical and market data used in this Preliminary Sale Document are reliable, they have not been independently verified. Similarly, internal operating data, while believed by the Company to be reliable, have not been verified by any independent sources. Accordingly, you should not place undue reliance on the statistical and market data used in this Preliminary Sale Document.

Throughout this Preliminary Sale Document the common denomination of millions has been used while referring to currency. For ease of reference set out below is a Rupees Lakhs/Crores to Millions conversion table.

Lakhs/Crores		Millions	
1,00,000	One Lakh	100,000	(One Hundred Thousand)
10,00,000	Ten Lakh	1,000,000	(One Million)
1,00,00,000	One Crore	10,000,000	(Ten Million)
10,00,00,000	Ten Crore	100,000,000	(One Hundred Million)
100,00,00,000	Hundred Crores	1,000,000,000	(One Thousand Million or one Billion)

## SUMMARY OF THE OFFER FOR SALE BY THE SELLING SHAREHOLDER

The allocation pattern as decided by the Selling Shareholder is as follows:

### Equity Shares offered:

Offer for Sale by Selling Shareholder	5,600,000 Equity Shares of Rs. 10 each
<b>Of which:</b>	
Qualified Institutional Buyers portion	Maximum 2,800,000 Equity Shares of Rs. 10 each (allocation on a discretionary basis)
Non-Institutional Portion	Minimum 1,400,000 Equity Shares of Rs. 10 each (allocation on a proportionate basis)
Retail Portion	Minimum 1,400,000 Equity Shares of Rs. 10 each (allocation on a proportionate basis)
Equity Shares outstanding before and after this Offer*	28,000,000 Equity Shares of Rs. 10 each.

\* As this is an Offer for Sale, there will be no change in the number of Equity Shares prior to and subsequent to the Offer.

## RISK FACTORS AS PERCEIVED BY THE COMPANY

*An investment in Equity Shares involves a high degree of risk. You should carefully consider all of the information in this Preliminary Sale Document including the risks and uncertainties described below, before making an investment in our Equity Shares. If any of the following risks actually occur, our business, financial condition and results of operations could suffer, the trading price of our Equity Shares could decline, and you may lose all or part of your investment.*

*Unless stated otherwise, the financial data in this section are derived from our financial statements prepared in accordance with Indian GAAP, included elsewhere in this Preliminary Sale Document.*

*Unless otherwise indicated, all financial and statistical data relating to the dredging industry in the following discussion are derived from the MoS, the Gol, the Gol's Tenth Five-Year Plan, our internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports. These data have been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Use of Market Data" - "Statistical and Market Data" and "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".*

### INTERNAL RISK FACTORS

**Recently announced changes to the current government dredging policy could result in a reduction in our share of the Indian dredging market and adversely affect our income and profit.**

Prior to 1993, our market share of external (outsourced) maintenance dredging at Major Ports in India under the administrative control of the MoS was 100%. Over the last decade, as a result of our inability to meet the increased market demand at Major Ports for maintenance dredging services due to capacity constraints, the Gol has increasingly liberalized the Indian dredging market in an effort to meet these increasing dredging requirements and promote greater competition in the dredging market. As a result of these factors, we estimate that our market share for maintenance dredging at Major Ports was approximately 92% in fiscal 2003, based on the annual reports of the Major Ports and our correspondence with those ports. The current MoS guidelines for the execution of maintenance and capital dredging at Major Ports favor our Company through a combination of:

- A nomination process, whereby all ports may choose to negotiate with our Company directly for dredging services rather than being required to open the contracts to competitive bidding (except Kolkata Port, which is required to nominate our Company for maintenance dredging);
- A right of first refusal (along with other Indian dredging companies) to perform dredging contracts prior to the contracts otherwise being awarded to foreign bidders, provided we have participated in the initial bidding and agreed to perform the contract at the lowest bid; and
- A purchase preference arising from our status as a PSU whereby we can elect to perform any dredging contract where our bid is within 10% of the winning Indian bidder and we agree to perform the contract at the lowest bid.

The current MoS guidelines expire on March 31, 2004. In a press note released on January 19, 2004, the MoS announced revisions to these guidelines, effective April 1, 2004 through March 31, 2007, which we believe will have the following effect:

- The removal of the nomination process at all Major Ports (other than Kolkata Port) whereby the ports must open their dredging contracts to competitive bidding. Our existing contracts as at April 1, 2004, including our five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006), will remain in effect; and
- The right of first refusal to perform dredging contracts otherwise awarded to other bidders will be contingent on our bid being within 10% of the winning bidder.

In addition, the MoS announced its intention to develop similar guidelines to ensure dredging contracts at non-Major Ports and private ports in India are also open to competitive bidding. See "Regulations and Policies - MoS Press Note Released on January 19, 2004" for the full text of the press note.

We will continue to be the sole provider of maintenance dredging services to Kolkata Port through the nomination process until March 31, 2007, when the revised guidelines and our current contract with the port expire. In addition, pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of the other PSUs, is valid until March 31, 2004. The Gol has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

These revisions to the current government dredging policy could result in a reduction in our share of the Indian dredging market and adversely affect our income and profit. In addition, in the event our right of first refusal or PSU purchase preference is further reduced or eliminated, our income and profit may likewise be negatively impacted.

***We are substantially dependent on maintenance dredging which comprised approximately 97% of our dredging volumes in the period from fiscal 2001 to fiscal 2003.***

At present, we are the leading maintenance dredging company in India, which contributed approximately 97% of our overall dredging volumes in the period from fiscal 2001 to fiscal 2003. We anticipate that maintenance dredging will continue to account for a substantial portion of income. Consequently, our future success will, to a large extent, depend on continued

demand for our maintenance dredging services, our ability to enhance and develop our maintenance dredging services to meet the evolving needs of our customers, and our ability to increase our maintenance dredging volumes and market share. A change in customer preferences, technological change or other factors could reduce demand for our maintenance dredging services, which could lead to a material adverse effect on our business and results of operations.

***We are substantially dependent on government-funded maintenance dredging work at Kolkata Port, which comprised approximately 57% of our income from operations in fiscal 2003.***

Currently, approximately 57% of our income from operations is derived from our maintenance dredging operations at Kolkata Port where, pursuant to the MoS's nomination process, we are the sole external maintenance dredging company servicing the port. Kolkata Port's dredging operations are substantially funded by the GoI. We anticipate that Kolkata Port will continue to account for a substantial portion of our income. Consequently, our future success will, to a large extent, depend on our continued nomination by the MoS to service all of the port's dredging requirements and the continued government funding of those requirements. The current nomination process at Kolkata Port will continue until March 31, 2007. A future change in this dredging policy for Kolkata Port, including by opening the port's dredging requirements to competitive bidding, could lead to a material adverse effect on our business and results of operations in the event competitors contract a portion of the port's dredging requirements or potential competition results in lower contract prices for dredging at the port. In addition, any reduction in government dredging funding in the future will likely reduce our maintenance dredging income from Kolkata Port.

***Disputes over payments from Kolkata Port may have an adverse impact on our historical and future results of operations.***

As at September 30, 2003, we have recorded outstanding payments owed from Kolkata Port of Rs. 1,545.8 million. Of this amount, approximately Rs.866 million is owed for dredging services provided in fiscal 2001 (approximately Rs. 200 million) and fiscal 2002 (approximately Rs.666 million) and is currently in dispute following annual GoI audits of Kolkata Port's operations in fiscal 2001 and fiscal 2002. These audits allege certain deficiencies in our dredging operations. Following these audits, Kolkata Port has informed us that they are "compelled", pursuant to the audits, to recover approximately Rs. 1,015 million paid for dredging services provided in fiscal 2001 and that payment will be withheld in the same manner as disallowed in the audits for dredging services provided in fiscal 2002. We have challenged these claims and are currently in discussions with the MoS and Kolkata Port. See "Outstanding Litigation - Potential Litigation".

We have provided for approximately Rs. 180 million (for fiscal 2002) of the above Rs.866 million of outstanding payments. We have not provided for outstanding revenue recorded but not yet received from Kolkata Port of approximately Rs. 200 million for fiscal 2001 and the balance of Rs.486 million for fiscal 2002. In the event we do not recover these outstanding payments, or are liable for the amounts claimed by Kolkata Port, our income from operations and profit for fiscal 2001 and 2002 will be significantly impacted, as well our results of operations for the fiscal year and financial period in which we make payment.

***We are dependent on our ability to continue to obtain port dredging contracts with Major Ports. The lack of port dredging contracts or the loss of these contracts could materially reduce our income.***

Substantially all of our dredging income has been, and is expected to continue to be, attributable to contracts with Major Ports. Port contracts are typically subject to termination in certain conditions on relatively short notice at the election of the applicable port. Increasingly, our dredging contracts are, and are expected to continue to be, awarded based on competitive bidding rather than on a nomination basis. In India, dredging contracts are generally awarded to the lowest bidder. There can be no assurance that our competitors will not bid more aggressively than us for contracts or that we will continue to achieve market shares at the levels that we have achieved historically. Cancellation of significant dredging contracts or our failure to win significant dredging contracts could have a material adverse effect on us.

In addition, our dredging operations depend in part on project funding by various government agencies and may be adversely affected by the level and timing of government funding.

***Changing dredging contract payment patterns from daily rate to quantitative or performance-based measures shifts the risk of cost overruns and other inefficiencies in the performance of the dredging contract to us.***

Traditionally, our dredging contracts with customer ports were based on a daily rate as opposed to quantitative measures of dredging. As a result, we were not incentivized to increase efficiency in our operations as we did not bear the cost of longer time periods to complete daily rate dredging contracts. Recently, however, in line with international dredging trends, a number of ports have shifted the mode of payment under dredging contracts to a method based on the quantity of material dredged, calculated either according to the in situ basis or the hopper volume measurement basis, or to performance-based measures such as depth achieved or on a lump sum basis, or to a combination of these measures. An example of this includes our maintenance dredging contract at Kandla Port entered into in fiscal 2000. The effect of this new payment method shifts the responsibility for increasing efficiencies in operations to dredging companies. Therefore, if we are unable to increase efficiencies and our capacity utilization, our recovery under delayed dredging contracts may be reduced.

***Our profitability may be at risk to the extent our future contracts are increasingly priced on a lump sum basis.***

Our contracts with our customers may become increasingly priced on a lump sum basis in the future. Under a lump sum contract, the customer agrees to pay a specified price for our performance of the entire contract. Lump sum contracts carry

inherent risks, including risks of losses from underestimating costs, operational difficulties and other changes that may occur over the contract period. Inclement or hazardous weather conditions can result in substantial delays in dredging and additional contract expenses. Due to these or other factors, it is possible that we will not be able to perform our obligations under lump sum contracts without incurring additional expenses. If we were to significantly underestimate the cost of one or more significant contracts, the resulting losses could have a material adverse effect on us.

***The age, capacity and other limitations of our fleet of dredgers and our limited auxiliary equipment may impact our ability to compete against international dredging companies in the Indian dredging market if we are unable to upgrade and expand our fleet.***

The average age of our fleet is 15 years for our trailer suction hopper dredgers and 26 years for our cutter suction dredgers, which we believe is older than the international industry averages for such dredgers. We believe the average useful life of dredgers like ours is 20 to 25 years, which can be extended pursuant to a proper maintenance program. Our largest trailer suction hopper dredgers, used primarily in maintenance dredging, have a hopper capacity of 7,400 cubic meters, compared to up to 9,000 cubic meters of which certain of our competitors used in India in the past. Large dredgers can minimize the travel time per unit volume dredged and provide significant economies to the dredging operations. In addition to age and size advantages, certain of our international dredging company competitors also employ more advanced technology on their dredgers. The versatility of these foreign fleets in terms of size and technology may limit our ability to compete in the future for Indian maintenance dredging contracts. In addition, as we have focused our fleet of trailer suction hopper dredgers primarily on the maintenance dredging market, international dredging companies with larger fleets of cutter suction dredgers have been able to gain market share in the Indian capital dredging market.

From 1992 to 1998, we did not acquire any new dredgers and made only limited improvements in onboard dredger technology. With the introduction of increased competition in the Indian dredging industry, today we continuously assess the need to upgrade and expand our dredging fleet to take advantage of improving technology and to address the changing needs of the dredging market. As discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Historical and Planned Capital Expenditures", we have initiated a ship procurement program to increase our dredging capacity. As part of this program we intend to acquire one 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 and one 10,000 horse power cutter suction dredger in fiscal 2007. These and future dredger acquisitions require significant capital investment which we intend to finance by a combination of internal resources and commercial borrowings, which may not be available to us on favorable terms, if at all. If we are unable to upgrade and expand our fleet, we may be unable to compete successfully with international dredging companies in the Indian and international dredging markets.

***Our income growth has slowed and our capacity for future growth may be limited***

Year on year growth in our income as compared to the previous fiscal year was approximately 33%, 21%, 24% and 4% for fiscal 2000, fiscal 2001, fiscal 2002 and fiscal 2003, respectively. Our current fleet is fully utilized and, unless we expand our dredging capacity, our capacity for growth is limited. Acquisition of new dredgers typically takes approximately two years to complete. Our growth in the near term is dependent upon our ability to better utilize our assets and increase efficiencies of operation.

***Our business is subject to other operating risks.***

The business of dredging is generally subject to a number of risks and hazards, including environmental hazards, industrial accidents, encountering unusual underwater obstructions or objects or unexpected geological formations, collisions with fixed objects, disruption of transportation services and flooding. These risks could result in damage to, or destruction of, dredgers, transportation vessels, other buildings, personal injury, environmental damage, performance delays, monetary losses and possible legal liability. For example, in August 2003, our Dredge XI experienced a fire resulting in the dredger expected to be out of commission for repairs until the end of fiscal 2004.

Similarly unpredictable events could occur in the future and adversely affect our operations. Although we maintain insurance within ranges of coverage consistent with industry practice, the insurance may not be available at economically feasible premiums.

***We are defendants in a number of legal proceedings and subject to claims arising from tax and contract disputes that, if determined against us, could have a material adverse impact on our results of operations and financial condition.***

We are defendants in a number of legal proceedings incidental to our business and operations. We are also subject to claims against us arising from sales tax, customs, income tax, contract disputes, labor disputes and other disputed demands.

In addition, the Gol Income Tax Department's Assessing Officer ("A.O.") in Visakhapatnam is currently appealing tax refunds we were granted for fiscal 1995 and fiscal 1996 by the Commissioner of Income Tax Appeals at Visakhapatnam related to tax deductions for a statutory reserve for the acquisition of ships. The AO's appeal claims that our dredgers are not eligible "ships" for the reserve and, if successful, we would be liable for an estimated Rs. 257.6 million (excluding interest) as at September 30, 2003.

Should any new developments arise, such as a change in Indian law or a ruling against us by appellate courts or tribunals, we may need to create provisions in our financial statements, which could increase our expenses and our current liabilities. Furthermore, if a claim is determined against us and we are required to pay all or a portion of the disputed amount, it could have a material adverse affect on our results of operations.

All of the above proceedings are pending at different levels of adjudication before various courts, tribunals, inquiry officers, and appellate tribunals. For more information regarding litigation involving our Company or our Directors, see "Outstanding Litigation".

***Although we insure against the risk of damage to our equipment, employees and third parties, we cannot be sure that actual liabilities will not exceed our insurance coverage.***

We maintain insurance to cover risks of loss or damage to our equipment, injury to our employees and damage or injury to third parties, subject to policy limitations and deductibles for which we are self-insured. We make estimates and assumptions that affect the reported amount of liability and the disclosure of contingent liabilities. As claims develop, it is possible that the ultimate results of these claims may differ from our estimates. We cannot assure you that the Rupee amount of our liabilities will not materially exceed the insurance policy limits.

In addition, premiums and deductibles for liability insurance could increase to the point that the insurance becomes prohibitively expensive, or unavailable. The failure to obtain adequate insurance could affect our ability to bid for, or execute, significant projects, or obtain adequate bonding or financing.

***We have limited experience in international dredging and are subject to risks related to our international operations.***

Less than 3% of our dredging volume over the last two fiscal years was generated by international dredging operations. Although we currently have only limited experience and presence in the international dredging market, we intend to increase our international operations as a key component of our growth strategy. International operations subject us to risks customarily associated with foreign operations, including:

- Currency fluctuations;
- Import and export license requirements;
- Changes in tariffs and taxes;
- Restrictions on repatriating foreign profits back to India;
- Unfamiliarity with foreign laws and regulations;
- Difficulties in staffing and managing international operations; and
- Political, cultural and economic uncertainties.

***Our dredging operations may fluctuate due to seasonality and other factors which may adversely affect our cash flow.***

Quarterly and yearly dredging results can fluctuate significantly based upon the number and size of contracts undertaken and the timing of performance of projects under the contracts. We have historically realized slightly lower income from operations in the first half of each fiscal year. This trend is due primarily to increased dredging activity following the monsoon season in India. In the future, however, seasonality may become more significant if our project mix changes and we are not flexible in utilizing our equipment. Substantial fluctuations in our operations could significantly limit our cash flow and therefore our ability to satisfy our liquidity needs in a particular period.

***Environmental matters could force us to incur significant capital and operational costs.***

Our operations and facilities are subject to various environmental laws and regulations, relating to dredging operations, the disposal of dredged material, wetlands, storm and waste water discharges and air emissions. We are also subject to laws designed to protect certain marine species and habitats. Compliance with these statutes and regulations can delay appropriation with respect to, and performance of, particular projects and increase related expenses.

Based on our experience, we believe that the future cost of compliance with existing environmental laws and regulations (and liability for known environmental conditions) will be within our estimates. However, we cannot predict:

- What environmental legislation or regulations will be enacted in the future;
- How existing or future laws or regulations will be enforced, administered or interpreted; or
- The amount of future expenditures which may be required to comply with these environmental or health and safety laws or regulations or to respond to future cleanup matters or other environmental claims.

***We operate in a competitive environment and competitive pressure on our business is likely to increase.***

Since the opening of the Indian dredging industry to foreign competition by the Gol in fiscal 1993, a number of international and domestic dredging companies have entered the Indian dredging market. As a result, the Indian dredging market has become more competitive. While continuing to offer capital dredging services in the Indian market, we are primarily focused on maintenance dredging which is price-sensitive and constituted more than 96% of dredging volumes in the Indian Major Port dredging market in fiscal 2003. We estimate that our market share for maintenance dredging at Major Ports fluctuated from approximately 55% in fiscal 2001 to approximately 83% and 92% in fiscal 2002 and 2003, respectively.

In the Indian dredging market, we compete primarily with international dredging companies including Royal Boskalis Westminster N.V., Ballast Nedam Dredging B.V. Dredging International N.V. and Van Oord ACZ and domestic dredging companies. In the future, we may also face competition from other domestic and international dredging companies that enter the Indian market, including international dredging companies that have been successful in foreign markets but are yet to enter the Indian dredging market. Some of the international dredging companies that have entered the Indian market in recent years have significantly greater resources than us, which may enhance their ability to compete with us.

We have limited international dredging experience. International dredging operations in Taiwan comprised approximately 4.5% and 0.5% of our total dredging volumes in fiscal 2002 and fiscal 2003, respectively. We expect to continue to face competition in foreign dredging markets, which may limit our ability to enter those markets.

We compete primarily in terms of price, availability of suitable equipment, expertise, experience, season and volume of work, fleet mobilization and site conditions. If we are unable to compete effectively based on these factors, competition may reduce our market share in the maintenance and capital dredging segments of the Indian dredging market as well as our overall market share in the future. We expect competitive pressure on our business to continue. We may face a decline in our profits or a reduction in dredging volumes in the future due to intense competition.

***Our ability to reduce our repairs and maintenance costs is an essential part of our business strategy and we cannot assure you that our cost reduction measures will be successful.***

Reducing our repairs and maintenance costs is essential to our business strategy in a competitive market environment. We have reduced costs through measures including implementing new information technology systems, which we expect will improve our material management processes. We expect these measures will allow us greater flexibility in reducing the prices of our dredging services in an increasingly competitive market environment. Our measures to reduce our repair and maintenance costs may not yield the expected results, however, which may adversely affect our dredging volumes or profit margins.

***Increases in the cost of fuels and lubricants may have a material adverse impact on our results of operations.***

In fiscal 2003, our expenses on fuels and lubricants formed 30.8% of our total expenditure. We enter into contracts with suppliers of these materials in order to fix our raw material costs over a defined period. As certain of our dredging contracts do not contain an escalation clause for fuel price increases, if prices of fuels and lubricants rise, our results of operations will be adversely affected.

***The Gol is a significant shareholder in our Company and has the ability to exercise significant control over us and its interests may conflict with your interests as a shareholder.***

The Gol owns 98.56% of our outstanding Equity Shares and is our controlling shareholder. The Gol will beneficially own, in the aggregate, approximately 78.56% of our outstanding Equity Shares after the completion of this Offer. As a result, the Gol has the ability to exercise significant control over most matters requiring approval by shareholders, including the election and removal of directors and other significant corporate transactions. Additionally, our Articles provide that so long as the Gol holds a majority of our paid-up equity share capital, it shall have the right to appoint our Chairman and Managing Director and our directors. Under our Articles, the Chairman has a casting vote. The Gol could, by exercising its powers of control, delay or defer a change in control of our Company or a change in our Company's capital structure, delay or defer a merger, consolidation, takeover or other business combinations involving our Company, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

For details of the terms governing our relationship with the Gol and restrictions imposed on us by our agreements with the Gol and details of the nature of our transactions with affiliated entities, please see "Our Management" and "Main Provisions of the Articles of Association".

***We are dependent on a limited number of suppliers for the supply of critical spare parts used in our operations.***

We depend on original equipment manufacturers ("OEM") for the supply of spare parts for our operations. We have approximately 15 OEM suppliers of essential spare parts for our operations. As a result, the failure by a supplier to adhere to our delivery schedules could disrupt our operations. A supplier on whom we are dependent may raise its prices or a dispute may arise between us and the supplier. As we are dependent on a sole supplier for a particular spare part, we may find it difficult to replace a supplier on a timely basis and at a reasonable cost, and our business and results of operations may be adversely affected.

***We rely on subcontractors for certain dredging contracts which limit our ability to control the performance of and recovery under those contracts.***

As Indian dredging customers generally expect all elements of dredging contracts to be performed by a single contractor, we are required to hire subcontractors in limited circumstances to perform certain aspects of contracts, including grab dredging in space-restricted areas such as alongside docks or terminals and preparing survey reports. Because we subcontract this work, we have only limited control over the performance or expense of these subcontractors which is paid out of our contract. For example, on a recent dredging contract, our payments to the subcontractors performing grab dredging exceeded our recovery on the dredging contract. This is because there are only a limited number of subcontractors providing grab dredging services in India, resulting in limited price competition, as well as performance penalties incurred by the subcontractor reducing our fees under the contract. While we intend to expand our survey department and grab dredging capability, we will continue to rely on specialized subcontractors to perform these functions in limited circumstances where required further to a particular dredging contract. If we are unable to limit our reliance on subcontractors on future contracts or control their costs relative to our contract values, our results of operations may be adversely affected.

***Our employees are represented by trade unions and any labor unrest could adversely affect our operations and profitability.***

As at December 31, 2003, we had 993 employees, of which 838 were represented by trade unions and 125 were represented by associations. From April 1, 2003 to April 14, 2003 our floating crew and monthly-paid workers who are members of the Forward Seamen's Union of India (the "FSUI") staged a work-to-rule industrial action with respect to staff reductions on our dredgers and other floating craft and other claims. In July 2003 we initiated contempt of court proceedings against the union for violating the order of the High Court of Andhra Pradesh, Hyderabad restraining the FSUI from staging this industrial action and a contempt notice was issued to the FSUI.

In addition, a one-day strike was called by the Jahazi Mazdoor Union (the "JMU") in October 2003 in relation to various labor grievances of shore-based non-executive employees. The matter was admitted for conciliation and the strike did not proceed. Discussions were held between our management and the JMU representatives before the Deputy Commissioner of Labor, Government of Andhra Pradesh ("DCL") on December 9, 2003. In a letter RC. No. C/5348/2003 dated December 18, 2003, DCL advised our Company to reconsider our position on leave travel encashment of non-executives and regularizing casual workers. We are currently examining the matter. While our dredging operations were not affected by these actions, the inability to successfully renegotiate new contracts, any future strikes, employee slowdowns or similar actions by one or more unions could have a material adverse effect on our ability to operate our business.

***Our information and reporting systems require significant improvement. If we have difficulty integrating and upgrading our systems, our business could be adversely affected.***

Historically, we have had a low penetration of information technology and relied on less efficient, manual management information systems in our operations. Increasingly, however, we rely on an information technology-based communications infrastructure which links our head office, ships and project offices and is essential to the management of our dredging operations. The effectiveness of our management depends upon our ability to access accurate and reliable information on a timely basis. Our ability to manage our dredging operations and compete effectively also depends on our information and reporting systems. Our systems are outdated and in need of significant upgrades. The constraints of our information and management systems hinders the timeliness and quality of data we need to collect in order to effectively carry out dredging operations. Certain typically-automated procedures are still carried out by us manually, which is not cost-effective and leads to increased errors. It may also require significant adjustments to period end information due to the delays in receiving and imputing data.

In fiscal 2003, our Board approved expenditure of Rs. 50 million to implement new information technology systems. This implementation has been delayed as a result of procedural delays in appointing our technology provider and delays in our software selection process. There can be no assurance that our information technology implementation will be successfully completed on time or within budget, that the new systems will be successfully integrated into our existing system, that our employees can be successfully trained to utilize the new information technology system or that new information technology system, if completed, will not become quickly outdated. In addition, in the case of breakdown, our operations will be affected which could disrupt our internal decision-making process by causing loss of data and make it difficult for members of our management team to communicate with each other in a timely manner.

Even if we are able to integrate and modernize our existing information technology and reporting systems, our success will depend, in part, on our ability to respond to new technological advances and emerging dredging industry standards and practices on a cost-effective and timely basis. The development and implementation of such technology entails significant technical and business risks. There can be no assurance that we will successfully implement new technologies or adapt our systems to customer requirements or emerging industry standards.

Our contingent liabilities as per Indian Accounting Standards are as follows:

As at September 30, 2003, our contingent liabilities not provided for were as follows:

- Letters of credit in the aggregate amount of Rs. 33.1 million;
- Claims made against our Company not acknowledged as debts (excluding claims covered by insurance) in the aggregate amount of Rs. 87 million;
- Estimated amount of contracts remaining to be executed on capital account and not provided for in the aggregate amount of Rs. 14.5 million;
- Sales tax claimed by some State Governments and disputed by our Company (sales tax levied by some State Governments (though upheld by Sales Tax Tribunal, Orissa) has been disputed by our Company at various levels) in the aggregate amount of Rs. 7.5 million; and
- Income tax demands against which appeals and rectification petitions are pending and the amount paid/collected there against being reflected under the head Income Tax paid under protest and grouped under Loans and Advances in the aggregate amount of Rs. 191.3 million.

To the extent that any of these contingent liabilities become actual liabilities, they will adversely affect our results of operations and financial condition in the future.

***We are dependent on our key management personnel and our ability to attract and retain talented professionals.***

We rely on the expertise and services of key members of our senior management such as our Chairman and Managing Director, functional directors at the board level, general managers and joint general managers below the board level and deputy general managers on senior management level. If we lose any of these key personnel, we may find it difficult to find replacements with similar knowledge and experience, especially in relation to our business and our Company, and integrate them into our organization. As a result, our business, results of operations and financial condition could be adversely affected. In addition, we compete with other companies in and outside our industry to recruit and retain highly skilled professionals trained in dredging, engineering and marketing. If we are unable to attract highly-skilled professionals, fail to integrate them into our organization, or fail to retain them after we have invested resources in their training, our ability to compete and our results of operations may be adversely affected. In addition, we do not have any non-competition agreements with any of our senior management or other members of our management team. However, pursuant to DPE guidelines, certain members of our senior management, including our Chairman and Managing Director, cannot for a period of two years after employment with our Company seek employment with any Indian or foreign firm or company which our Company has or had business relations without the consent of the Gol.

***Any future equity offerings by us or the Gol, or the issue of options under a future employee stock option plan, may lead to dilution of your shareholding in us and/or affect the market price of our Equity Shares.***

As a purchaser of Equity Shares in this Offering, you may experience dilution to your shareholding to the extent that we make future equity offerings or issue stock options under any future employee stock option plan.

**EXTERNAL RISK FACTORS**

***Our performance is linked to the performance of the Indian economy and the dredging industry in India.***

Demand for dredging can be adversely affected by factors such as a decline in growth in world trade and Indian and global macroeconomic performance. We are dependent on the Indian dredging market, as international dredging operations contributed less than 3% of our total dredging volume in the last two fiscal years. We have therefore been subject to increasing competitive pricing pressure. Excess capacity in the industry is likely to further intensify competitive pricing pressure in the event of continued economic downturn, which may have a material adverse impact on our results of operations. Should customer demand decrease, our profitability may be affected. In addition, these conditions may have an adverse impact on the performance of the financial markets in India and may cause the market price of our Equity Shares on the Indian stock exchanges to decline in the future.

***Statistical and market data on both the Indian and international dredging industries are extremely limited.***

Statistical and market data relating to the dredging industry in this Preliminary Sale Document are derived from the MoS, the Gol, the Gol's Tenth Five-Year Plan, our internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports. We have also relied on industry publications for certain discussions of industry trends. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured.

The availability of up-to-date and precise data both for the international dredging industry and in particular for the Indian dredging industry is more limited than is the case for other industries. This is partly a result of the limited number of market

participants, as well as the fact that dredging companies and customer ports are generally government-owned or privately-held. Such data as are available may not be up-to-date. For example, the Gol's Tenth Five-Year Plan was published in fiscal 2003, and so contains only projected figures for all periods subsequent to fiscal 2001.

In addition, measurement of annual dredging volumes differs between the Major Ports in India and between our operating data and those of the individual Major Ports. This is a result of different quantitative measures of dredging and methods of recording data between the Major Ports and between our Company and the individual Major Ports. As a result, we have estimated our market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and our correspondence with the Major Ports for fiscal 2002 and fiscal 2003. For our total dredging volumes and capacity utilization figures provided in this Preliminary Sale Document, we have used our internal operating data that we report to the MoS. We generally report higher dredging volumes as compared to the annual reports of the Major Ports as a result of our recording actual volumes dredged as per industry practice, based on hopper volume measurement. Major Ports and other dredging customers generally record dredging volumes on an in situ basis, where the volume is derived from the change in the depth of the dredging area. See "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".

Although we believe statistical and market data used in this Preliminary Sale Document are reliable, they have not been independently verified. Similarly, internal operating data, while believed by us to be reliable, have not been verified by any independent sources. Accordingly, you should not place undue reliance on the statistical and market data used in this Preliminary Sale Document.

***You will not receive the Equity Shares you purchase in this Offer until several days after you pay for them, which will subject you to market risk.***

The Equity Shares you purchase in this Offer will not be credited to your demat account with Depository Participants until approximately fifteen working days from the Bid Closing Date (or approximately ten working days from the date that you make payment for the Equity Shares). You can start trading your Equity Shares only after they are credited to your demat account. Since the Equity Shares are already listed on the Stock Exchanges, you will be subject to market risk from the date you pay for the Equity Shares to the date they are credited to your demat account. Further, there can be no assurance that the Equity Shares allocated to you will be credited to your demat account, or that trading of the Equity Shares will commence, within the time periods specified above.

***After this Offering, the price of our Equity Shares may be highly volatile.***

The prices of our Equity Shares on the Indian Stock Exchanges may fluctuate after this offering as a result of several factors, including:

- Volatility in the Indian and global securities market;
- Our results of operations and performance, in terms of market share;
- Performance of our competitors, the Indian dredging industry and the perception in the market about investments in the dredging sector;
- Media reports about the Gol's process of selling its stake in our Company and other companies in which the Gol has an equity participation;
- Changes in the estimates of our performance or recommendations by financial analysts;
- Significant developments in India's economic liberalization and deregulation policies; and
- Significant developments in India's fiscal and environmental regulations.

***There has been no active trading market for our Equity Shares and such a market may not develop.***

Although we are listed on the BSE, DSE, NSE and CSE, there has been no significant public market for our Equity Shares. There can be no assurance that an active trading market for our Equity Shares will develop or be sustained after this Offering or as to the liquidity of any such market that does develop. If no active trading market develops or if the trading market that develops has low liquidity, the prices of our Equity Shares may be subject to significant volatility. Accordingly, no assurance can be made as to your ability to sell the Equity Shares that you purchase in this Offering or as to the price at which you will be able to sell your Equity Shares. The Offer Price or the price at which our Equity Shares are initially traded may not correspond to the prices at which our Equity Shares will trade in the market subsequent to this Offering.

***Our operations may be adversely affected by weather conditions and natural disasters.***

The operation of dredging and other vessels on the oceans and other waterways is subject to various risks, including catastrophic marine disaster, adverse weather and sea conditions, capsizing, grounding, mechanical failure, collision, other natural disasters and navigation errors. These risks could endanger the safety of our personnel, vessels, and other property, as well as the environment. If any of these events were to occur, we could be held liable for resulting damages. In addition, the affected

vessels could be removed from service and would not be available to generate income.

***Our failure to anticipate, or adapt our business to, customer requirements and the introduction of new dredging techniques in the dredging industry may adversely affect our business and our leadership position.***

Evolving industry standards, changing customer requirements, technological changes and new dredging techniques characterize the dredging industry. Our success depends on our ability to keep pace with these changes. We may not be successful in addressing these developments on a timely basis or if we address these developments, our operations may not be successful in the market place. In addition, techniques developed by others may make our operations less competitive.

***We are subject to risks arising from exchange rate fluctuations.***

We import a substantial amount of our spare parts and stores. Since the cost of these materials is primarily denominated in Euro, any adverse fluctuations with respect to the exchange rate of the Euro for Indian Rupees is likely to affect our input costs. We continue to bear this risk despite the increasing use of locally manufactured spare parts and stores in our operations over time. In addition, we are subject to exchange rate fluctuations in relation to our international operations. We do not enter into foreign exchange forward and derivative contracts to hedge these risks, and we may be exposed to losses due to fluctuations in foreign exchange rates.

***Terrorist attacks and other acts of violence or war involving India, the United States, and other countries could adversely affect the financial markets, result in loss of customer confidence, and adversely affect our business, results of operations and financial condition.***

Terrorist attacks, such as the ones that occurred in New York and Washington, D.C. on September 11, 2001 and New Delhi on December 13, 2001 and Bali on October 12, 2002, and other acts of violence or war, including those involving India, the United States or other countries, may adversely affect Indian and worldwide financial markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, results of operations and financial condition.

More generally, any of these events could adversely affect fuel prices, cause consumer spending to decrease, cause increased volatility in the financial markets and have an adverse impact on the economies of India and other countries, including economic recession.

#### **Notes To Risk Factors**

1. The book value per Equity Share of Rs. 10 each as at September 30, 2003 is Rs. 262.7.
2. The net worth of our Company as at September 30, 2003 is Rs.7,354.7 million.
3. The present offer is an Offer for Sale of 5,600,000 Equity Shares of Rs.10 each at a price of Rs. [●] for cash aggregating Rs. [●].
4. Based on the current value of our Equity Shares the average cost of allotment of our Equity Shares to our Promoter, the Gol, is Rs.10 which is the face value.
5. For related party transactions see the Section titled "Related Party Transactions".
6. Investors may note that in case of over-subscription in the Offer, allocation to Non-Institutional Bidders and Retail Individual Bidders shall be on a proportionate basis. For more information, see "General Information - Basis of Allocation" in this Preliminary Sale Document.
7. The investors may contact the BRLMs for any clarifications or information pertaining to the Offer.
8. Investors are advised to see to the Section titled "Basis for Offer Price".
9. On the completion of this Offering, the Gol will continue to retain certain rights in our Company, please see - "Risk Factors As Perceived by the Company - The Gol is a significant shareholder in our Company and has the ability to exercise significant control over us and its interests may conflict with your interests as a shareholder".

## SUMMARY INFORMATION ON THE COMPANY

*You should read the following summary together with the Risk Factors As Perceived by the Company and the more detailed information about the Company, and its financial data included elsewhere in this Preliminary Sale Document.*

*Unless otherwise indicated, all financial and statistical data relating to the dredging industry in the following discussion are derived from the MoS, the Gol, the Gol's Tenth Five-Year Plan, the Company's operating data, the annual reports of the Major Ports and the Company's correspondence with the Major Ports. These data have been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors As Perceived by the Company - External Risk Factors - Statistical and market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".*

### THE COMPANY'S BUSINESS

Based on industry data, the Company estimates that it is the largest dredging company in India and the seventh largest dredging company in the world, as measured by capacity. The Company was established in 1976 as a PSU under the administrative control of the MoS to provide integrated dredging services to India's Major Ports in the form of maintenance dredging, capital dredging, reclamation, hydrographic surveys and beach nourishment.

India's coastline extends for approximately 5,600 kilometers and includes 12 Major Ports under the administrative control of the MoS, approximately 180 non-Major Ports under the administrative control of the Gol and state governments and private ports on India's east and west coasts. Most of these ports require capital and maintenance dredging for expansion and maintenance of their existing capability to berth vessels of different shapes and sizes. The Indian dredging market consists primarily of maintenance dredging and capital dredging, in addition to a limited amount of inland dredging, beach nourishment and reclamation dredging. The Company has a leading presence in the Indian maintenance dredging market, and the Company also carries out limited capital dredging in India and abroad. The Company owns and operates 12 dredgers with a derived annual dredging capacity of approximately 80 million cubic meters per annum (based on installed hopper volume, estimated number of days of dredging, location, soil characteristics, number of loads and dumping distance), and the Company actually dredged 81.2 million cubic meters under its dredging contracts for the year resulting in a capacity utilization rate of 101.7% (based on actual days dredged and other factors affecting production).

In fiscal 2003, the Company estimates that it had an approximately 89% market share of the estimated 65 million cubic meter Major Port dredging market in India, including approximately 92% of India's Major Port maintenance dredging market, up from approximately 55% in fiscal 2001. The Company's estimated market share of India's Major Port capital dredging market which is relatively smaller, has fluctuated from approximately 24% of an estimated 11 million cubic meters dredged in fiscal 2001 to approximately 8% of an estimated 2.3 million cubic meters dredged in fiscal 2003. Measurement of annual dredging volumes differs between the Major Ports and between the Company's operating data and those of the individual Major Ports as a result of different quantitative measures of dredging and methods of recording data. The Company has estimated its market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and the Company's correspondence with the Major Ports for fiscal 2002 and fiscal 2003. For the total dredging volumes and capacity utilization figures used in this Preliminary Sale Document, the Company has used its internal operating data that is reported to the MoS. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors As Perceived by the Company - External Risk Factors - Statistical market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".

For fiscal 2003, the Company had its highest annual income of approximately Rs. 5,195.2 million, compared to Rs. 5,015.3 million for the previous year. The Company's adjusted profit after tax for fiscal 2003 was Rs. 1,574.9 million, compared to Rs. 881.5 million for the previous year. Income and adjusted profit after tax for the six months ended September 30, 2003 was Rs. 2,518 million and Rs. 776.1 million, respectively. As at March 31, 2003 the Company had net fixed assets of Rs. 4,514.3 million and as at September 30, 2003 the Company had net fixed assets of Rs. 4,244.6 million.

The Company's customers include ports, the Indian Navy and shipyards. In fiscal 2003, approximately 57% of the Company's income from operations was earned from its maintenance dredging contract with Kolkata Port. Other key customers include Cochin Port, New Mangalore Port, Kandla Port and Paradip Port.

In addition to the regular dredging work provided by the continuous maintenance dredging requirements of ports, the Company believes that it benefits from a number of favorable trends in the Indian and international dredging markets:

- **Deeper draught requirements of Indian ports.** Historically, the average maximum controlling depths of the largest Indian ports have been less than the average maximum controlling depths of the largest non-Indian ports worldwide. Without significant deepening and widening efforts, most Major Ports in India risk being unable to accommodate larger cargo vessels, which renders them less competitive than deeper ports. Such deepening and widening efforts would create opportunities for capital and maintenance dredging.

- **Expansion requirements of Indian ports due to increase in port traffic.** With annual GDP growth targets by the Planning Commission of India averaging 8% from fiscal 2002 to fiscal 2007, India is expected to experience considerable growth in trade and related port traffic. The Tenth Five-Year Plan of the GoI, published in fiscal 2003, estimates that the annual Indian Major Port traffic will increase to approximately 415 million tons by fiscal 2007 from approximately 289 million tons in fiscal 2002. Likewise, the GoI estimates Major Port capacity will increase from approximately 344 million tons in fiscal 2002 to approximately 470 million tons by fiscal 2007. An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet this increased traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunities for both capital dredging and increased maintenance dredging.
- **Tourism development and increasing need for beach nourishment.** Beach erosion is a continuous problem and there is a growing awareness among state governments as to the importance of beachfront assets to the Indian tourism industry. The Company expects in future that initiatives will be undertaken by state governments to restore and preserve eroding beachfront. To date, efforts in this area have been made mainly by ports.
- **Land reclamation for low lying areas.** The Company expects that there will be increased capital dredging opportunities in India in the near future. For example, a chemical terminal is planned for construction at JNPT on reclaimed land. The Company believes the principal contractor is likely to subcontract the capital dredging required for the project. In addition, some of the largest land reclamation projects are in the Asian continent, in Singapore, Hong Kong and the Middle East. The Hong Kong airport, for example, is built entirely on reclaimed land. These long-term projects have the potential to add substantial revenue to the dredging market.
- **Sagar Mala initiative to develop India's maritime sector.** The Company believes that the GoI's Sagar Mala initiative, which involves the development and inter-linking of ports and inland waterways to expand water transportation in India, will lead to increased capital and maintenance dredging opportunities. This initiative, which is expected to take about ten years to complete, will include qualitative and quantitative improvements in port-related services and the development of new ports.

#### THE COMPANY'S COMPETITIVE STRENGTHS

The Company believes that it is well positioned to maintain and enhance its leadership position in the Indian dredging market, while expanding operations in the international dredging market, on account of its competitive strengths, which include the following:

- **Flexible portfolio of dredging assets.** The Company operates a diverse dredging fleet which is the largest dredging fleet in India. The size, versatility and technical capabilities of the fleet improves its competitiveness as it generally permits the Company to select the appropriate equipment for a particular maintenance dredging job. To maintain the value and effectiveness of fleet, the Company emphasizes preventive maintenance that results in reduced downtime, increased profitability, enhanced vessel life and relatively low maintenance expenditure requirements.
- **Favorable competitive dynamic.** The Company benefits from significant advantages relative to both existing and potential competitors, including:
  - The Company's longstanding relationship with Indian Major Port authorities, which are also under the administrative control of the MoS and thus share a coordinated approach to operations;
  - The Company's experience of more than 25 years in and related knowledge of the Indian dredging market;
  - The Company's strong and consistent financial record;
  - The Company's nomination right to perform maintenance dredging at Kolkata Port;
  - The Company's right of first refusal (along with other Indian dredging companies) to perform dredging contracts; and
  - The Company's purchase preference as a PSU, which is valid until March 31, 2004 when the Company expects it will be reviewed by the GoI.

For details relating to the Company's nomination right, right of first refusal and purchase preference, see "Regulations and Policies - MoS Press Note Released on January 19, 2004".

- **Specialized capability in maintenance projects.** The Company is the leader in maintenance dredging in India through its combination of equipment and experience. The Company believes its size as the largest dredging company in India and its extensive experience significantly enhanced its ability to profitably Bid for and complete these contracts.
- **Proven experienced management team.** The Company's senior managers have an average of 19 years of experience in the dredging and maritime industries. The Company believes that this experience provides the Company with a significant advantage over its competitors.

## THE COMPANY'S BUSINESS STRATEGY

The Company intends to increase income from operations and strengthen its domestic and international competitive position by expanding its operations in both traditional and new dredging services and adopting a pro-active marketing strategy for its domestic and foreign operations. The Company aims to achieve its mission by pursuing the following business strategies:

- **Consolidate market share in maintenance dredging.** The Company expects to maintain its domestic leadership position in maintenance dredging by becoming more customer-focused and tailoring marketing initiatives that differentiate between specific groups of customers. In particular, it is consolidating its relationships with the Major Ports and developing marketing efforts aimed at non-Major Ports and new private port developers in India. In addition, its planned purchase of a 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 will augment its maintenance dredging capacity.
- **Invest in capital dredging.** The Company intends to expand its share of the capital dredging market to improve its income and profitability. The Company's planned purchase of a 10,000 horse power cutter suction dredger in fiscal 2007 will enhance its capital dredging capacity, and it will seek also to develop employee skills in the capital dredging area, both through training of existing employees and recruitment of skilled personnel. In addition, the Company intends to charter in dredging equipment when necessary to participate in expected new capital and maintenance dredging projects.
- **Optimize capacity utilization.** The Company intends to continue to optimize its capacity utilization by continuous project monitoring and review, reducing equipment downtime through preventive maintenance and working with repair yards to accelerate dry dock repair periods, and increasing computerization, including introducing online connectivity between dredgers, projects and its head office. The Company also intends to continue to invest in quality pre-dredging surveys and equipment and continue to invest in repairs and maintenance.
- **Reduce operational expenses.** In addition to its capacity utilization initiatives discussed above, the Company also intends to reduce operational costs by, among others, utilizing voluntary retirement schemes to limit staff costs, altering its fleet's fuel supply, focusing on fuel efficiency in ship operations and ship procurement and streamlining spare parts procurement systems.
- **Develop strategic alliances and international joint ventures to increase international maintenance and capital dredging presence and market share.** The Company intends to develop strategic alliances with leading international dredging companies to access the necessary skills for capital and international dredging works. The Company also intends to acquire additional equipment and vessels suitable for capital dredging. Increases in foreign port infrastructure investments continue to present new overseas dredging opportunities. The Company intends to selectively pursue international opportunities that offer the Company the potential to increase the utilization of its asset base. The Company has appointed PricewaterhouseCoopers to assist it in identifying potential international joint ventures partners. The Company also expects to appoint marketing agents in Singapore, Malaysia and the Middle East to identify projects and to promote its services in those countries.
- **Acquire new skills and competencies.** Through a renewed focus on training, the Company intends to introduce specific project planning and management initiatives to educate its staff to identify and develop new market opportunities. The Company believes the introduction of best practices in procurement, costing and working capital management, along with the introduction of tailored human resources practices, participatory management and new technologies, will create new competencies in its organization and add value for its dredging customers.

## SUMMARY OF FINANCIAL DATA OF THE COMPANY

The following selected financial data have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and restated for fiscal 2003, 2002, 2001, 2000 and 1999 as described in the Auditor's Report of M/s Sriramamurthy & Co dated January 21, 2004 in the section titled "Financial Data". You should read these financial data and the following discussion of the Company's financial condition and results of operations in conjunction with its restated financial statements for each of fiscal 1999, 2000, 2001, 2002 and 2003 and restated financial statements for the six months ended September 30, 2003 and September 30, 2002 including the notes thereto and the reports thereon, which appear elsewhere in this Preliminary Sale Document. Indian GAAP differs in certain significant respects from U.S. GAAP. For more information on these differences, see "Summary of Significant Differences Between Indian GAAP and U.S. GAAP" included elsewhere in this Preliminary Sale Document.

### Summary of Profits and Losses, as Restated

(Rs. million)

Particulars	Six months Ended September 30, 2003	Six months Ended September 30, 2002	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
<b>Income/ Revenue</b>							
Income from Operations	2,391.6	2,119.0	4,928.0	4,889.6	3,843.5	2,932.5	2,218.7
Other income	126.4	70.9	267.2	125.7	185.0	385.8	271.5
<b>Total</b>	<b>2,518.0</b>	<b>2,189.9</b>	<b>5,195.2</b>	<b>5,015.3</b>	<b>4,028.5</b>	<b>3,318.3</b>	<b>2,490.2</b>
<b>Expenditure</b>							
<b>Operational Expenses</b>							
Payment and Benefits to Operational Staff	195.2	208.3	402.3	352.6	328.1	285.7	278.2
Repairs & Maintenance	304.8	296.6	364.6	322.8	369.7	282.8	142.6
Spares & Stores	268.9	187.4	448.9	339.7	318.4	226.8	167.8
Fuel & Lubricants	550.4	505.7	1,128.9	1,011.4	812.8	578.8	376.9
Other Operational Expenses	95.0	78.7	239.1	178.6	163.9	117.0	153.5
<b>Administrative Expenses</b>							
Payment and Benefits to Shore Staff	61.4	63.5	130.2	96.3	150.4	184.9	122.1
Other Establishment Expenses	38.5	42.2	78.9	78.0	182.7	94.9	61.9
Interest	18.5	46.8	70.1	130.3	51.4	50.7	62.6
Depreciation	251.3	241.1	502.2	416.8	141.4	236.5	221.1
Provisions	81.2	144.1	297.0	678.5	69.0	162.3	217.7
<b>Total Expenses</b>	<b>1,865.2</b>	<b>1,814.4</b>	<b>3,662.2</b>	<b>3,605.0</b>	<b>2,587.8</b>	<b>2,220.4</b>	<b>1,804.4</b>
<b>Profit Before Tax</b>	<b>850.3</b>	<b>761.3</b>	<b>1,889.3</b>	<b>1,646.0</b>	<b>1,572.2</b>	<b>1,230.5</b>	<b>760.0</b>
Net profit After Tax as per audited statement of accounts	<b>776.0</b>	<b>593.7</b>	<b>1,723.3</b>	<b>1,015.5</b>	<b>1,087.1</b>	<b>726.5</b>	<b>418.4</b>
<b>Adjustment on account of:</b>							
Changes in Accounting Policies	(55.1)	(41.6)	(24.4)	100.1	8.7	(65.9)	
Prior Period Items	0.1	(2.4)	(106.8)	(109.6)	104.9	99.1	21.7
<b>Total of Adjustments</b>	<b>0.1</b>	<b>(57.5)</b>	<b>(148.4)</b>	<b>(134.0)</b>	<b>205.0</b>	<b>107.8</b>	<b>(44.2)</b>
<b>Net profit after adjustment</b>	<b>776.1</b>	<b>536.2</b>	<b>1,574.9</b>	<b>881.5</b>	<b>1,292.1</b>	<b>834.3</b>	<b>374.2</b>

Summary of Assets and Liabilities, as Restated

(Rs. million)

Particulars	As At September 30, 2003	As At September 30, 2002	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
<b>Fixed Assets</b>	4,375.7	4,737.4	4,645.4	4,818.3	4,689.7	2,459.2	1,836.0
<b>Investments</b>	0	0	0	0	4.9	4.9	4.9
<b>Total Current Assets, Loans &amp; Advances</b>	6,019.6	3,702.0	5,135.9	4,201.9	3,481.7	3,653.1	3,737.4
<b>Total Liabilities and Provision</b>	3,040.6	2,731.9	3,202.7	3,700.6	3,528.2	2,606.9	2,739.2
<b>Net Worth</b>	7,354.7	5,707.5	6,578.6	5,319.6	4,648.1	3,510.3	2,839.1
<b>Share Capital</b>	280.0	280.0	280.0	280.0	280.0	280.0	280.0
<b>Reserves and Surplus</b>	7,074.7	5,427.5	6,298.6	5,039.6	4,368.1	3,230.3	2,559.1
<b>Miscellaneous Expenditure to the extent not written off</b>	0	0	0	0	0	0	0
<b>Net Worth</b>	7,354.7	5,707.5	6,578.6	5,319.6	4,648.1	3,510.3	2,839.1

## SECTION II : OFFER FOR SALE BY THE SELLING SHAREHOLDER

### GENERAL INFORMATION

#### AUTHORITY FOR THE OFFER

Pursuant to the decision taken by the GoI to disinvest 20% of the paid-up share capital of DCI to the public, the MoS, by way of its letter No. PO/28015/35/2001-DCI dated December 10, 2003 has authorized DCI to take all necessary action with regard to the same by way of an Offer for Sale constituting in aggregate an Offer of 5,600,000 Equity Shares of Rs. 10 each.

The Board of Directors of DCI, by way of resolutions passed at meetings of the Board held on November 28, 2003 and January 19, 2004, respectively have noted the proposed disinvestment by the GoI of 20% of the paid-up equity share capital of DCI through this Offer for Sale and approved the same.

The Company has approved this Preliminary Sale Document through a resolution of the Board of Directors dated February 14, 2004.

As per letter No. FC. II.336(2003)/445(2003) dated January 6, 2004 issued by FIPB to the Company, it has stated that they have no objection for the transfer of the GoI's shareholding to the extent of 20% of the paid up equity share capital of the Company through a public offer to FIIs, NRIs, FCVFs, registered with SEBI and bilateral and multilateral developmental financial institutions on repatriation basis at an offer price to be discovered through SEBI regulated process of Book-Building. The Company has received the approval from the RBI for transfer of shares in this Offer to NRIs, FIIs and FCVFs registered with SEBI and multilateral and bilateral development financial institutions, pursuant to its Letter No. EC.DEL.FID.II/ 06.04.3659/03-04 dated February 7, 2004.

As per the Letter No. 4/13/2002-MODI dated February 9, 2004, from the Ministry of Disinvestment, the Government has voluntarily decided to adopt the SEBI Guidelines particularly the guidelines for 100% Book Building Process. Further, the processes, procedures and practices which are generally followed in the 100% Book Building Process save the deviations indicated in the letter dated February 9, 2004 would be adopted.

Pursuant to the no objection conveyed by the FIPB, the FIPB by its letter No. D.O. No. 9(3)/2004-FIPB dated February 12, 2004 has noted that the SEBI Guidelines would not be applicable.

The Selling Shareholder has good and clear title to the Equity Shares forming part of this Offer and the Equity Shares are free of all restrictions on transfer, liens, encumbrances, security interests and claims whatsoever. There are no legal or regulatory restrictions on the Selling Shareholder undertaking this Offer.

#### REQUIREMENTS OF RULE 19(2)(b) OF THE SCRR

As per Rule 19(2)(b) of the SCRR, which contains the requirements to be fulfilled by public companies with respect to the listing of their securities on recognized stock exchanges, a public company desirous of getting its securities listed on a recognized stock exchange shall satisfy the stock exchange that at least 10% of each class or kind of securities issued by the company was offered to the public for subscription through advertisement in newspapers for a period of not less than two days and that applications received in pursuance of such offer were allotted subject to the following conditions:

- Minimum 2,000,000 securities (excluding reservation, firm allotment and promoters contribution) was offered to the public;
- The size of the offer to the public i.e. the offer price multiplied by the number of securities offered to the public was minimum Rs. 1,000,000,000 ; and
- The issue was made through the book building method with allocation of 60% of the issue size to the qualified institutional buyers as specified by SEBI.

If a company does not fulfill the above requirements it is required to offer at least 25% of each class or kind of securities to the public for subscription.

All public companies seeking to get their securities listed on a recognized stock exchange are required to comply with the requirements of Rule 19(2)(b) of the SCRR unless exempted.

However, the provisions of Rule 19(2)(b) are applicable only to public companies seeking to have their securities listed on a recognized stock exchange and not to public companies whose securities are already listed on a recognized stock exchange.

Since the share capital of DCI is listed on BSE, DSE, NSE and CSE, DCI is exempt from the requirements of Rule 19(2)(b) of the SCRR for the current Offer.

#### DISCLAIMER CLAUSE

**THE SHARES OFFERED UNDER THIS SALE OFFER BEING ALREADY LISTED ON THE STOCK EXCHANGES, THE SEBI GUIDELINES FOR PUBLIC ISSUES/OFFERS ARE NOT APPLICABLE TO THIS SALE OFFER BY THE SELLING SHAREHOLDER. THE SELLING SHAREHOLDER HAS ON ITS OWN VOLITION DECIDED TO FOLLOW THE PROCESS THAT IS SUBSTANTIALLY SIMILAR TO THE PROCESS SPECIFIED IN THE SEBI GUIDELINES. HOWEVER THIS**

**DOCUMENT DOES NOT CONSTITUTE AN OFFER DOCUMENT OR PROSPECTUS IN TERMS OF THE SEBI GUIDELINES. THIS IS NOT A DOCUMENT ISSUED BY OR ON BEHALF OF THE COMPANY. THE DOCUMENT HAS BEEN VOLUNTARILY FORWARDED BY THE SELLING SHAREHOLDER TO SEBI FOR SEEKING ITS GUIDANCE/SUGGESTIONS AND THE SELLING SHAREHOLDER HAS ON ITS OWN VOLITION ALSO DECIDED ON THE TERMS OF THE OFFER, PRICE BAND, ALLOCATION PATTERN ETC. SEBI'S GUIDANCE TO THE SELLING SHAREHOLDER SHOULD NOT IN ANY WAY BE CONSTRUED OR DEEMED THAT THE SALE DOCUMENT HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECTS OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE SALE DOCUMENT. THE COMPANY HAS CONFIRMED THAT THE REQUIREMENTS UNDER THE LISTING AGREEMENTS HAVE BEEN COMPLIED WITH.**

**THE BOOK RUNNING LEAD MANAGERS, KOTAK MAHINDRA CAPITAL COMPANY LIMITED, AND ENAM FINANCIAL CONSULTANTS PRIVATE LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED JANUARY 23, 2004 WHICH READS AS FOLLOWS:**

**"WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS, ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE PRELIMINARY SALE DOCUMENT PERTAINING TO THE SAID OFFER.**

**ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE OFFER, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY,**

**WE CONFIRM THAT:**

**THE PRELIMINARY SALE DOCUMENT FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE OFFER;**

**ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID OFFER AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY THE GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**

**THE DISCLOSURES MADE IN THE PRELIMINARY SALE DOCUMENT ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED OFFER;**

**WE CONFIRM THAT BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE PRELIMINARY SALE DOCUMENT ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND**

**WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE NET WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS."**

**THE BRLMS HAVE DELIVERED A DUE DILIGENCE CERTIFICATE TO THE SELLING SHAREHOLDERS ON FEBRUARY 14, 2004.**

#### **CAUTION**

The Selling Shareholder, the Company and its Directors and the BRLMs accept no responsibility for statements made otherwise than in this Preliminary Sale Document or in the advertisements or any other material issued by or at their instance and anyone placing reliance on any other source of information, including the Company's website, [www.dredge-india.com](http://www.dredge-india.com), would be doing so at his or her own risk.

The Company accepts responsibility for information that it has disclosed to the public in the past pursuant to the requirements of the listing agreements with the Stock Exchanges.

The BRLMs accept no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into between the BRLMs, the Selling Shareholder and the Company and the Underwriting Agreement to be entered into between the Underwriters, the Selling Shareholder and the Company.

All information shall be made available by the Selling Shareholder, the Company and the BRLMs to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever, including at road show presentations, in research or sales reports or at bidding centers. Investors are advised to read this document carefully before investing.

## **DISCLAIMER IN RESPECT OF JURISDICTION**

This Offer is being made in India to persons resident in India including Indian nationals resident in India who are not minors, Hindu undivided families, companies, corporate bodies and societies registered under the applicable laws in India and authorized to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co operative banks (subject to RBI permission), trusts registered under the Societies Registration Act, 1860, as amended from time to time, or any other trust law and who are authorized under their constitution to hold and invest in shares, permitted insurance companies, pension funds, provident funds and to non-residents including NRIs, FIIs and Foreign Venture Capital Funds. This Preliminary Sale Document does not, however, constitute an offer to sell or an invitation to subscribe to the Equity Shares offered hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this Preliminary Sale Document comes is required to inform himself or herself about, and to observe, any such restrictions. Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in Delhi only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Preliminary Sale Document has been voluntarily submitted to SEBI for guidance. Accordingly, the Equity Shares represented hereby may not be offered or sold, directly or indirectly, and this Preliminary Sale Document may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Preliminary Sale Document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

## **DISCLAIMER CLAUSE OF BSE**

The Stock Exchange, Mumbai ("the Exchange") has informed vide its letter dated February 5, 2004 to use the Exchange's name in this offer document. The Exchange has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company. The Exchange does not in any manner:-

- i) warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or
- ii) warrant that this Company's securities will continue to be listed on the Exchange; or
- iii) take any responsibility for the financial or other soundness of this Company, its Promoters, its management or any scheme or project of this Company

and it should not for any reason be deemed or construed that this offer document has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Company may do so, pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

## **DISCLAIMER CLAUSE OF NSE**

As required, a copy of this offer document has been submitted to the National Stock Exchange of India Limited (hereinafter referred to as NSE). NSE has vide its letter dated February 3, 2004 granted permission to the Issuer to use the Exchange's name in this offer document as the Designated Stock Exchange on which this Issuer's securities are listed. The Exchange has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the offer document has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; nor does it warrant the Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer.

Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

## **DISCLAIMER CLAUSE OF CSE**

A copy of this Offer document has been submitted to CSE. CSE has given its permission to the Company vide its letter dated February 11, 2004 to use the name of exchange in this offer document as one of the Stock Exchanges on which the Company's securities are listed. The CSE has scrutinized this Offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Company.

The CSE does not in any manner:

- Warrant, certify or endorse the correctness or completeness of any of the contents of this offer document; or

- Warrant that the Company's securities will continue to be listed on the CSE; or
- Take any responsibility for the financial or other soundness of the Company, its Promoter, management of any scheme or project of the Company

and it should not for any reason be deemed or construed that this offer document has been cleared or approved by the CSE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so, pursuant to independent inquiry, investigation and analysis and shall not have any claim against CSE, whatsoever, by reason of any loss which may be suffered by such person consequent to or in connection with such acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

#### **DISCLAIMER CLAUSE OF DSE**

A copy of this Preliminary Sale Document has been submitted to DSE. DSE has given its no objection to the company vide letter dated 29th January, 2004 to use the name of the Exchanges in this Offer Document as one of the Stock Exchanges on which the Company's Equity Shares are proposed to be listed. DSE has scrutinized this offer document for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company and has also relied on the in principle approval given by the designated Stock Exchange, i.e., NSE and BSE. The DSE does not in any manner:

- Warrant, certify or endorse the correctness or completeness of any of the contents of this Offer Document; or
- Warrant that the Company's securities will be listed or will continue to be listed on DSE; or
- Take any responsibility for the financial or other soundness of the Company, Promoter, management of any scheme or project of the Company;

and it should not be for any reason be deemed or construed that this Offer Document has been cleared or approved by DSE. Every person who desires to apply for or otherwise acquires any securities of this Company may do so, pursuant to independent inquiry, investigation and analysis and shall not have any claim against DSE, whatsoever, by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated in the Offer Document or any other reason whatsoever.

#### **FILING**

"SEBI has in its letter dated February 13, 2004 stated that the *"Sale Document is not a document issued by or on behalf of the Company and the document may be filed with the RoC, if required"*.

In the case of a similar transaction of offer for sale of shares in a listed company by Government, the Department of Company Affairs, Ministry of Finance, Government of India has in its letter (D.O. NO. 1/32/01-D. Cell) dated February 10, 2004, noted that SEBI has informed that the offer document is to be called a "Preliminary Sale Document" and accordingly, therefore, the Ministry of Disinvestment may file the same with the RoC, along with the requisite fee so that it can be placed on record for public inspection. In relation to the Offer, the BRLMs have received a copy of the letter no. 4/13/2002-MODI dated February 13, 2004 from the Ministry of Disinvestment addressed to the Company about filing the Preliminary Sale Document with the RoC in the same manner followed in the above referred transaction. Accordingly, a copy of the Preliminary Sale Document, along with the supporting documents, is being filed with the RoC and a copy of the Final Sale Document will be filed with the RoC for public inspection.

A copy of this Preliminary Sale Document has been voluntarily filed with the Corporation Finance Department of SEBI at Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai - 400 021 for the purposes of guidance only."

#### **CONSENTS**

Consents in writing from the Directors, the Auditors, the Company Secretary and Compliance Officer, Legal Advisors, Bankers to the Company, Book Running Lead Managers to the Offer, Escrow Collection Bankers and Bankers to the Offer, Registrar to the Offer to act in their respective capacities, have been obtained and filed along with a copy of the Preliminary Sale Document with the RoC. M/s Sriramamurthy & Co., Chartered Accountants, the Company's statutory auditors, have given their written consent to the inclusion of their report in the form and context in which it appears in the Preliminary Sale Document. M/s Sriramamurthy & Co, Chartered Accountants, the Company's statutory auditors, have given their written consent to the tax benefits accruing to the Company and its members in the form and context in which it appears in the Preliminary Sale Document. M/s. Brahmayya & Co., the Company's tax auditors, have given their written consent to use their name in the section titled "Outstanding Litigation" in this Preliminary Sale Document.

#### **EXPERT OPINION**

Save as stated elsewhere in the Preliminary Sale Document, the Company has not obtained any other expert opinions.

#### **BASIS OF ALLOCATION**

The present Offer is of up to 5,600,000 Equity Shares of Rs. 10 each. The Selling Shareholder reserves the right, at its sole discretion, after determination of the Offer Price, to transfer the Equity Shares to Retail Individual Bidders at a differential lower

price as compared to the Offer Price, at which Equity Shares will be transferred to Non-Institutional Bidders and QIBs. The Selling Shareholder has voluntarily decided that the basis of allocation for this Offer is as follows:

#### **For Retail Individual Bidders**

- Bids received from the Retail Individual Bidders at or above the Offer Price within the Price Band shall be grouped together to determine the total demand under this category. The allocation to all the successful Retail Individual Bidders will be made at the Offer Price. The Selling Shareholder reserves the right, at its sole discretion, after determination of the Offer Price, to transfer the Equity Shares to Retail Individual Bidders at a differential lower price as compared to the Offer Price at which Equity Shares will be transferred to Non-Institutional Bidders and QIBs.
- The Offer size less allocation to Non-Institutional and QIB Bidders shall be available for allocation to Retail Individual Bidders who have bid in the Offer at a price which is equal to or greater than the Offer Price within the Price Band.
- If the aggregate demand in this category is less than or equal to the Retail Portion at or above the Offer Price within the Price Band, full allocation shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than Retail Portion at or above the Offer Price within the Price Band, the allocation shall be made on a proportionate basis up to a minimum of one equity share. For the method of proportionate basis of allocation, refer below.

#### **For Non-Institutional Bidders**

- Bids received from Non-Institutional Bidders at or above the Offer Price within the Price Band shall be grouped together to determine the total demand under this category. The allocation to all successful Non-Institutional Bidders will be made at the Offer Price.
- The Offer size less allocation to QIBs and Retail Portion shall be available for allocation to Non-Institutional Bidders who have bid in the Offer at a price which is equal to or greater than the Offer Price within the Price Band.
- If the aggregate demand in this category is less than or equal to the Non Institutional Portion at or above the Offer Price within the Price Band, full allocation shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than the Non Institutional Portion at or above the Offer Price within the Price Band, allocation shall be made on a proportionate basis up to a minimum of one equity share. For the method of proportionate basis of allocation refer below.

#### **For QIBs**

- Bids received from the QIB Bidders at or above the Offer Price within the Price Band shall be grouped together to determine the total demand under this category. The allocation to all the QIBs will be made at the Offer Price.
- The Offer size less allocation to Non-Institutional Portion and Retail Portion shall be available for allocation to QIBs who have bid in the Offer at a price which is equal to or greater than the Offer Price within the Price Band.
- The Selling Shareholder, in consultation with the BRLMs, would have the discretion for any allocation to QIBs based on a number of criteria which will typically include but not be limited to the following: prior commitment, investor quality, price, earliness of the bid, existing and continued shareholding of the QIB in the Company during the period prior to the Bid Opening Date and until the Pricing Date.

#### **METHOD OF PROPORTIONATE BASIS OF ALLOCATION**

In the event the Offer is over-subscribed, the basis of allocation to Retail Individual and Non-Institutional Bidders shall be finalised in consultation with the Designated Stock Exchange. The Executive Director or Managing Director of the Designated Stock Exchange along with the BRLMs and the Registrar to the Offer, shall be responsible for ensuring that the basis of allocation is finalised in a fair and proper manner.

The allocation shall be made on a proportionate basis by adopting the applicable guidelines of SEBI in this respect as amended from time to time. Currently, the allocation shall be made in marketable lots, on a proportionate basis as explained below:

- a) Bidders will be categorised according to the number of Equity Shares applied for.
- b) The total number of Equity Shares to be allocated to all successful Retail Individual Bidders and Non-Institutional Bidders as a whole in their respective categories shall be made on a purely proportionate basis depending on the over-subscription level within that category rounded off to the nearest integer. For example, if the Retail Portion is oversubscribed 10 times all successful bidders would be allocated one-tenth of the Equity Shares for which they have submitted bids.
- c) If the Equity Shares allocated on a proportionate basis to any category are more than the Equity Shares allocated to the Bidders in that category, the remaining Equity Shares available for allocation shall be first adjusted against any other category, where the allocated shares are not sufficient for proportionate allocation to the successful bidders in that category. The balance equity shares, if any, remaining after such adjustment will be added to the category comprising Bidders applying for minimum number of equity shares.

## EXPENSES OF THE OFFER

The expenses of the Offer payable by the Selling Shareholder inclusive of brokerage, fees payable to the BRLMs, Syndicate Members, other advisors to the Offer, fees of Legal Advisors to the Offer and Auditors, stamp duty, printing, publication, advertising and distribution expenses, bank charges, fees payable to the Registrar to the Offer and other miscellaneous expenses will be met out of the proceeds of the Offer.

### FEES PAYABLE TO THE BRLMs

The total fees payable to the Book Running Lead Managers will be as per the letters of appointment dated October 16, 2003 issued by Gol, copies of which are available for inspection at the corporate office of the Company.

### FEES PAYABLE TO THE REGISTRAR TO THE OFFER

The fees payable to the Registrar to the Offer will be as per the letter of appointment dated January 20, 2004, a copy of which is available for inspection at the Corporate Office of the Company.

Adequate funds will be provided to the Registrar to the Offer to enable them to send refund orders or transfer advice by registered post.

## IMPERSONATION

**Attention of the Bidders is specifically drawn to the provisions of Sub-Section (1) of Section 68 A of the Companies Act, which is reproduced below:**

“Any person who -

- (a) makes in a fictitious names an application to a company for acquiring, or subscribing for, any shares therein, or
- (b) otherwise induces a company to allot, or register any transfer of, shares therein to him, or any other person in a fictitious name,

**shall be punishable with imprisonment for a term which may extend to five years.”**

## WITHDRAWAL OF THE OFFER

The Selling Shareholder, in consultation with the BRLMs, reserves the right not to proceed with the Offer anytime after the Bid/Offer Opening Date without assigning any reason therefore.

## TRANSFER/REFUND

The Company shall facilitate the Selling Shareholder to give credit to the Beneficiary Account with Depository Participants within two working days of finalisation of the basis of transfer of equity shares. The Company shall facilitate the Selling Shareholder to dispatch refund orders, if any, of value up to Rs. 1,500 by “Under Certificate of Posting”, and will dispatch refund orders above Rs. 1,500, if any, by registered post or speed post at the sole or first bidder’s sole risk.

The Selling Shareholder undertakes that:

- Allocation of Equity Shares will be made only in dematerialised form within 15 working days from the Bid/Offer Closing Date;
- Dispatch of refund orders will be done within 15 working days from the Bid/Offer Closing Date; and
- The Selling Shareholder shall pay interest at 15% per annum (for any delay beyond the 15 working day period as mentioned above), if transfer is not made, refund orders are not dispatched and/or demat credits are not made to investors within the 15 working day period prescribed above:

The Selling Shareholder will provide adequate funds required for dispatch of refund orders or allocation advice to the Registrar to the Offer.

Refunds will be made by cheques, pay-orders or demand drafts drawn on a bank appointed by the Selling Shareholder, as an escrow collection bank(s), and payable at par at places where Bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

## OFFER PROGRAM

BID/OFFER OPENS ON	:	FEBRUARY 26, 2004
BID/OFFER CLOSES ON	:	MARCH 4, 2004

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m.** (Indian Standard Time) during the Bidding Period (except Sundays and bank holidays) as mentioned above at the bidding centres mentioned on the Bid-cum-Application Form except that on the Bid/Offer Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) and uploaded until such time as may be permitted by the BSE and NSE on the Bid/Offer Closing Date.

The Selling Shareholder and the BRLMs shall advertise the Price Band as decided by the Selling Shareholder prior to the Bid Opening Date in two national newspapers (one each in English and Hindi). The Selling Shareholder shall retain the right to revise the Price Band during the Bidding Period at any level above or below the Price Band first advertised prior to the Bid Opening Date. In the event that the Selling Shareholder decides to revise the Price Band, the Selling Shareholder may in consultation with the BRLMs decide to either extend or not extend the Bidding Period. In the event that the Selling Shareholder decides to extend the Bidding Period the decision to extend the Bidding Period shall be published in two national newspapers (one each in English and Hindi).

#### **BOOK RUNNING LEAD MANAGERS**

##### **Kotak Mahindra Capital Company Limited**

Bakhtawar, 3rd Floor  
229 Nariman Point  
Mumbai 400-021, India  
Tel No: +91-22-5634 1100  
Fax No: +91-22-2284 0492  
E-mail : [dcil.ipo@kotak.com](mailto:dcil.ipo@kotak.com)

##### **Enam Financial Consultants Private Limited**

801, Dalamal Tower, Nariman Point,  
Mumbai - 400-021, India  
Tel No: +91-22-5638 1800  
Fax No: +91-22-2284 6824  
E-mail: [dcil.ipo@enam.com](mailto:dcil.ipo@enam.com)

#### **SYNDICATE MEMBERS**

##### **Kotak Securities Limited**

Bakhtawar, 1st Floor  
229 Nariman Point  
Mumbai 400-021, India  
Tel No: +91-22-2634 1100  
Fax No: +91-22-5630 3927

##### **Enam Securities Private Limited**

2nd Floor, Khatau Building  
44 Bank Street, Off Shahid Bhagat Singh Road  
Fort, Mumbai - 23, India  
Tel No: +91-22-226 7901  
Fax No: +91-22-226 5613

## STATEMENT OF INTER-SE ALLOCATION OF RESPONSIBILITIES AS FURNISHED TO THE SELLING SHAREHOLDER

The responsibilities and co-ordination for various activities in this Offer have been distributed between the BRLMs as below:

No.	Activity	Responsibility	Coordination
1	Capital structuring with the relative components and formalities such as type of instruments among other things	KMCC Enam	KMCC
2	Due diligence of the Company's operations / management / business plans/legal drafting and design of Preliminary Sale Document among other things. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI. The responsibility of drafting of the specific sections of the Preliminary Sale Document along with relevant responses to the SEBI queries on these sections and relevant co-ordination of the same with the Company and lawyers is as given below	KMCC Enam	KMCC
	<ul style="list-style-type: none"> <li>● Business of the Company</li> <li>● Industry information</li> <li>● Risk factors</li> <li>● Outstanding litigation</li> </ul>	Enam	
	<ul style="list-style-type: none"> <li>● All financial information including auditor interface</li> <li>● Section on statutory approvals</li> <li>● Terms of the Offer and process</li> <li>● General Information</li> <li>● Management and manpower details, group companies, promoters</li> <li>● Management discussion and analysis of operations</li> <li>● History of the Company</li> <li>● Capital Structure</li> <li>● Statutory and other information</li> </ul>	KMCC	
3.	Assisting the Gol and the Company for the FIPB and RBI approvals	Enam KMCC	Enam
4.	Primary co-ordination with SEBI (although response to SEBI queries and other pre-bidding SEBI correspondence will be signed off internally by both BRLMs), RoC and Stock Exchanges up to bidding and co-ordination of interface with lawyers for agreements	KMCC Enam	KMCC
5.	Primary co-ordination of drafting/proofing of the design of the Preliminary Sale Document, bid forms including memorandum containing salient features of the Sale Document with the printers. Primary co-ordination of the drafting and approval of statutory advertisement.	KMCC Enam	KMCC
6.	Drafting and approval of all publicity material other than statutory advertisement as mentioned in (5) above including corporate advertisement, brochure, among other things	Enam KMCC	Enam
7.	Appointment of other intermediaries viz. Registrar, Printers, Advertising Agency and Bankers to the Offer.	KMCC Enam	KMCC
8.	Marketing of the Offer, which will cover, inter alia, <ul style="list-style-type: none"> <li>● Formulating marketing strategies, preparation of publicity budget</li> <li>● Finalize media and public relations strategy</li> <li>● Finalize centers for holding conferences for press and brokers among other things</li> <li>● Finalize collection centers</li> <li>● Follow-up on distribution of publicity and issue material including form, Sale Document and deciding on the quantum of the Offer material</li> <li>● Preparation of all road show presentations.</li> </ul>	Enam KMCC	Enam

No.	Activity	Responsibility	Coordination
9.	Coordination of institutional investor meetings, co-ordination and institutional allocation in consultation with the Selling Shareholder, finalization of Final Sale Document and RoC filing.	KMCC Enam	KMCC
10.	The post-bidding activities including management of escrow accounts, co-ordination of non-institutional allocation, intimation of allocation and dispatch of refunds to Bidders.  The post-Offer activities for the Offer will involve essential follow up steps, which include the finalization of listing of instruments and dispatch of certificates and demat delivery of shares, with the various agencies connected with the work such as the Registrar to the Offer and Bankers to the Offer and the bank handling refund business. The BRLMs shall be responsible for ensuring that these agencies fulfill their functions and enable it to discharge this responsibility through suitable agreements with the Company.	Enam KMCC	Enam

#### **REGISTERED OFFICE OF THE COMPANY**

##### **Dredging Corporation of India Limited**

Core - 2, First Floor, 'Scope Minar',  
Plot No.2A & 2B,  
Laxminagar, District Center,  
New Delhi-110-091, India  
Tel No: +91-11-2244 8528  
Fax No: +91-11-2244 8527  
E-mail: [dcj\\_ro@vsnl.net](mailto:dcj_ro@vsnl.net)

#### **COMPANY SECRETARY AND COMPLIANCE OFFICER**

##### **Mr. Y.V. Subbarao**

Company Secretary,  
Dredge House, Port Area  
Visakhapatnam - 530 035  
Tel No: +91 -891- 256 6537  
Fax No: +91 -891- 256 0581  
E-mail: [yvsubbarao@dcj.co.in](mailto:yvsubbarao@dcj.co.in)

#### **REGISTRAR TO THE OFFER**

##### **Karvy Consultants Limited**

Karvy House, 46, Avenue 4, Street No.1,  
Banjara Hills, Hyderabad- 500-034, India  
Tel No: +91-40-2331 2454, 2332 0751-53  
Fax No: +91-40-2331 1968, 2332 3049  
Email: [dcilipo@karvy.com](mailto:dcilipo@karvy.com)

It is the obligation of the Selling Shareholder to redress the complaints, if any, of investors participating in this Offer. The Selling Shareholder has authorized the Company Secretary and Compliance Officer, Mr. Y.V. Subbarao, and the Registrar to the Offer to redress the complaints, if any, of investors participating in this Offer. Investors can contact the Compliance Officer or the Registrar to the Offer in case of any pre-Offer or post-Offer related problems such as non-receipt of letters of allocation, credit of allocated shares in the respective beneficiary accounts, refund orders etc. .

#### **AUDITORS TO THE COMPANY**

##### **M/s Sriramamurthy & Co.**

Chartered Accountants  
Flat No .3c 49-9-39/17  
Said Sadan Apartments  
Dwarkangar  
Visakapatnam-530016  
Tel No: +91-891-274 8422  
Fax No: +91-891-279 7968

**DOMESTIC LEGAL COUNSEL FOR THE OFFER****Crawford Bayley & Co.**

State Bank Buildings, 4th floor  
N. G. N. Vaidya Marg  
Fort  
Mumbai - 400-023  
Tel No: +91-22-2266 3713  
Fax No: +91-22-2266 0355

**COUNSEL FOR THE COMPANY****Mr.D.V.Subbarao**

Ashram, Gokhale Road  
Visakhapatnam-530 002  
Tel No: +91-891-256 3653  
Fax No: +91-891-256 7903

**INTERNATIONAL LEGAL COUNSEL FOR THE OFFER**

*(Advising the Gol, the Company and Underwriters on matters pertaining to the laws of the State of New York and the federal law of the United States of America)*

**Linklaters, Allen and Gledhill Pte Limited**

36 Robinson Road, # 03-01 City House  
Singapore 068877  
Tel No: + 65 6438 3800  
Fax No: + 65 6438 3811

**ESCROW COLLECTION BANK (S) AND BANKERS TO THE OFFER****Kotak Mahindra Bank Limited**

2nd Floor, Bakhtawar  
229, Nariman Point  
Mumbai - 400021, India  
Tel No: +91-22-5638 6363  
Fax No: +91-22-2281 7527

**HDFC Bank Limited**

6th Floor, HT House  
18-20, K.G. Marg  
New Delhi - 110001, India  
Tel No: +91-11-2370 4671  
Fax No: +91-11-2335 9601

**Canara Bank**

38, Ansals Tower  
Nehru Place  
New Delhi - 110019, India  
Tel No : +91-11-2628 6087  
Fax No : +91-11-2628 6075

**IDBI Bank Ltd.**

Surya Kiran Building  
11th Floor, 19, K.G. Marg  
New Delhi - 110001, India  
Tel No: +91-11-2335 8368  
Fax No: +91-11-2335 8297

**BANKERS TO THE COMPANY****Syndicate Bank**

Dabagardens,  
Visakhapatnam 530-020  
Andhra Pradesh  
Tel No: +91-891-275 4090  
Fax No: +91-891-274 6906

**HongKong Shanghai Banking Corporation Ltd.**

Door No.28-16-31  
Suryabagh  
Visakhapatnam 530-020  
Andhra Pradesh  
Tel No: +91-891-256 3720  
Fax No: +91-891-256 2242

**Punjab National Bank**

Gr. Floor, LIC Building,  
Jeevan Prakash Road,  
Visakhapatnam 530-004  
Andhra Pradesh  
Tel No: +91-891-256 1920  
Fax No: +91-891-256 1920

**State Bank of India (Overseas Branch)**

Door No. 9-1-57, GNT Road,  
Visakhapatnam 530-013  
Andhra Pradesh  
Tel No: +91-891-255 1860  
Fax No: +91-891-255 2269

**BOOK BUILDING PROCESS**

Book Building refers to the collection of Bids from investors, which is based on the Price Band, with the Offer Price being finalised after the Bid/Offer Closing Date. The principal parties involved in the Book Building Process are:

1. The Selling Shareholder;
2. Book Running Lead Managers; and
3. Syndicate Members who are intermediaries registered with SEBI or registered as brokers with the Stock Exchange(s) and eligible to act as underwriters.

The Equity Shares being offered pursuant to this Offer are already listed and consequently the SEBI Guidelines for public issues/offers do not apply to this Offer. However, the Selling Shareholder has voluntarily decided to adopt the SEBI Guidelines, particularly the guidelines for the 100% Book Building Process. Further the processes, procedures and practices, which are generally followed in the 100% book building process save for certain deviations, would be adopted. Pursuant to the decision of the Selling Shareholder, up to 50% of the Offer shall be allocated on a discretionary basis to Qualified Institutional Buyers ("QIBs"). The Selling Shareholder, in consultation with the BRLMs, would have the discretion for any allocation to QIBs based on a number of criteria which will typically include but not be limited to the following; prior commitment, investor quality, price, earliness of the bid, existing and continued shareholding of the QIB in the Company during the period prior to the Bid Opening Date and until the Pricing Date. Further, not less than 25% of the Offer shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 25% of the Offer shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Offer Price within the Price Band.

In this regard, the Selling Shareholder has appointed the BRLMs to procure Bids in the Offer.

The process of book building is relatively new and the investors are advised to make their own judgement about investment through this process prior to making a Bid in the Offer. QIBs are not allowed to withdraw their Bids after the Bid/Offer Closing Date. For further details, see "Terms of the Offer" .

Steps to be taken by the Bidders for bidding:

1. Check eligibility for bidding (for further details see "Terms of the Offer" elsewhere in this Preliminary Sale Document);
2. Ensure that the Bidder has a demat account; and
3. Ensure that the Bid-cum-Application Form is duly completed as per instructions given in this Preliminary Sale Document and in the Bid-cum-Application Form.

**UNDERWRITING AGREEMENT**

The underwriting arrangement is not mandatory and is based on the contractual arrangement between the Selling Shareholder, the Company and the Underwriters.

After the determination of the Offer Price and prior to filing of the Final Sale Document with the RoC, the Selling Shareholder and the Company will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through the Offer. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that the Syndicate Members do not fulfill their underwriting obligations. Commitments as per the terms of the Underwriting Agreement would be invoked by the Selling Shareholder.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

This portion has been intentionally left blank and will be filled in before filing of the Final Sale Document with the RoC.

<b>Name and Address of the Underwriters</b>	<b>Indicated Number of Equity Shares to be Underwritten</b>	<b>Amount Underwritten (Rs. million)</b>
Kotak Mahindra Capital Company Limited Bakhtawar, 3rd Floor 229 Nariman Point Mumbai 400-021, India	[●]	[●]
Enam Financial Consultants Private Limited 801, Dalamal Tower, Nariman Point, Mumbai - 400-021, India	[●]	[●]
Kotak Securities Limited Bakhtawar, 1st Floor 229 Nariman Point Mumbai 400-021, India	[●]	[●]
Enam Securities Limited 2nd Floor, Khatau Building 44 Bank Street, Off Shahid Bhagat Singh Road Fort, Mumbai - 23, India	[●]	[●]

The above mentioned table is indicative of the underwriting arrangements and this would be finalized after pricing and allocation.

The Underwriting Agreement is dated [●].

In the opinion of the Board of Directors of the Company and in the opinion of the Selling Shareholder (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations as mentioned in the Underwriting Agreement and this Preliminary Sale Document in full.

All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act or with the Stock Exchange as brokers. The Selling Shareholder and the Company's Board of Directors have accepted the Underwriting Agreement mentioned above at its meeting held on [●], 2004 and the Selling Shareholder and the Company have issued letters of acceptance to the Underwriters.

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the BRLMs and the Syndicate Members shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default in payment, the respective Underwriter, in addition to other obligations defined in the Underwriting Agreement, will also be required to procure/subscribe to the extent of the defaulted amount. Allocation to QIBs is discretionary as per the terms of the Preliminary Sale Document and may not be proportionate in any way and the patterns of allocation to the QIBs could be different for the various Underwriters.

#### **APPLICABILITY OF THE SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS) REGULATIONS, 1997**

Any acquisition of Equity Shares in this Offer will not be exempted from the provisions of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and any acquirer of the Equity Shares breaching any of the thresholds prescribed in these regulations should ensure that they comply with the requirements of these regulations.

### **OBJECTS OF THE OFFER**

The Ministry of Shipping, Government of India acting on behalf of the President of India proposes to carry out the disinvestment of up to 5,600,000 Equity Shares of Rs. 10 in the Company through this Preliminary Sale Document.

The Company will not receive any proceeds from the Offer for Sale. The sale proceeds from this Offer for Sale will be received by the Selling Shareholder.

## TERMS OF THE OFFER

The Equity Shares being offered are subject to the provisions of the Companies Act, the SCRA, the SCRR, the Memorandum and Articles, the conditions of the FIPB and RBI approvals, the terms of the Preliminary Sale Document, Final Sale Document, Bid-cum-Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated other documents/ certificates that may be executed in respect of the Offer. The Equity Shares shall also be subject, if and to the extent applicable, to laws, guidelines, notifications and regulations relating to the trading of securities as are issued from time to time by SEBI, GoI, Stock Exchanges, RBI, RoC and/ or other authorities and as are in force on the date of the Offer. The Equity Shares being offered pursuant to this Offer are already listed. As stated by SEBI in its letters dated January 29, 2004 and February 13, 2004, the SEBI Guidelines for public issues/offers do not apply to this Offer. However, the Selling Shareholder has informed the BRLMs and the Company by letter dated February 9, 2004, that it has voluntarily decided to adopt the SEBI Guidelines particularly the guidelines for the 100% Book Building Process save certain deviations. Hence, the processes, procedures and practices, which are generally followed in the 100% book building process save the deviations indicated in the aforesaid letter dated February 9, 2004 from the Selling Shareholder would be adopted for this Offer.

### AUTHORITY FOR THE OFFER

Pursuant to the decision taken by the GoI to disinvest 20% of the paid-up share capital of DCI to the public, the MoS, by way of its letter No. PO/28015/35/2001-DCI dated December 10, 2003 has authorized DCI to take all necessary action with regard to the same by way of an Offer for Sale constituting in aggregate an Offer of 5,600,000 Equity Shares of Rs. 10 each.

The Board of Directors of DCI, by way of resolutions passed at meetings of the Board held on November 28, 2003 and January 19, 2004, respectively have noted the proposed disinvestment by the GoI of 20% of the paid-up equity share capital of DCI through this Offer for Sale and approved the same.

The Company has approved this Preliminary Sale Document through a resolution of the Board of Directors dated February 14, 2004.

As per letter No. FC. II.336(2003)/445(2003) dated January 6, 2004 issued by FIPB to the Company, it has stated that they have no objection for the transfer of the GoI's shareholding to the extent of 20% of the paid up equity share capital of the Company through a public offer to FIIs, NRIs, FCVFs, registered with SEBI and bilateral and multilateral developmental financial institutions on repatriation basis at an offer price to be discovered through SEBI regulated process of Book-Building. The Company has received the approval from the RBI for transfer of shares in this Offer to Non Resident Indians, FIIs and FCVFs registered with SEBI and multilateral and bilateral development financial institutions, pursuant to its Letter No. EC.DEL.FID.II/ 06.04.3659/03-04 dated February 7, 2004.

As per the Letter No. 4/13/2002-MODI dated February 9, 2004, from the Ministry of Disinvestment, the Government has voluntarily decided to adopt the SEBI Guidelines particularly the guidelines for 100% Book Building Process. Further, the processes, procedures and practices which are generally followed in the 100% Book Building Process save the deviations indicated in the aforesaid letter dated February 9, 2004 would be adopted.

Pursuant to the no objection conveyed by the FIPB, the FIPB by its letter No. D.O. No. 9(3)/2004-FIPB dated February 12, 2004 has noted that the SEBI Guidelines would not be applicable.

### RANKING OF EQUITY SHARES

The Equity Shares being offered are subject to the provisions of the Memorandum and Articles and as the Equity Shares are already listed, they rank pari-passu with the existing Equity Shares of the Company, including rights in respect of dividends.

### FACE VALUE AND OFFER PRICE

The Equity Shares with a face value of Rs. 10 each are being offered in the Offer at a price of Rs. [●] per share. After the determination of the Offer Price, the Selling Shareholder shall transfer the Equity Shares allocated to QIBs and Non-Institutional Bidders at the Offer Price. Notwithstanding what is stated above, the Selling Shareholder reserves the right, at its sole discretion, after determination of the Offer Price to transfer the Equity Shares to Retail Individual Bidders at a differential lower price as compared to the Offer Price at which Equity Shares will be transferred to Non-Institutional Bidders and QIBs.

At any given point of time there shall be only one denomination of the Equity Shares.

### MINIMUM SUBSCRIPTION

This being an offer for sale and the Equity Shares being offered pursuant to this Offer are already listed on the Stock Exchanges, the requirement of minimum subscription is not a pre-condition for completion of the Offer.

### RIGHTS OF THE EQUITY SHAREHOLDER

Subject to applicable laws, the equity shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;

- The right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and the Memorandum and Articles.

For a detailed description of the main provisions of the Articles dealing with voting rights, dividend, forfeiture and lien, restrictions on transfer and transmission and/or consolidation/ splitting, refer to the section on “Main Provisions of Articles of Association of the Company”.

#### **TRADING AND MARKET LOT**

The Equity Shares in this Offer upon allocation shall be transferred only in dematerialised form. The trading of the Company’s Equity Shares shall only be in dematerialised form for all investors.

Since trading of the Company’s Equity Shares is in dematerialised form, the tradeable lot is one (1) Equity Share. Allocation of Equity Shares through this Offer will be done only in electronic form in multiples of 1 Equity Shares to the successful Bidders.

#### **JURISDICTION**

Exclusive jurisdiction for the purpose of this Offer is with competent courts or authorities in New Delhi , India.

#### **NOMINATION FACILITY TO INVESTOR**

In accordance with Section 109A of the Companies Act, the sole or first bidder, along with other joint bidders, may nominate any one person in whom, in the event of the death of sole bidder or in case of joint bidders, death of all the bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Registered Office of the Company or to the registrar and transfer agents of the Company.

In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

- a) to register himself or herself as the holder of the Equity Shares; or
- b) to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

**Since the transfer of Equity Shares in the Offer will be made only in dematerialised form, there is no need to make a separate nomination with the Company. Nominations registered with respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.**

#### **APPLICATION BY PERMITTED NON RESIDENTS/NRIS/ FIIS/ FOREIGN VENTURE CAPITAL FUNDS REGISTERED WITH SEBI**

The Company has received a no objection from the FIPB by its Letter no. FC.II.336 (2003) /445 (2003) dated January 6, 2004, for the transfer of Equity Shares in this Offer to NRIs, FIIs registered with SEBI, Foreign Venture Capital Funds registered with SEBI and multilateral and bilateral development financial institutions on a repatriation basis at an offer price to be discovered through SEBI regulated process of Book-Building. Subsequently the FIPB has issued its Letter No. DO.No.9(3)/ 2004- FIPB dated February 12, 2004 noting that the SEBI Guidelines would not be applicable in the Offer. As per the policy of the RBI, OCBs are not permitted to participate in this Offer. The Company has received an in-principle approval from the RBI for transfer of shares in this Offer to Non Resident Indians, FIIs and Foreign Venture Capital Funds registered with SEBI and multilateral and bilateral development financial institutions, pursuant to RBI’s letter no. EC.DEL.FID.II/ 06.04.3659/03-04 dated February 7, 2004. Therefore, it will not be necessary for the investors to seek separate permission from the FIPB/RBI for this specific purpose. However it is to be distinctly understood that there is no reservation for NRIs, FIIs and Foreign Venture Capital Funds registered with SEBI and multilateral and bilateral development financial institutions. and all NRIs, FIIs and Foreign Venture Capital Funds registered with SEBI will be treated on the same basis with other categories for the purpose of allocation. The transfer of Equity Shares to NRIs, FIIs and Foreign Venture Capital Funds registered with SEBI shall be subject to the conditions as may be prescribed by Government of India or RBI while granting such approvals.

**The Equity Shares have not been and will not be registered under the U.S. Securities Act 1933, as amended (the “Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S of the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares will be offered and sold only (i) in the United States to “Qualified Institutional Buyers”, as defined in Rule 144A of the Securities Act, and (ii) outside the United States in compliance with Regulation S and the applicable laws of the jurisdiction where those offers and sales occur.**

## OFFER STRUCTURE

The present Offer is for sale of up to 5,600,000 Equity Shares of Rs. 10 each of the Company by way of an offer for sale, for cash at a price of Rs. [●] per Equity Share of Rs. 10 aggregating Rs. [●] million. The Selling Shareholder has voluntarily decided to adopt the SEBI Guidelines, particularly the guidelines for the 100% Book Building Process save for specified deviations. Further, the processes, procedures and practices which are generally followed in the 100% Book Building Process save for specified deviations would be adopted.

	QIBs	Non-Institutional Bidders	Retail
Number of Equity Shares <sup>(1)</sup>	Up to 2,800,000 Equity Shares or Offer size less allocation to Non-Institutional Bidders and Retail Portion	Minimum of 1,400,000 Equity Shares or Offer size less allocation to QIBs and Retail Portion	Minimum of 1,400, 000 Equity Shares or Offer Size less allocation to QIBs and Non-Institutional Portion
Percentage of Offer Size available for allocation	Up to 50% or Offer size less allocation to Non - Institutional Portion and Retail Portion	Minimum 25% or Offer size less allocation to QIBs and Retail Portion	Minimum 25% or Offer Size less allocation to QIBs and Non-Institutional Portion
Basis of Allocation if respective category is oversubscribed	Discretionary	Proportionate	Proportionate
Minimum Bid	Bid Amount exceeding Rs. 50,000 and in multiples of 15 Equity Shares	Bid Amount exceeding Rs. 50,000 and in multiples of 15 Equity Shares	15 Equity Shares and in multiples of 15 Equity Shares
Maximum Bid	Not exceeding the size of the Offer, subject to applicable regulations	Not exceeding the size of the Offer	Such number of Equity Shares so as to ensure that the Bid Amount does not exceed Rs. 50,000
Mode of Transfer	Compulsory in dematerialised form	Compulsory in dematerialised form	Compulsory in dematerialised form
Trading Lot	One Equity Share	One Equity Share	One Equity Share
Minimum Lot size for allocation	One Equity Share	One Equity Share	One Equity Share
Who can Apply	Public financial institutions, as specified in section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multi-lateral and bi-lateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations, Insurance Companies registered with Insurance Regulatory and Development Authority, Provident Funds with minimum corpus of Rs. 250 million and Pension Funds with minimum corpus of Rs. 250 million.	Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, NRIs, societies and trusts	Individuals (including NRIs and HUFs) applying for such number of Equity Shares such that the Bid Amount does not exceed Rs. 50,000
Terms of Payment	Margin Amount applicable to QIB Bidders at the time of submission of Bid cum Application Form to the Syndicate Members	Margin Amount applicable to Non-Institutional Bidders at the time of submission of Bid cum Application Form to the Syndicate Members	Margin Amount applicable to Retail Bidders at the time of submission of Bid cum Application Form to the Syndicate Members
Margin Money	Nil	Full Bid Amount	Full Bid Amount

(1) Subject to valid bids being received at or above the Offer Price within the Price Band, under subscription, if any, in any of the categories would be allowed to be met with spill-over from any of the other categories, at the discretion of the Selling Shareholder and the BRLMs.

## OFFER PROCEDURE

### Book Building Procedure

This Offer is being voluntarily made by the Selling Shareholder through the 100% book building process, on the terms and conditions specified in this Preliminary Sale Document save for specified deviations. Pursuant to the decision of the Selling Shareholder, up to 50% of the Offer shall be available for allocation on a discretionary basis to Qualified Institutional Buyers. The Selling Shareholder, in consultation with the BRLMs, would have the discretion for any allocation to QIBs based on a number of criteria which would typically include but not limited to the following; prior commitment, investor quality, price, earliness of the bid, existing and continued shareholding of QIBs in the Company during the period prior to the Bid Opening Date and until the Pricing Date. Further, not less than 25% of the Offer shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 25% of the Offer shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Offer Price within the Price Band.

Bidders are required to submit their Bids through the Syndicate Members. The Selling Shareholder, in consultation with the BRLMs reserves the right to reject any Bid procured by any or all members of the Syndicate without assigning any reason thereof in case of QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders, the Selling Shareholders or the Company in consultation with the Selling Shareholder would have a right to reject the Bids only on technical grounds.

Investors should note that Equity Shares would be transferred to all successful Bidders only in dematerialised form.

### Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of the Syndicate Member for the purpose of making a Bid in terms of this Preliminary Sale Document. The Bidder shall have a maximum of three bidding options in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of equity shares, dispatch of the CAN and filing of the Final Sale Document with the RoC, the Bid cum Application Form shall be considered as the application form. Upon completing and submitting the Bid cum Application Form to a Syndicate Member, the Bidder is deemed to have authorised the Selling Shareholder and the Company to make the necessary changes in this Preliminary Sale Document and the Bid cum Application Form as would be required for filing the Final Sale Document with the RoC and as would be required by the RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid cum Application Form for various categories, is as follows:

Category	Colour of Bid cum Application Form
Indian Public or NRIs applying on a non-repatriation basis	White
Non-residents including NRIs, FIIs, Foreign Venture Capital Funds registered with SEBI and Multilateral and Bilateral development financial institutions applying on a repatriation basis	Blue

### Who can Bid

1. Indian nationals resident in India who are not minors , in single or joint names (not more than three);
2. Hindu undivided families or HUFs, in the individual name of the Karta. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: "Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the Karta". Bids by HUFs would be considered at par with those from individuals;
3. Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in equity shares;
4. Indian Mutual Funds registered with SEBI;
5. Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI regulations, as applicable);
6. Venture Capital Funds registered with SEBI;
7. Foreign Venture Capital investors registered with SEBI;
8. State Industrial Development Corporations;
9. Trusts/Societies registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts/Societies and who are authorised under their constitution to hold and invest in equity shares;
10. NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
11. Scientific and/ or industrial research organisations authorised to invest in equity shares;

12. Insurance Companies registered with Insurance Regulatory and Development Authority;
13. Provident Funds with minimum corpus of Rs.250 million and who are authorised under their constitution to hold and invest in equity shares;
14. Pension Funds with minimum corpus of Rs.250 million and who are authorised under their constitution to hold and invest in equity shares;
15. Multilateral and bilateral development financial institutions and
16. Foreign Institutional Investors registered with SEBI.

Note: The BRLMs, Syndicate Members and any associate of the BRLMs and Syndicate Members (except asset management companies on behalf of mutual funds, Indian financial institutions and public sector banks) cannot participate in that portion of the Offer where allocation is discretionary. Further, the BRLMs and Syndicate Members shall not be entitled to subscribe to this Offer in any manner except towards fulfilling their underwriting obligation.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under the relevant regulations or statutory guidelines and as specified in this Preliminary Sale Document.

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

1. No mutual fund scheme shall invest more than 10% of its net asset value in the Equity shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up capital carrying voting rights.
2. The Offer of Equity Shares to a single FII should not exceed 10% of the post-offer paid-up capital of the company i.e 10% of 28,000,000 Equity Shares. In respect of an FII investing in the Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital of the Company. As of now, the aggregate FII holding in the Company cannot exceed 24% of the total issued capital of the Company.
3. The SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000 prescribe investment restrictions on venture capital funds and foreign venture capital investors registered with SEBI. Accordingly, the holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 25% of the Company's paid-up capital. The aggregate holdings of venture capital funds and foreign venture capital investors registered with SEBI could, however, go upto 100% of the Company's paid-up equity capital.

Bidders may bid as per the limits prescribed above.

The above information is given for the benefit of the Bidders. The Company, the Selling Shareholder and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Preliminary Sale Document. Bidders are advised to make their independent investigations and ensure that their number of Equity Shares bid for do not exceed the applicable limits under laws or regulations.

#### **Maximum and Minimum Bid Size**

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of 15 Equity Shares and in multiples of 15 Equity Shares thereafter, subject to the Bid Amount not exceeding Rs.50,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs.50,000. In case the Bid Amount is over Rs.50,000 due to revision or on exercise of Cut-off option, the Bid would be considered for allocation under the Non-Institutional Bidders category. The Cut-off option is an option provided to the Retail Individual Bidders indicating their agreement to bid and purchase Equity Shares at the final Offer Price as determined by the Book Building Process.
- (b) **For other (Non-Institutional Bidders and QIBs) Bidders:** The Bid must be for a minimum of such number of Equity Shares so as to ensure that the minimum Bid Amount is above Rs. 50,000. Above this minimum Bid Amount the Bid can be in multiples of 15 Equity Shares. A Bid cannot be submitted for more than the size of the Offer. All Retail Individual Bidders whose Bid Amount exceeds Rs. 50,000 will be considered under this category. The maximum Bid by a QIB investor should not exceed the investment limits prescribed for them by the regulatory or statutory authorities governing them. In case of revision in Bids, Non-Institutional Bidders have to ensure that the Bid Amount is greater than Rs. 50,000 for being considered for allocation in the Non-Institutional Bidder category. In case the Bid Amount reduces to Rs. 50,000 or less due to a revision in Bids, Bids by Non-Institutional Bidders who are eligible for allocation in the Retail Individual Bidders' category would be considered for allocation under the Retail Portion. Non-Institutional Bidders and QIB bidders are not allowed to bid at "Cut-Off".

A QIB Bidder cannot withdraw its Bid after the Bid/Offer Closing Date.

### **Bidding Process**

1. The Preliminary Sale Document has been voluntarily forwarded to SEBI and also filed with the RoC at least three days before the Bid/Offer Opening Date.
2. The members of the Syndicate will circulate copies of the Preliminary Sale Document along with the Bid cum Application Form to potential investors.
3. Any investor who would like to obtain the Preliminary Sale Document along with the Bid cum Application Form can obtain the same from the corporate and/or registered office of the Company or from any of the BRLMs or Syndicate Members.
4. The Selling Shareholder and the BRLMs shall declare the Bid/Offer Opening Date, Bid/Offer Closing Date at the time of filing the Preliminary Sale Document with RoC and also publish the same in two widely circulated newspapers (one each in English and Hindi). This advertisement shall contain the salient features of the Preliminary Sale Document as specified in the prescribed form of the Companies Act if and to the extent applicable the method and process of bidding and the names and addresses of the BRLMs and Syndicate Members.
5. The Selling Shareholder and the BRLMs shall advertise the Price Band prior to the Bid Opening Date in two national newspapers (one each in English and Hindi). The Selling Shareholder shall retain the right to revise the Price Band during the Bidding Period at any level above or below the Price Band first advertised prior to the Bid Opening Date. In the event that the Selling Shareholder decides to revise the Price Band, the Selling Shareholder may in consultation with the BRLMs decide to either extend or not extend the Bidding Period. In the event that the Selling Shareholder decides to extend the Bidding Period the decision to extend the Bidding Period shall be published in two national newspapers (one each in English and Hindi).
6. The Syndicate Members shall start accepting Bids from the Bidders from the Bid/Offer Opening Date.
7. Investors who are interested in bidding for the Company's Equity Shares should approach any of the Syndicate Members or their authorised agent(s) to register their Bid.
8. The Bids should be submitted on the prescribed Bid cum Application Form only. Bid-cum-Application Forms should bear the stamp of the Syndicate Members. Bid-cum-Application Forms which do not bear the stamp of the Syndicate Members will be rejected.

### **Bidding**

1. Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the paragraph titled "Bids at Different Price Levels" below) and specify the demand (i.e. the number of Equity Shares bid for). The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Offer Price, the maximum number of Equity Shares bid for by a Bidder at or above the Offer Price within the Price Band will be considered for allocation and the rest of the Bid(s), irrespective of the bid price, will become automatically invalid.
2. The Bidder cannot bid on another Bid cum Application Form after his or her Bids on one Bid cum Application Form have been submitted to any Syndicate Member. Submission of a second Bid cum Application Form to either the same or to another Syndicate Member will be treated as multiple bidding and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the transfer of Equity Shares in this Offer. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the paragraph "Build up of the Book and Revision of Bids".
3. The Syndicate Members will enter each option into the electronic bidding system as a separate Bid and the Bid Amount paid by the Bidder and generate a Transaction Registration Slip (TRS), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form. It will be the responsibility of the Bidder to collect the TRSs from the Syndicate Member.
4. Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the paragraph titled "Terms of Payment".

### **Bids at Different Price Levels**

1. The Price Band will be advertised prior to the Bid Opening Date. The Bidders can bid at any price within the Price Band, in multiples of Rupee 1. The Bidding Period shall be open for at least 5 (five) days and not more than 10 (ten) days. The Selling Shareholder in consultation with the BRLMs shall finalise the Offer Price within the Price Band in accordance with this clause, without the prior approval of, or intimation to, the Bidders.
2. The Bidder can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders may bid at "Cut-off". However, bidding at "Cut-off" is prohibited for Non-Institutional Bidders and QIBs and such Bids from Non-Institutional Bidders and QIBs shall be rejected.**

3. Retail Individual Bidders who bid at the Cut-Off agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at Cut-Off shall deposit the Bid Amount based on the cap of the Price Band in the Escrow Account. In the event the Bid Amount is higher than the allocation amount payable by successful Retail Individual Bidders (i.e. the total number of Equity Shares allocated in the Offer multiplied by the Offer Price), successful Retail Individual Bidders shall receive the refund of the excess amounts from the Escrow Account.
4. The Price Band can be revised during the Bidding Period by the Selling Shareholder, without any restrictions. The Selling Shareholder, in consultation with the BRLMs, can revise the Price Band by informing the stock exchanges and issuing a press release and notification on the terminal of the Syndicate Member. In case of a revision to the Price Band, the revised Price Band and extension of the Bidding Period, if any, will be published in two national newspapers (one each in English and Hindi). In the event that the Selling Shareholder decides to extend the Bidding Period such decision shall be published in two national newspapers (one each in English and Hindi).
5. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders who had bid at Cut-Off could either (i) revise their bid or (ii) make additional payment based on the cap of the revised price band, with the Syndicate Members to whom the original bid was submitted. Retail Individual Bids which have been submitted at "Cut-off" will be considered valid even after any upward revision in the Price Band and such Retail Individual Bidders are deemed to have authorized the validity of their Bids at "Cut-off" even after the upward revision in Price Band. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 50,000, the bid will be considered for allocation under the Non-Institutional category in terms of this Preliminary Sale Document. If, however, the Bidder does not either revise the bid or make additional payment and the Offer Price is higher than the cap of the price band prior to revision, the number of shares bid for shall be adjusted for the purpose of allocation, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off.
6. In case of a downward revision in the price band announced as above, Retail Individual Bidders who have bid at Cut-off could either revise their bid or the excess amount paid at the time of bidding would be refunded from the Escrow Account.

#### **Escrow Mechanism**

The Selling Shareholder, the Company and the members of the Syndicate shall open Escrow Accounts with one or more Escrow Collection Banks in whose favour the Bidders shall make out the cheque or demand draft in respect of the Bid and/or revision. Cheques or demand drafts received towards Margin Amount from Bidders would be deposited in the Escrow Account for the Offer. The Escrow Collection Banks will act in terms of this Preliminary Sale Document and the Escrow Agreement. The monies in the Escrow Account for the Offer shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Banks shall transfer the monies from the Escrow Account to the Offer for Sale Account with the Bankers to the Offer. Payments of refund to the Bidders shall also be made from the Escrow Collection Banks, as per the terms of the Escrow Agreement and of this Preliminary Sale Document.

The Bidders should note that the escrow mechanism has been established as an arrangement between the Selling Shareholder, the Company, the members of the Syndicate, the Escrow Collection Bank(s) and the Registrar to the Offer, to facilitate collections from the Bidders.

#### **Terms of Payment and Payment into the Escrow Collection Account**

Each Bidder shall, with the submission of the Bid cum Application Form, draw a cheque, demand draft for the Bid Amount of the Bid in favour of the Escrow Account of the Escrow Collection Bank (for details refer to the paragraph "Payment Instructions") and submit the same to the Syndicate Member with whom the Bid is being deposited. Bid-cum-Application Forms accompanied by cash shall not be accepted. The Bid Amount has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

The Syndicate Member shall deposit the cheque/ demand draft with the Escrow Collection Bank. The Escrow Collection Bank will hold all monies collected for the benefit of the Bidders until such time as the Designated Date. On the Designated Date, the Escrow Collection Bank shall transfer the funds in respect of Successful Bidders from the Escrow Account, as per the terms of the Escrow Agreement, into the Public Offer Account with the Bankers to the Offer. The balance amounts after the transfer to the Public Offer Account, lying credited with the Escrow Collection Banks shall be held for the benefit of the Bidders who are entitled to refunds. On the Designated Date and no later than 15 working days from the Bid/Offer Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjustment for allocation, to the respective Bidders.

Each category of Bidders i.e. QIBs, Non-Institutional Bidders and Retail Individual Bidders would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The details of the Margin Amount payable by each category of Bidders is mentioned under the heading "Offer Structure". Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Offer Price and the Margin Amount paid at the time of Bidding shall be payable by the Bidder no later than Pay-

in Date, which shall be a minimum period of two days from date of communication of the allocation list to the Syndicate Members . If the payment is not made favouring the Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled. However, if the Syndicate Members do not waive such payment, the full amount of payment has to be made at the time of submission of the Bid cum Application Form.

Where the Bidder has been allocated lesser number of Equity Shares than they had bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 working days from the Bid/Offer Closing Date.

## Electronic Registration of Bids

1. The Syndicate Members will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity with each city where a Stock Exchange center is located in India, where the Bids are accepted.
2. NSE and BSE will offer a screen-based facility for registering Bids for the Offer. This facility will be available on the terminals of the Syndicate Members and their authorised agents during the Bidding Period. The Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for Book Building on an hourly basis. On the Bid Closing Date, the Syndicate Members will upload the Bids until such time as permitted by the Stock Exchanges.
3. The aggregate demand and price for Bids registered on each of the electronic facilities of NSE and BSE will be downloaded on a half-hourly basis, consolidated and displayed online at all bidding centers. A graphical representation of consolidated demand and price would be made available at the bidding centres during the Bidding Period.
4. At the time of registering each Bid, the Syndicate Members shall enter the following details of the investor in the on-line system:
  - (a) Name of the investor
  - (b) Investor Category - Individual, Corporate, NRI, FII, or Mutual Funds etc.
  - (c) Numbers of Equity Shares bid for
  - (d) Bid price
  - (e) Bid cum Application Form number
  - (f) Whether payment is made upon submission of Bid cum Application Form
  - (g) Depository Participant Identification No. and Client Identification No. of the dematerialised account of the Bidder.
5. A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's sole responsibility to obtain the TRS from the Syndicate Member.** The registration of the Bid by the Syndicate Member does not guarantee that the Equity Shares shall be allocated either by the Selling Shareholder or the members of the Syndicate or the Company. Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
6. The Syndicate Members also has the right to accept the Bid or reject it without assigning any reason, in case of QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders, Bids would not be rejected except on the technical grounds listed elsewhere in this Preliminary Sale Document.
7. It is to be distinctly understood that the permission given by NSE and/or BSE to use their network and software of the on-line IPO system should not in any way be deemed or construed that the compliance with various statutory and other requirements by the Selling Shareholder, the Company, BRLMs are cleared or approved by NSE and/or BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the applicable statutory and other requirements; nor does it take any responsibility for the financial or other soundness of the Company, the Promoter, the management of the Company or any scheme or the project.
8. It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that the Preliminary Sale Document has been cleared or approved by NSE and the BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Preliminary Sale Document; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and/or the BSE.

## Build Up of the Book and Revision of Bids

1. Bids registered by various Bidders through the Syndicate Members shall be electronically transmitted to the NSE or BSE mainframe on an on-line basis. Data would be uploaded on a hourly basis.
2. The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.
3. Any revision in the Price Band will be widely disseminated by informing the stock exchanges, by issuing a public notice in two national newspapers (one each in English and Hindi) and one regional newspaper and also indicating the change on the relevant websites and the terminals of the Syndicate Members. Revisions of the Price Band may or may not be accompanied by an extension of the Bid Closing Date.
4. During the Bidding Period, any Bidder who has registered an interest in the Equity Shares at a particular price level is free to revise the Bid to a higher price level (upward revision) as well as to lower price level (downward revision) subject to the floor of the Price Band using the printed Revision Form which is a part of the Bid cum Application Form.
5. Revisions can be made to both the desired number of Equity Shares and the bid price by using the Revision Form. The Bidder must complete the details of all the options in the Bid cum Application Form or earlier Revision Form and revisions for all the options as per the Bid cum Application Form or earlier Revision Form. For example, if a Bidder has bid for three

options in the Bid cum Application Form or the earlier Revision Form and is changing only one of the options in the Revision Form, the Bidder must still fill the details of the other two options that are not being revised, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the Syndicate Members.

6. The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the earlier Bid, the Bidders will have to use the services of the same Syndicate Member through whom the original Bid was placed. Bidders are advised to retain copies of the blank Revision Form.
7. Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Preliminary Sale Document. In case of QIBs, the Syndicate Member may at their sole discretion waive the payment requirement at the time of one or more revisions by the Bidders.
8. When a Bidder revises a Bid, the Bidder shall surrender the earlier TRS and get a revised TRS from the Syndicate Member. It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of having revised the Bid.
9. In case of discrepancy of data between the electronic book and the physical book, the decision of the BRLMs based on the physical records of the Bid cum Application Form shall be final and binding on all concerned.

#### **Price Discovery and Allocation**

1. After the Bid/Offer Closing Date, the BRLMs shall analyse the demand generated at various price levels and discuss pricing strategy with the Selling Shareholder.
2. The Selling Shareholder will, in consultation with the BRLMs, finalise the "Offer Price". The Selling Shareholder will in consultation with the BRLMs finalise the number of Equity Shares to be allocated to successful QIB Bidders. After the determination of the Offer Price, the Selling Shareholder shall transfer the Equity Shares allocated to QIBs and Non-Institutional Bidders at the Offer Price. Notwithstanding what is stated above, the Selling Shareholder reserves the right, at its sole discretion, after determination of the Offer Price to transfer the Equity Shares to Retail Individual Bidders at a differential lower price as compared to the Offer Price at which Equity Shares will be transferred to Non-Institutional Bidders and QIBs.
3. The allocation for QIBs of up to 50% of the Offer Size would be discretionary. The Selling Shareholder, in consultation with the BRLMs, would have the discretion for any allocation to QIBs based on a number of criteria which will typically include but not be limited to prior commitment, investor quality, price, earliness of the bid, existing and continued shareholding of the QIB in the Company during the period prior to the Bid Opening Date and until the Pricing Date. The allocation to Non-Institutional Bidders and Retail Individual Bidders of not less than 25% and not less than 25% of the Offer Size, respectively, would be on proportionate basis, in consultation with the Designated Stock Exchange, subject to valid Bids being received at or above the Offer Price within the Price Band.
4. Under-subscription, if any, in any category, would be allowed to be met with spill-over from any of the other categories, at the sole discretion of the Selling Shareholder and BRLMs.
5. Allocation to NRIs, FIIs, Foreign Venture Capital Funds and Multilateral and Bilateral development financial institutions applying on repatriation basis will be subject to the terms and conditions stipulated by the FIPB and RBI while granting permission for Offer / allocation of Equity Shares to them.
6. The BRLMs, in consultation with the Selling Shareholder, shall notify the Syndicate Members of the Offer Price, allocations to their respective Bidders and the balance amounts payable by the Bidders, where the full Bid Amount has not been collected from the Bidders.
7. The Selling Shareholder reserves the right to cancel the Offer any time after the Bid/Offer Opening Date.
8. QIB Bidders shall not be allowed to withdraw their Bid after the Bid/ Offer Closing Date.
9. The allocation details shall be put on the website of the Registrar to the Offer.

#### **Signing of Underwriting Agreement and RoC Filing**

1. The Selling Shareholder, the Company, the BRLMs and the Syndicate Members shall enter into an Underwriting Agreement on the Selling Shareholder and the BRLMs reaching agreement upon the Offer Price and allocation(s) to the Bidders.
2. After the Underwriting Agreement is signed between the Selling Shareholder, the Company, the BRLMs and the Syndicate Members, the Final Sale Document will be filed with RoC for public inspection. The Final Sale Document would have details of the Offer Price, Offer Size, underwriting arrangements and would be complete in all material respects.

#### **Advertisement regarding Offer Price and Final Sale Document**

A statutory advertisement will be issued by the Selling Shareholder after the filing of the Final Sale Document with the RoC. This

advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Offer Price. Any material updates between the date of Preliminary Sale Document and the date of Final Sale Document will be included in such statutory advertisement.

#### **Issuance of Confirmation of Allocation Note**

1. The BRLMs or Registrar to the Offer shall send to the Syndicate Members a list of their Bidders who have been allocated Equity Shares in the Offer.
2. The BRLMs or Syndicate Members would then send the CAN to their Bidders who have been allocated Equity Shares in the Offer. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Offer Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid into the Escrow Account for the Offer at the time of bidding shall pay in full the amount payable into the Escrow Account for the Offer by the Pay-in Date specified in the CAN.
3. Bidders who have been allocated Equity Shares and who have already paid into the Escrow Account for the Offer at the time of bidding shall directly receive the CAN from the Registrar to the Offer subject, however, to realisation of their cheque or demand draft paid into the Escrow Account for the Offer. The dispatch of a CAN shall be a deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Offer Price for all the Equity Shares allocated to such Bidder.

#### **Designated Date and Transfer in the Offer**

After the funds are transferred from the Escrow Account to the Public Offer Account on the Designated Date, the Selling Shareholder would ensure the transfer of Equity Shares to the Successful Bidders within two working days of the finalisation of the basis of allocation.

All Successful Bidders will receive credit for the Equity Shares directly in their depository account. **Equity Shares will be transferred only in the dematerialised form to the Successful Bidders.** Successful Bidders will have the option to re-materialise the Equity Shares so transferred, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be transferred to them pursuant to this Offer.

The Selling Shareholder will ensure the allocation of Equity Shares within 15 working days of closure of the Bidding.

#### **GENERAL INSTRUCTIONS**

##### **Do's:**

1. Check if you are eligible to apply;
2. Read all the instructions carefully and complete the Resident Bid cum Application Form (white in colour) or Non-Resident Bid cum Application Form (blue in colour), as the case may be;
3. Ensure that the application form bears the correct details of the Depository Participant, Beneficiary Account, bank details and the address in accordance with those maintained with the Depository Participant;
4. Ensure that the names mentioned in the Application Form are in the same sequence as in the Beneficiary Account maintained with the Depository Participant as there will be no transfer of Equity Shares in physical form;
5. Ensure that the Bids are submitted at the bidding centres only on forms bearing the stamp of the Syndicate Member ;
6. Ensure that you bid only within the Price Band;
7. Ensure that you have collected a TRS for all your Bid options;
8. Submit revised Bids to the same Syndicate Member through whom the Original Bid was placed and obtain a revised TRS; and
9. Ensure that your Bid Amount corresponds to the category under which you have bid.

##### **Don'ts:**

1. Do not Bid for lower than the minimum Bid size;
2. Do not Bid/ revise the Bid to a price that is less than the floor of the Price Band or higher than the cap of the Price Band;
3. Do not Bid on another Bid cum Application Form after you have submitted the Bid to the Syndicate Member ;
4. Do not pay the Bid amount in cash;
5. Do not send Bid-cum-Application Forms by post; instead hand them over to a Syndicate Member only;

6. Do not Bid at cut off price (for Non-Institutional Bidders and QIBs);
7. Do not fill up the Bid cum Application Form for an amount that exceeds the investment limit or maximum number of Equity Shares that can be held by him under the applicable laws or regulations or maximum amount permissible under the applicable regulations; and
8. Do not submit Bid accompanied with Stockinvest.

#### **INSTRUCTIONS FOR COMPLETING THE BID CUM APPLICATION FORM**

Bidders can obtain Bid cum Application Forms and / or Revision Forms from the BRLMs or Syndicate Members.

#### **Bids and Revision of Bids**

Bids and revision of Bids must be:

- a) Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians and NRI applying on non-repatriation basis and blue colour for NRI, FIIs and Foreign Venture Capital Funds, Multilateral and Bilateral development financial institutions registered with SEBI, applying on repatriation basis).
- b) Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid-cum-Application Forms or Revision Forms are liable to be rejected.
- c) For Retail Individual Bidders, the Bids must be for a minimum of 15 Equity Shares and in multiples of 15 thereafter subject to a maximum Bid Amount of Rs.50,000.
- d) For Non Institutional and QIB Bidders, Bids must be for a minimum of such number of Equity Shares so as to ensure that the Bid Amount exceeds Rs. 50,000 and in multiples of 15 Equity Shares thereafter. Bids cannot be made for more than the size of the Offer. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable laws.
- e) In single name or in joint names (not more than three).
- f) Thumb impressions and signatures other than in the languages specified in the Eighth Schedule in the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

#### **Bidder's Bank Details**

The name of the sole or first Bidder's bank, branch, type of account and account numbers must be mandatorily completed in the Bid cum Application Form. This is required for the Bidder's own safety so that these details can be printed on the refund orders. Refund orders will be either printed with these bank account details or as per the bank account details mentioned in the Bidder's depository account. Bid-cum-Application Forms without these details are liable to be rejected.

#### **Bidders Depository Account Details**

Equity Shares shall be transferred only in dematerialised form. All Bidders should mention their Depository Participant's name, Depository Participant-Identification number and Beneficiary Account number in the Bid cum Application Form. Please ensure that in case of joint names, the names stated in the Bid cum Application Form should be in the same order as the names stated in the Bidders' Depository Account.

#### **Bids under Power of Attorney**

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum and articles of association and/or bye-laws must be lodged along with the Bid cum Application Form. Failing this, the Selling Shareholder in consultation with the BRLMs reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, the Selling Shareholder in consultation with the BRLMs reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of Bids made by Insurance Companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be logged along with the Bid cum Application Form. Failing this the Selling Shareholder in consultation with the BRLMs reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this the Selling Shareholder in consultation with the BRLMs

reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefore.

The Selling Shareholder in consultation with the BRLMs in their absolute discretion, reserve the right to relax the above conditions of simultaneous lodging of supporting information and documents along with the Bid cum Application form, subject to such terms and conditions as they may deem fit.

**Bids by eligible Non-Residents, NRIs, FIIs and Foreign Venture Capital Funds registered with SEBI on a repatriation basis**

1. NRIs / FIIs / Foreign Venture Capital Funds registered with SEBI/ Multilateral and Bilateral development financial institutions Bidders can obtain the Bid-cum-Application Forms from the BRLMs or the Syndicate Members.
2. NRIs / FIIs / Foreign Venture Capital Funds registered with SEBI/ Multilateral and Bilateral development financial institutions may please note that only such Bids as are accompanied by payment in free foreign exchange through approved banking channels shall be considered for allocation on repatriation basis.
3. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the Bid-cum-Application form meant for Resident Indians (white in colour) and allocation, if any, would be on non-repatriation basis.
4. Bids and revision to Bids must be made:
  - a. On the Bid-cum-Application Form or the Revision Form, as applicable, (blue in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
  - b. In a single name or joint names (not more than three).
  - c. On a Revision Form with the same application number as the Bid Form.
5. NRIs - For a minimum of 15 equity shares and in multiples of 15 thereafter subject to a maximum Bid amount of Rs. 50,000 for the Bid to be considered as part of the Retail Portion. Bids for Bid Amount above Rs. 50,000 would be considered under Non Institutional Category for the purposes of allocation; FIIs - for a Bid Amount exceeding Rs. 50,000 and in multiples of 15 Equity Shares thereafter subject to a maximum of 10% of equity Share Capital of the Company; for further details see "Offer Procedure - Maximum and Minimum Bid Size".

Transfer of the Equity Shares to NRIs, FIIs or Foreign Venture Capital Funds registered with SEBI shall be subject to FIPB and RBI approvals or any other requisite approval as may be necessary. Sale proceeds of such investments in Equity Shares will be allowed to be repatriated along with the income thereon subject to the permission of the RBI and subject to Indian tax laws and regulations and any other applicable laws provided the investments are made by inward remittances from outside India through approved banking channels or out of funds held in NRE (Non Resident External) or FCNR (Foreign Currency Non Resident) accounts.

Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and / or commission. In case of Bidders who remit money payable upon submission of the Bid-cum-Application Form or Revision Form through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid-cum-Application Form. The Selling Shareholder and the Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

**PAYMENT INSTRUCTIONS**

The Selling Shareholder, the BRLMs and the Syndicate Members shall open Escrow Accounts for the Offer with the Escrow Collection Banks for the collection of the Bid Amounts and margin amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Offer.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

**Payment into Escrow Account for the Offer**

The Bidders who have paid the Bid Amount/ Margin on application shall draw a payment instrument for the Bid Amount/ Margin in favour of the Escrow Account and submit the same to the Syndicate Members along with the Bid cum Application Form.

In case the Margin Amount is less than 100% of the Bid Amount, on receipt of the CAN, an amount equal to any difference between the amount payable by the Bidder for Equity Shares allocated at the Offer Price and the Margin Amount paid at the time of Bidding, shall be paid by the Bidders into the Escrow Account for the Offer within the period specified in the CAN which shall be a minimum period of two days from the date of communication of the allocation list to the Syndicate Member by the BRLMs.

The instruments for payment into the Escrow Account for the Offer should be drawn in favour of:

- a) In case of Resident Bidders: **“Escrow Account- GOI Offer DCI”**
- b) In case of Non Resident Bidders: **“Escrow Account - GOI Offer DCI - NR”**

In case of Bids by Non Residents/NRIs applying on repatriation basis, the payments must be made through Indian Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non-Resident Ordinary (NRO) Accounts of Non-Resident subscribers applying on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to NRE or FCNR Account.

In case of Bids by FIIs, the payment should be made out of funds held in special rupee account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting to the special rupee account. Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Account. The monies deposited in the Escrow Account of the Company will be held for the benefit of the Bidders until the Designated Date.

On the Designated Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account for the Offer as per the terms of the Escrow Agreement into the Public Offer Account with the Bankers to the Offer. On the Designated Date and no later than 15 working days from the Bid/Offer Closing Date, the Escrow Collection Bank shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for allocation, to the Bidders.

#### **PAYMENT BY STOCKINVEST**

In terms of RBI Circular No. FSC BC 42/24.47.00/2003-04 dated November 5, 2003, the Stockinvest Scheme has been withdrawn with immediate effect. Hence, payment through stockinvest would not be accepted in this Offer.

#### **SUBMISSION OF BID CUM APPLICATION FORM**

All Bid-cum-Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the Syndicate Members at the time of submission of the Bid cum Application Form unless waived by the Syndicate Members at its sole discretion.

The collection center of the Syndicate Members will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder. No separate receipts shall be issued for the money paid on the submission of Bid cum Application Forms or Revision Forms.

#### **OTHER INSTRUCTIONS**

##### **Joint Bids in the case of Individuals**

Bids may be made in single or joint names (not more than three). In the case of joint Bids, all payments will be made in favour of the Bidder whose name appears first in the Bid cum Application Form or Revision Form (“First Bidder”). All communications will be addressed to the First Bidder and will be dispatched to his or her address.

##### **Multiple Bids**

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

The Selling Shareholder in consultation with the BRLMs reserves the right to reject, in their absolute discretion, all or any multiple Bids in all or any categories.

##### **‘PAN’ or ‘GIR’ Number**

Where the maximum Bid for Equity Shares by a Bidder is for the total value of Rs. 50,000 or more, i.e. the actual numbers of Equity Shares Bid for multiplied by the Bid Amount is Rs. 50,000 or more, the Bidder or, in the case of a Bid in joint names, each of the Bidders should mention his or her Permanent Account Number (PAN) allotted under the I.T. Act or where the same has not been allotted, the General Index Register (GIR) Number and the Income-Tax Circle, Ward or District. In case neither the PAN nor the GIR number has been allotted, the Bidders must mention, “Not allotted” in the appropriate place. Bid-cum-Application Forms without this information will be considered incomplete and are liable to be rejected.

## **RIGHT TO REJECT BIDS**

The Selling Shareholder, in consultation with the BRLMs reserves the right to reject any Bid without assigning any reason therefore in case of QIBs. In case of Non-Institutional Bidders and Retail Individual Bidders, the Selling Shareholder or the Company in consultation with the Selling Shareholder, has the right to reject Bids based on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

## **GROUND FOR TECHNICAL REJECTIONS**

Bidders are advised to note that Bids are liable to be rejected, technical grounds, including the following:

1. Amount paid does not tally with the highest value of Equity Shares Bid for;
2. Bank account details (for refund) are not given;
3. Age of First Bidder not given;
4. Bid by minor;
5. PAN or GIR Number not given if Bid is for Rs. 50,000 or more;
6. Bids for lower number of Equity Shares than specified for that category of investors;
7. Bids at a price less than the lower end of the Price Band;
8. Bids at a price higher than the cap of the Price Band;
9. Bids at Cut-Off Price by Non-Institutional Bidders or QIBs;
10. Bids for number of Equity Shares which are not multiples of 15 Equity Shares;
11. Category not ticked;
12. Signature of Sole and/ or Joint Bidder missing;
13. Bid cum Application Form bears inadequate Depository Account and Beneficiary Account details;
14. Multiple Bids as defined elsewhere;
15. In case of Bids under powers of attorney or by limited companies, corporate, trust etc., relevant documents are not submitted;
16. Bids accompanied with Stockinvest;
17. Bid cum Application Form does not have the stamp of the Syndicate Members;
18. Bid cum Application Form that does not have Bidders depository account details;
19. Bid-cum-Application Forms are not submitted by the Bidders within the time prescribed as per the Bid cum Application Form, Bid/Offer Opening Date advertisement and this Preliminary Sale Document and as per the instructions in this Preliminary Sale Document and the Bid cum Application Form;
20. Bids for amounts greater than the maximum permissible amounts prescribed by the regulations see the details regarding the same under the section titled "Offer Structure".
21. Bids from OCBs; or
22. Bids not validly executed, without signatures or supporting documentation.

The Equity Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, "U.S. persons" (as defined in Regulation S of the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares will be offered and sold only (i) in the United States to "qualified institutional buyers", as defined in Rule 144A of the Securities Act, and (ii) outside the United States in compliance with Regulation S and the applicable laws of the jurisdictions where those offers and sales occur.

## **EQUITY SHARES IN DEMATERIALIZED FORM WITH NSDL OR CDSL**

The Equity Shares in this Offer shall be transferred only in a dematerialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode).

All Bidders can seek transfer only in dematerialised mode. Bids from any investor without relevant details of his or her depository account are liable to be rejected.

- a) A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.

- b) The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's Identification number) appearing in the Bid-cum-Application Form or Revision Form.
- c) Equity Shares allotted to a successful Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder
- d) Names in the Bid-cum-Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- e) Non-transferable allocation advice or refund orders will be directly sent to the sole or first Bidder by the Registrar to this Offer.
- f) If incomplete or incorrect details are given under the heading 'Request for Equity Shares in electronic form' in the Bid-cum-Application Form or Revision Form, it is liable to be rejected.
- g) The Bidder is responsible for the correctness of his or her demographic details given in the Bid-cum-Application Form vis-à-vis those with his or her Depository Participant.
- h) It may be noted that Equity Shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where the Equity Shares are listed have electronic connectivity with CDSL and NSDL.
- i) The trading of the Equity Shares of the Company would be in dematerialised form only for all investors.
- j) Bidders are advised to instruct their Depository Participants to accept any Equity Shares transferred to them pursuant to this Offer.

#### **COMMUNICATIONS**

All future communications in connection with Bids made in the Offer should be addressed to the Registrar to the Offer quoting the full name of the sole or First Bidder, Bid cum Application Form number, number of Equity Shares applied for, date of Bid cum Application Form, name and address of the Syndicate Member where the Bid was submitted and cheque, draft number and issuing bank thereof.

#### **UNDERTAKING BY THE SELLING SHAREHOLDER**

The Selling Shareholder undertakes as follows:

- a) that the complaints received in respect of this Offer shall be attended to expeditiously and satisfactorily. The Selling Shareholder has authorised the Company Secretary who is the Compliance Officer and the Registrar to the Offer to redress all complaints, if any, of the investors participating in this Offer;
- b) that the funds required for dispatch of refund orders or allocation advice by registered post or speed post shall be made available to the Registrar to the Offer;
- c) that the refund orders or allocation advice to the NRIs or FIIs shall be dispatched within specified time.

#### **DISPATCH OF REFUND ORDERS**

The Selling Shareholder shall ensure dispatch of refund orders of value over Rs. 1,500 by registered post or speed post only and adequate funds for the purpose shall be made available to the Registrar to the Offer by the Selling Shareholder.

#### **PROCEDURE AND TIME SCHEDULE FOR ALLOCATION OF EQUITY SHARES**

The Selling Shareholder or the Company in consultation with the BRLMs, reserves at its absolute and uncontrolled discretion and without assigning any reasons thereof, the right to accept any Bid in whole or in part. In case a Bid is rejected in full, the whole of the Bid Amount will be refunded to the Bidder within 15 working days of the Bid/Offer Closing Date. In case a Bid is rejected in part, the excess Bid Amount will be refunded to the Bidder within 15 working days of the Bid/Offer Closing Date. The Selling Shareholder will ensure the allocation of the Equity Shares within 15 working days from the Bid/Offer Closing Date. The Selling Shareholder shall pay interest at the rate of 15% per annum (for any delay beyond the periods as mentioned above), if transfer is not made, refund orders, are not dispatched and/ or demat credits are not made to investors within two working days from the date of allocation.

#### **DISPOSAL OF APPLICATIONS AND APPLICATION MONEY**

The Selling Shareholder shall ensure dispatch of allocation advice, refund orders and giving of benefit to the Beneficiary Account with Depository Participants and submission of the transfer details with the Stock Exchanges within two working days of **finalisation of the basis of allocation of Equity Shares**. The Selling Shareholder shall ensure the dispatch of refund orders, if any, of value up to Rs. 1,500 "Under Certificate of Posting", and dispatch of refund orders above Rs. 1,500, if any, by registered post or speed post at the sole or First Bidder's sole risk.

Refunds will be made by cheques, pay orders or demand drafts drawn on a bank appointed by the Selling Shareholder as a refund banker and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

**No separate receipts shall be issued for the money payable on the submission of Bid-cum-Application Forms or Revision Forms. However, the collection center of the Syndicate Members will acknowledge the receipt of the Bid-cum-Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid-cum-Application Form for the records of the Bidder.**

#### **INTEREST ON REFUND OF EXCESS BID AMOUNT**

The Selling Shareholder shall pay interest at the rate of 15% per annum on the excess Bid Amount received, if refund orders are not dispatched within 15 working days from the Bid/Offer Closing Date.

#### **RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES**

Foreign investment in Indian securities is regulated through the Industrial Policy 1991 of Government of India and FEMA. While the Industrial Policy 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy 1991, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. The government bodies responsible for granting foreign investment approvals are the Foreign Investment Promotion Board of the Government of India ("FIPB") and the RBI. Under present regulations, under the portfolio investment scheme the maximum permissible FII investment in the Company is restricted to 24% of the total issued capital of the Company. This can be raised to 100% by adoption of a special resolution by the shareholders of the Company however, as of the date hereof, no such resolution has been recommended to the shareholders of the Company for adoption.

#### **DEVIATIONS FROM SEBI GUIDELINES**

The Government has voluntarily adopted the SEBI Guidelines, particularly the guidelines for the 100% Book Building Process, for the purposes of the Offer, save and except for certain deviations, which are as follows:

- a) The Price Band to be advertised for the purposes of inviting bids and carrying out book building will not be disclosed in the Preliminary Sale Document and would be advertised by the Government up to one day prior to the Bid Opening Date.
- b) The Price Band would be revised, if necessary, without the need to extend the Bidding Period.
- c) The terms of the Offer would provide for an automatic reduction of the demand (i.e. the number of shares bid for) of Retail Individual Bidders who have bid at Cut-off price to keep it within the payment already made by them, in case of any upward revision in the Price Band.
- d) The Government would reserve the right at its sole discretion to offer the shares to Retail Individual Bidders at a differential lower price as compared to the price for QIB and Non Institutional Bidders.
- e) The post-offer period for completion of various activities would be defined as 15 working days instead of 15 calendar days.
- f) The bids received at the bidding centers would be permitted to be uploaded at intervals of one hour on all bidding days and up to the time allowed by NSE and BSE on the last day of bidding.

## BASIS FOR OFFER PRICE

The Offer Price will be determined by the Selling Shareholder in consultation with the BRLMs on the basis of assessment of market demand for the offered Equity Shares by way of Book Building.

### Quantitative Factors

Information provided in the Section is derived from the financial statements prepared in accordance with Indian GAAP.

#### 1. Adjusted Earning Per Share (EPS)

		Rupees	Weight
1	Year ended March 31, 2001	46.16	1
2	Year ended March 31, 2002	31.53	2
3	Year ended March 31, 2003	56.09	3
	Weighted Average	46.25	

(a) The EPS has been computed on the basis of Adjusted Profit for the respective years after considering the impact of accounting policy changes and prior period adjustments / regroupings pertaining to earlier years

(b) The denominator considered for the purpose of calculating the EPS is the weighted average number of Equity Shares outstanding during the year.

#### 2. Price/Earning (P/E) ratio in relation to Offer Price of Rs. [\*]

(a) EPS for the year ended March 31, 2003 is Rs. 56.09.

(b) P/E based on the EPS for the year ended March 31, 2003 is [\*].

(c) Industry P/E

(i) Highest - 15.0

(ii) Lowest - 7.1

(iii) Industry Composite - 9.9

(1) For computing the P/E ratio, we have used the trailing 12 months ended March 31, 2003 EPS from Capital Market Volume XVIII/24 dated February 2, 2004-February 15, 2004 under Category: Oil Drilling / Allied Services and the BSE closing price, January 23, 2004.

#### 3. Average Return on Net Worth

		Percentage	Weight
1.	Year ended March 31, 2001	27.80	1
2	Year ended March 31, 2002	16.60	2
3	Year ended March 31, 2003	23.87	3
	Weighted Average	22.10	

(a) The average return on net worth has been computed on the basis of Adjusted Profit for the respective years after considering the impact of accounting policy changes and prior period adjustments / regroupings pertaining to earlier years.

#### 4. Minimum Return on increased net worth required to maintain pre-Offer EPS

There is no change in net worth due to the Offer being an Offer for Sale.

#### 5. Net Asset Value per Share, as at March 31, 2003, is Rs.234.95

#### 6. Net Asset Value per Share after Offer will not change due to the Offer being an Offer for Sale

#### 7. Offer Price Per Share: Rs. [\*]

Offer Price per Share will be determined on conclusion of book building process based on the assessment of demand from the investors.

#### 8. Comparison of Accounting Ratios

DCI is categorized under the category oil drilling / allied services as per the magazine 'Capital Market. There are no companies listed under that category of similar size and profile. Hence, we have not included the peer group comparison of accounting ratios in the following table.

	EPS (Rs.)	P/E	RONW (%)	NAV (Rs.)
DCI <sup>(1)</sup>	56.09	8.6	23.87	234.95
Industry Average <sup>(2)</sup>	18.88	9.9	10.83	81.81

(1) EPS for the year ended March 31, 2003.

(2) For computing the P/E ratio, we have used the trailing 12 months ended March 31, 2003 EPS from Capital Market Volume XVIII/24 dated February 2, 2004-February 15, 2004 under Category: Oil Drilling / Allied Services and the BSE closing price, January 23, 2004.

### SECTION III: THE COMPANY

Unless the context indicates or otherwise requires references to “we”, “us”, “our”, the “Company” or “our Company” or “DCI” this Preliminary Sale Document mean Dredging Corporation of India Limited, a public limited company incorporated under the Companies Act. 1956.

#### CAPITAL STRUCTURE

Share Capital as on September 30, 2003 is set forth below. As of February 14, 2004, the share capital was unchanged from September 30, 2003.		(Rs.)
	Aggregate nominal value	Aggregate value at Offer Price
<b>A. Authorised Capital</b> 30,000,000 Equity Shares of Rs. 10 each	<b>300,000,000</b>	<b>[-]</b>
<b>B. Issued, Subscribed And Paid-Up Capital</b> 28,000,000 Equity Shares of Rs. 10 each	<b>280,000,000</b>	<b>[-]</b>

At an EGM held on March 10, 1992, a subdivision of shares was approved by our shareholders resulting in each Equity Share of Rs. 1,000 sub-divided into 100 shares of Rs. 10 each and consequently

- The authorized share capital of our Company was altered from 300,000 Equity Shares of Rs. 1,000 each to 30,000,000 Equity Shares of Rs. 10 each; and
- The paid-up share capital of our Company was altered from 280,000 Equity Shares of Rs. 1,000 each to 28,000,000 Equity Shares of Rs. 10 each.

At the AGM held on September 29, 1999, an increase in the authorized share capital of our Company was approved by our shareholders subject to the approval of the President of India, resulting in the authorized share capital of our company increasing from Rs. 300,000,000 divided into 30,000,000 Equity Shares of Rs. 10 each to Rs. 600,000,000 divided into 60,000,000 Equity Shares of Rs. 10 each. Approval from President of India is still awaited. The increase in authorized share capital will take effect only after receipt of approval from President of India.

## Notes to the Capital Structure

### 1. Share Capital History of our Company:

Date of Allotment	No. of Equity Shares	Face Value <sup>(1)</sup> (Rs.)	Issue/ Offer Price (Aggregate) (Rs.)	Consideration	Reasons for allotment	Cumulative Paid-up Capital (Rs.)	Cumulative Share Premium (Rs.)
April 1, 1976	14	1,000	14,000	Cash	Subscription on signing of Memorandum of Association	14,000	NIL
March 26, 1977	198,386	1,000	198,386,000	Otherwise than cash	Being Equity Shares allotted towards dredgers and other floating craft (capital assets) transferred by Gol to DCI	198,400,000	NIL
March 31, 1978	81,600	1,000	81,600,000	Otherwise than by cash	Being Equity Shares allotted towards dredger VIII transferred by Gol to DCI.	280,000,000	NIL
<b>Total</b>	<b>280,000 <sup>(1)</sup> &amp; <sup>(2)</sup></b>					280,000,000	<b>NIL</b>

- Notes:
- (1) At an EGM held on March 10, 1992, a subdivision of Equity Shares was approved by our shareholders resulting in each Equity Share of Rs. 1,000 sub-divided into 100 shares of Rs. 10 each.
  - (2) In fiscal 1992, the Gol disinvested 402,300 Equity Shares of Rs. 10 each held by it in the share capital of our Company in favor of SBI Mutual Fund and transferred in the name of its trustee SBI Capital Markets Account SBI MF.

### 2. Promoters' Contribution and Lock-in

Clause 4.2 of the SEBI Guidelines dealing with promoters' contribution provides that in case of an offer for sale, promoters' shareholding after the offer for sale shall not be less than 20% of the post-issue capital.

Clause 4.10.1(a) of the SEBI Guidelines provides that the requirement of promoters contribution shall not be applicable in case of a public issue of securities by a company which has been listed on a stock exchange for at least three years and has a track record of dividend payment for at least three immediately preceding years.

Since the share capital of our Company has been listed on CSE, DSE and BSE for more than 3 years and as we have a track record of dividend payment for the three years immediately preceding, for details of which please see "Dividend Policy", we fulfill the requirements of Clause 4.10.1(a) and are therefore exempt from the requirements relating to promoter's contribution for this offer for sale.

Since there is no promoters' contribution, as per Clauses 4.11, 4.12 and 4.13 of the SEBI Guidelines which deal with the lock-in of promoters' contribution, the lock-in of promoters' contribution also does not apply to this Offer for Sale.

Further as our share capital is already listed, the provisions of Clause 4.14.1 of the SEBI Guidelines relating to lock-in of pre-issue share capital of an unlisted company also do not apply to this Offer for Sale.

### 3. Shareholding Pattern of the Company Before and After the Offer

Shareholders	Pre-Offer		Post-Offer	
	Number of Equity Shares	Percentage	Number of Equity Shares	Percentage
<b>A. Promoter</b> President of India and his nominees <sup>(1)</sup>	27,597,700	98.6	21,997,700	78.6
<b>B. Non-Promoter holding</b> Public	402,300	1.4	6,002,300	21.4
<b>GRAND TOTAL</b>	<b>28,000,000</b>	<b>100.00</b>	<b>28,000,000</b>	<b>100.00</b>

Note : (1) Acting through the MoS, Gol and nominees

4. Top Ten Shareholders of our Company

(a) The top ten shareholders of our Company as at February 6, 2004 and January 30, 2004 are as follows:

Serial Number	Name of Shareholders	Number of Equity Shares of Rs. 10 each	Percentage of Share holding
1	President of India	27,597,700	98.56%
2	National Insurance Company Limited	37,797	0.14%
3	SBI Mutual Fund – Magnum Tax Profit 1994	36,746	0.13%
4	Bharat P Broker	11,400	0.04%
5	Govindbhai Baldevbhai Desai	10,600	0.04%
6.	Ajay J Doshi	10,449	0.04%
7.	Bhavna Govindbhai Desai	9,400	0.03%
8.	Dhiraj Yashwant Dadbhawala	7,700	0.03%
9.	Panna B Broker	7,100	0.03%
10.	Madhav Haridas Asher	6,901	0.03%

(b) The top ten shareholders of our Company as at February 15, 2002, are as follows:

Serial Number	Name of Shareholders	Number of Equity Shares of Rs. 10 each	Percentage of Share holding
1	President of India	27,597,700	98.56%
2	SBI Mutual Fund – Magnum Tax Profit 1994	46,746	0.17%
3	National Insurance Company Limited	39,850	0.14%
4	Bharat P Broker	12,400	0.04%
5.	Kalpraj Damji Dharamshi	11,200	0.04%
6.	PRS Shares & Finance Private Limited	10,744	0.04%
7.	Ajay J Doshi	10,600	0.04%
8.	Bhavna Govindbhai Desai	9,400	0.03%
9.	Govindbhai Baldevbhai Desai	8,870	0.03%
10.	Hemang Raichand Dharmshi	8,800	0.03%

5. There are no outstanding warrants, options or rights to convert debentures, loans or other instruments into Equity Shares, as at the date of filing this Preliminary Sale Document with SEBI. It is confirmed that our Company has not issued any warrants, options or rights to convert debentures, loans or other instruments into Equity Shares.
6. None of our Promoter or Directors have purchased or sold any Equity Shares during a period of six months preceding the date on which the Preliminary Sale Document is filed with SEBI except transfers from time to time from one nominee of the President of India to another nominee.
7. The Selling Shareholder, our Company, the Directors and the BRLMs have not entered into any buy-back and/or standby arrangements for purchase of Equity Shares of our Company from any person except as disclosed in the Section "Terms of the Offer".
8. The shares of our Company are not pledged.
9. There are no bridge loans taken by our Company.
10. As per letter No.FC.II.336(2003)/445(2003) dated January 6, 2004 issued by FIPB to the Company, it has stated that they have no objection for the transfer of the Gol's shareholding to the extent of 20% of the paid-up equity share capital of the Company through a public offer to FIIs, NRIs, FCVFs, registered with SEBI and bilateral and multilateral developmental

financial institutions on repatriation basis at an offer price to be discovered through SEBI regulated process of Book Building. The Company has received the approval from the RBI for transfer of shares in this Offer to Non-Resident Indians, FIIs and FCVFs registered with SEBI and multilateral and bilateral development financial institution, pursuant to its letter No. EC.DEL.FID.II/06.04.3659/03-04 dated February 7, 2004. Pursuant to the no objection conveyed by the FIPB, the FIPB by its letter No. D.O.No.9(3)/2004-FIPB dated February 12, 2004 has noted that the SEBI Guidelines would not be applicable to the Offer.

11. In this Offer, in case of over-subscription in all categories, not more than 50% of the Offer shall be available for allocation on a discretionary basis to Qualified Institutional Buyers, a minimum of 25% of the Offer shall be available for allocation on a proportionate basis to Non-Institutional Bidders and a minimum of 25% of the Offer shall be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Offer Price. Under-subscription, if any, in any category would be met with spill over from other categories at the sole discretion of the Selling Shareholder and the BRLMs.
12. A Bidder cannot make a Bid for more than the number of Equity Shares offered through the Offer, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of bidder.
13. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, and rights issue or in any other manner during the period commencing from submission of the Preliminary Sale Document with SEBI until the Equity Shares offered through this Preliminary Sale Document have been transferred.
14. We presently do not intend or propose to alter our capital structure for a period of six months from the date of opening of the Offer, by way of split or consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible or exchangeable, directly or indirectly, for Equity Shares) whether preferential or otherwise. If we enter into acquisitions or joint ventures, we may consider raising additional capital to fund such activity or use Equity Shares as currency for acquisition or participation in such joint ventures.
15. We have not issued any Equity Shares out of revaluation reserves or for consideration other than cash, except as already stated elsewhere in this Preliminary Sale Document. For details, please refer to Note No.1 given above and titled "Share Capital History" and the Section of this Preliminary Sale Document titled "Our History".
16. At any given point of time, there shall be only one denomination for the Equity Shares of and we shall comply with such disclosure and accounting norms as are specified by SEBI from time to time.
17. We have 1,720 shareholders as at January 16, 2004.

## INDUSTRY OVERVIEW

*Statistical and market data on both the Indian and international dredging industries are extremely limited. This is partly a result of the limited number of market participants, as well as the fact that dredging companies and customer ports are generally government-owned or privately-held. Unless otherwise indicated, all financial and statistical data relating to the dredging industry in the following discussion are derived from the MoS, the GoI, the GoI's Tenth Five-Year Plan, our internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports. These data have been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Use of Market Data" and "Risk Factors — External Risk Factors — Statistical and market data on both the Indian and international dredging markets are extremely limited" and " — Statistical and Market Data for the Indian and International Dredging Industries". For more information, see "Our Business".*

### THE DREDGING INDUSTRY

Dredging is the process of excavating or removing soil or rock from below water using dredgers. The operation of dredging involves two main stages. The material to be removed must first be disturbed and loosened, before then being lifted to the water surface. Following lifting, every cubic meter of material dredged has to be relocated or disposed of and accordingly, a suitable disposal site has to be identified.

The main objective of dredging is the creation of deeper and/or wider waterways to improve navigation of ships. Dredging is sometimes a subsidiary activity to the main civil construction work in developing new ports and harbors and is often subcontracted to a specialist dredging contractor. Capital dredging is a one-off operation, which is carried out for the first time when creating new harbors, ports or berths. Maintenance dredging is dredging which is recurrent in nature. Dredging is also carried out for other purposes, including laying pipelines on the seabed, for nourishing or replenishing beaches, to improve the environment, to produce material for construction and to replace material below water. In general, contractors in the dredging industry are also involved in land reclamation, the underwater removal of soil and rock in civil engineering projects, oil and gas exploration in delta areas, and other offshore mining activities.

The overall dredging market is a composition of various types of activities focused on capital and maintenance dredging, including:

- **Capital dredging (creating depths).** Capital dredging projects are primarily port creation and expansion projects, which also involve the deepening and/or widening of channels to allow access by larger and deeper draught ships and also the provision of land fill for building additional port facilities, thereby enhancing port capability.
- **Maintenance dredging (maintaining depths).** Maintenance dredging consists of the restoration of designed depths of waterways and harbors by removing silt, sand and other accumulated sediments. Due to natural sedimentation, active channels generally require periodic maintenance dredging, thus creating a continuous source of dredging work that typically must be carried out if the navigability of the channels is to be maintained.
- **Inland dredging.** Inland dredging consists of dredging in rivers, canals, lakes and other inland bodies of water. It is used to create or maintain depths in inland waterways for inland transportation, for flood control, to increase capacity of silted ponds and also to remove polluted sediments.
- **Dredging for land reclamation, beach nourishment and shore protection.** Reclamation dredging involves capital dredging and is the raising of land levels and creation of land. Beach nourishment dredging generally involves moving sand from the seabed to shoreline locations when erosion has progressed to a stage that threatens substantial shoreline assets or affects tourism.

Our dredging activities are primarily focused on maintenance dredging and, to a lesser extent, capital dredging. We undertake dredging for most of the Major Ports in India.

### STATISTICAL AND MARKET DATA FOR THE INDIAN AND INTERNATIONAL DREDGING INDUSTRIES

The availability of up-to-date and precise data both for the international dredging industry and in particular for the Indian dredging industry is more limited than is the case for other industries. This is partly a result of the limited number of market participants, as well as the fact that dredging companies and customer ports are generally government-owned or privately-held. Such data as are available may not be up-to-date. For example, the GoI's Tenth Five-Year Plan was published in fiscal 2003, and so contains only projected figures for all periods subsequent to fiscal 2001.

In addition, measurement of annual dredging volumes differs between the Major Ports in India and between our operating data and those of the individual Major Ports. This is a result of different quantitative measures of dredging and methods of recording data between the Major Ports and between our Company and the individual Major Ports. As a result, we have estimated our market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the GoI's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and our correspondence

with the Major Ports for fiscal 2002 and fiscal 2003.

Based on the annual reports of the Major Ports, we estimate that we undertook approximately 57.8 million cubic meters of the total 65 million cubic meters of dredging at Major Ports in India in fiscal 2003, resulting in a market share for all dredging at Major Ports of approximately 89%. For our total dredging volumes and capacity utilization figures provided in this Preliminary Sale Document, we have used our internal operating data that we report to the MoS. We generally report higher dredging volumes as compared to the annual reports of the Major Ports as a result of our recording actual volumes dredged (including slurry), as per industry practice, based on hopper volume measurement. Major Ports and other dredging customers generally record dredging volumes on an *in situ* basis, where the volume is derived from the change in the depth of the dredging area. Based on our hopper volume measurement, we undertook approximately 81 million cubic meters of dredging in India for fiscal 2003.

### **Hopper Volume Measurement as Compared to *In Situ* Measurement**

The material to be dredged at the bottom of the sea is relatively compact and dense when compared to its state after having been dredged and placed in a hopper. The degree of bulking depends upon the nature and composition of the dredged material and type of dredger used to excavate the soil. Thus, the volume of wet soil as measured in the hopper is always higher than the volume occupied by it on the seabed. In addition, often during the process of dredging, siltation continues to occur and this results in the *in situ* quantity arrived at by hydrographic survey being less than the quantity of spoil transported to the dumping ground. As a result, the quantity in the hopper is invariably greater than the *in situ* quantity dredged. Therefore for the purpose of assessing the productivity of a dredger, the volume of the material placed in a hopper is taken into consideration.

Although we believe statistical and market data used in this Preliminary Sale Document are reliable, they have not been independently verified. Similarly, internal operating data, while believed by us to be reliable, have not been verified by any independent sources. Accordingly, you should not place undue reliance on the statistical and market data used in this Preliminary Sale Document.

### **DREDGING EQUIPMENT AND PROCESS**

There are three primary types of dredging equipment: mechanical dredgers, hydraulic dredgers and other specialized dredgers:

#### ***Mechanical Dredgers***

There are three basic types of mechanical dredgers: bucket-ladder, grab and backhoe. In each case, the dredger uses a bucket or a grab which excavates the material at its *in situ* state from the seabed. The dredged material is placed by the bucket or the grab into barges for transport to the designated disposal area. The material in the barges is emptied by bottom-dumping, direct pump-out or removal by a crane with a bucket. Mechanical dredgers are capable of removing hard packed sediments and debris and can work in space-restricted areas such as along docks or terminals. There are three basic types of mechanical dredgers:

- ***Bucket-ladder Dredgers.*** Bucket-ladder dredgers once comprised a major portion of dredging fleets. They use a series of buckets mounted to an endless chain loop but have fallen into disuse because of their relatively low production rates, need for anchor lines and high noise levels.
- ***Grab Dredgers.*** A grab dredger is a revolving crane equipped with a grab placed on a pontoon or a hopper vessel. Grab dredgers with specialized buckets are ideally suited to handle material requiring controlled disposal.
- ***Backhoe Dredgers.*** Backhoe dredgers which are common to dry land excavation and may have an articulated boom with an excavation bucket. Once the material is excavated, it is brought to the surface and placed in barges for transport.

#### ***Hydraulic Dredgers***

Hydraulic dredgers use hydraulic centrifugal pumps to provide the dislodging and lifting force and remove the dredged material in a slurry form. These dredgers work well in loose silts, sands, gravels and soft clays. For more consolidated materials, heavier excavating equipment, water jets or other loosening devices at the mouth of the suction pipe may be applied to break up the material. Hydraulic dredging and transport methods slurry the sediment by adding large amounts of process water to change the original structure of the sediment. Transport methods associated with hydraulic dredgers are pipeline and hopper transport. In some cases, hydraulic dredgers may pump the materials into barges for transport. Hydraulic dredgers work with an assortment of support equipment which help with the positioning and movement of the dredger, handling of the pipelines and placement of the dredged material. There are three basic types of hydraulic dredgers:

- ***Cutter Suction Dredgers.*** Cutter suction dredgers remove material using a revolving cutter head which cuts and churns the sediment on the seabed and hydraulically pumps the material by pipe to the disposal location. Cutter suction dredgers are most effective in capital dredging projects and are suitable for use in high strength materials such as clays, packed or

compacted sands and rocks. Certain materials can be directly pumped as far as seven miles with the aid of a booster pump.

- **Trailer Suction Hopper Dredgers.** Trailer suction hopper dredgers are typically self-propelled and have the general appearance of an ocean-going vessel. The dredger has hollow hulls into which material is suctioned hydraulically through drag-arms and deposited. Once the hollow hulls or “hoppers” are filled, the dredger will sail to the designated disposal site and either bottom dump the material, pump the material from the hoppers through a pipeline to the designated site or “rainbow” (spray through a nozzle) the material from approximately 100 meters to the designated site. Hopper dredgers can operate in rougher waters as compared to cutter suction dredgers, thus are less likely to interfere with ship traffic and can move quickly from one project to another, affording the flexibility to respond quickly to time-sensitive projects. These dredgers can carry out land reclamation projects and are also suitable for harbor maintenance dredging and pipe trenching. Trailer suction hopper dredgers are rated according to their maximum hopper capacity, which is generally in the range of 750 to 33,000 cubic meters.
- **Bucket Wheel Suction Dredgers.** Bucket wheel suction dredgers are a modification of the bucket wheel dredger which was used primarily for mining and are reportedly a highly efficient method of capital dredging, particularly for stiff materials such as clay.

### **Other Dredgers**

Other types of specialized dredgers include low-impact “environmental/restoration” dredgers, water injection dredgers, side casting dredgers and dustpan dredgers. The low-impact “environmental/restoration” dredgers are existing dredgers that have been modified to increase precision and limit the release of contaminants in the surrounding environment. The water injection dredger involves a patented technique which uses water jets to bring sediments into suspension and hydrodynamic principles to move the material.

### **Auxiliary Equipment**

Auxiliary equipment associated with dredging includes pipelines, booster stations, barges, plough/bed levelers, rock breakers and general construction equipment such as ploughs and bulldozers.

### **Dredging Process with a Cutter Suction Dredger**

The cutter suction dredger’s rotating cutter head, which is situated around the mouth of the suction pipe, is designed to cut the dredged material and, pump the dredge spoil with a centrifugal dredger pump situated in the ship’s pump room. In operation, the cutter suction dredger sweeps the area while pivoting around a spudpole mounted astern. The forward movement of the dredger is controlled by a hydraulic ram, which pushes the lowered working spudpole. The actual cutting and dredging movement is done by pulling on side wires connected to anchors which result in a dredged arc. Anchor handling is executed by the dredger’s anchor boom system or an auxiliary anchor handling vessel.

The cutter head consists of cutter blades on which adaptors are welded. The adaptors form the base for the attachment of pick points with which the virgin soil to be dredged will be loosened and cut before being sucked by the dredge pump into the suction line. The choice of pick points together with their type, size and dimensions is dependent upon the dredged material which can vary from compact material to rocks.

During the cutting process, the dredge pumps create a vacuum in the suction pipe, which draws the soil loosened by the cutter head up the pipe and through the pump. The discharge of the dredged soil is pumped through a floating pipeline to a shore pipeline which transports the dredged mixture to the designated reclamation or discharge area.

### **Dredging Process with a Trailer Suction Hopper Dredger**

Trailer suction hopper dredgers have the ability to load hoppers while trailing one or two suction pipes when the dredger is moving ahead. As the dredger approaches the dredging ground, the suction tubes are swung outboard by means of winches and davits, and lowered to the water level. With the help of its global positioning system, the dredger is aligned to the dredging track. The intake end of the suction pipe is fitted with a draghead, the function of which is to maximize the concentration of solids entrained from the seabed. The trailer suction hopper dredger’s draghead is lowered to a level close to the seabed and the pressure differential across the draghead causes the soil to flow towards the suction mouth. The soil-water mixture is raised by the dredge pumps through the suction pipe/drag-arms which are connected to the ship by trunnions.

The speed of the dredger during this process is maintained between two to five knots and depends upon the density of the seabed material. Once the hopper is full (20 to 30 minutes for very fine material, up to 150 minutes for coarser material), the ship proceeds to the designated dumping ground where the hopper load is discharged, usually by dumping through bottom doors.

## **Technology**

The dredging process is monitored and controlled with the help of dredging and survey instrumentation to ensure that the dredging process parameters and production characteristics meet contract specifications. This equipment includes:

- Density, Velocity and Production Meters, which measure the amount of material dredged by measuring the flow velocity and density in the dredge pipe.
- Draught and Load Monitoring Systems, which measure the draught of the dredger and also the volume of its hopper.
- Hopper Volume and Load Monitoring Systems, which measure hopper volume and load conditions.
- Suction Tube Position Monitoring Systems.
- Automatic Radio Tide Gauges, which display tide data by receiving radio signals from a shore-based tidal measuring unit.
- Differential Global Positioning Systems (“DGPS”), which are satellite global positioning systems accurate to plus or minus one meter.
- Dredge Track Presentation and Plotting Software, which is linked to the DGPS for accurate positioning and dredging on derived dredging tracks or areas.
- Vacuum and Pressure Measurement Meters, which measure the force of suction and discharge of the dredger pump.
- Echo Sounders, which measure depth by sound waves.

## **Factors Affecting the Dredging Market**

Waterways provide one of the most economical and efficient ways of transporting goods. In order to promote trade, existing ports are being expanded and new ports are being developed across the world. Any changes in port infrastructure will affect the dredging industry. Also, any developments in coastal areas could lead to a significant dredging requirement. The size of the dredging market is therefore largely dependent on port development, maintenance and expansion. The dredging market is affected by the following factors:

- Growth in world trade;
- Deeper draught requirements of ports;
- Beach nourishment in coastal areas;
- Land reclamation; and
- Environmental aspects and regulations.

## **Growth in World Trade**

According to the International Monetary Fund’s World Economic Outlook (September 2003), world trade volumes are expected to grow at an annual rate between approximately 5.5% and 8.8% during 2004 to 2008. More than 80% of trade with origins or destinations in developing countries, in tonnage terms, is waterborne, according to the World Bank. This translates into an annual average increase in world maritime traffic of approximately 4% to 5%, according to the United Nations Conference on Trade and Development. The economic impact of a country’s port industry, port users and port capital expenditures is significant. For example, in India, according to the Gol’s Tenth Five-Year Plan, over 90% of foreign trade by volume, and approximately 68% by value, is seaborne. Foreign trade is an increasingly important element of the Indian economy, currently accounting for over 13% of its GDP (according to the Gol’s Tenth Five-Year Plan), illustrating a close correlation between world economic activity (as measured by GDP) and the volume of seaborne trade.

## **Deeper Draught Requirements of Ports**

The growth in world trade has given rise to another factor that drives the dredging market: deeper draught requirements of ports. As the world trade volume continues to grow, demand for shipping space increases and advanced technology allows for ever-increasing ship sizes. The scaling up of tonnage due to increases in world trade volumes has resulted in the increasing use of large vessels. Another factor leading to the use of large vessels is cost advantage. Larger vessels can carry more freight, thus reducing freight costs per tonne, and increasing emphasis on freight economics is leading to a shift towards the use of larger capacity vessels in the global shipping industry.

As a result, ports need to be equipped to provide deeper draughts for handling additional tonnage of such large vessels. A one-meter reduction in draught results in a loss of 3,000-8,000 tonnes in the carrying capacity of the vessels. The demand for dredging services is therefore significantly impacted by the size and tonnage of large vessels.

In India, many ports are not capable of berthing fully-laden large vessels. The ability to berth large vessels can only be achieved

by dredging, resulting in the significant potential for increased dredging activity in the Indian market.

In addition, increasing traffic density, along with the trend towards larger ships, will likely exceed the dimensions of the water navigation channels in most countries in the future, requiring enhancement and new development of port infrastructure and related dredging services.

### ***Beach Nourishment in Coastal Areas***

Tourism development and the need for coastal protection stimulate the need for beach nourishment, which involves significant dredging. For example, at Visakhapatnam more than four kilometers of beach are annually nourished, with approximately 500,000 cubic meters of sand dredged from the sand trap. In Paradip we have also carried out beach nourishment projects.

### ***Land Reclamation***

The need for additional space in densely populated coastal areas has increased the creation of new land. Land reclamation is a proven method for creating new land. The necessary sand is dredged and then transported, often over considerable distances, to the reclamation area. Some of the largest land reclamation projects in progress or contemplated are in Singapore, Malaysia, Hong Kong, Dubai, Qatar and Bahrain. The Hong Kong airport, for example, is built entirely on reclaimed land.

### ***Environmental Aspects and Regulations***

Both dredging and disposal are carefully regulated on an international level. The most widely applicable international regulatory instrument is the London Convention 1972 ("LC-72"), which covers global marine waters. LC-72 recently adopted the Dredged Material Assessment Framework, a widely-reviewed and accepted approach to the assessment of suitability of dredged material for disposal at sea. Legislation controlling placement on land (and in inland waters) is based on national regulatory systems often involving a variety of laws prepared for various waste materials, e.g. sewage sludge, agricultural and industrial waste. Some countries are now developing regulations specifically for dredged material. In India, coastal trading zones are considered as environmentally-sensitive areas and protected under Indian environmental laws. See "Regulations and Policies — Environmental Regulations".

### ***International Trade Regulation***

International Dredging services are regulated by the General Agreement on Trade in Services ("GATS") which aims to achieve greater liberalization in all service sectors, including maritime transport. GATS negotiations commenced in the World Trade Organization in January 2000 and they are expected to conclude by 2005. The sectors where market access for Indian service providers is specifically required include "Construction and Related Engineering", sub heading "General Construction Services of Harbors Waterways, Dam, Irrigation, and Other Water Works" (CPC NO.54230 of the UN CPC Code) and dredging services, rock and silt removal and other water associated construction services fall under the sub heading. Capital dredging, which is normally a subsidiary activity in the construction of new ports/berths, will be classified as "Construction and Related Engineering". Maintenance dredging will be classified as support services for maritime transport. Developed countries extend assistance to their domestic dredging industries by way of subsidies, including financial aid for research and development. The GATS negotiations have not addressed these subsidies or domestic coastal shipping known as cabotage (i.e. shipping between ports in the same country), a highly protected sector. Many countries reserve this transportation for national-flag ships. It is expected that future protection given to the dredging industry by national governments will depend on the terms of GATS and on whether countries have included "dredging" services within their schedule of commitments or not.

## **TECHNOLOGICAL DEVELOPMENTS IN THE DREDGING MARKET**

Increasingly complex capital dredging and large land reclamation projects in the international dredging market are resulting in a growing focus on technological developments targeted at efficiency improvement and cost reduction. This has also led to the introduction of larger dredgers. Some of the key technological developments in the international dredging market include:

- ***Jumbo Trailer Suction Hopper Dredgers.*** Jumbo trailer suction hopper dredgers have gained increasing importance in recent years due to the significant economies that are offered by these dredgers for large projects, especially in land reclamation activities. The trend towards these dredgers began with the large land reclamation activity that was initiated in Southeast Asia with the launching of the Hong Kong airport and the Singapore land reclamation projects. The new jumbo trailer suction hopper dredgers can out-perform smaller vessels by providing a lower reclaimed unit spoil rate, despite their massive investment. However, these dredgers have limited use in smaller ports such as those found in India. Technology developed for these high capacity dredgers has already influenced the trailer dredger market and there appears a strong possibility that many operators may have to replace older tonnage to remain competitive.
- ***New Ship Building.*** New cutter suction dredgers are being built for off-the-shelf delivery aimed at the shallow water, low volume capital dredging market. In addition, customers are more frequently ordering customized heavy duty cutter suction dredgers for rock dredging.
- ***Water Injection Dredging.*** Large volumes of water are injected into sediment under low pressure. As a result, a water

sediment mixture is created with the characteristic of a fluid with extremely low viscosity. The difference in density between the mixture and the surrounding water can make it flow. The dredged material is then transported naturally along the gradient created. Water injection dredging is one method for maintenance dredging.

- **Environmental-friendly Dredging.** Auger and sweep dredging are two new forms of environmental-friendly dredging. Auger dredging can be applied in sanitation and rehabilitation projects. Special attention in the process of dredging contaminated silts is given to the prevention of turbidity, ensure dredging precision and limit maneuvering time loss, resulting in significant time savings. In sweep dredging, the sweep dredger installed on a cutter suction dredger is capable of dredging thin and selective layers with a minimum of turbidity in shallow waters. Typically, the turbidity is only 10% to 20% of that caused by conventional cutter dredging.

## THE INTERNATIONAL DREDGING INDUSTRY

### Overview of the International Dredging Industry

Large European dredging companies have traditionally dominated the international dredging market. Based on industry publications and our communication with market participants, we believe the estimated size of the international dredging market ranges between Euro 6 billion to Euro 7 billion per annum. Europe has been the traditional hub of the international dredging market with activities concentrated in the Netherlands, Belgium and the United Kingdom with the five leading Dutch and Belgian companies highlighted in the table below controlling a substantial portion of the international dredging market.

A substantial portion of the international dredging market is not freely accessible and is closed to foreign contractors, either as a result of local cartels or subsidized state-owned dredging fleets given preferential treatment. For example, entry to the U.S. dredging market is restricted in the form of domestic construction requirements, restrictions on foreign ownership and crews. Other markets have begun to open in recent years as dredging projects have become more complex and as international dredging companies develop new dredging techniques and more efficient dredgers to reduce unit costs well below that of most local contractors. In addition, dredging contracts increasingly include more demanding environmental clauses that must be satisfied during the performance of the work. Those contractors able to meet stringent environmental requirements are therefore better placed to win contracts.

The leading international dredging companies and their areas of operation are set forth in the table below:

Company	Country	Area of Operation
Royal Boskalis Westminster N.V.	Netherlands	International
Van Oord ACZ <sup>(1)</sup>	Netherlands	International
Ballast Ham Dredging B.V. <sup>(1)</sup>	Netherlands	International
Dredging International N.V.	Belgium	International
Jan de Nul Group of Companies	Belgium	International
Great Lakes Dredge & Dock Company	U.S.	International
Penta-Ocean Construction Co., Ltd.	Japan	International

Source: Company websites.

Notes:

(1) Van Oord ACZ and Ballast Ham Dredging B.V. merged in December 2003 to form Van Oord B.V.

(2) In addition to the leading international dredging companies listed above, countries including China, Japan, Korea, the United Kingdom and the Ukraine have large dredging companies mostly focused on their respective domestic markets.

The international dredging industry has undergone consolidation in recent years, including the Ballast Needam-HAM merger in 2001 and the merger between Ballast Ham Dredging B.V. and Van Oord ACZ in December 2003. Increasing emphasis on globalization and the need to synergize existing fleet strengths and competition may lead to further consolidation in the international dredging industry. In addition, new players, especially from Asia, are entering the dredging market, although they are smaller in size.

The major European companies account for a large proportion of the total international dredging fleet. Responding to demands from customers, continuous efforts are being made to increase the size of dredgers, improve technology and reduce costs. Recently, for the purposes of large capital dredging and reclamation projects, jumbo trailer suction hopper dredgers with hopper capacities as large as 33,000 cubic meters are being deployed. See “— Technological Developments in the Dredging Market”.

Internationally, the dredging industry is experiencing changing regional patterns. Demand in Europe, which was formally concentrated in specific countries such as the Netherlands, Belgium and the United Kingdom, has spread throughout Europe in recent years. However, overall growth for Europe has been only marginal. Singapore, Hong Kong and the Middle East have

witnessed higher levels of growth in dredging operations, which is expected to continue in the coming years.

### **International Dredging Market Outlook**

Based on industry publications and our communication with market participants, we believe the international dredging market will continue to grow in the near to intermediate term. Dredging projects are increasing in the Indian subcontinent and the Middle East. We also believe the Singapore and Malaysia markets will be more active following settlement of regional disputes regarding dredged material used for reclamation projects.

Overall, we believe the international market outlook remains positive. Demand for port construction, port development and land reclamation is stimulated by the growth in world trade volume, which is increasing substantially. It is also stimulated by the scaling-up of container transport and the need for more space in densely populated coastal areas. The rapid increase in size and number of container ships, we believe, will also lead to greater capital and maintenance dredging projects worldwide in the near future.

In addition, the growth in tourism and the need for coastal protection create a growing demand for beach nourishment. Dredgers designed to work in shallow waters are needed for these jobs.

## **THE INDIAN DREDGING INDUSTRY**

### **Overview of the Indian Dredging Market**

India's extensive coastline of approximately 5,600 kilometers includes 12 Major Ports under the administrative control of the MoS, approximately 180 non-Major Ports under the administrative control of the Gol and state governments and private ports. The 12 Major Ports, which are designated as such under the Major Ports Trust Act, 1963, handle approximately 75% of India's port traffic by volume with non-Major Ports and private ports handling the remainder. Rapid industrialization, particularly after the liberalization of the economy in the early 1990s, has resulted in the growth of a number of ports, shipyards and naval establishments in India.

We estimate that, based on data from the Gol's Tenth Five-Year Plan, Major Ports represent approximately 93% of the overall Indian dredging market (excluding private ports) by volume, and approximately 92% and 95% of the overall Indian maintenance dredging and capital dredging markets (excluding private ports), respectively. We believe that as the Indian dredging market expands, recently developed private ports, including at Pipavav, Kakinada, Mundra and Hazira, represent a growing percentage of Indian dredging volumes. Dredging volumes at these private ports are not publicly available.

With annual GDP growth targets by the Planning Commission of India averaging 8% from fiscal 2002 to fiscal 2007, India is expected to experience considerable growth in trade and related port traffic. The Tenth Five-Year Plan of the Gol, published in fiscal 2003, estimates that the annual Indian Major Port traffic will increase to approximately 415 million tonnes by fiscal 2007 from approximately 289 million tonnes in fiscal 2002. Likewise, the Gol estimates Major Port capacity will increase from approximately 344 million tonnes in fiscal 2002 to approximately 470 million tonnes by fiscal 2007. An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet this increased traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunities for both capital dredging and increased maintenance dredging. In particular, deepening channels at ports also requires lengthening and widening the channels, resulting in an increase in annual maintenance dredging requirements at the ports.

Ports are gateways to trade and must maintain specified draughts for safe navigation of vessels. This places a heavy demand on the maintenance dredging activity in the Major Ports in India. The demand for capital dredging arises when there is a new port development or a port expansion activity planned. States like Maharashtra, Andhra Pradesh and Gujarat are promoting development of private ports, which would require extensive capital dredging. Also, several minor ports and fishing harbors with siltation problems require the maintenance of adequate depths for which dredging is required.

In addition, the Gol has announced the Sagar Mala initiative for the development of India's maritime sector. This initiative covers all facets of maritime transport, including the development and inter-linking of ports and inland waterways, with the aim of expanding seaborne trade and inland water transport systems in India. This initiative offers potential extensive capital and maintenance dredging opportunities through qualitative and quantitative improvements in port-related services and the development of new ports, including larger ports.

The Sagar Mala initiative is a long-term project, with initial development expected to begin in fiscal 2005 with the integrated development of ports at Nhava Sheva and Kochi (Cochin Port). The initiative is estimated to cost approximately Rs. 1,000 billion, and is expected to be funded from a number of sources, including the ports themselves, the Gol, international non-government lending organizations and PSP.

Maintenance dredging and capital dredging requirements largely drive the Indian dredging market. Minimal dredging requirements exist for beach nourishment, shore protection and land reclamation in India. Also, inland water dredging is largely confined to riverbank ports.

We believe the Indian dredging market at Major Ports is approximately Rs. 6.5 billion per annum (approximately Rs. 6 billion maintenance dredging and approximately Rs. 500 million capital dredging), of which we had a market share by volume of approximately 55% to 92% in maintenance dredging at Major Ports and approximately 24% to 8% in capital dredging at Major Ports in each of the past three fiscal years. Our lower share in capital dredging is due primarily to our limited operations in that segment.

This emphasis on maintenance dredging is particular to the Indian dredging market. The Indian capital dredging market is also characterized by uncertainty in funding availability and government approvals for and the realization of port development programs. Indian dredging customers generally expect dredging companies to perform all elements of dredging contracts on a single contractor basis with minimal customer involvement in the dredging process.

### **Indian Dredging Market Participants**

Historically, the maintenance dredging needs of Major Ports, the Indian Navy and other maritime requirements were primarily met by our Company. Following the 1991 liberalization of the Indian economy, government regulation ensured our capacity continued to be fully utilized and government permission was given for the entry of private dredging companies only to meet our capacity shortages. This nomination arrangement for maintenance dredging in favor of us continued until 2001, when it was limited to only Kolkata Port. Currently, while the Major Ports (other than Kolkata Port) can continue to negotiate with us as the nominated provider, they now also have the option to use the competitive bidding process. We have since entered into long-term contracts of two to five years, duration with some ports, while other ports have decided to call for competitive bidding, leading to increased competition from foreign companies. Effective April 1, 2004, the revised MoS guidelines for the execution of dredging at Major Ports require all Major Ports (other than Kolkata Port) to open their dredging contracts to competitive bidding. Our existing five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006) remain in effect. For details to our existing contracts, see "Regulations and Policies - MoS Press Note Released on January 19, 2004".

On the basis of size of operations, the Indian dredging industry can be broadly divided into two segments:

- **High-volume segment.** Consisting of large companies like our Company and other Indian and foreign major dredging companies, this segment caters for the requirements of existing Major Ports and newly developed private ports and involves dredging jobs greater than 0.5 million cubic meters by volume. Nearly all the international dredging companies are active in this market segment.
- **Mid- and low-volume segment.** Consisting of small Indian dredging companies, this segment caters for the dredging requirements of the State Maritime Boards, the Inland Waterways Authority, private ports and captive jetty operators with dredging volumes ranging from 0.05 million to 0.5 million cubic meters.

With greater emphasis being given to inland waterways following the announcement of the Sagar Mala initiative to inter-link inland waterways and ports and increase water transportation in India, Indian dredging companies including DCI may have greater opportunities in this sector. Generally, development activities taken up by existing as well as upcoming ports to enhance channel depth for accommodating large vessels are likely to bring considerable opportunities as well as greater competition in the Indian dredging industry.

The entry of international dredging companies into the Indian maintenance dredging market is a recent development. Prior to their entry, only port authorities under the administrative control of the MoS and our Company were involved in carrying out maintenance dredging operations in India. Currently, the Indian dredging market consists of ports under the administrative control of the MoS and privately-held ports, and domestic and international dredging companies.

The GoI allowed the entry of international dredging companies to take up maintenance dredging into the Indian maintenance dredging market projects in India in fiscal 1993, when our dredging capacity along with that of the port operators could no longer meet the Indian ports' maintenance requirements. These international dredging companies won large capital dredging projects through the competitive bidding process and are now regular participants in the Indian maintenance dredging market.

Private port developers including at Pipavav, Kakinada, Mundra and Hazira, as well as the Indian Navy at Karwar, have engaged the services of international dredging companies. Considering this trend, international players may also have an advantage to take up future capital dredging projects when private ports are developed.

## Major Dredging Companies in India

The following table sets forth certain information relating to the principal dredging companies currently operating in India:

Company	Trailer Suction Hopper Dredgers		Cutter Suction Dredgers		Source
	No.	Total Installed Hopper Volume (cubic meters)	No.	Total Installed Horse Power	
DCI	10	53,920	2	25,800	Internal data
Royal Boskalis Westminster N.V.	35	194,441	35	131,691	Company website as at January 5, 2004
Ballast Ham Dredging B.V. <sup>(1)</sup>	19	154,792	19	90,249	Company website as at July 7, 2003
Dredging International N.V.	19	133,410	17	102,444	2002 Annual Report
Jan de Nul Group of Companies	12	144,520	8	61,810	Company website as at January 11, 2004
Van Oord ACZ <sup>(1)</sup>	12	79,492	5	26,490	2002 Annual Report
Jaisu Shipping	2	6,300	2	1,702	Correspondence dated July 25, 2003

Notes:

(1) Van Oord ACZ and Ballast Ham Dredging B.V. merged in December 2003 to form Van Oord B.V.

(2) Operating statistics for dredging companies are for worldwide operations.

## Overall Market Share

The overall estimated Major Port market shares by volume of our Company and the other dredging companies operating in the Indian dredging market are shown below:

Company	Fiscal 2001	Fiscal 2002	Fiscal 2003
DCI	49.9%	82.8%	88.9%
Others <sup>(1)</sup>	46.7%	10.7%	4.1%

Source: Our estimates based on the Gol's Tenth Five-Year Plan for fiscal 2001, and internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports for fiscal 2002 and fiscal 2003.

Note:

(1) Internal (non-outsourced) port maintenance dredging totalled an estimated 2.4 million cubic meters (3.4% market share) in fiscal 2001, 3.8 million cubic meters (6.4% market share) in fiscal 2002 and 4.6 million cubic meters (7.0% market share) in fiscal 2003.

## Maintenance and Capital Dredging Volumes and Market Shares

The following table sets forth the estimated dredging volumes and market shares by volume for the Indian Major Port maintenance and capital dredging market segments of our Company and the other dredging companies operating in India in fiscal 2003:

Company	Maintenance Dredging Market		Capital Dredging Market	
	Volume (million cubic meters)	Market Share (%)	Volume (million cubic meters)	Market Share (%)
DCI	57.6	91.9	0.2	8.2
Others <sup>(1)</sup>	0.5	0.8	2.1	91.8

Source: Our estimates based on internal operating data, the annual reports of the Major Ports for fiscal 2003 and our correspondence with the Major Ports.

Note:

(1) Internal (non-outsourced) port maintenance dredging totalled an estimated 4.6 million cubic meters in fiscal 2003, or approximately 7.3% of the Major Port maintenance dredging market in fiscal 2003.

## **Factors Affecting the Indian Dredging Market**

Along with the factors affecting the broader dredging market, including growth in world trade and deeper draught requirements of ports, the Indian dredging market is affected by the following factors, among others:

- The Indian economy;
- Increasing foreign competition;
- Changing market dynamics; and
- Expansion of Indian port capacity.

### ***The Indian Economy***

According to the Central Statistical Organization of India, India had an estimated GDP growth rate of 4.4%, 5.6% and 4.3% in fiscal 2001, 2002 and 2003, respectively, based on constant prices for fiscal 1994. The RBI estimates GDP growth of approximately 7.0% for fiscal 2004. According to World Bank data for 2002, India is the second largest country in the world in terms of population with one of the largest economies in the world in terms of purchasing power parity measured in U.S. dollars. The GoI has played a significant role in the development of the Indian economy. In 1991, a series of comprehensive macroeconomic and structural transformations were initiated by the GoI to promote greater market orientation and economic stability and growth. The key policy reforms that have been implemented include:

- Deregulation of industry;
- Impetus for foreign direct investment for equity participation in Indian industry; and
- Progressive reduction in the GoI's role in production, by implementing a series of disinvestments in PSU.

Since fiscal 2000, the GoI has carried out several strategic disinvestments in key PSU's. The notable disinvestments that have been successfully carried out include the sale of the GoI's stakes in Videsh Sanchar Nigam Ltd. and CMC Ltd. to the Tata Group, Indian Petrochemicals Corporation Ltd. to the Reliance Group, IBP to Indian Oil Corporation Ltd, Bharat Aluminum Company Ltd. and Hindustan Zinc Ltd. to the Sterlite Group and Maruti Udyog Limited's secondary share offering. As part of its ongoing disinvestment process, the GoI has initiated disinvestments in several key sectors such as petroleum and shipping.

### ***Increasing Foreign Competition***

Our dominant market position in the Indian dredging market has historically resulted from the MoS guidelines favoring our Company at Major Ports in India through a combination of:

- A nomination process, whereby all ports may choose to negotiate with us directly for dredging services rather than being required to open the contracts to competitive bidding (except Kolkata Port, which is required to nominate our Company for maintenance dredging);
- A right of first refusal (along with other Indian dredging companies) to perform dredging contracts prior to the contracts otherwise being awarded to foreign bidders, provided we have participated in the initial bidding and agreed to perform the contract at the lowest bid; and
- A purchase preference arising from our status as a PSU whereby we can elect to perform any dredging contract where our bid is within 10% of the winning Indian bidder and we agree to perform the contract at the lowest bid.

In fiscal 2003, approximately 57% of our income from operations was earned from our maintenance contract with Kolkata Port, approximately 28% was from other nomination (non-competitive bidding) contracts, approximately 13% was from competitive bidding contracts and approximately 2% of our income from operations was from our charter of cutter suction dredger Aquarius.

Prior to 1993, our market share of external (outsourced) maintenance dredging at Major Ports in India was 100%. Over the last decade, as a result of our inability to meet the increased demand at Major Ports for maintenance dredging services due to capacity constraints, the GoI, in common with governments in other countries, has increasingly liberalized the maintenance dredging market and has opened it up to international competition. This is a result of our Major Port customers' maintenance dredging requirements first surpassing our dredging capacity in the early 1990s, as well as pressure from the international community and the potential cost reductions associated with increased competition. As a result of these factors, we estimate that our market share for maintenance dredging at Major Ports was approximately 92% in fiscal 2003, based on the annual reports of the Major Ports and our correspondence with those ports.

The current MoS guidelines expire on March 31, 2004. In a press note released on January 19, 2004, the MoS announced revisions to these guidelines, effective April 1, 2004 through March 31, 2007, which we believe will have the following effect:

- The removal of the nomination process at all Major Ports (other than Kolkata Port) whereby the ports must open their dredging contracts to competitive bidding. Our existing contracts as at April 1, 2004, including our five-year maintenance

dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006), will remain in effect; and

- The right of first refusal to perform dredging contracts otherwise awarded to other bidders will be contingent on our bid being within 10% of the winning bidder.

In addition, the MoS announced its intention to develop similar guidelines to ensure dredging contracts at non-Major Ports and private ports in India are also open to competitive bidding. See “Regulations and Policies - MoS Press Note Released on January 19, 2004” for the full text of the press note.

We will continue to be the sole provider of maintenance dredging services to Kolkata Port through the nomination process until March 31, 2007, when the revised guidelines and our current contract with the port expire. In addition, pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of the other PSUs, is valid until March 31, 2004. The Gol has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

These and any further changes to the MoS guidelines are, therefore, likely to be increasingly critical in determining our overall market share. See “Risk Factors – Recently announced changes to the current government dredging policy could result in a reduction in our share of the Indian dredging market and adversely affect our income and profit”. We are developing a contingency plan to maintain our existing maintenance dredging market share and possible entry into international operations and for entering into joint ventures with international companies to gain entry to international dredging markets.

### ***Changing Market Dynamics***

Changing dynamics in the Indian market context are manifested in the form of:

- An increasing trend towards privatization; and
- A changing payment pattern from daily rate to quantitative or performance-based measures.

#### *Increasing Trend Towards Privatization*

Since the beginning of liberalization of the Indian economy in 1991, privatization and PSP have been introduced into all infrastructure sectors, including ports. In recent years PSP has increased in the ports sector, particularly in the form of development of berths and jetties at existing ports in India. Capital dredging requirements and procurement policies and methods for these private sector projects are largely influenced by private developers. Construction of berths and jetties is planned or under implementation through the “Build, Operate, Transfer” process at Major Ports including JNPT, Kandla, Visakhapatnam, Mumbai, Mormugao, Cochin and Tuticorin.

As a result, in the near future the customer profile for dredging companies in India is likely to undergo a significant change from government customers to private sector developers. This change is already underway, with prominent examples such as the capital dredging work at the Kakinada Port being offered by the private port developer, International Seaports Limited.

#### *Changing Payment Pattern from Daily Rate to Quantitative or Performance-Based Measures*

Traditionally, our dredging contracts with customer ports were based on a daily rate as opposed to quantitative measures of dredging. As a result, we were not incentivized to increase efficiency in our operations as we did not bear the cost of longer- time periods to complete daily rate dredging contracts. Recently, however, in line with international dredging trends, a number of ports have shifted the mode of payment under dredging contracts to a method based on the quantity of material dredged, calculated either according to the *in situ* basis or the hopper volume measurement basis, or to performance-based measures such as depth achieved or on a lump sum basis, or to a combination of these measures. An example of this includes our maintenance dredging contract at Kandla Port entered into in fiscal 2000. The effect of this new payment method shifts the responsibility for increasing efficiency in operations to dredging companies. These changing demands on efficiency require more efficient operations and higher capacity utilization.

### ***Expansion of Indian Port Capacity***

An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet the projected increased port traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunities for both capital dredging and increased maintenance dredging. In particular, deepening channels at ports also requires lengthening and widening the channels, resulting in an increase in annual maintenance dredging requirements at the ports. The MoS is contemplating several privatization projects, including the development of new berths and terminals and expansion of existing berths and terminals, at a number of Major Ports in India. The Gol’s Tenth Five-Year Plan, published in fiscal 2003, estimated various port expansion programs (Major and non-Major Ports) totalling approximately 144 million cubic meters of capital dredging through fiscal 2007. See “Our Business – Capital Dredging – Future Capital Dredging Projects” for a description of some of these programs at Kolkata Port, JNPT, Ennore Port, Paradip Port and Cochin Port. In addition, the Sagar

Mala initiative offers potential extensive capital and maintenance dredging opportunities through qualitative and quantitative improvements in port-related services and the development of new ports.

### **Dredging Capacity and Utilization**

We are the largest dredging company in India and have generally operated at close to 100% capacity utilization. The capacity utilization is the ratio of the amount actually dredged by a dredging company in a year and its derived annual dredging capacity. Annual dredging capacity is derived from a number of parameters, including installed hopper volume, estimated number of days of dredging, location, soil characteristics, number of loads and dumping distance. In fiscal 2003, we operated at a capacity utilization of approximately 101.7% (based on actual days dredged and other factors affecting production). We believe our capacity utilization is higher than that of our competitors in the Indian dredging market.

### **Indian Dredging Market Outlook**

Based on figures from the Gol's Tenth Five-Year Plan, published in fiscal 2003, we estimate that the Indian dredging market is expected to grow by approximately 7% between fiscal 2002 and fiscal 2007. This is primarily a result of consistent maintenance dredging requirements at the Major Ports that is likely to provide a steady market in the coming years and the increasing private sector participation in port development and related capital dredging activity in the near future. At the same time, the dynamics in the Indian market are rapidly changing. The key changes taking place include changes in customer profile for dredging companies from government to private sector developers, changes in payment patterns for dredging work from a daily rate basis to quantitative or performance-based methods, the expansion of Indian port capacity and the expansion of international companies in the Indian dredging market.

## OUR BUSINESS

*Unless otherwise indicated, all financial and statistical data relating to the dredging industry in the following discussion are derived from the MoS, the Gol, the Gol's Tenth Five-Year Plan, our internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports. These data have been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors - External Risk Factors - Statistical and market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".*

### OVERVIEW

Based on industry data, we estimate that we are the largest dredging company in India and the seventh largest dredging company in the world, as measured by capacity. We were established in 1976 as a PSU under the administrative control of the MoS to provide integrated dredging services to India's Major Ports in the form of maintenance dredging, capital dredging, reclamation, hydrographic surveys and beach nourishment.

India's coastline extends for approximately 5,600 kilometers and includes 12 Major Ports under the administrative control of the MoS, approximately 180 non-Major Ports under the administrative control of the Gol and state governments and private ports on India's east and west coasts. Most of these ports require capital and maintenance dredging for expansion and maintenance of their existing capability to berth vessels of different shapes and sizes. The Indian dredging market consists primarily of maintenance dredging and capital dredging, in addition to a limited amount of inland dredging, beach nourishment and reclamation dredging. We have a leading presence in the Indian maintenance dredging market, and we also carry out limited capital dredging in India and abroad. We own and operate 12 dredgers with a derived annual dredging capacity of approximately 80 million cubic meters per annum (based on installed hopper volume, estimated number of days of dredging, location, soil characteristics, number of loads and dumping distance), and we actually dredged 81.2 million cubic meters under our dredging contracts for the year resulting in a capacity utilization rate of 101.7% (based on actual days dredged and other factors affecting production).

In fiscal 2003, we estimate that we had an approximately 89% market share of the estimated 65 million cubic meter Major Port dredging market in India, including approximately 92% of India's Major Port maintenance dredging market, up from approximately 55% in fiscal 2001. Our estimated market share of India's relatively smaller Major Port capital dredging market has fluctuated from approximately 24% of an estimated 11 million cubic meters dredged in fiscal 2001 to approximately 8% of an estimated 2.3 million cubic meters dredged in fiscal 2003. Measurement of annual dredging volumes differs between the Major Ports and between our operating data and those of the individual Major Ports as a result of different quantitative measures of dredging and methods of recording data. We have estimated our market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and correspondence with the Major Ports for fiscal 2002 and fiscal 2003. For our total dredging volumes and capacity utilization figures used in this Preliminary Sale Document, we have used our internal operating data that we report to the MoS. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors - External Risk Factors - Statistical market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview - Statistical and Market Data for the Indian and International Dredging Industries".

For fiscal 2003, we had our highest annual income of approximately Rs. 5,195.2 million, compared to Rs. 5,015.3 million for the previous year. Our adjusted profit after tax for fiscal 2003 was Rs. 1,574.9 million, compared to Rs. 881.5 million for the previous year. Income and adjusted profit after tax for the six months ended September 30, 2003 was Rs. 2,518 million and Rs. 776.1 million, respectively. As at March 31, 2003 we had net fixed assets of Rs. 4,514.3 million and as at September 30, 2003 we had net fixed assets of Rs. 4,244.6 million.

Our customers include ports, the Indian Navy and shipyards. In fiscal 2003, approximately 57% of our income from operations was earned from our maintenance dredging contract with Kolkata Port. Other key customers include Cochin Port, New Mangalore Port, Kandla Port and Paradip Port.

In addition to the regular dredging work provided by the continuous maintenance dredging requirements of ports, we believe that we benefit from a number of favorable trends in the Indian and international dredging markets:

- **Deeper draught requirements of Indian ports.** Historically, the average maximum controlling depths of the largest Indian ports have been less than the average maximum controlling depths of the largest non-Indian ports worldwide. Without significant deepening and widening efforts, most Major Ports in India risk being unable to accommodate larger cargo vessels, which renders them less competitive than deeper ports. Such deepening and widening efforts would create opportunities for capital and maintenance dredging.
- **Expansion requirements of Indian ports due to increase in port traffic.** With annual GDP growth targets by the Planning Commission of India averaging 8% from fiscal 2002 to fiscal 2007, India is expected to experience considerable growth in trade and related port traffic. The Tenth Five-Year Plan of the Gol, published in fiscal 2003, estimates that the annual Indian Major Port traffic will increase to approximately 415 million tonnes by fiscal 2007 from approximately 289

million tonnes in fiscal 2002. Likewise, the GoI estimates Major Port capacity will increase from approximately 344 million tonnes in fiscal 2002 to approximately 470 million tonnes by fiscal 2007. An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet this increased traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunities for both capital dredging and increased maintenance dredging.

- **Tourism development and increasing need for beach nourishment.** Beach erosion is a continuous problem and there is a growing awareness among state governments as to the importance of beachfront assets to the Indian tourism industry. We expect in future that initiatives will be undertaken by state governments to restore and preserve eroding beachfront. To date, efforts in this area have been made mainly by ports.
- **Land reclamation for low lying areas.** We expect that there will be increased capital dredging opportunities in India in the near future. For example, a chemical terminal is planned for construction at JNPT on reclaimed land. We believe the principal contractor is likely to subcontract the capital dredging required for the project. In addition, some of the largest land reclamation projects are in the Asian continent, in Singapore, Hong Kong and the Middle East. The Hong Kong airport, for example, is built entirely on reclaimed land. These long-term projects have the potential to add substantial revenue to the dredging market.
- **Sagar Mala initiative to develop India's maritime sector.** We believe that the GoI's Sagar Mala initiative, which involves the development and inter-linking of ports and inland waterways to expand water transportation in India, will lead to increased capital and maintenance dredging opportunities. This initiative, which is expected to take more than ten years to complete, will include qualitative and quantitative improvements in port-related services and the development of new ports.

## OUR COMPETITIVE STRENGTHS

We believe we are well positioned to maintain and enhance our leadership position in the Indian dredging market, while expanding operations in the international dredging market, on account of our competitive strengths, which include the following:

- **Flexible portfolio of dredging assets.** We operate a diverse dredging fleet which is the largest dredging fleet in India. The size, versatility and technical capabilities of the fleet improves our competitiveness as it generally permits us to select the appropriate equipment for a particular maintenance dredging job. To maintain the value and effectiveness of fleet, we emphasize preventive maintenance that results in reduced downtime, increased profitability, enhanced vessel life and relatively low maintenance expenditure requirements.
- **Favorable competitive dynamic.** We benefit from significant advantages relative to both existing and potential competitors, including:
  - Our longstanding relationship with Indian Major Port authorities, which are also under the administrative control of the MoS and thus share a coordinated approach to operations;
  - Our experience of more than 25 years in and related knowledge of the Indian dredging market;
  - Our strong and consistent financial record;
  - Our nomination right to perform maintenance dredging at Kolkata Port;
  - Our right of first refusal (along with other Indian dredging companies) to perform dredging contracts; and
  - Our purchase preference as a PSU, which is valid until March 31, 2004 when we expect it will be reviewed by the GoI.

For details relating to our nomination right, right of first refusal and purchase preference, see "Regulations and Policies – MoS Press Note Released on January 19, 2004".

- **Specialized capability in maintenance projects.** We are the leader in maintenance dredging in India through our combination of equipment and experience. We believe our size as the largest dredging company in India and our extensive experience significantly enhance our ability to profitably bid for and complete these contracts.
- **Proven experienced management team.** Our senior managers have an average of 19 years of experience in the dredging and maritime industries. We believe that this experience provides us with a significant advantage over our competitors.

## OUR BUSINESS STRATEGY

We intend to increase income from operations and strengthen our domestic and international competitive position by expanding our operations in both our traditional and new dredging services and adopting a pro-active marketing strategy for our domestic and foreign operations. We aim to achieve our mission by pursuing the following business strategies:

- **Consolidate market share in maintenance dredging.** We expect to maintain our domestic leadership position in maintenance dredging by becoming more customer-focused and tailoring marketing initiatives that differentiate between specific groups of customers. In particular, we are consolidating our relationships with the Major Ports and developing marketing efforts aimed at

non-Major Ports and new private port developers in India. In addition, our planned purchase of a 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 will augment our maintenance dredging capacity.

- **Invest in capital dredging.** We intend to expand our share of the capital dredging market to improve our income and profitability. Our planned purchase of a 10,000 horse power cutter suction dredger in fiscal 2007 will enhance our capital dredging capacity, and we will seek also to develop employee skills in the capital dredging area, both through training of existing employees and recruitment of skilled personnel. In addition, we intend to charter in dredging equipment when necessary to participate in expected new capital and maintenance dredging projects.
- **Optimize capacity utilization.** We intend to continue to optimize our capacity utilization by continuous project monitoring and review, reducing equipment downtime through preventive maintenance and working with repair yards to accelerate dry dock repair periods, and increasing computerization, including introducing online connectivity between dredgers, projects and our head office. We also intend to continue to invest in quality pre-dredging surveys and equipment and continue to invest in repairs and maintenance.
- **Reduce operational expenses.** In addition to our capacity utilization initiatives discussed above, we also intend to reduce operational costs by, among others, utilizing voluntary retirement schemes to limit staff cost, altering our fleet's fuel supply, focusing on fuel efficiency in ship operations and ship procurement and streamlining spare parts procurement systems.
- **Develop strategic alliances and international joint ventures to increase international maintenance and capital dredging presence and market share.** We intend to develop strategic alliances with leading international dredging companies to access the necessary skills for capital and international dredging works. We also intend to acquire additional equipment and vessels suitable for capital dredging. Increases in foreign port infrastructure investments continue to present new overseas dredging opportunities. We intend to selectively pursue international opportunities that offer us the potential to increase the utilization of our asset base. We have appointed PricewaterhouseCoopers to assist us in identifying potential international joint ventures partners. We also expect to appoint marketing agents in Singapore, Malaysia and the Middle East to identify projects and to promote our services in those countries.
- **Acquire new skills and competencies.** Through a renewed focus on training, we intend to introduce specific project planning and management initiatives to educate our staff to identify and develop new market opportunities. We believe the introduction of best practices in procurement, costing and working capital management, along with the introduction of tailored human resources practices, participatory management and new technologies, will create new competencies in our organization and add value for our dredging customers.

## OUR FLEET AND EQUIPMENT

Our fleet of dredgers and other specialized equipment is the largest and most versatile in India. Certain information regarding our dredging fleet is shown below:

Cutter Suction Dredgers	Year of Construction	Maximum Dredging Depth (meters)	Installed Horse Power
Dredge VII	1976	22.00	8,500
Dredge Aquarius <sup>(1)</sup>	1977	25.00	17,300
<b>Total Installed Horse Power<sup>(2)</sup></b>			25,800

Trailer Suction Hopper Dredgers	Year of Construction	Maximum Dredging Depth (meters)	Installed Hopper Volume (cubic meters)
Dredge V	1974	22.00	3,450
Dredge VI	1975	22.00	3,770
Dredge VIII	1977	25.00	6,500
Dredge IX	1984	25.00	4,500
Dredge XI <sup>(3)</sup>	1986	25.00	4,500
Dredge XII	1990	20.0	4,500
Dredge XIV	1991	20.0	4,500
Dredge XV	1999	25.00	7,400
Dredge XVI	2001	25.00	7,400
Dredge XVII	2001	25.00	7,400
<b>Total Installed Hopper Volume<sup>(4)</sup></b>			53,920

Notes:

- (1) Chartered with some officers to Dredging International N.V. (Belgium) for a period of three years from June 2002, extendable for two more years.
- (2) Installed horse power is the sum total of the rated horse power of the diesel engines in a cutter suction dredger.
- (3) In August 2003, Dredge XI experienced a fire resulting in it expected to be out of commission for repairs until the end of fiscal 2004.
- (4) Installed hopper volume is the designed volume of the hopper in a trailer suction hopper dredger.

All of our dredgers except Dredge VII were constructed by international dredger-building yards in the Netherlands. Dredge VII was constructed in India with the majority of its equipment manufactured in the Netherlands. All of our dredgers are self-propelled, with overall lengths ranging from 100 meters to 124.3 meters, except for Dredge VII which is non-propelled and has an overall length of 86 meters. Our equipment also includes a tug boat, a work boat, a survey launch and two "A" frame pontoons.

The Indian maintenance dredging market generally requires trailer suction hopper dredgers with draughts of six to eight meters, although certain smaller Indian ports require shallow draughts of three meters or less. All of our trailer suction hopper dredgers have fully loaded draughts of 6 to 8.5 meters, which makes them ideally suited for operations at Major Ports. Auxiliary equipment for the maintenance dredging market include grabs and backhoes for dredging in front of quay walls. In addition to trailer suction hopper dredgers, the Indian capital dredging market also requires cutter suction dredgers for dredging of rocks and other soil types. Auxiliary equipment for the capital dredging market includes grab dredgers, hopper barges, winch pontoons and anchor pontoons for the laying and maintenance of floating pipelines. We subcontract certain auxiliary equipment for both maintenance and capital dredging. See "- Our Equipment - Subcontractors".

We have focused our dredging operations on maintenance dredging and have developed our fleet of primarily trailer suction hopper dredgers to meet the requirements of this market. We have four trailer suction hopper dredgers with draughts of 6 meters, two with draughts of 7.5 meters and four with draughts of 8.5 meters, and we have two cutter suction dredgers. Partially as a result, international dredging companies with fleet profiles that rely more extensively on cutter suction dredgers have been able to gain market share in the Indian capital dredging market.

Our dredging fleet is positioned on both the east and west coasts of India. The flexibility of our fleet enables us to move equipment in response to changes in demand. Our fleet includes Dredge XVI, which was deployed in our first international dredging assignment at Taichung Harbor, Taiwan from September 2001 to April 2002, and Dredge Aquarius, which has a pumping capacity of 3,640 cubic meters per hour and is currently overseas under charter to Dredging International N.V. (Belgium).

### Capacity Utilization

We have increased our annual dredging capacity of our trailer suction hopper dredgers by over 41% over the past three years through acquisitions of new trailer suction hopper dredgers. The following table sets forth additions to our annual dredging capacity for each of the last three fiscal years:

Year	Trailer Suction Hopper Dredgers (million cubic meters)	Cutter Suction Dredgers (million cubic meters)
Fiscal 2000	52.1	6.2
<b>Additions</b>		
Fiscal 2001	1.5	—
Fiscal 2002	15.0	—
Fiscal 2003	5.1	—
Total capacity as at September 30, 2003	73.6	6.2

Our annual dredging capacity is derived from a number of parameters, including installed hopper volume, estimated number of days of dredging, location, soil characteristics, number of loads and dumping distance.

As the table below shows, we have dredged in excess of our derived annual dredging capacity in fiscal 2001, fiscal 2002 and fiscal 2003:

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Derived Annual Dredging Capacity (million cubic meters per annum)	59.8	74.8	79.8
Actual Amount Dredged (million cubic meters)	60.7	80.5	81.2
Capacity Utilization (%)	101.5	107.6	101.7

We have optimized our capacity utilization through a series of initiatives, including:

- Reducing equipment downtime through preventive maintenance and working with repair yards to accelerate dry dock repair periods;
- Continuous project monitoring and review programs;
- Improving our procurement system for spare parts to expedite delivery times; and
- Introducing online connectivity between dredgers, projects and our head office.

The average age of our fleet is 15 years for our trailer suction hopper dredgers and 26 years for our cutter suction dredgers, which we believe is older than the international industry averages for such dredgers. We believe the average useful life of dredgers like ours is 20 to 25 years, which can be extended pursuant to a proper maintenance program. We are committed to preventive maintenance, which we believe is reflected in the long lives of most of our equipment and the low level of downtime on jobs. The Indian dredging industry has limited support services in the form of training centers for dredging operations or yards for dredger building. In addition, dredger repair facilities are limited in number and limited production facilities for spare parts exist in India, which generally must be imported with longer order and delivery lead times.

### Technology

All of our dredgers are equipped with industry-standard sophisticated instrumentation including production meters, draught volume load monitoring systems and differential global positioning systems to facilitate accurate and efficient dredging operations. See "Industry — Dredging Equipment and Process - Technology".

From 1992 to 1998, we did not acquire any new dredgers and made only limited improvements in onboard dredger technology. With the introduction of increased competition in the Indian dredging industry, today we continuously assess the need to upgrade and expand our dredging fleet to take advantage of improving technology and to address the changing needs of the dredging market. As discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Historical and Planned Capital Expenditures", we have initiated a ship procurement program to increase our dredging capacity. As part of this program we intend to acquire one 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 and one 10,000 horse power cutter suction dredger in fiscal 2007, which we believe will enhance our ability to compete for and execute future capital dredging projects. These and future dredger acquisitions will be financed by a combination of internal resources and commercial borrowings. We spent Rs. 813.5 million on maintenance (including spare parts) in fiscal 2003, in addition to Rs. 66.8 million on capital expenditures.

### Equipment Certification

All our dredgers are registered under the Indian flag under the Merchant Shipping Act, 1958 and strictly comply with all relevant national and international regulations and conventions including those for construction, maintenance, manning, operation and safety.

As part of our effort to build a safety culture in our fleet and operations, we regularly conduct internal audits, inspections and reviews of our safety management system. We were issued a Document of Compliance pursuant to the International Safety Management Code in June 2002 and all our dredgers were issued Safety Management Certificates by the DG Shipping.

### Subcontractors

As Indian dredging customers generally expect all elements of dredging contracts to be performed by a single contractor, we are required to hire subcontractors in limited circumstances to perform certain aspects of contracts, including grab dredging in space-restricted areas such as alongside docks or terminals and preparing survey reports. Because we subcontract this work, we have only limited control over the performance or expense of these subcontractors which is paid out of our contract. In addition, because there are only a limited number of subcontractors providing some of these services such as grab dredging in India, there is limited price competition for these subcontractors. While we intend to expand our survey department and grab dredging capability, we will continue to rely on specialized subcontractors to perform these functions in limited circumstances where required for a particular dredging contract.

## OUR MARKETS AND CUSTOMERS

The dredging industry's customers include Major Ports under the administrative control of the MoS, non-Major Ports under the administrative control of the Gol and state governments, private ports, the Indian Navy and shipyards. The Indian dredging market is primarily maintenance dredging-oriented. There are no substitutes that customers can use for maintenance dredging services. Kolkata Port is the largest dredging customer in India and has responsibility for projects related to navigation and development at the Haldia Dock Complex in Kolkata. In addition, the Indian Navy is responsible for awarding contracts with respect to its own facilities.

We estimate that, based on data from the Gol's Tenth Five-Year Plan, Major Ports represent approximately 93% of the overall Indian dredging market (excluding private ports) by volume, and approximately 92% and 95% of the overall Indian maintenance dredging and capital dredging markets (excluding private ports), respectively. We believe that as the Indian dredging market expands, recently developed private ports, including at Pipavav, Kakinada, Mundra and Hazira, represent a growing percentage of Indian dredging volumes. Dredging volumes at these private ports are not publicly available.

The current MoS guidelines for the execution of maintenance and capital dredging at Major Ports in India under the administrative control of the MoS favor our Company through a combination of:

- A nomination process, whereby all ports may choose to negotiate with us directly on a nomination basis for dredging services rather than being required to open the contracts to competitive bidding (except Kolkata Port, which is required to nominate our Company for maintenance dredging);
- A right of first refusal (along with other Indian dredging companies) to perform dredging contracts prior to the contracts otherwise being awarded to foreign bidders, provided we have participated in the initial bidding and agreed to perform the contract at the lowest bid; and
- A purchase preference arising from our status as a PSU whereby we can elect to perform any dredging contract where our bid is within 10% of the winning Indian bidder and we agree to perform the contract at the lowest bid.

The current MoS guidelines expire on March 31, 2004. In a press note released on January 19, 2004, the MoS announced revisions to these guidelines, effective April 1, 2004 through March 31, 2007, which we believe will have the following effect:

- The removal of the nomination process at all Major Ports (other than Kolkata Port) whereby the ports must open their dredging contracts to competitive bidding. Our existing contracts as at April 1, 2004, including our five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006), will remain in effect; and
- The right of first refusal to perform dredging contracts otherwise awarded to other bidders will be contingent on our bid being within 10% of the winning bidder.

In addition, the MoS announced its intention to develop similar guidelines to ensure dredging contracts at non-Major Ports and private ports in India are also open to competitive bidding. See "Regulations and Policies - MoS Press Note Released on January 19, 2004" for the full text of the press note.

We will continue to be the sole provider of maintenance dredging services to Kolkata Port through the nomination process until March 31, 2007, when the revised guidelines and our current contract with the port expire. In addition, pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of the other PSUs, is valid until March 31, 2004. The Gol has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

In fiscal 2003, approximately 57% of our income from operations was earned from our maintenance dredging contract with Kolkata Port, approximately 28% of our income from operations was from other nomination (non-competitive bidding) contracts, approximately 13% of our income from operations was from competitive bidding contracts and approximately 2% of our income from operations was from our charter of cutter suction dredger Aquarius. See "— Contracts and Pricing". Capital dredging is largely contracted out to dredging companies through the competitive bidding process. International companies including Royal Boskalis Westminster N.V., Dredging International N.V., Van Oord ACZ and Ballast Ham Dredging B.V. have in the past been awarded large capital dredging contracts tendered out by the Major Ports and the Indian Navy.

We have limited land reclamation and beach nourishment projects at present.

### Maintenance Dredging

The Indian dredging market is primarily maintenance dredging oriented and in fiscal 2003 we had an approximately 92% market share by volume in this market segment at Major Ports. Maintenance dredging is carried out either by the port authorities, our Company or other private Indian and international dredging companies. As maintenance dredging is a repetitive activity, there is a consistent annual market for maintenance dredging services as the quantum of dredging does not fluctuate excessively year to year.

The following table sets forth certain information with respect to the Indian maintenance dredging market at Major Ports from fiscal 2001 to fiscal 2003:

Customer	Maintenance Dredging - Fiscal 2001 to Fiscal 2003 (million cubic meters)								
	Fiscal 2001			Fiscal 2002			Fiscal 2003		
	Port	DCI	Others	Port	DCI	Others	Port	DCI	Others
Kolkata (including Haldia)	0.4	17.8	0.0	1.3	21.5	0.0	2.8	24.2	0.0
Cochin	0.9	0.0	10.8	1.1	14.6	0.0	0.7	15.1	0.0
New Mangalore	0.1	5.3	0.0	0.1	5.5	0.0	0.1	4.6	0.0
Kandla	0.0	3.6	0.0	0.0	3.4	0.0	0.0	4.1	0.0
Paradip	0.0	2.3	0.0	0.0	2.2	0.0	0.0	2.8	0.0
Visakhapatnam	0.1	0.0	0.8	0.1	0.7	0.0	0.1	0.9	0.0
Ennore <sup>(1)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Chennai	0.2	1.5	0.0	0.4	0.0	0.0	0.2	0.0	0.0
Tuticorin	0.0	0.1	0.0	0.0	0.0	0.01	0.0	0.0	0.3
Mormugao	0.0	0.0	3.8	0.0	0.0	3.8	0.0	3.3	0.0
Mumbai	0.7	0.0	8.3	0.9	0.0	2.3	0.8	2.1	0.0
JNPT	0.0	1.0	0.0	0.0	0.8	0.0	0.0	0.6	0.0
Sub Total	2.4	31.5	23.7	3.8	48.7	6.1	4.6	57.6	0.5
Grand Total		57.6			58.6			62.7	
<b>DCI Share</b>		54.8%			83.1%			91.9%	

Source: Our estimates based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and our correspondence with Mumbai Port for fiscal 2002 and fiscal 2003. Estimates for Kolkata Port for fiscal 2003, where our dredgers were hired on a daily rate basis, are based on our internal operating data. The fiscal 2003 annual report of Kolkata Port does not separate dredging volumes for our dredgers operating on a daily rate basis.

Notes:

- (1) Commenced operations in February 2001.
- (2) Non-Major Ports and the Indian Navy dredged approximately 10.5 million cubic meters over this period, according to estimates and projections of the Gol's Tenth Five-Year Plan.

Important maintenance dredging contracts completed during fiscal 2003 included dredging for Kolkata Port, sand trap and channel dredging at Paradip Port, sand trap and beach nourishment dredging for Visakhapatnam Port, outer channel and lagoon dredging for New Mangalore Port, dredging of the approach channel at JNPT and the Sogal channel at Kandla Port, and maintenance dredging of navigational channels at Cochin Port.

#### Major Port Customers

In fiscal 2003, approximately 96% of our income from operations was from maintenance dredging and our top five customer ports contributed Rs. 4.1 billion, or 83.8%, of our revenue. For the six months ended September 30, 2003, our top five customers contributed Rs. 2.3 billion, or 94.3%, of our revenue. The following table illustrates the aggregate contribution to our revenue for each of the past three fiscal years and the six months ended September 30, 2003 for Kolkata Port and our top five customers:

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Six months ended September 30, 2003
Kolkata Port	54.8%	53.7%	56.8%	66.8%
Top 5 Customers (including Kolkata Port)	87.6%	82.4%	83.8%	94.3%

### *Kolkata Port*

Kolkata Port has the highest maintenance dredging requirement of all Major Ports in India as a result of the heavy silting at Haldia arising from the continuous flow of the River Ganges. During fiscal 2003, approximately 26.9 million cubic meters was dredged at Kolkata Port, of which 24.2 million cubic meters, or approximately 90%, was dredged by our Dredges V, VI, XII, XIV, XV and XVI, with the remainder dredged by the port's dredgers. In recent years, the port has also employed dredgers from other domestic and international dredging companies. Maintenance dredging is conducted throughout the year at Kolkata Port.

Kolkata Port receives substantial government funding with respect to river dredging as well as maintenance dredging of the shipping channel leading to Haldia. The MoS requires Kolkata Port to use our Company for its maintenance dredging operations pursuant to the nomination process, which will continue until March 31, 2007, when the recently announced revised MoS guidelines and our current contract with the port expire.

In fiscal 2003 Kolkata Port modified its payment pattern from a quantitative measure to a daily rate basis with depth-related penalties.

### *Cochin Port*

During fiscal 2003, approximately 15.8 million cubic meters was maintenance dredged at Cochin Port, of which 15.1 million cubic meters, or approximately 96%, was dredged primarily by our large sized Dredge VIII, with the remainder dredged by the port's dredgers. Maintenance dredging is conducted by trailer suction hopper dredgers from May to February at Cochin Port.

From fiscal 1997 to fiscal 1999, the port employed dredgers from other domestic and international dredging companies in order to meet the port's maintenance dredging requirements. The particular nature of the dredging operation at the port, which warrants long travel for dumping of dredged material, necessitates the use of dredgers with large hopper capacities. Such dredgers can minimize the travel time per unit volume dredged and provide significant economies to the dredging operation.

### *New Mangalore Port*

During fiscal 2003, approximately 4.6 million cubic meters was dredged at New Mangalore Port, of which over 99% was dredged by our Dredge XVI, with the small remainder dredged by the port's dredger. Maintenance dredging is conducted after the monsoon season in October to December at New Mangalore Port.

### *Kandla Port*

We service all of Kandla Port's dredging requirements and dredged approximately 4.1 million cubic meters during fiscal 2003, primarily by Dredge IX. Maintenance dredging is conducted throughout the year at Kandla Port.

### *Paradip Port*

We service all of Paradip Port's maintenance dredging requirements and dredged approximately 2.8 million cubic meters during fiscal 2003, primarily by Dredge XI. Maintenance dredging is conducted during and after the monsoon season from May to September and in December and January at Paradip Port.

### **Private Ports**

The development of private ports in India has increased in recent years, particularly in the states of Andhra Pradesh, Maharashtra and Gujarat. A number of these ports are being developed pursuant to PSP schemes with dredging carried out primarily by private companies. Due to the private sector control of these ports, we believe most dredging activity at these ports will be determined through competitive bidding with an emphasis on overall cost reduction and on-time completion of projects. We provided maintenance dredging services for certain private Indian ports in the 1990s but are not currently providing any dredging services at these ports due to lack of suitable equipment and lack of rock dredging and marine construction experience.

Our ability to market our services to private port developers will play an increasingly important role in determining our market share in India in the future. Since private ports tend to prefer all elements of a dredging contract to be performed by a single contractor, we are developing the following strategies to meet their requirements:

- Enter into agreements with major civil construction companies to meet the initial expectations of private ports;
- Procure suitable equipment to meet the maintenance and capital dredging needs of private ports; and
- Maintain continuous interaction with private ports.

Certain information regarding certain of our largest current long-term contracts is shown below:

Customer	Work	Nature of Contract Measurement
Kolkata Port	Maintenance dredging at Kolkata Port – fiscal 2003 to fiscal 2007 (subject to review by both parties on April 1, 2004)	Daily rate basis with incentives or disincentives for depth achievement or non-achievement
JNPT	Maintenance dredging of approach channel at JNPT – fiscal 2003 to fiscal 2007	<i>In situ</i> contract and payment per cubic meter basis
Visakhapatnam Port	Maintenance dredging at sand trap and outer harbor– fiscal 2004 to fiscal 2008	<i>In situ</i> contract and payment per cubic meter basis

### Capital Dredging

The capital dredging market in India is limited and capital dredging is characterized by high resource requirements that necessitate continuous fleet utilization in order for the dredging to be economically feasible. Capital dredging also involves substantial ancillary equipment requirements and extensive project planning and management skills. In addition, as port development programs in India are not continuous and soil strata varies from port to port, any equipment specifically purchased for a capital dredging project may risk being under-utilized. The MoS is contemplating several privatization projects, including the development of new berths and terminals and expansion of existing berths and terminals, at a number of Major Ports in India. These programs will result in additional Indian port cargo capacity which will require increased capital dredging and likewise increase annual maintenance dredging requirements at these ports. In addition, the Sagar Mala initiative offers potential extensive capital and maintenance dredging opportunities through qualitative and quantitative improvements in port-related services and the development of new ports. There is no fixed season for capital dredging, as timing depends on customers' requirements and site conditions.

### Future Capital Dredging Projects

The Gol's Tenth Five-Year Plan, published in fiscal 2003, estimated various Indian port expansion programs (Major and non-Major Ports) totaling approximately 144 million cubic meters of capital dredging through fiscal 2007. We believe the following major capital dredging projects mentioned in the Gol's Tenth Five-Year Plan will be developed in the near to intermediate term. The current estimated dredging and financial statistics for these projects discussed below are based on our correspondence with the ports and presentations, press releases and website data from the ports.

#### Kolkata Port

The planned capital dredging project at Kolkata Port involves deepening of the Ballari Bar channel at the port to four meters, resulting in an estimated five million cubic meters of capital dredging and an estimated three million cubic meters of additional maintenance dredging at the port each year.

The project will also involve the construction of a guide wall and a dyke for containing materials, as well as bank protection, and is estimated to cost a total of approximately Rs. 3.5 billion to be funded by the Gol.

#### JNPT

The planned capital dredging project at JNPT involves deepening the port's main harbor and channel to approximately 13.9 meters and approximately 12.8 meters, respectively. The project also involves widening the port's main harbor and channel. This will result in an estimated 48.5 million cubic meters of capital dredging, including rock dredging, and result in an estimated 5.0 million cubic meters of additional maintenance dredging at the port each year. The estimated total cost of the project is approximately Rs. 6.5 billion.

#### Ennore Port

The planned capital dredging project at Ennore Port is part of the expansion program at the port to establish facilities to handle large crude tanker ships and iron ore ships and to create additional port terminal jetties. This project involves deepening the port's terminal facilities from approximately 16 meters to approximately 26.5 meters and result in an estimated 21.5 million cubic meters of capital dredging. The estimated total cost of the project is approximately Rs. 3 billion.

#### Paradip Port

The planned capital dredging project at Paradip Port involves deepening the existing channel from 15 meters to approximately 17 meters and widening the existing channel from approximately 180 meters to approximately 240 meters. The project will also involve lengthening the channel and result in an estimated 7 million to 8 million cubic meters of capital dredging. The estimated total cost of the project is approximately Rs. 1 billion.

## Cochin Port

The planned capital dredging project at Cochin Port involves the creation of container transshipment and liquefied natural gas terminals, the widening and deepening of the outer and inner channels and also extending the outer channel by up to approximately 17.1 meters contour. This will result in an estimated 34.5 million cubic meters of capital dredging and an estimated 2 million cubic meters of additional maintenance dredging each year. The estimated total cost of the project is approximately Rs. 2.5 billion.

### International Experience

We were formed to provide dredging services to Indian ports and, until the acquisition of Dredges XV, XVI and XVII in 1999 and 2001, our dredging capacity was less than the requirements of our Indian port customers. We believe we now have excess dredging capacity compared to the requirements of the Major Ports and we are exploring the potential to utilize this excess capacity on international dredging projects. We believe our addressable international dredging market size, based on our existing capacity, is approximately 30-40 million cubic meters per annum in Southeast Asia (including Singapore, Malaysia and Sri Lanka), Taiwan and the Middle East, where there are substantial ongoing reclamation projects and maintenance dredging requirements. The dredging markets in these countries, unlike those in other regions including Europe and the United States, are characterized by limited restrictions on foreign ownership, crews and ship registry. In addition, the close proximity of these countries to India provides asset mobilization advantages and their business environment is generally conducive to operating a dredging project office, raw material procurement and transfer of earnings. Challenges in operating in these international markets include our limited dredger capacity and our lack of a formalized process for identifying and accessing new projects in these markets. In addition, due to the high volume of dredging operations in the international market, competitors with greater dredging capacity may be able to exploit economies of scale and offer more competitive pricing than us.

We have appointed PricewaterhouseCoopers to assist us in identifying potential international partners for joint ventures. We also expect to appoint marketing agents in Singapore, Malaysia and the Middle East to identify projects and to promote our services in those countries. The following table sets forth certain information with respect to potential projects we have identified in our addressable international dredging market:

Location of Project	Potential Projects	Opportunities
Singapore	Major reclamation projects in: <ul style="list-style-type: none"> <li>● Jurong Island – Phase-IV</li> <li>● Tuas Project</li> </ul>	No restrictions on crew or vessel ownership Mobilization advantage Conducive environment for business operations In contact with agencies to promote our interests
Malaysia	Major reclamation projects in: <ul style="list-style-type: none"> <li>● Port of Tanjung Pelapas</li> </ul> Capital dredging projects in: <ul style="list-style-type: none"> <li>● Port Klang</li> <li>● Bintulu Port</li> </ul> Annual maintenance dredging requirements for certain ports in Malaysia	Entered into a Memorandum of Understanding with local dredging company for joint participation projects in Malaysia pursuant to local ownership requirements
Bahrain	Dredging and reclamation of Banderseef, Busytin and West Hidd reclamation project Projects for dredging and reclamation and creation of islands expected as part of various development programs	In contact with relevant agencies to utilize our dredgers for projects in Bahrain
Taiwan	Immediate dredging requirement for Taipei project	In contact with agencies to promote our interests

In April 2002, we completed a Rs. 311.7 million land reclamation and dredging contract at Taichung Harbor, Taiwan where we dredged 2.68 million cubic meters. In June 2002, we chartered our 17,300 horse power cutter suction dredger Aquarius to Dredging International N.V. (Belgium) for a period of three to five years for operation in international locations. Aquarius will not be able to operate in India during this period without our consent. This charter allows us to gain experience in the international capital dredging market and to access skills for capital and international dredging works. The charter was entered on a partial

wet lease basis with some officers onboard to enable our floating staff to acquire additional capital dredging skills during the ship's operation.

### **Reclamation and Beach Nourishment**

At present, our reclamation and beach nourishment operations have been limited. At Visakhapatnam more than four kilometers of beach are annually nourished with approximately 500,000 cubic meters of sand dredged from the sand trap. In Paradip we have also carried out beach nourishment projects. We own four trailer suction hopper dredgers (Dredges XII, XIV, XVI and XVII) with shore pumping facilities capable of undertaking reclamation and beach nourishment projects. Our two cutter suction dredgers can also be used for reclamation work. We believe land reclamation will increase as future projects similar to those ongoing in Singapore and the Middle East commence in Asia. See "— Competitive Strengths".

Currently, we do not possess inland dredging equipment but we believe that we can capitalize on our previous experience and re-enter that market if the dredging work resulting from the inter-linking of rivers and ports in India develops as expected.

### **CONTRACTS AND PRICING**

Our dominant market position in the Indian dredging market has historically resulted from the MoS guidelines favoring our Company at Major Ports in India through a combination of the nomination process, a right of first refusal for certain contracts and our PSU purchase preference.

#### **Nomination Process**

Under current Indian regulations, all Major Ports (except Kolkata Port) can either open potential contracts to competitive bidding or negotiate directly with our Company on a nomination basis for the execution of maintenance and capital dredging contracts.

With respect to Kolkata Port, we are the sole external maintenance dredging service provider pursuant to the MoS's existing nomination guidelines. This nomination process historically applied to the majority of Indian Major Ports but has been gradually rolled back since 1993 and was limited in 2001 to only Kolkata Port as part of the Gol's initiative to liberalize the Indian dredging industry. Pursuant to the nomination process, we are "nominated" by the MoS as the dredging provider at the particular port and the port negotiates exclusively with us on a "nomination" basis without being required to open the contract to competitive bidding. Currently, while the Major Ports (other than Kolkata Port) can continue to negotiate with our Company as the nominated provider, they now also have the option to use the competitive bidding process. Effective April 1, 2004, the revised MoS guidelines for the execution of dredging at Major Ports require all Major Ports (other than Kolkata Port) to open their dredging contracts to competitive bidding. Our existing five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006) remain in effect. For details relating to our existing contracts see "Regulations and Policies – MoS Press Note Released on January 19, 2004".

#### **Right of First Refusal**

DG Shipping has established certain guidelines for the chartering of vessels bearing a foreign flag. The existing guidelines for "Chartering permission for coastal trade/off-shore operations", which also regulate dredging, grant a right of first refusal to Indian dredging vessels to perform operations. Indian dredging companies, therefore, have a right of first refusal to undertake dredging operations being tendered pursuant to competitive bidding whereby an Indian company that matches the lowest bid of a foreign dredging company will be awarded the dredging contract. The guidelines also require Indian companies to be qualified under certain technical evaluation criteria to be eligible to be awarded dredging contracts. The guidelines assist us in maintaining our market share in the maintenance dredging market as we meet the technical qualifications whereas new Indian market entrants may not have the same technical expertise to qualify. Effective April 1, 2004, the revised MoS guidelines require our bid to be within 10% of the lowest bid before we can exercise the right of first refusal. For details, see "Regulations and Policies - MoS Press Note Released on January 19, 2004" for the full text of the press note.

#### **Purchase Preference and Competitive Bidding Process**

For competitive bidding situations, we retain a "purchase preference" as a PSU whereby we are awarded any dredging contract where our bid is within 10% of the lowest bid and the lowest bidder is an Indian company. Pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of all PSUs, is valid until March 31, 2004. The Gol has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

Approximately 28% of our non-Kolkata Port dredging contracts by income from operations are currently being awarded to us on a nomination (non-competitive bidding) basis. As a result of our pricing policy, during negotiations we generally offer competitive prices, since some ports determine the competitive rates they expect before entering into negotiations with us and finalizing rates. In the past, whenever the ports have opted for an open competitive bidding process, including most recently at Cochin Port and Chennai Port, we have won such contracts as the lowest bidder except for an assignment at Mumbai Port where we exercised the right of first refusal with respect to foreign bidders available to us under the MoS guidelines.

Approximately 13% of our dredging contracts by income from operations are currently obtained through competitive bidding on terms specified by the party inviting the bid. The nature of the specified services dictates the types of equipment, material and

labor involved, all of which affect the cost of performing the contract and the price that dredging contractors will bid.

### **Changes to Government Dredging Policy**

Prior to 1993, our market share for external (outsourced) maintenance dredging at Major Ports in India was 100%. Over the last decade, as a result of our inability to meet the increased markets demand at Major Ports for maintenance dredging services due to capacity restraints, the Gol has increasingly liberalized the maintenance dredging market and has opened it up to international competition. This is a result of our Major Port customers' maintenance dredging requirements first surpassing our dredging capacity in the early 1990s, as well as pressure from the international community and the potential cost reductions associated with increased competition. As a result of these factors, we estimate that our market share for maintenance dredging at Major Ports in India was approximately 92% in fiscal 2003, based on the annual reports of the Major Ports and our correspondence with those ports.

The current MoS guidelines expire on March 31, 2004. In a press note released on January 19, 2004, the MoS announced revisions to these guidelines, effective April 1, 2004 through March 31, 2007, which we believe will have the following effect:

- The removal of the nomination process at all Major Ports (other than Kolkata Port) whereby the ports must open their dredging contracts to competitive bidding. Our existing contracts as at April 1, 2004, including our five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006), will remain in effect; and
- The right of first refusal to perform dredging contracts otherwise awarded to other bidders will be contingent on our bid being within 10% of the winning bidder.

In addition, the MoS announced its intention to develop similar guidelines to ensure dredging contracts at non-Major Ports and private ports in India are also open to competitive bidding. See "Regulations and Policies - MoS Press Note Released on January 19, 2004" for the full text of the press note.

We will continue to be the sole provider of maintenance dredging services to Kolkata Port through the nomination process until March 31, 2007, when the revised guidelines and our current contract with the port expire. In addition, pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of the other PSUs, is valid until March 31, 2004. The Gol has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

These and any further changes to the MoS guidelines are, therefore, likely to be increasingly critical in determining our overall market share. See "Risk Factors — Recently announced changes to the current government dredging policy could result in a reduction in our share of the Indian dredging market and adversely affect our income and profit". We are developing a contingency plan to maintain our existing maintenance dredging market share and possible entry into international operations in Singapore, Taiwan and the Middle East and entering into joint ventures with international companies to gain entry to international dredging markets.

### **Changing Contract Payment Pattern**

Traditionally, our dredging contracts with customer ports were based on a daily rate as opposed to quantitative measures of dredging. As a result, we were not incentivized to increase efficiency in our operations as we did not bear the cost of longer time periods to complete daily rate dredging contracts. Recently, however, in line with international dredging trends, a number of ports have shifted the mode of payment under dredging contracts to a method based on the quantity of material dredged, calculated either according to the *in situ* basis or the hopper volume measurement basis, or to performance-based measures such as depth achieved or on a lump sum basis, or to a combination of these measures. An example of this includes our maintenance dredging contract at Kandla Port entered into in fiscal 2000. The effect of this new payment method shifts the responsibility for increasing efficiency in operations to dredging companies. These changing demands on efficiency require more efficient operations and higher capacity utilization.

The standard units of measurement for payment under our current dredging contracts are:

- Daily rate, which is normally utilized where the customer requires flexible deployment of dredgers in different areas at different times. Daily rate contracts are based on a number of variables beyond the control of the customer and contractor. We, therefore, charge our customers based on the number of days the dredger has operated, regardless of the quantity dredged, excluding days when the dredger is not available for work as a result of breakdowns and maintenance;
- *In situ*, based on the volume of material dredged (derived from the change in the depth of the dredging area), where the parameters effecting the quantity and quality (including density of slurry) to be dredged can be measured accurately;
- Hopper volume measurement, based on the volume or weight of material dredged, where the *in situ* measurement is difficult. Hopper volume measurement is commonly used in maintenance dredging projects where the siltation pattern cannot be established and more than one contractor is working in the same area. There are three basic methods of measuring hopper volume: absolute volume in the hopper, volume in the hopper relative to the *in situ* volume and absolute weight of dry solids in the hopper;

- Depth achieved in dredging, which is performance-based; and
- Lump sum basis, for certain maintenance dredging contracts where the price of the contract is fixed per tender and certain key requirements such as minimum depth, width and tolerance levels are pre-determined. We are exposed to certain operational risks such as unexpected soil conditions or weather under these lump sum contracts, which are also performance-based.

Our dredging contracts have historically been for a two-year period except for the those mentioned below and generally follow Federation Internationale des Ingenieurs Conseils (“FIDIC”) terms, except where specifically negotiated. Our current contracts with the Major Ports in India expire on March 31, 2004, except for those mentioned below. We have negotiated five-year maintenance dredging contracts with Kolkata Port (subject to review by both parties on April 1, 2004) and JNPT, which both run through until March 31, 2007. In addition, we have entered into five-year maintenance contracts with Visakhapatnam Port, which runs through March 31, 2008, and Paradip Port, which runs through March 31, 2006. For details relating to our existing contracts, see “Regulations and Policies - MoS Press Note Released on January 19, 2004”.

### **Current Strategy and Pricing Policy for Contracts**

Before initiating price negotiations we obtain details about the particular project and, based on the past performance of similar projects, we estimate that the dredging production and the number of dredging days. We then estimate the total cost of the project, including fixed costs, variable costs and project-specific costs such as surveying and subcontracting. Specifically, our pricing policy is formulated pursuant to the following factors:

- Fixed and variable costs of the dredging equipment identified for deployment on the contract;
- Marginal costs and standing costs of the dredging equipment, its potential utilization and idleness in the event the contract is not awarded;
- Customer loyalty and performance during the execution of past contracts; and
- Long-term/short-term contract volume of work.

In addition, in the case of competitive bidding, pricing decisions are also made in light of our competitiveness in the field and the performance of competitors under similar contracts. We have operated for over 25 years in India and maintain an extensive database of dredging records from our own activities. Prior dredging records help us predict sediment composition and optimum equipment requirements. Management believes that our extensive database and our accumulated estimating and bidding expertise allow us to be more accurate than our competitors in predicting dredging cost prior to bidding for contracts.

### **Performance Bonds**

For some domestic projects, dredging service providers are required to obtain bonds, which are typically provided by banks. A bid bond is required to serve as a guarantee that if a service provider’s bid is chosen, the service provider will sign the contract. The amount of the bond is typically 1% or 2% of the service provider’s bid, although it may be as high as 5% in certain cases. After a contract is signed, the bid bond is replaced by a performance bond. In some cases, where required by the customer, we also provide a security deposit in addition to a performance bond, the purpose of which is to guarantee that the job will be completed. A performance bond typically covers up to 10% of the contract value. A company’s ability to obtain performance bonds with respect to a particular contract depends upon the size of the contract, as well as the size of the service provider and its financial position.

Our projects are currently bonded by Syndicate Bank, India. We have never experienced difficulty in obtaining bonding for any of our projects.

### **Seasonality**

We have, historically, realized slightly lower income from operations in the first half of each fiscal year. This trend is due primarily to increased dredging activity following the monsoon season in India. In the future, seasonality may become more significant if our project mix changes and we are not flexible in utilizing our equipment.

### **SUPPLY, REPAIRS AND MAINTENANCE**

In fiscal 2003, approximately 94% of our spare parts consumed were imported, while all of our stores, fuels and lubricants were purchased from sources within India.

#### **Spare Parts and Stores**

The spare parts used in our dredgers primarily comprise dredging, propulsion, navigational engine and auxiliary equipment as well as items such as bearings, gaskets and fasteners. Limited spare part production facilities exist in India, resulting in longer lead times for imported spare parts. We purchase spare parts primarily from OEMs located outside India and stores from local suppliers.

The stores used in our operations include wire, synthetic ropes, paints, general ship stores and gases. We follow a tender system for the purchase of stores. Under this system, we float tenders to Indian suppliers giving our specifications and accept the lowest price offered by a supplier who meets our specifications. For spare parts, we issue standard purchase orders covering specific items for the purchase of spare parts from OEMs.

We generally enter into two-year requirements contracts for the supply of standard stores and issue purchase orders as and when we require spare parts. We require our suppliers to comply with stringent quality specifications.

In fiscal 2003, we began the process of implementing new information technology systems which we expect will improve our material management processes and reduce our inventory costs. See “— Information Technology”.

### **Fuel and Lubricant Supply**

The fuels and lubricants used in our dredgers primarily comprise diesel oil, marine lubricant oil and greases. We require our suppliers to comply with stringent quality specifications. We purchase diesel oil, marine lubricant oil and greases from suppliers in different port cities in India where we perform dredging operations. We do not store any fuels or lubricants other than onboard our ships. In fiscal 2003 we initiated the switching of our fleet’s fuel supply from high flash high speed diesel oil to light diesel oil in seven dredgers resulting in significant fuel cost savings of approximately Rs. 60 million for the year. In addition, fuel efficient design is a key parameter in our ship procurement program.

### **Repairs and Maintenance**

There are limited dredger repair facilities in India. Our principal repairs and maintenance facilities are owned by third parties and located in Visakhapatnam, Cochin, Kolkata, Goa and Mumbai, with running repairs undertaken by local workshops at the ports where we conduct dredging operations. These repair facilities are characterized by limited information technology, mechanization and planning capabilities. While we have not, historically, utilized foreign repair facilities, we have recently begun to utilize foreign facilities after reviewing the relevant advantages in individual cases.

### **MARKETING**

Prior to 1993, we were assured full utilization of our dredging capacity under the Gol’s nomination process. After 1993, certain ports were required to nominate our Company whereas others were permitted to open their dredging work to competitive bidding. Since the Gol’s 2001 decision to further limit nomination maintenance dredging work and allow increased competitive bidding we have faced increased competition from both international and domestic dredging companies. As a result, we are adopting a pro-active marketing strategy for operations both in India and abroad, including:

- Developing internal awareness of the importance of marketing;
- Reinforcing our relationship with Major Ports in India;
- Developing relationships with private port developers in India;
- Establishing an effective customer feed back mechanism;
- Promoting our Company in the market through an advertising and publicity campaign; and
- Exploring opportunities in foreign countries through marketing agents and the formation of joint ventures and special purpose vehicles with international dredging companies.

Pursuant to this marketing strategy, we aim to commence maintenance dredging assignments as per the specific time schedule of our customers. In addition, we no longer solely deploy dredgers on a daily basis, but, where required by customers, we deploy dredgers on a volume dredged or on a lump sum basis, thereby assuming the associated risks with respect to operational efficiency. We also aim to improve the performance of all our dredging equipment to their optimum capacities.

As part of our efforts to enter international markets, we have undertaken capital dredging working at Taichung harbor in Taiwan. Efforts are also being made to obtain dredging contracts in Middle East, Malaysia and Singapore. We have appointed PricewaterhouseCoopers to assist us in identifying potential international joint venture partners. We also expect to appoint marketing agents in Singapore, Malaysia and the Middle East to identify projects and to promote our services in those countries. In addition, in Malaysia, we have entered into a memorandum of understanding with a local dredging company for joint participation in dredging/reclamation projects. In both Bahrain and Taiwan, we have contacted relevant agencies to promote our interests in potential dredging/reclamation projects.

## COMPETITION

Since the opening of the Indian dredging industry to foreign competition by the GoI in fiscal 1993, a number of international and domestic dredging companies have entered the Indian dredging market. As a result, the Indian dredging market has become more competitive. In a growing market, our overall market share in terms of the amount of dredging services provided in the Indian market increased as our capacity increased and we won new contracts in competitive bids in Cochin Port and Chennai Port. Our estimated overall dredging market share at Major Ports in India increased from approximately 50% in fiscal 2001 to approximately 83% and 89% in fiscal 2002 and 2003, respectively. While continuing to offer capital dredging services in the Indian market, we are primarily focused on maintenance dredging which is price-sensitive and constituted more than 96% of dredging volumes in the Indian Major Port dredging market in fiscal 2003. Our estimated market share for maintenance dredging at Major Ports fluctuated from approximately 55% in fiscal 2001 to approximately 83% and 92% in fiscal 2002 and 2003, respectively.

In the Indian dredging market, we compete primarily with international dredging companies including Royal Boskalis Westminster nv, Ballast Nedam Dredging B.V., Dredging International N.V., and Van Oord ACZ and domestic dredging companies. In the future, we may also face competition from other domestic and international dredging companies that enter the Indian market, including international dredging companies that have been successful in foreign markets but are yet to enter the market in India. Some of the international dredging companies that have entered the Indian market in recent years have significantly greater resources than us, which may enhance their ability to compete with us.

International dredging operations in Taiwan comprised approximately 4.5% and 0.5% of our total dredging volumes in fiscal 2002 and fiscal 2003, respectively. We expect to continue to face competition in foreign dredging markets, which may limit our ability to enter those markets.

We compete primarily in terms of price, availability of suitable equipment, expertise, experience, season and volume of work, fleet mobilization and site conditions:

- **Availability of suitable equipment.** While a particular dredging assignment can be carried out by different types of dredgers, the overall production and productivity of equipment for a given assignment varies depending on the soil strata, dumping distance and depth of cut. Therefore, competitiveness depends in part on the use of equipment which is optimally suited for the assignment.
- **Availability of equipment by hire.** If suitable equipment is not available internally, the feasibility of hiring such equipment and the location and rate at which the equipment can be hired will impact competitiveness.
- **Pre-bid arrangements for sharing equipment and facilities.** It may not be possible for a contractor to own or lease all the categories of equipment required for an assignment. It is therefore necessary to have arrangements in place for sharing of equipment and facilities. Overall competitiveness will vary depending on the amount of the equipment deployed from internal sources and the equipment outsourced.
- **Expertise and experience.** The availability of expertise and experience in similar dredging operations in the same dredging area or location will have impact on the competitiveness of the contractor.
- **Mobilization advantage.** As dredging equipment needs to be mobilized to the dredging location to carry out operations, the shorter the mobilization distance, the greater the competitive advantage.
- **Season and volume of work.** If the volume of work is substantially high, it may be possible to deploy vessels with greater capacity resulting in cost reductions. Similarly, if the assignment is to be carried out during the off-season, more equipment will be available, resulting in the ability to provide more competitive offers.
- **Customer credentials.** If the customer has strong credentials from past assignments, the risks associated with the assignment will be minimized, particularly in terms of payment delays, approval delays and idleness of equipment, resulting in the ability to provide more competitive offers.
- **Conditions of site, sea and soil.** The greater the accuracy with which site, sea and soil conditions are known, the fewer uncertainties in terms of production, productivity and time schedules, allowing for more competitive offers.

We believe we have several competitive advantages with respect to existing and potential competitors. In maintenance dredging, we believe we have advantages in availability of suitable equipment, expertise and experience, mobilization, our customers' credentials and conditions of site, sea and soil. In capital dredging we believe we have advantages in mobilization and customer relations.

If we are unable to compete effectively based on these factors, competition may reduce our market share in the maintenance and capital dredging segments of the Indian dredging market as well as our overall market share in the future. We expect competitive pressure on our business to continue. We may face a decline in our profits or a reduction in dredging volumes in the future due to intense competition.

## REGULATIONS AND POLICIES

### Environmental Regulation

For maintenance dredging projects, environmental clearances (if any) will be obtained by our customers. For capital dredging projects, if required by contract, we monitor and maintain the quality of surface water, the turbidity, the levels of dissolved oxygen, ammoniac nitrogen and other nutrients in water in the dredging operations and submit reports to the relevant authorities. We are also required to prevent spillage of any oil and to immediately mitigate in case of spillage.

For more information on regulations and policies applicable to us, see "Regulations and Policies".

### EMPLOYEES

As at December 31, 2003, we had 993 employees, including 581 floating staff and 412 shore staff. The following table sets forth our employees by category for the past four fiscal years and as at December 31, 2003:

Category	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	As at December 31, 2003
<b>FLOATING</b>					
OFFICERS	188	183	177	191	191
PETTY OFFICERS	122	115	105	86	76
CREW	262	251	257	311	293
MONTHLY-PAID WORKERS	106	99	93	27	21
	678	648	632	615	581
<b>SHORE</b>					
EXECUTIVES	232	156	151	153	155
STAFF	309	260	258	258	257
	541	416	409	411	412
<b>Total</b>	<b>1,219</b>	<b>1,064</b>	<b>1,041</b>	<b>1,026</b>	<b>993</b>

### Floating Staff

Our floating staff consists of officers, petty officers, crew and monthly-paid workers who work on our dredgers and other floating craft on a shift basis.

Our dredger staffing levels must comply with safe manning provisions of the Merchant Shipping Act, 1958 and DG Shipping guidelines that we receive from time to time. Our current staffing levels of 40 to 50 employees per dredger are generally higher than those of foreign dredging companies. This is partly a result of historical employment practices, as well as foreign companies outsourcing certain activities and the use of multi-skilled workers in foreign fleets.

In response to international competition, we propose to further reduce the staffing levels on our dredgers while continuing to adhere to international standards. Negotiations with maritime unions to effect this reduction are currently underway.

### Shore Staff

Our shore staff consists of non-executive staff and executives at both our head office and our project offices who provide shore support to our fleet operations.

A productivity-linked incentive scheme covers all full-time shore staff. The scheme pays each employee 0% to 25% of their basic pay based upon the category of employee and the rating of our Company with respect to efficiency, financial and operating parameters as stated in the Memorandum of Understanding between the MoS and our Company signed at the beginning of the relevant fiscal year.

### Voluntary Retirement Scheme

We offered a Voluntary Retirement Scheme ("VRS") to our shore staff from August 2000 to November 2000. 119 of our employees, comprising 80 executives and 39 non-executives, opted for the VRS. Under the VRS, approximately Rs. 59.8 million was paid

in voluntary retirement compensation. This amount has been fully recovered through savings in employee costs. The reduction in the number of our employees as a result of the VRS was approximately 22.2% of our shore employees as at July 31, 2000. Some claims related to the VRS were filed with the Honorable High Court of Andhra Pradesh. For further information, see "Outstanding Litigation".

We introduced a second VRS on October 23, 2003 which is open until January 22, 2004. This new VRS will be available to employees who:

- Have more than five years residual service as at October 23, 2003; and
- Are of a category of employees who have been declared as "surplus".

The VRS is not available to our Board level employees. It is also not offered to our floating staff working on dredgers because of their different service conditions.

In the future we intend to introduce further voluntary retirement schemes.

### **Training**

We offer our employees a range of human resources training programs provided by third parties, from general management to specific programs on project management, operations management, survey and soil mechanics, dredging technology and information technology. During fiscal 2003, a program on operations management and project management was organized at Haldia for a number of floating and project personnel, with faculty from the Indian Institute of Management, Kolkata. Similarly, a special program on survey and soil mechanics for survey personnel was organized at Karnataka Regional Engineering College, Surathkal. A training program on engine maintenance was also organized onboard dredgers by a specialist from one of our engine manufacturers. Specific training programs for technical personnel on welding, dredging technology, electrical and electronics were also conducted during fiscal 2003.

We also sponsor employee participation in a number of external training programs, conferences and seminars organized by reputable training institutions.

### **Management Reviews**

Our management, which comprises full-time directors and department heads, carries out comprehensive reviews of our different departments every month. They review the progress made towards the goals for each department, analyze the deficiencies and take corrective action. They receive inputs for these reviews from internal audits that are carried out by our safety cell. Our management also conducts periodic performance reviews that focus on contract performance, customer feedback and status of corrective and preventive actions undertaken.

### **Industrial Relations**

As at December 31, 2003, 838 of our employees were represented by trade unions and 125 were represented by associations. From April 1, 2003 to April 14, 2003 our floating crew and monthly-paid workers who are members of the FSUI staged a work-to-rule industrial action with respect to proposed staff reductions on our dredgers and other floating craft and other claims. Our dredging operations continued without interruption during this period. In July 2003 we initiated contempt of court proceedings against the union for violating the order of the High Court of Andhra Pradesh, Hyderabad restraining the FSUI from staging this industrial action and a contempt notice was issued to the FSUI.

In addition, on October 23, 2003, Jahazi Mazdoor Union, which represents our non-executive shore staff, issued a one-day strike notice with respect to career progression and promotions. The matter was admitted to conciliation by the DCL. Thereafter, JMU members did not resort to strike action. Discussions were held between our management and the JMU representatives before the DCL on December 9, 2003. In a letter Rc. No. C/5348/2003 dated December 18, 2003, DCL advised our Company to reconsider our position on leave travel encashment of non-executives and regularizing casual workers. We are currently examining the matter. Apart from these isolated incidents, we believe that our relationships with our employees are good. However, future labor unrest at our facility or at the facilities of our vendors could adversely affect our operations and our operating results.

For further information, see "Outstanding Litigation" in this Preliminary Sale Document.

## INFORMATION TECHNOLOGY

In fiscal 2001, our Board of Directors approved our Corporate Plan which included the specific information technology strategies described below:

STRATEGY	STATUS OF IMPLEMENTATION
Replace all applications with enterprise resource planning ("ERP") package	Pre-qualification of ERP implementation partner has been completed. The tender process for identification and implementation of the ERP package is in progress.
Install Local Area Network ("LAN") and Wide Area Network ("WAN")	We have implemented a LAN with 150 nodes with capacity for further expansion to support three-tier architecture at our head office, our project office in Haldia and a small work group network on all dredgers. A dedicated WAN to support ERP and other software will be implemented at the time of the ERP implementation.
Communication between dredgers, head office and project offices	We have established a communication network using Inmarsat to connect dredgers, our head office and project offices. Our project offices have been connected to our head office through the internet for free flow of messages and data.
Implementation of non-ERP packages	We have developed a non-ERP software package to compute the wages of floating staff which is being tested and is expected to be implemented on all our dredgers by April 2004. The floating staff payroll is also integrated with the software available on the server at our head office.  We have developed a production information system capturing various dredging parameters and have implemented this on all dredgers.  We have established a central database based on information from our production database of each dredger to provide management information to operations, technical, marketing and other departments at our head office.
Acquire and install hardware	Approximately 130 personal computers have been installed at our head office. Three personal computers have been installed on each dredger. Personal computers have also been installed in all project offices, our registered office at New Delhi and our office at Chennai.
User Training	In order to utilize the software and hardware, we have organized a series of in-house and external training programs to increase the IT skills of floating staff and shore employees as part of the ERP implementation.

In fiscal 2003, our Board approved expenditure of Rs. 50 million for the implementation of new information technology systems. This implementation has been delayed as a result of procedural delays in appointing our technology provider and delays in our software selection process.

## RESEARCH AND DEVELOPMENT

As the dredging industry is heavily reliant on technology, research and development plays an integral role in most dredging companies' operations. Historically, because of the lack of competition in the Indian dredging market, our research and development activities were limited. In fiscal 2003, however, we created a separate research and development department to focus our research and development activities on the requirements of operating in the Indian and international dredging markets. As part of these efforts we are in the process of contracting specialists from other industries and organizations, including the National Institute of Ocean Technology, to help expanding and updating our research and development activities.

## INSURANCE

We maintain insurance to cover risks of loss or damage to our equipment, injury to our employees and damage or injury to third parties, subject to policy limitations and deductibles for which we are self-insured. We make estimates and assumptions that

affect the reported amount of liability and the disclosure of contingent liabilities.

## INFRASTRUCTURE

### Property

The details of the properties are as set forth below:

S.No.	Location	Address	Area	Lease/Freehold
	<b>Registered Office</b>			
1	Delhi	Core-2, First Floor, "Scope Minar" Plot No. 2A & 2B, Laxmi Nagar, District Cenatre, New Delhi 110-091.	83.46 square meters	Freehold/Owned
	<b>Corporate/Head Office</b>			
1	Visakhapatnam	"Dredge House" Port Area, Visakhapatnam 530-035	2093.7 square meters	Leave and Licence
<b>Project Offices</b>				
1	Kolkata	Room no, "Shanti niketan" 5 <sup>th</sup> Floor, Camac Street, Kolkata 700-017	128.94 square feet	Leave and License
2	Haldia	Kolkata Port, Trust Barrack no H & F, Chairanjipur, Dock Zone, Haldia – 721-604.	408 square meters	License
3	Paradip	Plot No 187, Old State Medical Buildings, Paradip 754-414	270.80 square meters	Leasehold
4	Visakhapatnam	Survey No 2/6 Lova Gardens, Yerada, Gandhigram, Visakhapatnam	576 square meters	Leasehold
5	Cochin	Block No 39/3907, Alappat Cross Road, Ravipuram, Cochin 682-016	1400 square feet	Leasehold
6	New Mangalore	Locker Room Building, Ground Floor, New Mangalore Port Trust Premises, Panambur, Mangalore	22 square meters	Leave and Licence
7	Mumbai	Office No 101 A 10 <sup>th</sup> Floor. Mittal chambers Nariman Point, Mumbai- 400-021	617 square feet	Freehold/owned
8	Chennai	Plot No 2, Habibullah Road, T Nagar, Chennai 600-17	1050 square meters	Leasehold
9	Kandla	Room No 106 and 107, "Sewa Sadan II" New Kandla 370-210	126 square meters	Leasehold

In addition to the above office premises, the Company owns six residential flats in Mumbai and nine residential flats in Kolkatta. Further, the Company owns a 1.10 acre plot of land in Visakhapatnam for construction of residential accommodation.

## OUR HISTORY

The MoS established and began operating a dredging pool, the Central Dredging Organization (the "CDO"), in 1966 to meet the dredging requirements of the Major Ports in India. The CDO's operations were subsequently transferred to The Shipping Corporation of India in 1968. Since dredging operations are capital intensive and specialized, and in response to the growing demand for dredging services in India, the Gol incorporated Dredging Corporation of India Limited on March 29, 1976 as a private company under the Companies Act. Our Company converted into a public company on March 10, 1992. In 1992, the Gol disinvested 1.44% of its shareholding in our Company and the Equity Shares of our Company were listed on BSE, CSE and DSE. We have been declared a Mini Ratna – Category I public sector enterprise by a letter No. PD/28028/39/97-DCI dated November 8, 1999 issued by the Gol and have been granted greater autonomy with respect to financial and operational areas, establishment of joint ventures, overseas offices and technology alliances, among other areas, subject to the fulfillment by us of the conditions contained in DPE Office Memorandum No.11/36/97-Fin dated October 9, 1997. Our head office is located on the east coast of India at Visakhapatnam. We have project offices at Mumbai, Kolkata, Chennai, New Mangalore, Paradip, Haldia, Visakhapatnam, Cochin and Kandla.

The main objects of our Company as set forth in our Memorandum of Association read as follows:

### "A. MAIN OBJECTS

1. To acquire and take over from the Government of India the MOT (Ministry of Shipping and Transport) Dredger Pool and Central Dredging Organization along with all or any of the assets, liabilities, responsibilities and commitments of the Government of India in connection therewith on which terms and Conditions as may be determined between the Government and the Company on its incorporation.
2. To carry on all or any other business of owners, operators, contractors, charters, agents, builders, wrights, brokers, repairers, refitters, vendors and or salvagers of dredgers and dredging equipment of all kinds including equipment afloat and ashore, ships oil tankers supporting craft, tugs, survey ships, light ships, barges launches, lighters, floating cranes buoys, supply vessels, drilling platforms, submercibles, amphibian vehicles, helicopters, marine structures of all kinds pipe lines and special purpose vessels.
3. To carry on all or any of business of dredging, drilling blasting land reclamation, shore nourishment, ocean, harbour and Inland towage, marine salvage, marine construction, subsea structures, surveys and associated work on land, in and under water in any part of the world.
4. To carry on all or any business of proprietors, managers and/or operators of moorings, wharves, jetties and piers.
5. To carry on the business of Engineers, manufacturers, repairers, assemblers, processors and/or fitters of engines, boilers machinery and equipments and components thereof for dredgers and vessels of all kinds and uses.
6. To carry on the business of consultants in all fields in which the Company is engaged or authorised to engage in, including dredging, dredger operation and management dredging equipment design, marine, mechanical, electrical, civil metallurgical and electronic engineering, naval architecture, manufacture of ancillary items and equipment, land reclamation and associated works, harbor engineering, beach nourishment and shore protection, manufacture of dredgers salvage equipments planning layout repair design or work necessary for the execution of all the above works for the benefit of the Company or for any outside party with or without remuneration"

Our activities as carried out in the past and present are in accordance with the main objects as specified in our Memorandum of Association.

### Changes in our Memorandum of Association

Since our incorporation, the following changes have been made to our Memorandum of Association:

S.No.	Clause Number of Memorandum of Association	Date of Amendment	Amendment	Reasons
1.	Clause V	EGM - March 10, 1992	One equity share of Rs. 1,000 each was sub-divided into 100 Equity Shares of Rs. 10 each.	This was necessitated due to the disinvestment of Equity Shares by the Gol in 1992 and also to facilitate listing of our equity share capital on BSE, CSE and DSE.

Notes: 1. After the sub division, the authorized capital of our Company consisted of 30 million Equity Shares of Rs. 10 each and the paid-up capital of our Company consisted of 28 million shares of Rs. 10 each fully paid-up.

2. At an AGM held on September 29, 1999 an increase in the authorized share capital of our Company was approved by our

shareholders, subject to the approval of the President of India as a result of which the authorized share capital of our company was increased from Rs. 300 million divided into 30 million Equity Shares of Rs. 10 each to Rs. 600 million divided into 60 million Equity Shares of Rs. 10 each. However, approval from the President of India is still awaited. The increase in authorized share capital will take effect only after receipt of approval from the President of India. Hence, Clause V of our Memorandum of Association and Clause 3 of our Articles of Association will be altered to reflect such increase in the authorized capital of our Company after receiving approval from the President of India.

The details of the authorized, issued and paid-up capital are given in the Section titled "Capital Structure".

#### Key events since the date of incorporation

Years	Key Events, Milestones, and Achievements
March 1976	Our Company was incorporated as a private company limited by shares under the name of Dredging Corporation of India Limited.
April 1976	Our Company acquired six dredgers from the erstwhile Ministry of Transport, GoI and CDO /Shipping Corporation of India/dredging pool which were subsequently renamed DCI Dredger I to DCI Dredger VI.
May 1976	Erstwhile Ministry of Transport Dredger VII received from erstwhile Ministry of Transport, renamed as DCI Dredger VII
January 1977	Deletion of word 'private' from the name of our Company, being a government company.
July 1977	New dredger MOT Dredge VIII received from MOT, named as DCI Dredge VIII.
August 1977	Secured international contract for management of Port of Yanbu - a Red Sea Port on the West Coast of Saudi Arabia, for two years and subsequently extended for two years.
March 1992	Disinvestment by the GoI of 1.44 % of its shareholding in the equity share capital of our Company.
March 1992	Conversion of our Company from a private company limited by shares to a public company limited by shares.
October 1992	Listing of the share capital of our Company on BSE, CSE and DSE.
Fiscal 1993	The Company signed with the GoI for the first time a Memorandum of Understanding ("MOU") containing the rating of the Company with respect to efficiency, financial, and operating parameters on which the productivity linked incentive scheme of the Company's full-time shore staff is based.
Fiscal 1992	Achieved Rs. 1,000,000,000 income from operations.
Fiscal 1996	The Company gets the rating of "EXCELLENT" for the first time for the performance under MOU.
November 1999	Our Company was declared a Mini Ratna - Category I Public Sector Enterprise by Ministry of Surface Transport by Letter No: PD.28028/39/97-DCI dated November 8, 1999.
April 2000	Our Company received the Prime Minister's MOU Award for excellence in achievement of MOU targets for fiscal 1999.
September 2001	Our Company received an international contract for dredging / land reclamation at Taichung Harbour, Taiwan.
May 2002	Our Company received an MOU award presented by the Vice President of India for excellence in achievement of MOU targets for the fiscal 2001.
April 2002	Our Company was declared a Schedule-B PSU by way of Letter No.PD-28028/51/99-DCI dated April 1, 2002 issued by the MoS (Ports Wing).
April 2003	Our Company received a MOU award presented by the President of India for excellence in achievement of MOU targets for fiscal 2002.
January 2004	Listing of the share capital of our Company on NSE.

## OUR MANAGEMENT

### BOARD OF DIRECTORS

Our Chairman and Managing Director, Mr. Neerav Kumar Gupta, manages the day-to-day operations of our Company under the overall supervision of the Board of Directors in accordance with the provisions of the Companies Act, the Memorandum and the Articles of our Company, the directives of the President of India, the administrative ministry, the MoS and applicable guidelines issued by the Department of Public Enterprise (“DPE”) from time to time. Pursuant to the provisions of our Articles of Association, our Company cannot have less than four Directors or more than twelve Directors on our Board. We currently have seven Directors.

The table set out below contains important details of the members of our Board of Directors as at December 31, 2003.

S.No	Name, Designation, Father’s Name, Address, Occupation and Term	Age (in years)	Other Directorships/ Memberships/Trusteeships
1.	<p><b>Mr. Neerav Kumar Gupta</b>  <i>Chairman and Managing Director</i>                      (S/o Late Mr. Srikrishan Gupta)</p> <p>Address:                      11-3-8 Gangapur Layout                      Waltair Uplands                      Visakhapatnam – 530 003</p> <p>Occupation: Service</p> <p>Term of Office:                      December 1, 2001 to November 30, 2006.                      (a period of five years or until date of superannuation whichever occurs earlier)</p>	50	Member of the Governing Body of the National Ship Design and Research Center, Vishakapatnam.
2.	<p><b>Mr. Arun Kumar Dhar</b>  <i>Director, Finance</i>                      (S/o Late Mr. D.C. Dhar)</p> <p>Address:                      39-33-77/2, MIG Plot No.148 A                      VUDA, Madhavadhara Colony                      Near R &amp; B Office,                      Visakhapatnam – 530 018</p> <p>Occupation: Service</p> <p>Term of Office:                      August 9, 1994 to August 08, 1999 and                      August 9, 1999 to August 8, 2004</p>	56	Nil
3.	<p><b>Mr. Gunnam Ganapati Rao</b>  <i>Director, Operations and Technical</i>                      (S/o Late Mr. Veeranna)</p> <p>Address:                      Flat No 202, Ridge Wood Block                      Jasti Square,                      Near Pandurang Temple                      Door No. 7-5-84/16,                      Beach Road Visakhapatnam – 530 003</p> <p>Occupation: Service</p> <p>Term in Office:                      July 11, 2001 to July 10, 2006.                      (a period of five years or until date of superannuation whichever occurs earlier)</p>	54	Nil

<b>S.No</b>	<b>Name, Designation, Father's Name, Address, Occupation and Term</b>	<b>Age (in years)</b>	<b>Other Directorships/ Memberships/Trusteeships</b>
4.	<p><b>Mr. N. K. Jawa</b>  <i>Non-Executive Director</i>  (S/o Mr. R. L. Jawa)  Address:  F-15,TYPE-V  Hudco place  Andrews Ganj  New Delhi 110-049  Occupation: Service  Term of Office:  May 17, 2002 to April 3, 2003 and  April 4, 2003 to April 3, 2005.</p>	45	Trustee of the Kolkata Port Trust, Kolkata.
5.	<p><b>Mr. Tirumalai Srinidhi</b>  <i>Non-Executive Director</i>  (S/o Late Mr. T. R. G. Iyengar)  Address:  D-166 New Rajendra Nagar,  New Delhi 110-060  Occupation: Service  Term of Office:  April 4, 2001 to April 3, 2003 and  April 4, 2003 to April 3, 2005.</p>	48	Director of the Central Inland Water Transport Corporation, Kolkata; Trustee of the Tuticorin Port Trust, Tuticorin; Director of the Sindh Resettlement Corporation, Adipur; and Trustee, Seamans Provident Fund Trust.
6.	<p><b>Mr. Chirravuri V. Dikshith</b>  <i>Non-Executive Director</i>  (S/o Mr. C. Dakshinamurti)  Address:  Flat No.10, Plot No.81  "PAMBA" CHS  Sector – 29  Vashi  Navi Mumbai – 400 703  Occupation: Business Consultant  Term of Office:  September 4, 2002 to September 3, 2005</p>	62	Director of SeaKing Infrastructure Ltd; Poseidon Infrastructure Ltd; Pipavav Ship Dismantling and Engineering Ltd; and Sagar Inflatables Ltd.
7.	<p><b>Dr. Subramanian Kathioli</b>  <i>Non-Executive Director</i>  (S/o Mr. Subramanian)  Address:  Plot No.202,  Ram Nagar, Fourth Street  Velacherry  Chennai – 42  Occupation: Service  Term of Office:  August 17, 2003 to August 16, 2006</p>	47	Nil

Pursuant to the provisions of the Articles of Association all the Directors have been appointed by the MoS.

## BRIEF BIOGRAPHIES OF OUR DIRECTORS

**Mr. Neerav Kumar Gupta**, 50 years, Chairman and Managing Director of our Company, was appointed by the MoS (Ports Wing) with effect from December 1, 2001 by letter no. PO/28028/57/2000-DCI dated October 22, 2001.

He is responsible for the day-to-day management and operations of our Company under the overall supervision of the Board of Directors in accordance with the provisions of the Companies Act, the Memorandum and the Articles of our Company, the directives issued from time to time by the President of India, the administrative ministry of our Company, the MoS and applicable guidelines issued from time to time by the DPE.

He has more than 30 years of experience in the maritime sector and has worked in various capacities on board cargo ships and served with Major Ports of India and has been with our Company for two years. He has considerable knowledge and expertise in management, administration and maritime matters.

Prior to joining our Company he served with the Jawaharlal Nehru Port Trust, Navi Mumbai. He joined the Jawaharlal Nehru Port Trust (on deputation from Mumbai Port Trust) in 1995 as a Dock Master and was promoted as Deputy Conservator with effect from April 1997, which position he held until joining our Company. Prior to his tenure in the Jawaharlal Nehru Port Trust, he was with the Mumbai Port Trust from 1983 to 1995. He joined the Mumbai Port Trust in 1983 as a Pilot and was subsequently promoted to the rank of a Master Pilot in 1994. He started his career as a deck cadet in 1972 in the Shipping Corporation of India Ltd. and was with Shipping Corporation of India from 1972 to 1982 rising to the post of Master (Captain).

He is a Master Mariner and has a Master's (Foreign Going) Certificate issued by the DG Shipping in 1979. He was trained on the training ship "Dufferin" / "Rajendra". He passed the examination conducted by the Institute of Chartered Shipbrokers (UK) in 1980. He was elected a member of the Institute of Chartered Shipbrokers, U.K. in 1981. He is also a member of the Nautical Institute, U.K, the Institute of Marine Technologists, India, Technical Committee of the Indian Register of Shipping, South Asian Committee of the Lloyds Register of Shipping, U.K., Maritime Navigation Commission of International Navigation Association (PIANC), Belgium, Environmental Commission, PIANC, Belgium, Governing Body of the Standing Conference of Public Enterprises, governing body of National Ship Design & Research Centre, council of arbitration of Indian Council of Arbitration, selection board for the Indian Institute of Technology, Chennai, member of Company of Master mariners of India and external examiner for Master & Mates Certificates for the MoS.

His gross compensation paid in fiscal 2003 was approximately Rs.559,462 per annum including the value of perquisites.

For details relating to remuneration including benefits under productivity-linked incentive schemes of our Company, please see "Statutory and Other Information – Remuneration of Our Directors".

**Mr. Arun Kumar Dhar**, 56 years, Director (Finance) of our Company, was appointed by the MoS (Ports Wing) with effect from August 9, 1994 by letter no. PD/28011/1/93-DCI dated June 8, 1994. The appointment was subsequently extended by the MoS by letter no. PD/28028/15/99-DCI dated December 2, 1999.

He is responsible at our Company for overseeing the departments of finance, personnel and administration, company affairs, internal audit and MIS and also has the primary responsibility of policy formation and implementation for each of the departments under his charge.

He has 24 years of experience in engineering and finance prior to joining our Company and has been with our Company for nine years. His area of expertise is finance, engineering (automobiles), personnel and administration.

Prior to joining our Company in August 1994, Mr. A.K. Dhar worked as Joint General Manager (Finance) with HMT Ltd, Pinjore. He had started his career in HMT Ltd, Pinjore as an engineer trainee in August 1970 and until he joined our Company had served in different capacities in the technical and finance departments of HMT Ltd.

He has a B. Tech (Hons) in Mechanical Engineering from Indian Institute of Technology, Kharagpur and is a fellow from the Institute of Cost and Works Accountants of India, Kolkata. He has also attended different business and finance management related training programs outside India including a 3-month advance-training program in finance management in Strathclyde Business School, Glasgow (UK) from April 1990 to July 1990.

His gross compensation paid in fiscal 2003 was approximately Rs.718,526 per annum including the value of perquisites. For details relating to remuneration including benefits under productivity-linked incentive schemes, please see "Statutory and Other Information – Remuneration of Our Directors".

**Mr. Gunnam Ganapati Rao**, 54 years, Director ( Operations & Technical ) of our Company, was with effect from July 11, 2001 appointed by the MoS (Ports Wing) by letter no. PD/28028/51/98-DCI dated July 10, 2001.

He is responsible at our Company for overall operations, execution of contracts, dredger output dry docking/repairs of dredgers, materials and dredger procurement, marketing, reaserch and development activities and general management. He is also responsible for establishing and implementing policies and procedures for dredging operations.

He has seven and a half years of experience in the shipping industry prior to joining our Company and has been with our Company for more than 23 years. His area of expertise is dredging operations, project management, dredge building and procurement, dredge repairs and maintenance, materials management and general administration.

Prior to his appointment as Director (Operations and Technical) of our Company he held the designation of General Manager (Operations and Technical) in our Company. He joined our Company's shore establishment as Deputy Manager (Materials) in 1982. Before joining shore establishment he has served on board our Company's dredgers as Chief Engineer for two and a half years from 1980. Prior to joining our Company he served in the merchant navy as a Marine Engineer/Chief Engineer for a period of seven and a half years from 1972 to 1980.

He has a B.E. (Mechanical Marine) (1<sup>st</sup> Class) from Andhra University received in 1971 and also holds a MOT certificate of competency as 1st Class Engineer (Motor) issued by DG Shipping. He is a fellow member of the Institute of Engineers, India and the Institute of Marine Engineers, India.

His gross compensation paid in fiscal 2003 was approximately Rs.678,421 per annum including the value of perquisites. For details relating to remuneration including benefits under productivity-linked incentive schemes, please see "Statutory and Other Information – Remuneration of Our Directors".

**Mr. Tirumalai Srinidhi**, 48 years, Non-Executive Director of the Company was appointed by the MoS (Ports Wing) with effect from April 4, 2001 by Letter No. PO-28028/55/ 2000-DCI dated April 4, 2001 in conjunction with Letter No. PO-28028/55/-2000-DCI dated March 29, 2001. The appointment was extended by the MoS (Ports Wing) by Letter No. PO-28028/55/-2000-DCI dated March 31, 2003.

He is currently working at the MoS as the Director (Finance) and has been working at the MoS since 2000. Prior to that he has worked in various ministries of the GoI including the Ministry of Defence (from 1996 to 1999), Ministry of Environment & Forests and Ministry of Textiles (from 1991 to 1996) and Cabinet Secretariat (from 1987 to 1990). He joined the GoI service through the UPSC /Civil Services Examination in 1979.

His area of expertise is finance, planning and project monitoring.

He has a B.A. (Honours), a M.A. (Economics) and a MBA, all from Delhi University. .

Mr. Srinidhi is a Non-Executive Government Director and is a government officer. He is not paid any remuneration or sitting fees for attending the Board/Committee meetings of our Company or any remuneration. He is however paid traveling and boarding expenses.

**Mr. N. K. Jawa**, 45 years, Non-Executive Director of our Company, was appointed by the MoS with effect from May 17, 2002 by Letter No. PO-28028/55/-2000-DCI dated May 17, 2002. The appointment was extended by the MoS (Ports Wing) by Letter No. PO-28028/55/-2000-DCI dated March 31, 2003.

He is currently working at the MoS as Director (Port Operations) and has been at the MoS since 1999. Prior to that from 1995 to 1999 he was Director Mechanical Engineering (Traction) in the Ministry of Railways, from 1991 to 1995 he was in charge of the diesel locomotive maintenance facility at Ludhiana, Northern Railway, from 1986 to 1991 he served as Works Manager & Deputy Chief Mechanical Engineer in the Railway Coach Factory, Kapurthala. Before working in the Railway Coach Factory in Kapurthala, he was appointed as Divisional Mechanical Engineer (Diesel), Pune in 1985. He started his career as an assistant mechanical engineer in the Central Railways in 1981.

His area of expertise is railway mechanical engineering, particularly diesel locomotives, project management, port operations, computerisations and electronic data interchange in ports and maintenance dredging in Major Ports.

He has a PGDBM from Management Development Institute, Gurgaon, is a Graduate Member (Mechanical Engineering) of Council of Engineering Institutions (London), a Graduate Member (Electronics & Communication Engineering and Electrical Engineering) of the Institution of Engineers (India).

Mr. Jawa is a Non-Executive Government Director and is a government officer. He is not paid any remuneration or sitting fees for attending the Board/Committee meetings of our Company or any remuneration. He is however paid traveling and boarding expenses.

**Mr. Chirravuri V. Dikshith**, 62 years, Non-executive Director of the Company was appointed by the MoS with effect from September 4, 2002 by Letter No. PD-28028/39/97-DCI dated September 4, 2002.

He is currently a business consultant and as consultant has advised and assisted in various projects such as the Sardar Sarovar Dam, the Sardar Sarovar canal network and other projects relating to the development ports such as Port of Pipava, Port of Digi and infrastructure, in particular marine works, dredging works, roads, special economic zones and various other marine works.

He started his career as a lecturer in engineering design/drawing in Kanpur at the Directorate of Technical Education, Uttar Pradesh, India. He joined the Ministry of Defense in 1964 as an Assistant Executive Engineer through the UPSC examinations and was with them from 1964 to 1990. He subsequently rose to the designation of Additional Chief Engineer. He took voluntary retirement in December 1990.

His area of expertise is planning/design of infrastructure development and marine works.

He has a B.E. from Jodhpur University, M.E. from Pune University and M.Sc. from Madras University. He is a fellow member of the Institute of Engineers (India).

Mr. Dikshith is a Non-Executive Non-Government Director and is presently paid a sitting fee of Rs. 3000 per meeting of the Board or any committee thereof and traveling and boarding expenses.

**Dr. Subramanian Kathirolu**, 47 years Non-executive Director of our Company was appointed by the MoS with effect from August 17, 2003 by Letter No. PD-28028/39/97-DCI dated August 13, 2003.

He is currently working at the National Institute of Ocean Technology (Department of Ocean Development, Gol), Chennai and holds the designation of a Project Director (Scientist-F). He has been with the National Institute of Ocean Technology since 1994 and has worked on several projects including submarine pipeline projects across the Gulf of Khambat, the river regulatory measure project of Kolkata Port Trust, mathematical modeling and environment impact assessment studies for Ennore Port and several other revenue earning projects for the National Institute of Ocean Technology.

Prior to joining the National Institute of Ocean Technology he worked from 1990 to 1994 in the Regional Engineering College, Calicut. From 1989 to 1990 he worked as a Research Pool Officer with Indian Institute of Technology, Chennai. From 1984 to 1988 he worked as a research scholar and part-time teacher at the University of Liverpool, United Kingdom. From 1981 to 1984 he was with Engineers India Limited, Delhi (Onshore and Offshore Projects Management). He started his career at Consulting Engineering Services (I) Private Limited at New Delhi in 1980.

His areas of expertise include sea bed engineering and oceanographic studies, techno-economic studies, survey, design, wave hindcasting, sedimentation, environmental impact assessment, environment management planning and mathematical modeling amongst other things.

He has a B.E from the Coimbatore Institute of Technology, a M. Tech from Indian Institute of Technology, Kanpur and a PhD from the University of Liverpool, United Kingdom. He is a member of the Indian Society for Technical Education.

Dr. Kathirolu is a Non-Executive Non-Government Director and is presently paid a sitting fee of Rs. 3000 per meeting of the Board or any committee thereof and traveling and boarding expenses.

#### **COMPENSATION OF OUR DIRECTORS**

For details of compensation of our Directors, please refer to the Section titled "Statutory and Other Information – Remuneration of our Directors".

#### **COMPOSITION OF OUR BOARD OF DIRECTORS**

We currently have seven Directors on our Board, out of whom three are functional Directors (i.e. Directors in the employment of our Company), two are Non-Executive Government Directors nominated by the MoS and two are Non-Executive Non-Government Directors. At present the post of a Non-Executive Non-Government Director remains vacant on our Board which will be filled shortly.

#### **SHAREHOLDING OF OUR DIRECTORS IN THE COMPANY**

Our Directors are not required to hold any qualification shares pursuant to Article 21 of our Articles of Association and Article 66 of Table A contained in Schedule I to the Companies Act. Article 21 of our Articles of Association does not incorporate Article 66 of Table A of the Companies Act, which requires Directors to hold qualification shares.

The details of shareholding of our Directors are set out below.

<b>Name</b>	<b>Number of Equity Shares Pre Offer</b>	<b>Number of Equity Shares Post Offer</b>
Mr. N.K. Gupta	500	500
Mr. A.K. Dhar	100	100
Mr. T. Srinidhi	200	200
Mr. G.G. Rao	100	100
Mr. N.K. Jawa	200	200

These Directors hold Equity Shares of our Company as nominees of the President of India who is the majority shareholder of our Company. These Directors do not have personal pecuniary or beneficial interest in the Equity Shares held by them as nominees.

#### TERM OF OFFICE

Our Directors are appointed for fixed terms by the MoS during which they retire by rotation and are eligible for re-appointment. Except for the Chairman and Managing Director, all our Directors retire by rotation.

Pursuant to the provisions of the Articles of Association of our Company, the President of India has the power to appoint, remove and replace Directors on the Board of our Company.

Each of our Directors has been appointed by the MoS (Ports Wing), Gol for a fixed term, the duration of which is stated in the appointment letters received from the MoS.

Directors in the whole-time employment of the Company are usually appointed for a period of five years, Non-Executive Government Directors are appointed for a period of two years and Non-Executive Non-Government Directors are appointed for a period of three years, subject to changes in the terms of appointment on a case-by-case basis by the MoS.

For the details of the terms of office of the Directors, please see the Section titled "Our Management - Board of Directors".

#### CHANGES IN OUR BOARD OF DIRECTORS DURING THE LAST THREE YEARS

Changes in our Board of Directors during the last three years are as follows:

S.No	Name	Date of appointment	Date of Cessation	Reason
1.	Mr. K.R. Bhati	January 4, 2000	April 4, 2001	Substituted with a new director appointed by the Gol.
2	Mr. S. Chakraborti	April 4, 2001	March 15, 2002	Substituted with a new director appointed by the Gol.
3.	Mr. C.S. Sastry <i>(former Chairman and Managing Director)</i>	January 11, 1993	November 30, 2001	Completion of term on reaching superannuation.
4.	Mr. K. Kumar	March 15, 2002	May 17, 2002	Substituted with a new director appointed by the Gol.
5.	Dr. R. Gupta	July 7, 2000	July 5, 2003	Completion of term of appointment.
6.	Dr. T.R. Seshadri	November 3, 2000	November 2, 2003	Completion of term of appointment.

#### CORPORATE GOVERNANCE

The guidelines relating to corporate governance are complied with by our Company since our Equity Shares are listed with the BSE, CSE and DSE. The NSE by a letter dated January 13, 2004 has recently approved the listing of our Equity Shares with NSE.

We have duly adopted the corporate governance code as per Clause 49 of the listing agreements of BSE, CSE and DSE. The NSE by a letter dated January 13, 2004 has recently approved the listing of our Equity Shares with NSE.

In accordance with the requirements of good corporate governance, our Board of Directors have, in compliance with the provisions of the Companies Act and the listing agreements entered into with the aforesaid stock exchanges, constituted the following committees of the Board:

- Audit Committee
- Share Transfer Committee
- Shareholder Grievance Committee

### **Audit Committee**

We have constituted an audit committee in 2001.

The audit committee for fiscal 2003 consists of the following Directors:

- Dr. T.R. Seshadri
- Dr. Ramesh Gupta
- Mr. Tirumalai Srinidhi

Eight audit committee meetings were held during fiscal 2003.

As at December 31, 2003 the audit committee consists of the following Directors:

1. Mr. C.V. Dikshith
2. Mr. T. Srinidhi
3. Dr. S. Kathioli

Five audit committee meetings have been held in the quarters ended June, September and December 2003.

The terms of reference of the audit committee were specified in writing by the Board in 2001 while constituting the audit committee in accordance with the provisions of Section 292A of the Companies Act and Clause 49 of the listing agreements entered into with the Stock Exchanges.

The quorum for meetings of the audit committee is one third of the total number of members of the committee subject to a minimum of two members.

### **Share Transfer Committee**

The Company constituted a share transfer committee in 1997.

The share transfer committee for fiscal 2003 consists of the following Directors:

- Mr. N.K. Gupta
- Mr. A.K. Dhar

Five share transfer committee meetings were held during fiscal 2003.

As at December 31, 2003 the share transfer committee consists of the following Directors:

- Mr. N.K. Gupta
- Mr. A.K. Dhar
- Mr. G.G. Rao

Five share transfer committee meetings have been held in the quarters ended June, September and December 2003.

The share transfer committee is authorised by the Board of Directors to deal with matters relating to the approval, transfer and transmission of Equity Shares of our Company. Equity Share transfers/transmission and other related matters are duly attended under the charge of the Company Secretary. All steps are taken to ensure that our shareholder related activities are given top priority and are attended to immediately.

The quorum for meetings of the share transfer committee is two members.

### **Shareholders/Investor Grievance Committee**

The Company constituted a shareholders/ investors grievance committee in 2001.

The shareholders/ investors grievance committee for fiscal 2003 consists of the following Directors:

- Dr. Ramesh Gupta
- Mr. A.K Dhar
- Mr. G.G. Rao

One shareholders/ investors grievance committee meeting was held during fiscal 2003.

As at December 31, 2003 the shareholders/ investors grievance committee consists of the following Directors:

- Mr. C.V. Dikshith
- Mr. A.K.Dhar
- Mr. G.G.Rao

No shareholders/ investors grievance committee meetings have been held in the quarters ended June, September and December 2003.

The shareholders/investor grievance committee is responsible for looking into grievances of our shareholders /investors and to suggest remedies and measures for improvement. The committee had one complaint in fiscal 2003 relating to the non-receipt of a dividend warrant for fiscal 2002. The complaint was settled in April 2003 by the issue of a demand draft in lieu of a dividend warrant. The mechanism for redressal of investor grievances is set out elsewhere in this Preliminary Sale Document.

The quorum for meetings of the shareholders/ investors grievance committee is two members, one of whom shall be a non-functional Director.

Mr. Y.V. Subbarao, Company Secretary is the secretary of the shareholders/ investors grievance committee and is also designated as Compliance Officer.

#### **Remuneration Committee**

Since the GoI, in accordance with applicable guidelines issued from time to time by the DPE, fixes the remuneration of our Directors and key managerial personnel, we have not constituted a remuneration committee.

#### **KEY MANAGEMENT PERSONNEL**

##### **BRIEF BIOGRAPHIES OF OUR KEY MANAGERIAL PERSONNEL**

Brief biographical details of our key managerial personnel are as follows:

**Mr. N.K. Gupta**, 50 years, Chairman and Managing Director of our Company, is also on our Board of Directors. For his biographical details, please see "Brief Biographies of our Directors".

**Mr. A.K. Dhar**, 56 years, Director (Finance) of our Company, is also on our Board of Directors. For his biographical details, please see "Brief Biographies of our Directors".

**Mr. G.G. Rao**, 54 years, Director (Operations & Technical) of our Company, is also on our Board of Directors. For his biographical details, please see "Brief Biographies of our Directors".

**Mr. K. Kiriti**, 52 years, Joint General Manager (Finance) of our Company, joined us at a junior management level in 1977. He has since then held various posts in the Finance Department of our Company. Mr. Kiriti was appointed Joint General Manager (Finance) of our Company with effect from April 16, 1998.

At our Company he is responsible for corporate finance management, accounting, budgeting financial reporting, fund management and corporate taxes. He has been with our Company for 26 years. He has a years experience in the private sector electrical industry (finance) prior to joining our Company.

He has a B.Com (Hons.) from Calcutta University and is also a qualified Chartered Accountant, Cost Accountant and Company Secretary. He holds a PG Diploma in Management (specializing with human resource management) from AIMA.

His gross compensation paid in fiscal 2003 was approximately Rs.547,634 including profit-linked incentives for fiscal 2002.

**Mr. M.N.K.S. Varma**, 57 years, Joint General Manager (Personnel and Administration) of our Company, joined us in June 1977. He was appointed as Joint General Manager (Personnel and Administration) of our Company with effect from June 25, 2001.

Mr. Varma is responsible for the formulation of various policies relating to personnel, training of employees, welfare of shore staff and floating staff of our Company. He also assists the management with the implementation of various personnel-related policies and welfare activities. Since the date of his appointment as Joint General Manager, he has been closely associated with the formation and functioning of the Personnel and Administrative Department of our Company. He has been with our Company for 26 years. He has a years experience with the Shipping Corporation of India Ltd prior to joining our Company.

Mr. Varma has M.A. social work degree in personnel management and labor welfare from the Andhra University, Visakhapatnam.

His gross compensation paid in fiscal 2003 was approximately Rs.462,669 including profit linked incentives for fiscal 2002.

**Commander A.K. Kar (Retired from the Indian Navy )**, 50 years, Joint General Manager, (Technical-In Charge) of our Company, joined us as Deputy General Manager (Technical) on June 1, 1999. He has been functioning as Joint General Manager (Technical In Charge) since May 27, 2003.

Commander Kar is responsible for the overall functioning of the technical department of our Company and assists the top-level management in technical matters. He has been with our Company for four years. Prior to that he has 19 years of experience in the Indian Navy (Engineering) and the private sector engineering manufacture industry, while working at Altop Industries, Baroda as General Manager (Marketing). After graduation he joined the Indian Navy in 1979 and served for 18 years in the Engineering Corps of the Indian Navy.

He has graduated from the National Defence Academy.

His gross compensation paid in fiscal 2003 as Joint General Manager was approximately Rs. 477,002 including profit-linked incentives for fiscal 2002 .

**Mr. P. Rama Rao**, 55 years, Deputy General Manager (Marketing) of our Company, joined us as Deputy General Manager (Marketing) with effect from January 19, 1999.

At our Company he is responsible for business improvement, interaction with customers and exploring dredging opportunities in both domestic and international arena. He has been with our Company for five years. He has 26 years of experience in the ship repair industry prior to joining our Company, when Mr. Rama Rao worked with Hindustan Shipyard Ltd., where he served for 26 years commencing his career as a probationary officer.

He has a Masters Degree in Mechanical Engineering, a MBA (Finance and Marketing) degree, a LLB and a P.G. Diploma in Industrial Engineering, all from the Andhra University.

His gross compensation paid in fiscal 2003 was approximately Rs.508,815 including profit-linked incentives for fiscal 2002 .

**Mr. Y.V. Subba Rao**, 57 years, Company Secretary of our Company, joined us as Company Secretary with effect from November 11, 1991.

At our Company he is responsible for all company law related matters, stock exchange and listing requirements and compliances. He has also functioned in the past as a Chief Vigilance Officer at our Company on a part-time basis in addition to his duties as Company Secretary. His post has been up-graded to Deputy General Manager with effect from June 25, 2001. He has been with our Company for 12 years. He has 15 years of experience in state government and central government PSUs prior to joining our Company when he served as Company Secretary for a period of 15 years in Bihar State Government Undertaking and Hindustan Shipyard Ltd, Visakhapatnam.

He has a B.Com (Hons) from Patna University and also a B.L. degree from the Andhra University. He is a fellow of the Institute of Company Secretaries of India.

His gross compensation paid in fiscal 2003 was approximately Rs. 468,274 including profit-linked incentives for fiscal 2002 .

**Mr. V.V.N. Murthy**, 50 years, Deputy General Manager (MS) of our Company, joined us in the junior management cadre in our MIS Department in January 1980. He was appointed Deputy General Manager (MS) with effect from June 25, 2001.

At our Company he is responsible for establishing information technology facilities and developing systems and procedures for the functioning of the MIS Department of our Company. He is also associated with imparting and spreading computer literacy among the employees of our Company. He has been with our Company for 24 years. He has three years of experience in electronics-related PSUs prior to joining our Company, when he worked with the Electronic Corporation of India Limited, Hyderabad.

He has a M.Sc in Science, an MBA in Finance from Andhra University and a P.G. Diploma in Applied Statistics from Andhra University.

His gross compensation paid in fiscal 2003 was approximately Rs. 455,821 including profit-linked incentives for fiscal 2002.

**Capt. M.V.R. Murthy**, 43 years, Deputy General Manager (Operations), joined our Company as a cadet in 1978 under the All India Dredging Cadre Scheme of our Company. He was appointed as Deputy General Manager (Operations) pursuant to his training with effect from June 5, 2003 in the shore establishment of our Company. His initial appointment with our Company was as a Junior Officer in April 1982. Thereafter he served as Second Officer, Chief Officer and Dredge Master on various dredgers of our Company. He has from time to time commanded all the dredgers of our Company.

At our Company he is responsible for all dredging projects including operational aspects, dredger deployments and timely execution of dredging work. He has been with our Company for 20 years.

He has a Dredge Master Gr.I of Competency issued by DG Shipping.

Captain Murthy joined our Company in fiscal 2004.

His gross compensation paid in fiscal 2003 was approximately Rs. 593,016 including profit-linked incentives for fiscal 2002.

## INTEREST OF PROMOTERS, DIRECTORS AND KEY MANAGERIAL PERSONNEL

Except as stated in the Section titled "Related Party Transactions" in this Preliminary Sale Document, and to the extent of shareholding in our Company, the Promoter does not have any other interest in our business.

The Chairman and Managing Director and other functional Directors are interested to the extent of remuneration paid to them for services rendered as our officers or employees.

The Company has not entered into any contract, agreements or arrangement during the preceding two years from the date of the Preliminary Sale Document in which the Directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them.

## BONUS OR PROFIT SHARING PLAN FOR OUR KEY MANAGERIAL PERSONNEL

A productivity-linked incentive scheme covers all full-time shore staff. The scheme pays each employee 0% to 25% of their basic pay based upon the category of employee and the rating of our Company with respect to efficiency, financial and operating parameters as stated in the Memorandum of Understanding executed between the MoS and our Company at the beginning of the relevant fiscal year.

## CHANGES IN OUR KEY MANAGERIAL PERSONNEL DURING THE LAST THREE YEARS

Details relating to the changes that have taken place in our key managerial personnel (Deputy General Managers and above) for the last three years are set out below.

SNo.	Name	Designation	Date of Appointment	Date of leaving	Reasons for leaving
01.	J.S.N. Murthy	DGM (Finance)	September 5, 1980	May 31, 2000	Superannuation
02.	K.V.S. Rao	GM(Research & Development)	December 12, 1988	November 7, 2000	Voluntary Retirement
03.	V. Dwarakavas	GM (Personnel & Administration)	November, 3, 1978	November 23, 2000	Voluntary Retirement
01.	E. Krishna	DGM (Operations)	October 6, 1984	June 30, 2001	Superannuation
02.	C.S. Sastry	Chairman cum Managing Director	January 11, 1993	November 30, 2001	Superannuation
01.	K. Madhava Rao	JGM (Technical)	March 2, 1979	August 21, 2002	Resigned
02.	T.S. Guvvala	DGM (O/ P)	May 3, 2002	January 10, 2003	Resigned
01.	Capt. A.K.Nanda.	GM (Operations)	November 26, 2002	June 2,2003	Resigned
02.	T. Anand	GM (Technical)	July 4, 2002	June 2, 2003	Resigned

### **OUR PROMOTER**

Our promoter is the Gol as represented through the administrative ministry, the MoS. The Gol holds 98.56% of our share capital, which shareholding is expected to reduce to 78.56 % after this Offer.

## GROUP COMPANIES INCLUDING SUBSIDIARIES

We have no group companies or subsidiaries as at the date of filing this Preliminary Sale Document with SEBI.

However, we had in the past invested in another Indian company called Dredge Repair Company of India Limited (In Members Voluntary Liquidation) ("DRC") along with the following three investing entities:

- Hooghly Dock & Port Engineers Limited, a government company incorporated in Kolkata;
- Patel Engineering Works, a partnership firm engaged in ship repair activities registered at Mumbai; and
- IHC, a company incorporated under the laws of Netherlands.

DRC was incorporated on December 5, 1989 as a private company limited by shares under the Companies Act. Subsequently DRC became a deemed public company under Section 43A of the Companies Act in March 1992.

DRC had its registered office and head office in Kolkata being its principal place of business. The main business carried on by DRC was maintenance, repair, upkeep, refit and overhaul of (self-propelled and stationary) seagoing or non-seagoing dredging equipment or vessels, either Indian owned or foreign owned, and its business activities also extended to general ship repair and allied activities. The main objective of establishing DRC was to create a captive dredge repair facility for DCI dredgers by hiring a dry dock in Netaji Subhas Dock at Kolkata and two pieces of adjacent lands from Kolkata Port Trust ("KOPT") on a long lease.

Each promoter, including DCI, pursuant to the provisions of a Memorandum of Understanding entered in June 1987 was required to contribute Rs. 10,000,000 towards the share capital of DRC.

Each promoter was requested to pay a total sum of Rs. 4,900,000 towards initial subscription and call money. The required shareholding pattern in percentage and actual allotment of shares for the amounts contributed and percentage thereof to the paid-up capital is given below:

S.No.	Name of Shareholder	Required Contribution as per MOU		Actual contribution received towards paid-up capital	
		(Rs. )	%	(Rs. )	%
1.	DCI	10,000,000	25.00	4,900,000	31.41
2.	Hooghly Dock & Port Engineers Limited	10,000,000	25.00	1,900,000	12.18
3.	Sangvi Reconditioners representing Patel Engineering Works	10,000,000	25.00	4,900,000	31.41
4.	IHC	10,000,000	25.00	3,900,000	25.00
	Total	40,000,000	100.00	15,600,000	100.00

The Netaji Subhas dry dock facility at KOPT, the allotment of which on long term lease on nomination basis by KOPT to DRC was the primary consideration for establishing DRC at Kolkata, was however allotted to another ship repair company on long lease on tender basis as DRC was not successful in the tender.

DRC could not develop any other infrastructure for dredge repairs either at Kolkata or at any other place as an alternative to Netaji Subhas dry dock facility at KOPT, or develop manpower to continue with its business. The Board of DRC reviewed the situation and recommended the winding up of DRC. Consequently DRC was voluntarily wound up in August 2001 and M/s. S. Ghose & Co., Chartered Accountants, Kolkata were appointed under Section 448 of the Companies Act as the Official Liquidator of DRC.

The winding-up of DRC is currently in progress. In the last meeting of the contributories held in September 2003, the Official Liquidator informed the contributories of DRC (including DCI) that all the creditors of DRC have been paid.

A sum of Rs.182,000 is to be paid by DCI to the Official Liquidator being bills in arrears for repair of DCI dredgers. Non-payment by DCI was due to different views on rates and repair work performed and DCI expects to resolve this dispute amicably through negotiations.

The Official Liquidator is yet to complete the income tax and sales tax assessments of DRC for the previous years due to which the liquidation of DRC has been prolonged. In the interim the Official Liquidator had in 2003 declared Rs.95 per share (for each share of Rs. 100 ) to be paid to the contributories (including DCI) from the funds belonging to DRC available with the Official Liquidator since the Official Liquidator withheld certain monies anticipating liability towards dividend tax. DCI however, received an amount of Rs.85 per share after deduction of income tax. The winding-up of DRC is expected to be completed within the next year.

The Official Liquidator by a letter dated January 13, 2004 has informed us that he does not have any outstanding litigation by or against "Dredge Repair Company of India Limited (In Members' Voluntary Liquidation) including pending Income tax cases which are presently being ordinarily dealt by the Income Tax Department at the Assessing Officer(s) level.

The following table contains the financial performance of DRC for fiscals 1999, 2000 and 2001.

(Rs. million)

	<b>FY 2001</b>	<b>FY 2000</b>	<b>FY 1999</b>
Equity Capital	15.6	15.6	15.6
Reserves	5.0	7.8	7.4
Sales	0.1	16.9	38.0
PAT	(2.6)	0.3	2.3
EPS	(16.9)	1.9	14.9
NAV	132.1	149.71	147.7

DRC has not made any public or rights issue offer of its equity shares.

## SELECTED FINANCIAL DATA

The following selected financial data have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and restated as described in the Auditor's Report of M/s Sriramamurthy & Co. dated January 21, 2004 in the section titled "Financial Information". You should read these financial data in conjunction with our restated financial statements for each of fiscal 2001, 2002, 2003 and for the six months ended September 30, 2002 and 2003, including the notes thereto and the reports thereon, which appear elsewhere in this Preliminary Sale Document, and "Management's Discussion and analysis of financial condition and results of operations". Indian GAAP differs in certain significant respects from U.S. GAAP. For more information on these differences, see "Summary of Significant Differences Between Indian GAAP and U.S. GAAP" included elsewhere in this Preliminary Sale Document.

### Profits and Losses, as Restated

(Rs. million)

Particulars	Six months Ended September 30, 2003	Six months Ended September 30, 2002	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001
<b>Income/ Revenue</b>					
Income from Operations	2391.6	2119.0	4928.0	4889.6	3843.5
Other income	126.4	70.9	267.2	125.7	185.0
<b>Total</b>	<b>2518.0</b>	<b>2189.9</b>	<b>5195.2</b>	<b>5015.3</b>	<b>4028.5</b>
<b>Expenditure</b>					
<b>Operational Expenses</b>					
Payment and Benefits to Operational Staff	195.2	208.3	402.3	352.6	328.1
Repairs & Maintenance	304.8	296.6	364.6	322.8	369.7
Spares & Stores	268.9	187.4	448.9	339.7	318.4
Fuel & Lubricants	550.4	505.7	1128.9	1011.4	812.8
Other Operational Expenses	95.0	78.7	239.1	178.6	163.9
<b>Administrative Expenses</b>					
Payment and Benefits to Shore Staff	61.4	63.5	130.2	96.3	150.4
Other Establishment Expenses	38.5	42.2	78.9	78.0	182.7
Interest	18.5	46.8	70.1	130.3	51.4
Depreciation	251.3	241.1	502.2	416.8	141.4
Provisions	81.2	144.1	297.0	678.5	69.0
<b>Total Expenses</b>	<b>1865.2</b>	<b>1814.4</b>	<b>3662.2</b>	<b>3605.0</b>	<b>2587.8</b>
<b>Net Profit Before extra-ordinary items &amp; Prior period adjustments</b>	<b>652.8</b>	<b>375.5</b>	<b>1533.0</b>	<b>1410.3</b>	<b>1440.7</b>
Add: Extraordinary items	0.0	1.4	(4.3)	1.4	0.3
Prior period adjustments	(0.1)	2.3	1.8	108.7	(3.9)
Add :Provisions no longer required written back	197.6	382.1	358.8	125.6	135.1
<b>Profit Before Tax</b>	<b>850.3</b>	<b>761.3</b>	<b>1889.3</b>	<b>1646.0</b>	<b>1572.2</b>
Less: Taxation - Current	5.0	1.6	28.4	485.2	485.1
Less: Taxation - Deferred	69.3	166.0	242.6	145.4	0.0
<b>Profit After Tax</b>	<b>776.0</b>	<b>593.7</b>	<b>1618.3</b>	<b>1015.5</b>	<b>1087.1</b>
Excess/short provisions of Income Tax relating to earlier years	0.0	0.0	105.0	0.0	0.0
<b>Net profit After Tax as per audited statement of accounts (A)</b>	<b>776.0</b>	<b>593.7</b>	<b>1723.3</b>	<b>1015.5</b>	<b>1087.1</b>
Changes in Accounting Policies	0.0	(55.1)	(41.6)	(24.4)	100.1
Prior Period Items	0.1	(2.4)	(106.8)	(109.6)	104.9
<b>Total of Adjustments</b>	<b>0.1</b>	<b>(57.5)</b>	<b>(148.4)</b>	<b>(134.0)</b>	<b>205.0</b>
<b>Net profit after adjustment</b>	<b>776.1</b>	<b>536.2</b>	<b>1574.9</b>	<b>881.5</b>	<b>1292.1</b>

**Assets and Liabilities, as Restated**
**(Rs. million)**

<b>Particulars</b>	<b>As At September 30, 2003</b>	<b>As At September 30, 2002</b>	<b>As At March 31, 2003</b>	<b>As At March 31, 2002</b>	<b>As At March 31, 2001</b>
<b>A. Fixed assets :</b>					
Gross Block	8300.0	8195.2	8318.4	8057.0	6229.0
Less: Accumulated Depreciation	4055.4	3543.5	3804.1	3312.8	2938.4
Net Block	4244.6	4651.7	4514.3	4744.2	3290.6
Add: Capital work in progress	131.1	85.7	131.1	74.1	1399.1
<b>Total</b>	<b>4375.7</b>	<b>4737.4</b>	<b>4645.4</b>	<b>4818.3</b>	<b>4689.7</b>
<b>B. Investments :</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>4.9</b>
<b>C. Current Assets, Loans &amp; Advances</b>					
Inventories	93.7	119.2	61.5	100.9	87.3
Sundry Debtors	1658.9	1235.5	1292.6	1185.9	1332.3
Cash & Bank balances	2912.9	1494.7	2328.7	1862.6	881.8
Other Current Assets	602.1	499.2	518.7	515.2	501.6
Loans & Advances	752.0	353.4	934.4	537.3	678.7
<b>Total</b>	<b>6019.6</b>	<b>3702.0</b>	<b>5135.9</b>	<b>4201.9</b>	<b>3481.7</b>
<b>D. Liabilities &amp; Provisions :</b>					
Current liabilities & provisions	1491.5	1043.7	1616.4	1486.0	1258.8
Deferred Tax (Asset)/ Liability	457.3	311.4	388.0	145.4	0.0
Secured Loans	0.0	0.0	0.0	677.6	0.0
Unsecured Loans	1091.8	1376.8	1198.3	1391.6	2269.4
<b>Total</b>	<b>3040.6</b>	<b>2731.9</b>	<b>3202.7</b>	<b>3700.6</b>	<b>3528.2</b>
<b>E. Net Worth (A+B+C-D)</b>	<b>7354.7</b>	<b>5707.5</b>	<b>6578.6</b>	<b>5319.6</b>	<b>4648.1</b>
Net worth represented by					
<b>F. Share Capital</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>
<b>G. Reserves and Surplus</b>					
Capital Reserve	45.2	45.2	45.2	45.2	45.2
Reserve U/s 33 AC of the Income Tax Act 1961	2198.9	367.3	1530.0	0.0	0.0
Reserve U/s 33 AC					
Utilisation Account	1120.0	1120.0	1120.0	1120.0	0.0
General Reserve	3315.9	3140.9	3315.9	3140.9	371.7
Balance as per profit & Loss Account	394.7	754.1	287.5	733.5	3951.2
<b>Total</b>	<b>7074.7</b>	<b>5427.5</b>	<b>6298.6</b>	<b>5039.6</b>	<b>4368.1</b>
<b>H. Miscellaneous Expenditure to the extent not written off</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>I. Net Worth (F+G-H)</b>	<b>7354.7</b>	<b>5707.5</b>	<b>6578.6</b>	<b>5319.6</b>	<b>4648.1</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated, all financial and statistical data relating to the dredging industry in the following discussion are derived from the MoS, the Gol, the Gol's Tenth Five-Year Plan, our internal operating data, the annual reports of the Major Ports and our correspondence with the Major Ports. These data have been reclassified in certain respects for purposes of presentation. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors — External Risk Factors — Statistical and market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview — Statistical and Market Data for the Indian and International Dredging Industries".

You should read the following discussion of our financial condition and results of operations together with our restated financial statements for the six months ended September 30, 2003 and 2002 and each of the fiscal years ended March 31, 2003, 2002 and 2001, including the notes thereto and the reports thereon, which appear elsewhere in this Preliminary Sale Document. These financial statements are prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and restated as described in the Auditor's Report of M/s Sriramamurthy & Co dated January 21, 2004 in the section titled "Financial Data". Indian GAAP differs in certain significant respects from U.S. GAAP. For more information on these differences, see "Summary of Significant Differences Between Indian GAAP and U.S. GAAP".

The following discussion is based on our restated financial statements for the six months ended September 30, 2003 and 2002 and each of fiscal 2003, 2002 and 2001, which have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI Guidelines and on information available from other sources. Our fiscal year ends on March 31 of each year, so all references to a particular fiscal year are to the twelve-month period ended March 31 of that year.

### OVERVIEW

Based on industry data, we estimate that we are the largest dredging company in India and the seventh largest dredging company in the world, as measured by capacity. We were established in 1976 as a PSU under the administrative control of the MoS to provide integrated dredging services to India's Major Ports in the form of maintenance dredging, capital dredging, reclamation, hydrographic surveys and beach nourishment.

India's coastline extends for approximately 5,600 kilometers and includes 12 Major Ports under the administrative control of the MoS, approximately 180 non-Major Ports under the administrative control of the Gol and state governments and private ports on India's east and west coasts. Most of these ports require capital and maintenance dredging for expansion and maintenance of their existing capability to berth vessels of different shapes and sizes. The Indian dredging market consists primarily of maintenance dredging and capital dredging, in addition to a limited amount of inland dredging, beach nourishment and reclamation dredging. We have a leading presence in the Indian maintenance dredging market, and we also carry out limited capital dredging in India and abroad. We own and operate 12 dredgers with a derived annual dredging capacity of approximately 80 million cubic meters per annum (based on installed hopper volume, estimated number of days of dredging, location, soil characteristics, number of loads and dumping distance), and we actually dredged 81.2 million cubic meters under our dredging contracts for the year resulting in a capacity utilization rate of 101.7% (based on actual days dredged and other factors affecting production).

In fiscal 2003, we estimate that we had an approximately 89% market share of the estimated 65 million cubic meter Major Port dredging market in India, including approximately 92% of India's Major Port maintenance dredging market, up from approximately 55% in fiscal 2001. Our estimated market share of India's relatively smaller Major Port capital dredging market has fluctuated from approximately 24% of an estimated 11 million cubic meters dredged in fiscal 2001 to approximately 8% of an estimated 2.3 million cubic meters dredged in fiscal 2003. Measurement of annual dredging volumes differs between the Major Ports and between our operating data and those of the individual Major Ports as a result of different quantitative measures of dredging and methods of recording data. We have estimated our market shares in the Indian Major Port maintenance and capital dredging markets, as well as the overall Major Port dredging market, based on the Gol's Tenth Five-Year Plan for fiscal 2001, and the annual reports of the Major Ports and correspondence with the Major Ports for fiscal 2002 and fiscal 2003. For our total dredging volumes and capacity utilization figures used in this Preliminary Sale Document, we have used our internal operating data that we report to the MoS. For more information, see "Certain Conventions; Use of Market Data", "Risk Factors — External Risk Factors — Statistical market data on both the Indian and international dredging markets are extremely limited" and "Industry Overview — Statistical and Market Data for the Indian and International Dredging Industries".

For fiscal 2003, we had our highest annual income of approximately Rs. 5,195.2 million, compared to Rs. 5,015.3 million for the previous year. Our adjusted profit after tax for fiscal 2003 was Rs. 1,574.9 million, compared to Rs. 881.5 million for the previous year. Income and adjusted profit after tax for the six months ended September 30, 2003, was Rs. 2,518 million and Rs. 776.1 million, respectively. As at March 31, 2003 we had net fixed assets of Rs. 4,514.3 million and as at September 30, 2003 we had net fixed assets of Rs. 4,244.6 million.

Our customers include ports, the Indian Navy and shipyards. In fiscal 2003, approximately 57% of our income from operations was earned from our maintenance dredging contract with Kolkata Port. Other key customers include Cochin Port, New Mangalore Port, Kandla Port and Paradip Port.

## EVALUATION OF FACTORS AFFECTING OUR OPERATIONS

Several factors have affected our results of operations in the past and may continue to do so in the future. The primary drivers of our income are the volume of maintenance and capital dredging work we undertake and the basis on which we charge for that work under our various dredging contracts. In addition, our results of operations have been significantly affected by expenditure on operations, principally payments and benefits to operational staff, spare parts and stores, repairs and maintenance and fuel and lubricants, and expenditure on depreciation and provisions.

Based on figures from the Gol's Tenth Five-Year Plan, published in fiscal 2003, we estimate that the Indian dredging market is expected to grow by approximately 7% between fiscal 2002 and fiscal 2007. This is primarily a result of consistent maintenance dredging requirements at the Major Ports that is likely to provide a steady market in the coming years and the increasing private sector participation in port development and related capital dredging activity in the near future. At the same time, the dynamics in the Indian market are rapidly changing. The key changes taking place include changes in customer profile for dredging companies from government to private sector developers, changes in payment patterns for dredging work from a daily rate basis to a quantitative method based on the quantity of material dredged, calculated either according to the in situ basis or the hopper volume measurement basis, or to performance-based measures such as depth achieved or on a lump sum basis, or to a combination of these measures, the expansion of Indian port capacity and the expansion of international dredging companies in the Indian dredging market.

### Income from Operations

For fiscal 2003, we had our highest annual income of approximately Rs. 5,195.2 million, compared to Rs. 5,015.3 million for the previous year. In fiscal 2003, 96% of our income from operations was derived from maintenance dredging. The primary drivers of our income are the volume of maintenance dredging work we undertake and the basis on which we charge for that work under our various dredging contracts.

The principal factors affecting our volume of dredging include:

- Our dredging capacity;
- Regulation and increasing foreign competition;
- Macroeconomic growth and related increase in port traffic;
- Expansion of Indian port capacity; and
- Changing payment pattern from daily rate to quantitative or performance-based measures.

Our dredging contracts have historically been for a two year period except for those mentioned below and generally follow FIDIC terms, except where specifically negotiated. Our current contracts with the Major Ports in India expire on March 31, 2004, except for those mentioned below. We have negotiated five-year maintenance dredging contracts with Kolkata Port (subject to review by both parties on April 1, 2004) and JNPT, which both run until March 31, 2007. In addition, we have entered into five-year maintenance contracts with Visakhapatnam Port, which runs through March 31, 2008, and Paradip Port, which runs through March 31, 2006. For details relating to our existing contracts, see "Regulations and Policies - MoS Press Note Released on January 19, 2004".

### Our Dredging Capacity

Our ability to increase the volume of our dredging operations depends upon our ability to increase our dredging capacity. Our current fleet is fully utilized, and unless we expand our dredging capacity, our capacity for growth is limited. Acquisition of new dredgers typically takes approximately two years to complete. Our growth in the near term is dependent upon our ability to better utilize our assets and increase efficiencies of operation.

From 1992 to 1998, we did not acquire any new dredgers and made only limited improvements in onboard dredger technology. With the introduction of increased competition in the Indian dredging industry, today we continuously assess the need to upgrade and expand our dredging fleet to take advantage of improving technology and to address the changing needs of the dredging market. We have initiated a ship procurement program to increase our dredging capacity. As part of this program we intend to acquire one 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 and one 10,000 horse power cutter suction dredger in fiscal 2007, which we believe will enhance our ability to compete for and execute future capital dredging projects. These and future dredger acquisitions will be financed by a combination of internal resources and commercial borrowings.

### Regulation and Increasing Foreign Competition

Our dominant market position in the Indian dredging market has historically resulted from the MoS guidelines favoring our Company at Major Ports in India through a combination of:

- A nomination process, whereby all ports may choose to negotiate with us directly for dredging services rather than being required to open the contracts to competitive bidding (except Kolkata Port, which is required to nominate our Company for maintenance dredging);
- A right of first refusal (along with other Indian dredging companies) to perform dredging contracts prior to the contracts otherwise being awarded to foreign bidders, provided we have participated in the initial bidding and agreed to perform the contract at the lowest bid; and
- A purchase preference arising from our status as a PSU whereby we can elect to perform any dredging contract where our bid is within 10% of the winning Indian bidder and we agree to perform the contract at the lowest bid.

In fiscal 2003, approximately 57% of our income from operations was earned from our maintenance dredging contract with Kolkata Port, approximately 28% of our income from operations was from other nomination (non-competitive bidding) contracts, approximately 13% of our income from operations was from competitive bidding contracts and approximately 2% of our income from operations was from our charter of cutter suction dredger Aquarius.

Prior to 1993, our market share for external (outsourced) maintenance dredging at Major Ports in India was 100%. Over the last decade, as a result of our inability to meet the increased demand at Major Ports for maintenance dredging services due to capacity constraints, the GoI has increasingly liberalized the maintenance dredging market and has opened it up to international competition. This is a result of our Major Port customers' maintenance dredging requirements first surpassing our dredging capacity in the early 1990s, as well as pressure from the international community and the potential cost reductions associated with increased competition. As a result of these factors, we estimate that our market share for maintenance dredging at Major Ports in India was approximately 92% in fiscal 2003, based on the annual reports of the Major Ports and our correspondence with those ports.

The current MoS guidelines expire on March 31, 2004. In a press note released on January 19, 2004, the MoS announced revisions to these guidelines, effective April 1, 2004 through March 31, 2007, which we believe will have the following effect:

- The removal of the nomination process at all Major Ports (other than Kolkata Port) whereby the ports must open their dredging contracts to competitive bidding. Our existing contracts as at April 1, 2004, including our five-year maintenance dredging contracts with JNPT (through March 31, 2007), Visakhapatnam Port (through March 31, 2008) and Paradip Port (through March 31, 2006), will remain in effect; and
- The right of first refusal to perform dredging contracts otherwise awarded to other bidders will be contingent on our bid being within 10% of the winning bidder.

In addition, the MoS announced its intention to develop similar guidelines to ensure dredging contracts at non-Major Ports and private ports in India are also open to competitive bidding. See "Regulations and Policies - MoS Press Note Released on January 19, 2004" for the full text of the press note.

We will continue to be the sole provider of maintenance dredging services to Kolkata Port through the nomination process until March 31, 2007, when the revised guidelines and our current contract with the port expire. In addition, pursuant to the DPE Guidelines, our purchase preference, along with the purchase preferences of the other PSUs, is valid until March 31, 2004. The GoI has yet to review the purchase preferences of PSUs, which historically have been renewed every two years.

These and any further changes to the MoS guidelines are, therefore, likely to be increasingly critical in determining our overall market share. See "Risk Factors – Recently announced changes to the current government dredging policy could result in a reduction in our share of the Indian dredging market and adversely affect our income and profit". We are developing a contingency plan to maintain our existing maintenance dredging market share and possible entry into international operations and entering into joint ventures with international companies to gain entry to international dredging markets.

#### **Macroeconomic Growth and Related Increase in Port Traffic**

According to the Central Statistical Organization of India, India had an estimated GDP growth rate of 4.4%, 5.6% and 4.3% in fiscal 2001, 2002 and 2003, respectively, based on constant prices for fiscal 1994. The RBI estimates GDP growth of approximately 7.0% for fiscal 2004. With annual GDP growth targets by the Planning Commission of India averaging 8% from fiscal 2002 to fiscal 2007, India is expected to experience considerable growth in trade and related port traffic. The Tenth Five-Year Plan of the GoI, published in fiscal 2003, estimates that the annual Indian Major Port traffic will increase to approximately 415 million tonnes by fiscal 2007 from approximately 289 million tonnes in fiscal 2002. Likewise, the GoI estimates Major Port capacity will increase from approximately 344 million tonnes in fiscal 2002 to approximately 470 million tonnes by fiscal 2007. An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet this increased traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunity both for capital dredging and increased maintenance dredging.

## **Expansion of Indian Port Capacity**

An expansion of Indian port capacity (both at Major Ports and non-Major Ports) to meet the projected increased port traffic, whether through construction of new ports or expansion of existing ports, including through deepening draught requirements of ports, would create opportunities both for capital dredging and increased maintenance dredging. In particular, deepening channels at ports also requires lengthening and widening the channels, resulting in an increase in annual maintenance dredging requirements at the ports. The MoS is contemplating several privatization projects, including the development of new berths and terminals and expansion of existing berths and terminals, at a number of Major Ports in India. The GoI's Tenth Five-Year Plan, published in fiscal 2003, estimated various port expansion programs (Major and non-Major Ports) totaling approximately 144 million cubic meters of capital dredging through fiscal 2007. See "Our Business – Capital Dredging – Future Capital Dredging Projects" for a description of some of these programs at Kolkata Port, JNPT, Ennore Port, Paradip Port and Cochin Port. In addition, the Sagar Mala initiative offers potential extensive capital and maintenance dredging opportunities through qualitative and quantitative improvements in port-related services and the development of new ports.

## **Changing Payment Pattern from Daily Rate to Quantitative or Performance-Based Measures**

Traditionally, our dredging contracts with customer ports were based on a daily rate as opposed to quantitative measures of dredging. As a result, we were not incentivized to increase efficiency in our operations as we did not bear the cost of longer time periods to complete daily rate dredging contracts. Recently, however, in line with international dredging trends, a number of ports have shifted the mode of payment under dredging contracts to a method based on the quantity of material dredged, calculated either according to the in situ basis or the hopper volume measurement basis, or to performance-based measures such as depth achieved or on a lump sum basis, or to a combination of these measures. An example of this includes our maintenance dredging contract at Kandla Port entered into in fiscal 2000. The effect of this new payment method shifts the responsibility for increasing efficiency in operations to dredging companies. These changing demands on efficiency require more efficient operations and higher capacity utilization.

The standard units of measurement for payment under our current dredging contracts are:

- Daily rate, which is normally utilized where the customer requires flexible deployment of dredgers in different areas at different times. Daily rate contracts are based on a number of variables beyond the control of the customer and contractor. We therefore charge our customers based on the number of days the dredger has operated, regardless of the quantity dredged, excluding days when the dredger is not available for work as a result of breakdowns and maintenance;
- In situ, based on the volume of material dredged (derived from the change in the depth of the dredging area), where the parameters effecting the quantity and quality (including density of slurry) to be dredged can be measured accurately;
- Hopper volume measurement, based on the volume or weight of material dredged, where the in situ measurement is difficult. Hopper volume measurement is commonly used in maintenance dredging projects where the siltation pattern cannot be established and more than one contractor is working in the same area. There are three basic methods of measuring hopper volume including absolute volume in the hopper, volume in the hopper relative to in situ volume and absolute weight of dry solids in the hopper;
- Depth achieved in dredging, which is performance-based; and
- Lump sum basis, for certain maintenance dredging contracts where the price of the contract is fixed per tender and certain key requirements such as minimum depth, width and tolerance levels are pre-determined. We are exposed to certain operational risks such as unexpected soil conditions or weather under these lump sum contracts, which are also performance-based.

## **Expenditures**

The principal factors affecting our expenditures are the levels of expenditure on payments and benefits to staff, spare parts and stores, repairs and maintenance and fuels and lubricants.

### **Payments and Benefits to Staff**

The level of expenditure on payments and benefits depends on staffing, salary levels and contributions to provident fund and other funds.

### *Floating Staff*

Payments to floating staff are accounted for under operational expenses as payments and benefits to operational staff. Our dredger staffing levels must comply with safe manning provisions under the provisions of the Merchant Shipping Act, 1958 and DG Shipping guidelines that we receive from time to time. Our current staffing levels of 40 to 50 employees per dredger are generally higher than those of foreign dredging companies. This is partly a result of historical employment practices, as well as foreign companies outsourcing certain activities and the use of multi-skilled workers in foreign fleets. Our floating staff salaries are subject to biannual review, with the next revision for officers and petty officers scheduled for April 1, 2004. Our crew staff

salaries are also subject to biannual review but salary revisions have not been agreed since fiscal 2001 as a result of an ongoing union representation dispute in the Indian shipping industry. In the interim, crew wage increases have been paid on an ad hoc basis. We believe we have made adequate provisions in our accounts for any potential additional payments due on final agreement under payments and benefits to operational staff. We currently pay short-hand wages for floating staff on most of our dredgers as our dredger staffing levels are lower than those agreed with our floating staff unions based on historical employment practices.

In response to international competition, we propose to reduce the staffing levels on our dredgers while continuing to adhere to international standards. Negotiations with maritime unions to effect this reduction are currently underway.

#### *Shore Staff*

Payments to shore staff are accounted for under administrative expenses and include remuneration to directors. A productivity-linked incentive scheme covers all full-time shore staff. The scheme pays each employee 0 to 25% of their basic pay based upon the category of employee and the rating of our Company with respect to efficiency, financial and operating parameters as stated in the Memorandum of Understanding between the MoS and our Company signed at the beginning of the relevant fiscal year. Salaries are also impacted by the changes in "Dearness Allowances" linked to the All India Consumer Price Index which result in quarterly adjustments for shore staff salaries. In addition, basic salaries for shore staff are subject to annual incremental increases as the employees' tenure with the company increases. The agreement governing this wage scheme for shore staff will remain in effect until December 31, 2006.

We offered a VRS to our shore staff from August 2000 to November 2000. 119 of our employees, comprising 80 executives and 39 non-executives, opted for the VRS. Under the VRS, approximately Rs. 59.8 million was paid in voluntary retirement compensation. This amount has been fully recovered through savings in employee costs. The reduction in the number of our employees as a result of the VRS was approximately 22.2% of our shore employees as at July 31, 2000.

We introduced a second VRS on October 23, 2003 which is open until January 22, 2004. This new VRS will be available to employees who:

- Have more than five years residual service as at October 23, 2003; and
- Are of a category of employees who have been declared as "surplus".

In future we intend to introduce further voluntary retirement schemes.

The VRS is not available to our Board level employees. It is also not offered to our floating staff working on dredgers because of their different service conditions.

#### **Spare Parts and Stores**

Limited spare part production facilities for dredgers exist in India, resulting in longer lead times for imported spare parts. We purchase spare parts primarily from OEMs located outside India and stores from local suppliers. For spare parts, we issue standard purchase orders covering specific items for the purchase of spare parts from OEMs. We follow a tender system for the purchase of stores. Under this system, we float tenders to Indian suppliers giving our specifications and accept the lowest price offered by a supplier who meets our specifications. We generally enter into two-year requirements contracts for the supply of standard stores and issue purchase orders as and when we require spare parts.

In fiscal 2003, we began the process to implement new information technology systems which we expect will improve our material management processes and reduce our inventory costs. See "Business — Information Technology".

#### **Repairs and Maintenance**

There are limited dredger repair facilities in India. Our principal repairs and maintenance facilities are owned by third parties and located in Visakhapatnam, Cochin, Kolkata, Goa and Mumbai, with running repairs undertaken by local workshops at the ports. These repair facilities are characterized by limited information technology, mechanization and planning capabilities. While we have not historically utilized foreign repair facilities, we have recently begun to utilize foreign facilities after reviewing the relevant advantages in individual cases.

#### **Fuels and Lubricants**

We purchase diesel oil and marine greases from suppliers in different port cities in India where we perform dredging operations. We do not store any fuels or lubricants other than onboard our ships. In fiscal 2003 we initiated the switching of our fleet's fuel supply from high flash high speed diesel oil to light diesel oil in seven dredgers which we estimate resulted in significant fuel cost savings of approximately Rs. 60 million in fiscal 2003. In addition, fuel efficient design is a key parameter in our ship procurement program.

Until April 1, 2002, fuel prices in India, including for diesel oil, were set by the GoI pursuant to the Administered Price Mechanism. Under this system, all selling prices of diesel oil in India were uniform for each distribution company (the majority of which

are PSUs) except for variances between regions resulting from differing tax rates between states. Oil companies were not permitted to adjust their product prices to reflect changes in crude oil prices without the GoI's consent, resulting in below market prices for diesel fuel during certain periods of high crude oil prices. Following the abolition of the Administered Price Mechanism, diesel oil prices are to be market-determined. In practice, however, free movement of prices and price competition has yet to emerge. The three leading oil companies in India that provide diesel oil for domestic and foreign ships in India are PSUs. These companies meet periodically and determine any revisions to their prices. This results in largely uniform diesel oil prices in India except for discounts given by the companies to their largest customers.

Our fuel costs have increased by approximately 33.3% since the abolition of the Administered Price Mechanism and increased oil prices and price volatility following the events of September 11, 2001 and the hostilities in Iraq. We believe these price increases have not been offset by price competition in the Indian market. Currently, increased fuel costs are generally provided for in escalation clauses in our dredging contracts.

Lubricant prices were not subject to the Administered Price Mechanism and are set by the market.

## **Taxation**

The tax expense for the fiscal year or financial period, as applicable, comprising current tax and deferred tax, is included in determining our net profit/(loss) for such fiscal year or financial period. Provisions for taxes consist primarily of provisions for current tax and deferred tax.

### *Current Tax Provisions*

The provision for income tax, as computed in accordance with the I.T. Act and the Finance Act for the particular fiscal year or financial period, as applicable, is accounted for under current taxes. Current tax provisions have been made by taking into consideration Section 33AC of the Income Tax Act, 1961 for fiscal 1995, fiscal 1996, fiscal 2002 and fiscal 2003. Section 33AC allows for deductions of up to 100% of taxable income for Indian companies with the main objective of carrying of the business of operation of ships. These deductions are credited to a reserve to be used for the acquisition of new ships, provided the reserve cannot exceed a ceiling of twice the aggregate amount of the paid-up share capital and reserves. This reserve must be utilized within eight years of the initial deduction to purchase new ships or it is included in total income and taxed accordingly.

We created our first reserve under Section 33AC of the I.T. Act, 1961 in fiscal 1995 and made deductions and corresponding income tax refund claims in fiscal 1995 and fiscal 1996 up to the then-ceiling of twice our paid-up share capital. In fiscal 2001, we utilized the reserve to acquire Dredge XVI. In fiscal 2002 we created a new reserve and deducted Rs. 560 million to the reserve with a corresponding claim for an income tax refund. With the increase in the ceiling to twice our aggregate paid-up share capital and reserves in fiscal 2003 we deducted Rs. 1,530 million to our reserve for fiscal 2003.

Currently, the GoI Income Tax Department's Assessing Officer in Visakhapatnam has appealed the decision of the Commissioner of Income Tax Appeals at Visakhapatnam granting our income tax refund claims for fiscal 1995 and 1996 on the grounds that our dredgers are not eligible "ships" for the reserve. If the Assessing Officer's appeal is successful, we would be liable for an estimated Rs. 257.6 million (excluding interest) as at September 30, 2003.

### *Deferred Tax Provisions*

Beginning in fiscal 2002, in accordance with Accounting Standard 22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India with effect from April 1, 2001, we recognize our deferred tax liability as well as deferred tax assets at the end of each fiscal year or financial period, as applicable. This net deferred tax provision was first recorded in fiscal 2002 and is charged against our profit and loss account. The cumulative liability for the period prior to fiscal 2002 was also charged against our profit and loss account in fiscal 2002.

We recognize deferred tax assets for all deductible timing differences and carry forward to the extent it is probable that future taxable profit will be available against which such deferred tax assets can be realized. We review our deferred tax assets at each balance sheet date and write-down/write-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realized. We may reduce from time to time the amount of our deferred tax assets considered realizable if our estimates of future taxable income are reduced or there is a change in the governing taxation laws.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted at the balance sheet date.

### *Outstanding Payments from Kolkata Port*

As at September 30, 2003, we have recorded outstanding payments owed from Kolkata Port of Rs. 1,545.8 million. Of this amount, approximately Rs. 866 million is owed for dredging services provided in fiscal 2001 (approximately Rs. 200 million) and fiscal 2002 (approximately Rs. 666 million) and is currently in dispute following annual GoI audits of Kolkata Port's operations in fiscal 2001 and fiscal 2002. These audits allege certain deficiencies in our dredging operations. Following these audits, Kolkata Port has informed us that they are "compelled", pursuant to the audits, to recover approximately Rs. 1,015 million paid for dredging services provided in fiscal 2001 and that payment will be withheld in the same manner as disallowed in the audits

for dredging services provided in fiscal 2002. We have challenged these claims and are currently in discussions with the MoS and Kolkata Port. See "Outstanding Litigation".

We have provided for approximately Rs. 180 million (for fiscal 2002) of the above Rs. 866 million of outstanding payments. We have not provided for outstanding revenue recorded but not yet received from Kolkata Port of approximately Rs. 200 million for fiscal 2001 and the balance of Rs.486 million for fiscal 2002. In the event we do not recover these outstanding payments, or are liable for the amounts claimed by Kolkata Port, our income from operations and profit for fiscal 2001 and 2002 will be significantly impacted, as well as our results of operations for the fiscal year and financial period in which we make payment.

## OVERVIEW OF INCOME AND EXPENDITURES

### Income

Our income has two components: income from operations and other income. The following table sets forth the contribution of the different components of income from operations and of other income towards total income during the six months ended September 30, 2003 and 2002 and each of fiscal 2003, 2002 and 2001:

(Rs. in millions)

	Six months ended September 30,		Fiscal		
	2003	2002	2003	2002	2001
Income:					
Dredging and deployment income	2,297.0	2,034.1	4,702.2	4,741.1	3,728.6
Mobilization income	17.8	30.6	92.7	114.9	86.8
Chartering income	70.4	40.7	107.8	0	0
Other income from operations	6.4	13.6	25.3	33.6	28.1
Total Income From Operations	2,391.6	2,119.0	4,928.0	4,889.6	3,843.5
Other Income	126.4	70.9	267.2	125.7	185.0
Total Income	2,518.0	2,189.9	5,195.2	5,015.3	4,028.5

### Income from Operations

Our income from operations consists of dredging and deployment income (including escalation income), mobilization income, chartering income and other income from operations.

### Dredging and Deployment Income

Dredging and deployment income is income from our dredging contracts based on the quantity of material dredged, depth achieved, daily rate measures or on a lump sum basis. Dredging and deployment income contributed 96.0% and 96.0% to total income from operations for the six months ended September 30, 2003 and 2002, respectively, and 95.4%, 97% and 97% in fiscal 2003, 2002, and 2001, respectively. Dredging and deployment income also includes escalation income related to fuel price and labor price increases provided for in our dredging contracts.

In fiscal 2003, approximately 96% of our income from operations was derived from maintenance dredging. The following table sets forth the contribution of maintenance dredging, capital dredging and other income from operations towards our income from operations during the six months ended September 30, 2003 and 2002 and each of fiscal 2003, fiscal 2002 and fiscal 2001:

(Rs. million)

	Six months ended September 30,		Fiscal		
	2003	2002	2003	2002	2001
Maintenance	2,251.8	2,055.1	4,735.4	4,435.1	3,586.6
Capital	63.1	12.6	62.5	438.0	245.8
Other	76.7	51.3	130.1	16.5	11.2
Total	2,391.6	2,119.0	4,928.0	4,889.6	3,843.6

## Mobilization Income

Mobilization income is income from our dredging contracts related to charges for moving a dredger to the dredging site from its previous location. Mobilization income contributed 0.7% and 1.4% to total income from operations for the six months ended September 30, 2003 and 2002, respectively, and 1.9%, 2.3% and 2.3% in fiscal 2003, 2002, and 2001, respectively.

### Chartering Income

Chartering income is income generated by chartering our dredgers to contractors. Chartering income contributed 2.9% and 1.9% for the six months ended September 30, 2003 and 2002, respectively, and 2.2% to total income from operations in fiscal 2003.

### Other Income from Operations

Other income from operations is income generated from work performed by dredgers we charter in to assist in our dredging contracts or that we manage for third parties. Other income from operations contributed 0.3% and 0.6% to total income from operations for the six months ended September 30, 2003 and 2002, respectively, and 0.5%, 0.7% and 0.7% in fiscal 2003, 2002 and 2001, respectively.

## Other Income

Other income consists of interest income, income from the sale of scrap, rental recoveries and other miscellaneous income. Other income contributed 5% and 3.2% to total income for the six months ended September 30, 2003 and 2002, respectively, and 5.1%, 2.5% and 4.6% in fiscal 2003, 2002 and 2001, respectively.

## Expenditures

Our expenditures consist of operational expenses, administrative expenses, interest expense, depreciation and provisions.

The following table sets forth the contribution of the different components of expenditures towards total expenditures during the six months ended September 30, 2003 and 2002, and each of fiscal 2003, 2002 and 2001:

(Rs. million)

	Six months ended September 30,		Fiscal		
	2003	2002	2003	2002	2001
Expenditure:					
Operational expenses	1,414.3	1,276.7	2,583.8	2,205.1	1,992.9
Administrative expenses	99.9	105.7	209.1	174.3	333.1
Interest expense	18.5	46.8	70.1	130.3	51.4
Depreciation	251.3	241.1	502.2	416.8	141.4
Provisions	81.2	144.1	297.0	678.5	69.0
Total Expenditure	1,865.2	1,814.4	3,662.2	3,605.0	2,587.8

### Operational Expenses

Operational expenses include payment and benefits to operational staff (including contribution to provident fund and other funds), repairs and maintenance, spare parts and stores, fuels and lubricants and other operational expenses (including sub-contracting expenses, if any). Operational expenses constituted 75.8% and 70.4% of our total expenditures for the six months ended September 30, 2003 and 2002, respectively, and 70.6%, 61.2% and 77% in fiscal 2003, 2002 and 2001, respectively.

Payment and benefits to operational staff constituted 13.8% and 16.3% of our operational expenses for the six months ended September 30, 2003 and 2002, respectively, and 15.6%, 16% and 16.5% in fiscal 2003, 2002 and 2001, respectively.

Repairs and maintenance expense constituted 21.6% and 23.2% of our operational expenses for the six months ended September 30, 2003 and 2002, respectively, and 14.1%, 14.6% and 18.6% in fiscal 2003, 2002 and 2001, respectively.

Spare parts and stores expense constituted 19% and 14.7% of our operational expenses for the six months ended September 30, 2003 and 2002, respectively, and 17.4%, 15.4% and 16%, in fiscal 2003, 2002 and 2001, respectively.

Fuels and lubricants expense constituted 38.9% and 39.6% of our operational expenses for the six months ended September 30, 2003 and 2002, respectively, and 43.7%, 45.9% and 40.8% in fiscal 2003, 2002 and 2001, respectively.

Other operational expenses include insurance, lodging and traveling expenses as well as payments to subcontractors constituted 6.7% and 6.2% of our operational expenses for the six months ended September 30, 2003 and 2002, respectively, and 9.3%, 8.1% and 8.2% in fiscal 2003, 2002 and 2001, respectively.

### **Administrative Expenses**

Our administrative expenses consist primarily of payment and benefits to shore staff (including contribution to provident fund and other funds and remuneration to directors). Other establishment expenses include rent, rates and taxes, traveling expense, bank charges and guarantee fee, repairs and maintenance of building expense and other expenses. Administrative expenses constituted 5.4% and 5.8% of our total expenditures for the six months ended September 30, 2003 and 2002, respectively, and 5.7%, 4.8% and 12.9% in fiscal 2003, 2002 and 2001, respectively.

Payment and benefits to shore staff constituted 61.5% and 60.1% of our administrative expenses for the six months ended September 30, 2003 and 2002, respectively, and 62.3%, 55.2% and 45.2% in fiscal 2003, 2002, and 2001, respectively.

Other establishment expenses constituted 38.5% and 39.9% of our administrative expenses for the six months ended September 30, 2003 and 2002, respectively, and 37.7%, 44.8% and 54.8% in fiscal 2003, 2002, and 2001, respectively.

### **Interest Expense**

Interest expense consists primarily of interest payments on our four unsecured loans from foreign banks. For fiscal 2003, 2002 and 2001, interest expense also included interest payments on our two Rupee-denominated loans from the Gol and the Union Bank of India, respectively, which we prepaid in fiscal 2003. Interest expense constituted 1% and 2.6% of our total expenditures for the six months ended September 30, 2003 and 2002, respectively, and 1.9%, 3.6% and 2% in fiscal 2003, 2002 and 2001, respectively. In January 2004, we will repay two of our foreign bank loans with a total aggregate principal amount outstanding of Rs. 222.3 million as at September 30, 2003.

### **Depreciation**

Depreciation consists primarily of depreciation on our dredgers and other assets, as per our accounting policies. Depreciation constituted 13.5% and 13.3% of our total expenditures for the six months ended September 30, 2003 and 2002, respectively, and 13.7%, 11.6% and 5.5% in fiscal 2003, 2002 and 2001, respectively.

### **Provisions**

Provisions consist primarily of provisions for doubtful debts and as per our accounting policies for dry dock repairs. Other provisions, including for retirement benefits and wage revisions are accounted for under related expenditure line items. Provisions constituted 4.4% and 7.9% of our total expenditures for the six months ended September 30, 2003 and 2002, respectively, and 8.1%, 18.8% and 2.7% in fiscal 2003, 2002 and 2001, respectively.

## **OUR CRITICAL ACCOUNTING POLICIES**

Preparation of financial statements in accordance with generally accepted accounting principles in India, the applicable accounting standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, require our management to make judgments, assumptions and estimates regarding uncertainties that affect the reported amounts of our assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses. These judgments, assumptions and estimates are reflected in our accounting policies, which are more fully described in the Auditor's Report appearing elsewhere in this Preliminary Sale Document.

Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant assumptions and estimates of our management. We refer to these accounting policies as our "critical accounting policies". Our management uses its historical experience and analyzes the terms of existing contracts, historical cost convention and information available from outside sources, as appropriate, when forming its assumptions and estimates. However, this task is inexact because our management is making assumptions and providing estimates on matters that are inherently uncertain.

Our Company generally follows the mercantile system of accounting and recognizes significant items of income and expenditure on an accrual basis.

While we believe that all aspects of our financial statements (including our accounting policies, which are more fully described in the Auditor's Report appearing elsewhere in this Preliminary Sale Document) should be studied and understood in assessing our current and expected financial condition and results of operations, we believe that the following summary of our critical accounting policies (including changes in accounting policies reflected in our restated financial statements) warrant additional attention.

## **Income from Operations**

Unbilled values of works executed up to the fiscal year or financial period end, as applicable, are considered as income although bills are raised subsequently. The corresponding debit balances are shown under "Current Assets — unbilled operational income receivable".

Claims preferred (raised) on customers for works or items not contemplated under a particular dredging contract are considered as income on their acceptance by the customer.

Income in respect of incomplete dredging jobs undertaken on in situ basis are accounted for on the basis of estimated realizable value of the work done up to the fiscal year or financial period end, as applicable.

## **Other Income**

Interest on fixed deposits with banks is considered in our accounts at the rates applicable to the total term of deposit compounding the interest receivable.

Sale proceeds of condemned and unserviceable spare parts, stores, empties and waste oil are accounted for in the year of disposal.

Claims against suppliers for liquidated damages are accounted for on final settlement of bills.

Interests on tax refunds are accounted for on receipt basis.

## **Operational Expenses**

### **Spare Parts and Stores**

Spares parts and stores, fuels and lubricants delivered to the dredger during the year and acknowledged by the ship's Master or Chief Engineer Officer are charged to revenue. Provision is made in the accounts towards consumption of the material dispatched to craft up to December 31 for each fiscal year and June 30 for the six months ended September 30, in respect of which acknowledgements are not received.

## **Insurance**

Final adjustments to insurance premium paid are considered in our accounts on the basis of demands received.

## **Repairs and Maintenance**

Our dredgers, which work in various locations in different soil and other related conditions, require frequent repairs and dry dock. Foreign dredging firms, which are becoming increasingly active in India, normally undertake extensive repair work to their dredgers to put them in good working condition before they deploy them on any assignment. This gives them the advantage of fewer or no breakdowns while working on an assignment, and more uninterrupted dredging days and productivity.

In order to increase our competitiveness, we feel it is necessary to undertake major dry dock repairs of our dredgers on an annual basis in every fiscal year. The extent and cost of repairs to be undertaken each year for each dredger will be estimated by our Technical Department. While every effort is made to dry dock our dredgers every fiscal year, in some fiscal years it may not be possible to do so for operational reasons. In such an event, suitable provision is made in our accounts on the basis of estimates of our Technical Department. This should ensure uniform charge on account of repairs to accounts each year.

Prior to fiscal 2001, our ocean-going dredgers were to be dry docked every 18 to 30 months, depending on the age of the dredger, as per our prior accounting policy. In fiscal 2001, we changed our accounting policy to provide for dry docking of dredgers on an annual basis, as discussed above. Our revised accounting policy is reflected in our restated financial statements for each of fiscal 2002, 2001, 2000 and 1999.

## **Depreciation**

Depreciation is provided under the straight-line method in accordance with Schedule XIV of the Companies Act, 1956 read with Circular No.1/12/92-CL-V and Circular No. 14/93 dated December 20, 1993 issued by the Department of Company Affairs. The following depreciation is provided for under the straight-line method at the following rates based on the technical estimation of the useful lives of such assets:

- **Pipeline equipment:**
  - mild steel pipeline equipment: 25%.
  - high density polyethylene pipeline equipment: 12.5%.
- **Second hand assets.** Second hand assets are amortized over the estimated balance service life.

- **Exchange rate variation.** Any change in the value of an asset due to exchange rate variation is provided for the balance unexpired life of the asset.
- **Leasehold land.** Leasehold land is amortized over the period of the lease.
- **Building on leasehold land.** Cost of buildings constructed on leasehold land is amortized over the lease period.
- **Cost of library.** Cost of library is considered as other establishment expenses.

Prior to fiscal 2000, buildings on leasehold land were amortized pursuant to the Companies Act, 1956 over a period of 60 years, as per our prior accounting policy. In fiscal 2000, we changed our accounting policy in respect of buildings on leasehold land to provide for amortization over the lease period of the building, as discussed above. Our revised accounting policy is reflected in our restated financial statements for fiscal 2000 and fiscal 1999.

### **Fixed Assets**

Fixed assets are stated at historical cost less depreciation (historical cost includes financing cost and other related overheads).

Items of fixed assets of a value of less than Rs. 5,000 each are capitalized and 100% depreciation charged in the particular fiscal year or financial period, as applicable. However, numerical account of such assets is maintained.

Government grants in aid relating to construction costs of dredgers are shown as deductions from the gross value of the assets concerned in arriving at book value.

### **Transaction of Foreign Currencies**

Current assets and liabilities in foreign currencies are converted at year end exchange rates communicated by our bankers and resultant loss, if any, is charged to our profit and loss account.

In respect of assets acquired or constructed under foreign suppliers' credit or foreign currency loans, the increase or decrease in the outstanding liability is ascertained on the basis of exchange rates as at the last date of the fiscal year or financial period, as applicable, communicated by our bankers, and is adjusted in the cost and included in the carrying amount of the related fixed asset.

Income and expenditure is accounted for at an average rate except depreciation which is converted at the rates adopted for the corresponding fixed assets.

### **Stock of Spare Parts and Stores**

Stock of spare parts and stores is valued at weighted average cost and is inclusive of:

- Customs duty, if any, as applicable to the whole consignment; and
- Overheads at a pre-determined rate.

Reconditioned spare parts are valued at their respective costs of reconditioning.

Value of materials dispatched by foreign suppliers before the last date of the fiscal year or financial period, as applicable, is considered in the accounts of that year, provided dispatch documents are retired or accepted within 15 days of the end of the fiscal year or financial period, as applicable.

### **Investments**

Investments are considered long term and valued at cost.

#### **Retirement Benefits**

Provision for gratuity liability is made on the basis of actuarial valuation.

In accordance with Accounting Standard 15 on "Retirement Benefits" issued by Institute of Chartered Accountants of India, provision for encashment of leave is calculated on the basis of actuarial valuation except in the case of crew and monthly-paid workers of floating staff, who are entitled to settlement of leave in full on signing off. Provision in this case is made for the leave at credit on the last date of the fiscal year or financial period, as applicable.

Prior to fiscal 2003, encashment of leave was calculated based on the estimates of our Company, as per our prior accounting policy. Our revised accounting policy based on actuarial valuations is reflected in our restated financial statements for each of fiscal 2003, 2002, 2001, 2000 and 1999.

### **Contingent Liabilities**

Contingent liabilities are accounted for in accordance with Accounting Standard 4 on "Contingencies and Event Occurring After Balance Sheet Date" issued by the Institute of Chartered Accountants of India.

## OUR RESULTS OF OPERATIONS

The table below sets forth various line items from our audited financial statements for fiscal 2001, 2002 and 2003, for the six months ended September 30, 2003 and 2002 as a percentage of income.

	Six months ended September 30,		Fiscal		
	2003	2002	2003	2002	2001
Operational expenses	56.2%	58.3%	49.7%	44.0%	49.5%
Administrative expenses	4.0%	4.8%	4.0%	3.5%	8.3%
Interest expense	0.7%	2.1%	1.3%	2.6%	1.3%
Depreciation	10.0%	11.0%	9.7%	8.3%	3.5%
Provisions	3.2%	6.6%	5.7%	13.5%	1.7%
Profit before tax	33.8%	34.8%	36.4%	32.8%	39.0%
Profit after tax	30.8%	27.1%	33.2%	20.2%	27.0%
Profit after tax (as adjusted)	30.8%	24.5%	30.3%	17.6%	32.1%

### Six Months Ended September 30, 2003 Compared to Six Months Ended September 30, 2002

#### Income

Our total income increased by 15% to Rs. 2,518 million in the six months ended September 30, 2003 from Rs. 2,189.9 million in the six months ended September 2002, primarily due to an increase in income from operations by 12.9% to Rs. 2,391.6 million in the six months ended September 30, 2003 from Rs. 2,119.0 million in the same period in 2002.

#### Income from Operations

Our income from operations increased by 12.9% to Rs. 2,391.6 million in the six months ended September 30, 2003 from Rs. 2,119 million in the six months ended September 30, 2002, primarily due to increased operational efficiency at Kolkata Port resulting in lower depth-related penalties under our maintenance dredging contracts.

#### Other Income

Our other income increased by 78.3% to Rs. 126.4 million in the six months ended September 30, 2003 from Rs. 70.9 million in the six months ended September 30, 2002, primarily due to an increase in interest on fixed deposits with banks by 39.9% to Rs. 88.6 million in the six months ended September 30, 2003 from Rs. 63.3 million in the same period in 2002 resulting from higher cash deposits.

#### Operational Expenses

Operational expenses increased by 10.8% to Rs. 1,414.3 million in the six months ended September 30, 2003 from Rs. 1,276.7 million in the six months ended September 30, 2002. Operational expenses as a percentage of income decreased to 56.2% in the six months ended September 30, 2003 from 58.3% in the six months ended September 30, 2002. The increase was primarily due to an increase in fuel and lubricant expense by 8.8% in the six months ended September 30, 2003 from the same period in 2002 and a 43.5% increase in spare parts and stores expense over the same period.

#### Payment and Benefits to Operational Staff

Payment and benefits to operational (floating) staff decreased by 6.3% to Rs. 195.2 million in the six months ended September 30, 2003 from Rs. 208.3 million in the six months ended September 30, 2002, primarily due to the reduction of floating staff to 591 at September 30, 2003 from 634 floating staff at September 30, 2002.

#### Repairs and Maintenance Expense

Repairs and maintenance expense increased slightly by 2.8% to Rs. 304.8 million in the six months ended September 30, 2003 from Rs. 296.6 million in the six months ended September 30, 2002.

#### Spare Parts and Stores Expense

Spare parts and stores expense increased by 43.5% to Rs. 268.9 million in the six months ended September 30, 2003 from Rs. 187.4 million in the six months ended September 30, 2002, primarily due to purchase of spare parts for Dredges XV, XVI

and XVII, which we acquired with fewer initial onboard spare parts than previous dredgers, and the overall aging of our fleet.

#### *Fuels and Lubricants Expense*

Fuels and lubricants expense increased by 8.8% to Rs. 550.4 million in the six months ended September 30, 2003 from Rs. 505.7 million in the six months ended September 30, 2002, primarily due to increased fuel costs resulting from a 4.5% increase in dredging days (including greater utilization of large capacity dredgers) in the six months ended September 30, 2003 from the same period in 2002 and an increase in fuel prices over the same period. Increased fuel prices are generally provided for in escalation clauses in our dredging contracts.

#### *Other Operational Expenses*

Other operational expenses increased by 20.7% to Rs. 95.0 million in the six months ended September 30, 2003 from Rs. 78.7 million in the six months ended September 30, 2002, primarily due to increased payments to subcontractors to Rs. 15.6 million in the six months ended September 30, 2003 from nil in the same period in fiscal 2002 related to grab dredging requirements at Kandla Port.

#### **Administrative Expenses**

Administrative expenses decreased by 5.5% to Rs. 99.9 million in the six months ended September 30, 2003 from Rs. 105.7 million in the six months ended September 30, 2002. Administrative expenses as a percentage of income decreased to 4.0% in the six months ended September 30, 2003 from 4.8% in the six months ended September 30, 2002. The decrease in administrative expenses was primarily due to the decrease in other establishment expenses by 8.8% in the six months ended September 30, 2003.

#### *Payment and Benefits to Shore Staff*

Payment and benefits to shore staff decreased by 3.3% to Rs. 61.4 million in the six months ended September 30, 2003 from Rs. 63.5 million in the six months ended September 30, 2002, primarily due to increased expenditure on benefits including encashment of leave in the six months ended September 30, 2002.

#### *Other Establishment Expenses*

Other establishment expenses decreased by 8.8% to Rs. 38.5 million in the six months ended September 30, 2003 from Rs. 42.2 million in the six months ended September 30, 2002, primarily due to slight decreases in traveling expenses, bank charges and other miscellaneous establishment expenses during the six months ended September 30, 2003 from the same period in 2002.

#### **Interest Expense**

Interest expense decreased by 60.5% to Rs. 18.5 million in the six months ended September 30, 2003 from Rs. 46.8 million in the six months ended September 30, 2002. Interest expense as a percentage of income decreased to 0.7% in the six months ended September 30, 2003 from 2.1% in the six months ended September 30, 2002. The decrease in the interest expense was primarily due to the Rs. 757.6 million payment of our higher-interest Rupee-denominated loans during fiscal 2003.

#### **Depreciation**

Depreciation increased by 4.2% to Rs. 251.3 million in the six months ended September 30, 2003 from Rs. 241.1 million in the six months ended September 30, 2002. Depreciation as a percentage of income decreased to 10.0% in the six months ended September 30, 2003 from 11.0% in the six months ended September 30, 2002. The increase in depreciation was primarily due to an increase in the capitalized costs of dredgers acquired pursuant to Euro-denominated loans because of the appreciation in the Euro against the Rupee during the fiscal year. In August 2003, we entered into full currency swap contracts to hedge our exposure to this exchange rate risk.

#### **Provisions**

Provisions decreased by 43.7% to Rs. 81.2 million in the six months ended September 30, 2003 from Rs. 144.1 million in the six months ended September 30, 2002. Provisions as a percentage of income decreased to 3.2% in the six months ended September 30, 2003 from 6.6% in the six months ended September 30, 2002. The decrease in provisions was primarily a result of provisions made for doubtful debts of Rs. 54.2 million during the six months ended September 30, 2002.

#### **Profit Before Tax**

Profit before tax increased by 11.7% to Rs. 850.3 million in the six months ended September 30, 2003 from Rs. 761.3 million in the six months ended September 30, 2002. Profit before tax as a percentage of income decreased to 33.8% in the six months ended September 30, 2003 from 34.8% in the six months ended September 30, 2002. The decrease was primarily due to a decrease in write-back of provision of Rs. 188.4 million in the six months ended September 30, 2003 related to dry dock repairs from Rs. 286.7 million for the same period in 2002.

## **Profit After Tax**

Profit after tax increased by 30.7% to Rs. 776.0 million in the six months ended September 30, 2003 from Rs. 593.7 million in the six months ended September 30, 2002. Profit after tax as a percentage of income increased to 30.8% in the six months ended September 30, 2003 from 27.1% in the six months ended September 30, 2002, primarily as a result of a reduction in our deferred tax provision by 58.3% to Rs. 69.3 million in the six months ended September 30, 2003 from Rs. 166.0 million in the same period in 2002.

## **Profit After Tax (As Adjusted)**

Profit after tax (as adjusted) increased by 44.7% to Rs. 776.1 million in the six months ended September 30, 2003 from Rs. 536.2 million in the six months ended September 30, 2002. Profit after tax (as adjusted) as a percentage of income increased to 30.8% in the six months ended September 30, 2003 from 24.5% in the six months ended September 30, 2002. In the six months ended September 30, 2003 a slight positive adjustment was recorded for prior period items. A negative adjustment in the six months ended September 30, 2002 was recorded primarily as a result of our change in accounting policy for encashment of leave.

## **Fiscal 2003 Compared to Fiscal 2002**

### **Income**

Our total income increased by 3.6% to Rs. 5,195.2 million in fiscal 2003 from Rs. 5,015.3 million in fiscal 2002, primarily due to an increase in other income by 112.6% to Rs. 267.2 million in fiscal 2003 from Rs. 125.7 million in fiscal 2002.

#### *Income from Operations*

Our income from operations increased by 0.8% to Rs. 4,928 million in fiscal 2003 from Rs. 4,889.6 million in fiscal 2002, primarily due to the full year's utilization of Dredge XVII which commenced operations in August 2001. This full year's utilization of Dredge XVII was offset by reduced rates for maintenance dredging offered to certain key customers, including Kolkata Port, as a result of negotiations for new contracts during the year.

#### *Other Income*

Our other income increased by 112.6% to Rs. 267.2 million in fiscal 2003 from Rs. 125.7 million in fiscal 2002, primarily due to an increase in interest on fixed deposits with banks by 74.3% to Rs. 140.1 million in fiscal 2003 from Rs. 80.4 million in fiscal 2002 resulting from higher cash deposits and non-recurring interest on income tax refunds of Rs. 83.7 million in fiscal 2003.

#### *Operational Expenses*

Operational expenses increased by 17.2% to Rs. 2,583.8 million in fiscal 2003 from Rs. 2,205.1 million in fiscal 2002. Operational expenses as a percentage of income increased to 49.7% in fiscal 2003 from 44% in fiscal 2002. The increase in operational expenses was primarily due to an increase in spare parts and stores expense by 32.1% in fiscal 2003 from fiscal 2002, a 11.6% increase in fuels and lubricants expense and a 14.1% increase in payments and benefits to operational (floating) staff over the same period.

#### *Payment and Benefits to Operational Staff*

Payment and benefits to operational staff increased by 14.1% to Rs. 402.3 million in fiscal 2003 from Rs. 352.6 million in fiscal 2002, primarily due to provisions for wage revisions for floating staff due from April 1, 2002. This wage revision has not yet been finalized.

#### *Repairs and Maintenance Expense*

Repairs and maintenance expense increased by 12.9% to Rs. 364.6 million in fiscal 2003 from Rs. 322.8 million in fiscal 2002, primarily due to increased dry dock expenditures for Dredges XII, XIV and XVI resulting from their not being dry docked in fiscal 2002.

#### *Spare Parts and Stores Expense*

Spare parts and stores expense increased by 32.1% to Rs. 448.9 million in fiscal 2003 from Rs. 339.7 million in fiscal 2002, primarily due to the purchase of spare parts for Dredges XV, XVI and XVII, which we acquired with fewer initial onboard spare parts than previous dredgers, and the overall aging of our fleet.

#### *Fuels and Lubricants Expense*

Fuels and lubricants expense increased by 11.6% to Rs. 1,128.9 million in fiscal 2003 from Rs. 1,011.4 million in fiscal 2002, primarily due to the full year's utilization of Dredge XVII and increased fuel prices. Increased fuel prices are generally provided for in escalation clauses in our dredging contracts.

### *Other Operational Expenses*

Other operational expenses increased by 33.9% to Rs. 239.1 million in fiscal 2003 from Rs. 178.6 million in fiscal 2002, primarily due to increased payments to subcontractors to Rs. 49.9 million in fiscal 2003 from Rs. 1.3 million in fiscal 2002 related to grab dredging requirements at Mumbai Port, Kandla Port and Cochin Port.

### **Administrative Expenses**

Administrative expenses in fiscal 2003 increased by 20% to Rs. 209.1 million in fiscal 2003 from Rs. 174.3 million in fiscal 2002. Administrative expenses as a percentage of income increased to 4.0% in fiscal 2003 from 3.5% in fiscal 2002. The increase in administrative expenses was primarily due to the increase in payment and benefits to shore staff by 35.2% in fiscal 2003.

### *Payment and Benefits to Shore Staff*

Payment and benefits to shore staff increased by 35.2% to Rs. 130.2 million in fiscal 2003 from Rs. 96.3 million in fiscal 2002, primarily due to the inclusion of a write-back in fiscal 2002 of a previous provision for employee benefits and our productivity-linked incentive scheme for shore staff.

### *Other Establishment Expenses*

Other establishment expenses increased slightly by 1.2% to Rs. 78.9 million in fiscal 2003 from Rs. 78 million in fiscal 2002.

### **Interest Expense**

Interest expense decreased by 46.2% to Rs. 70.1 million in fiscal 2003 from Rs. 130.3 million in fiscal 2002. Interest expense as a percentage of income decreased to 1.3% in fiscal 2003 from 2.6% in fiscal 2002. The decrease in interest expense was primarily due to the Rs. 757.6 million payment of higher-interest Rupee-denominated loans during fiscal 2003.

### **Depreciation**

Depreciation expense increased by 20.5% to Rs. 502.2 million in fiscal 2003 from Rs. 416.8 million in fiscal 2002. Depreciation as a percentage of income increased to 9.7% in fiscal 2003 from 8.3% in fiscal 2002. The increase in depreciation was primarily due to the full year's depreciation of Dredge XVII in fiscal 2003 and an increase in the capitalized costs of dredgers acquired pursuant to Euro-denominated loans because of the appreciation in the Euro against the Rupee during the fiscal year. In August 2003, we entered into full currency swap contracts to hedge our exposure to this exchange rate risk.

### **Provisions**

Provisions decreased by 56.2% to Rs. 297 million in fiscal 2003 from Rs. 678.5 million in fiscal 2002. Provisions as a percentage of income decreased to 5.7% in fiscal 2003 from 13.5% in fiscal 2002. This decrease in provisions was primarily a result of lower provisions for doubtful debts and dry dock repairs in fiscal 2003.

### **Profit Before Tax**

Profit before tax increased to Rs. 1,889.3 million in fiscal 2003 from Rs. 1,646.0 million in fiscal 2002. Profit before tax as a percentage of income increased to 36.4% in fiscal 2003 from 32.8% in fiscal 2002 due primarily to an increase in other income and lower provisions for doubtful debts partially offset by the increase in operational and administrative expenses.

### **Profit After Tax**

Profit after tax increased by 69.7% to Rs. 1,723.3 million in fiscal 2003 from Rs. 1,015.5 million in fiscal 2002. Profit after tax as a percentage of income increased to 33.2% in fiscal 2003 from 20.2% in fiscal 2002, as a result of a reduction in our provision for taxation pursuant to a deduction under Section 33AC of the Income Tax Act, 1961 of Rs. 1,530 million from Rs. 485.1 million in fiscal 2002 to Rs. 28.4 million in fiscal 2003.

### **Profit After Tax (As Adjusted)**

Profit after tax (as adjusted) increased by 78.7% to Rs. 1,574.9 million in fiscal 2003 from Rs. 881.5 million in fiscal 2002. Profit after tax (as adjusted) as a percentage of income increased to 30.3% in fiscal 2003 from 17.6% in fiscal 2002, as a result of the foregoing factors. Our profit after tax was offset by negative adjustments on account of changes in accounting policies and negative adjustments for prior period items. Negative adjustments on account of changes in accounting policies increased by 70.5% to Rs. 41.6 million in fiscal 2003 from Rs. 24.4 million in fiscal 2002 as a result of the change in our encashment of leave policy. Negative adjustments for prior period items decreased slightly by 2.6% to Rs. 106.8 million in fiscal 2003 from Rs. 109.6 million in fiscal 2002. This negative adjustment for fiscal 2003 resulted primarily from a withdrawal of an excess provision for tax of Rs. 105 million for earlier years from our non-adjusted profit after tax for fiscal 2003.

## **Fiscal 2002 Compared to Fiscal 2001**

### *Income*

Our total income increased by 24.5% to Rs. 5,015.3 million in fiscal 2002 from Rs. 4,028.5 million in fiscal 2001, primarily due to an increase in income from operations by 27.2% in fiscal 2002.

### *Income from Operations*

Our income from operations increased by 27.2% to Rs. 4,889.6 million in fiscal 2002 from Rs. 3,843.5 million in fiscal 2001, primarily due to the full year's utilization of Dredge XVI, which commenced operations in March 2001, and eight months' utilization of Dredge XVII.

### *Other Income*

Our other income decreased by 32.1% to Rs. 125.7 million in fiscal 2002 from Rs. 185 million in fiscal 2001, primarily due to a 43.2% decrease in interest on income from fixed deposits to Rs. 80.4 million in fiscal 2002 from Rs. 141.5 million in fiscal 2001 resulting from lower average surplus funds available for deposit with banks and lower interest rates.

## **Operational Expenses**

Operational expenses in fiscal 2002 increased by 10.6% to Rs. 2,205.1 million in fiscal 2002 from Rs. 1,992.9 million in fiscal 2001. The increase in operational expenses was primarily due to an increase in fuels and lubricants expense by 24.4% in fiscal 2002. However, operational expenses as a percentage of income decreased to 44.0% in fiscal 2002 from 49.5% in fiscal 2001 as a result of the 27.2% increase in income from operations.

### *Payment and Benefits to Operational Staff*

Payment and benefits to operational staff increased by 7.5% to Rs. 352.6 million in fiscal 2002 from Rs. 328.1 million in fiscal 2001, primarily due to a provision for floating staff crew wage revisions in fiscal 2002. This wage revision has not yet been finalized between our employees' unions and our Company.

### *Repairs and Maintenance Expense*

Repairs and maintenance expense decreased by 12.7% to Rs. 322.8 million in fiscal 2002 from Rs. 369.7 million in fiscal 2001, primarily due to Dredges XII, XIV and XVI not being dry docked during fiscal 2002.

### *Spare Parts and Stores Expense*

Spare parts and stores expense increased by 6.7% to Rs. 339.7 million in fiscal 2002 from Rs. 318.4 million in fiscal 2001, primarily due to the overall aging of our fleet.

### *Fuels and Lubricants Expense*

Fuels and lubricants expense increased by 24.4% to Rs. 1,011.4 million in fiscal 2002 from Rs. 812.8 million in fiscal 2001, primarily due to the full year's utilization of Dredge XVI and eight months' utilization of Dredge XVII.

### *Other Operational Expenses*

Other operational expenses increased by 9% to Rs. 178.6 million in fiscal 2002 from Rs. 163.9 million in fiscal 2001, primarily due to insurance expenses related to the full year's insuring of Dredge XVI and eight months' insuring of Dredge XVII.

## **Administrative Expenses**

Administrative expenses in fiscal 2002 decreased by 47.7% to Rs. 174.3 million in fiscal 2002 from Rs. 333.1 million in fiscal 2001. Administrative expenses as a percentage of income decreased to 3.5% in fiscal 2002 from 8.3% in fiscal 2001. The decrease in administrative expenses was primarily due to a decrease in other establishment expenses by 57.3% in fiscal 2002.

### *Payment and Benefits to Shore Staff*

Payment and benefits to shore staff decreased by 36% to Rs. 96.3 million in fiscal 2002 from Rs. 150.4 million in fiscal 2001, primarily due to a Rs. 54.7 million payment made under our voluntary retirement scheme for shore staff in fiscal 2001 as compared to Rs. 5.1 million paid in fiscal 2002. In addition, in fiscal 2002 we had a write-back of Rs. 27.2 million for a previous provision for employee benefits and our productivity-linked incentive scheme for shore staff.

### *Other Establishment Expenses*

Other establishment expenses decreased by 57.3% to Rs. 78 million in fiscal 2002 from Rs. 182.7 million in fiscal 2001, primarily due to a Rs. 89.7 million customs duty payment on Dredge XVI (subsequently capitalized in fiscal 2002) and a non-recurring Rs. 20 million donation to the Prime Minister's Relief Fund in fiscal 2001.

## **Interest Expense**

Interest expense increased by 153.5% to Rs. 130.3 million in fiscal 2002 from Rs. 51.4 million in fiscal 2001. Interest expense as a percentage of income increased to 2.6% in fiscal 2002 from 1.3% in fiscal 2001. The increase in interest expense was primarily due to the new Rs. 720 million loan and Euro 18.6 million loan entered into to partially finance the acquisitions of Dredges XVII and XVI, respectively.

## **Depreciation**

Depreciation expense increased by 194.8% to Rs. 416.8 million in fiscal 2002 from Rs. 141.4 million in fiscal 2001. Depreciation as a percentage of income increased to 8.3% in fiscal 2002 from 3.5% in fiscal 2001. The increase in depreciation was primarily due to the full year's depreciation of Dredge XVI (acquired in March 2001) and the acquisition of Dredge XVII in July 2001. In addition, depreciation was lower in fiscal 2001 following a write-back of depreciation of Rs. 73 million after our successful appeal to the customs authorities in respect of customs duty wrongly levied on spare parts for Dredges XII and XIV which had been capitalized in earlier years.

## **Provisions**

Provisions increased by 883.3% to Rs. 678.5 million in fiscal 2002 from Rs. 69 million in fiscal 2001. Provisions as a percentage of income increased to 13.5% in fiscal 2002 from 1.7% in fiscal 2001. This increase in provisions was a result of higher provisions for doubtful debts and dry dock repairs in fiscal 2002.

## **Profit Before Tax**

Profit before tax increased by 4.7% to Rs. 1,646 million in fiscal 2002 from Rs. 1,572.2 million in fiscal 2001. However, profit before tax as a percentage of income decreased to 32.8% in fiscal 2002 from 39% in fiscal 2001, primarily due to higher provisions for doubtful debts and increased interest and depreciation expenses partially offset by a decrease in administrative expenses.

## **Profit After Tax**

Profit after tax decreased by 6.6% to Rs. 1,015.5 million in fiscal 2002 from Rs. 1,087.1 million in fiscal 2001, as a result of the foregoing factors. Profit after tax as a percentage of income decreased to 20.2% in fiscal 2002 from 27% in fiscal 2001, primarily due to a deferred tax provision in fiscal 2002 of Rs. 145 million with the introduction of new Accounting Standard 22 on "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India which came into effect on April 1, 2001.

## **Profit After Tax (As Adjusted)**

Profit after tax (as adjusted) decreased by 31.8% to Rs. 881.5 million in fiscal 2002 from Rs. 1,292.1 million in fiscal 2001. Profit after tax (as adjusted) as a percentage of income decreased to 17.6% in fiscal 2002 from 32.1% in fiscal 2001 as a result of the foregoing factors. Negative adjustments on account of change in accounting policies increased to Rs. 24.4 million in fiscal 2002 from a positive adjustment of Rs. 100.1 million in fiscal 2001 as a result of our change in accounting policy for dry dock repairs. Negative adjustments for prior period items increased to Rs. 109.6 million in fiscal 2002 from a positive adjustment of Rs. 104.9 million in fiscal 2001 primarily as a result of negative adjustments for rents, rates and taxes of Rs. 89.7 million relating to expensed customs duties of Dredge XVI in fiscal 2001 that were subsequently capitalized in fiscal 2002.

## **SEASONALITY**

We have historically realized slightly lower income from operations in the first half of each fiscal year. This trend is due primarily to increased dredging activity following the monsoon season in India. In the future, however, seasonality may become more significant if our project mix changes and we are not flexible in utilizing our equipment. Substantial fluctuations in our operations could significantly limit our cash flow and therefore our ability to service our debt or satisfy other liquidity needs in a particular period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Liquidity**

Our primary liquidity needs have been historically to fund the acquisition of dredgers, the repayment of term loans and to meet working capital requirements. To fund these costs, we have relied on cash flows from operations and long-term borrowings.

### **Cash Flows**

The table below summarizes our cash flows for fiscal 2001, 2002 and 2003 and the six months ended September 30, 2002 and 2003. Figures in brackets represent cash outflow.

(Rs. million)

	Six months ended September 30,		Fiscal		
	2003	2002	2003	2002	2001
Net Cash Flow from (used in) operating activities	603.3	622.2	1,748.4	1,797.8	204.8
Net Cash Flow from (used in) investing activities	63.8	54.7	62.8	(407.4)	(2,159.5)
Net Cash flow from (used in) financing activities	(82.9)	(1,044.8)	(1,345.2)	(409.6)	945.4
Net Increase/(Decrease) in Cash and Cash Equivalents	584.2	(367.9)	466.0	980.8	(1,009.3)

Our cash flows from operations are influenced primarily by our profits and changes in working capital. Our net cash flow from operating activities for the six months ended September 30, 2003 was Rs. 603.3 million, as compared to Rs. 622.2 million for the same period in 2002, primarily due to an increase in our working capital. Our net cash flow from operating activities for fiscal 2003 was Rs. 1,748.4 million, as compared to Rs. 1,797.8 million for fiscal 2002, primarily due to an increase in working capital. Our net cash flow from operating activities was Rs. 1,797.8 million in fiscal 2002, as compared to Rs. 204.8 million in fiscal 2001, primarily due to a decrease in working capital.

Our net cash flow from investing activities for the six months ended September 30, 2003 was Rs. 63.8 million, as compared to Rs. 54.7 million for the same period in 2002, primarily due to lesser investment in fixed assets. Our net cash flow from investing activities for fiscal 2003 was Rs. 62.8 million, as compared to Rs. 407.4 million used in investing activities for fiscal 2002, primarily due to interim payments for the acquisition of Dredge XVII in fiscal 2002. Our net cash flow used in investing activities was Rs. 407.4 million used in fiscal 2002, as compared to Rs. 2,159.5 million in fiscal 2001, primarily due to interim payments for the acquisition of Dredges XVI and XVII in fiscal 2001.

Our net cash flow used in financing activities for the six months ended September 30, 2003 was Rs. 82.9 million, as compared to Rs. 1,044.8 million for the same period in 2002, primarily due to prepayment of long term borrowings. Our net cash flow used in financing activities for fiscal 2003 was Rs. 1,345.2 million, as compared to Rs. 409.6 million in fiscal 2002, primarily due to prepayment of long-term borrowings. Our net cash flow used in financing activities was Rs. 409.6 million in fiscal 2002, as compared to Rs. 945.4 million from financing activities for fiscal 2001, primarily due to increased borrowings in fiscal 2001.

### Indebtedness

Key terms of our outstanding indebtedness as at March 31, 2003 and September 30, 2003 were as follows:

#### Unsecured Loans From Foreign Banks

We had an aggregate principal amount of Rs. 1,198.3 million outstanding under four unsecured loans from foreign banks at March 31, 2003.

We had an aggregate principal amount of Rs. 109.0 million outstanding under a foreign currency loan from NIO Bank, Netherlands at March 31, 2003, repayable in full on January 31, 2004. The interest rate applicable to this loan is 2.50% per annum payable half-yearly. This loan was used to finance the acquisition of Dredge XII.

We had an aggregate principal amount of Rs. 109.0 million outstanding under a second foreign currency loan from NIO Bank, Netherlands at March 31, 2003, repayable in full on January 31, 2004. The interest rate applicable to this loan is 2.50% per annum payable half-yearly. This loan was used to finance the acquisition of Dredge XIV.

We had an aggregate principal amount of Rs. 241.7 million outstanding under a foreign currency loan from ABN AMRO Bank at March 31, 2003, repayable in half-yearly installments of Rs. 26.1 million until September 1, 2007. The interest rate applicable to this loan is 0.35% per annum over six months floating Euro Interbank Offered Rate ("EURIBOR"). This loan was used to partially finance the acquisition of Dredge XV.

We had an aggregate principal amount of Rs. 738.6 million outstanding under a second foreign currency loan from ABN AMRO Bank at March 31, 2003, repayable in half-yearly installments of Rs. 55.1 million until August 14, 2009. The interest rate applicable to this loan is 0.20% per annum over six months floating EURIBOR. This loan was used to partially finance the acquisition of Dredge XVI.

In fiscal 2003, we prepaid two high interest Rupee-denominated loans from the Gol (11% fixed rate) and the Union Bank of India (12% PTLR ) totaling Rs. 757.6 million to reduce our interest burden in the current lower-interest rate environment. The Union Bank of India loan was used to partially finance the acquisition of Dredge XVII.

We had an aggregate principal amount of Rs. 1,091.8 million outstanding under these four unsecured loans from foreign banks at September 30, 2003:

- We had an aggregate principal amount of Rs. 111.1 million outstanding under our first foreign currency loan from NIO Bank, Netherlands at September 30, 2003.
- We had an aggregate principal amount of Rs. 111.1 million outstanding under our second foreign currency loan from NIO Bank, Netherlands at September 30, 2003.
- We had an aggregate principal amount of Rs. 208.4 million outstanding under our first foreign currency loan from ABN AMRO Bank at September 30, 2003.
- We had an aggregate principal amount of Rs. 661.2 million outstanding under our second foreign currency loan from ABN AMRO Bank at September 30, 2003.

We will repay both our loans from NIO Bank in January 2004.

Our net proceeds from borrowings in fiscal 2001 were Rs. 1,108.5 million. Our net repayment of borrowings in fiscal 2002 was Rs. 255.3 million. Our net repayment of borrowings in fiscal 2003 was Rs. 1,135.2 million. Our net repayment of borrowings in the six months ended September 30, 2003 was Rs. 82.9 million.

#### **Historical and Planned Capital Expenditures**

In fiscal 2001, we purchased fixed assets amounting to Rs. 2,376.6 million, primarily for interim payments to shipbuilders during construction of Dredges XVI and XVII. In fiscal 2002, we purchased fixed assets amounting to Rs. 490.8 million, primarily for interim payments to shipbuilders during construction of Dredge XVII. In fiscal 2003, we purchased fixed assets amounting to Rs. 66.8 million, primarily for interim payments during construction of a multi-purpose tug boat. In the six months ended September 30, 2003, we purchased fixed assets amounting to Rs. 5.2 million, primarily for office equipment including computers and furniture.

We have initiated a ship procurement program to increase our dredging capacity. As part of this program we intend to acquire one 5,000 cubic meter shallow draught trailer suction hopper dredger in fiscal 2006 and one 10,000 horse power cutter suction dredger in fiscal 2007, which we believe will enhance our ability to compete for and execute future capital dredging projects. These and future dredger acquisitions will be financed by a combination of internal resources and commercial borrowings.

Under the Gol's Tenth Five-Year Plan, we have received the necessary authorizations to spend an aggregate amount of approximately Rs. 3,650.0 million from fiscal 2003 through fiscal 2007 on dredgers and related ancillary equipment, and we expect to spend approximately Rs. 3,365 million.

#### **Principal Sources of Liquidity**

At September 30, 2003, cash and bank balances (including fixed deposits with banks) amounted to Rs. 2,912.9 million. We believe that our anticipated cash flows from operations, together with our existing cash, will be sufficient to meet our working capital and capital expenditure requirements for fiscal 2005. Our anticipated cash flows from operations however depend on a number of factors beyond our control, such as demand for our dredging services, amounts received from customers, prevailing economic conditions in the market, the competition in the dredging industry and the cost of our operations.

#### **TRANSACTIONS WITH RELATED PARTIES**

As at September 30, 2003, we had related party transactions with our associate company (under voluntary liquidation) and our directors and key managerial personnel related to their remuneration. See "Related Party Transactions".

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk is a function of our operating activities. We are exposed to market risk from changes in both foreign exchange rates and interest rates.

##### **Exchange Rate Risk**

We face exchange rate risk to the extent that our receivables and payables are denominated in currencies other than Indian rupees. We purchase spare parts from foreign suppliers. All these costs are denominated in foreign currencies, with substantially all imported spare parts denominated in Euro.

Our aggregate cost of spare parts was Rs. 274.6 million, Rs. 302.6 million and Rs. 349.0 million in fiscal 2001, 2002 and 2003, respectively, and Rs. 231.8 million for the six months ended September 30, 2003.

In addition, we had Rs. 1,198.3 million outstanding under four foreign currency loans as at March 31, 2003 and Rs. 1,091.8 million as at September 30, 2003, as described in “– Liquidity and Capital Resources – Indebtedness”.

Appreciation or depreciation of the Indian rupees relative to the currency of our payables and receivables can increase our payment obligations. Beginning in August 2003, we have entered into full currency swap contracts with leading international banks to hedge these risks with respect to our foreign currency loans from ABN AMRO Bank, but these contracts may not protect us fully from losses due to fluctuations in foreign exchange rates.

### **Interest Rate Risk**

We bear interest rate risk with respect to the following indebtedness:

- The rate of interest applicable to the Rs. 111.1 million outstanding at September 30, 2003 under our first unsecured loan from NIO Bank, Netherlands is 2.50% per annum;
- The rate of interest applicable to the Rs. 111.1 million outstanding at September 30, 2003 under our second unsecured loan from NIO Bank, Netherlands is 2.50% per annum;
- The rate of interest applicable to the Rs. 208.4 million outstanding at September 30, 2003 under our first unsecured loan from ABN AMRO Bank is 0.35% per annum over six months floating EURIBOR; and

The rate of interest applicable to the Rs. 661.2 million outstanding at September 30, 2003 under our second unsecured loan from ABN AMRO Bank is 0.20% per annum over six months floating EURIBOR.

We will repay both our loans from NIO Bank in January 2004.

As part of our full currency swap contracts including interest rate, we have entered into hedging arrangements with leading international banks for both floating EURIBOR loans from ABN AMRO Bank which limit our exposure to future increases in interest rates. We do not bear interest rate risk in relation to our other indebtedness, all of which requires interest payments at fixed rates of interest.

In addition, at September 30, 2003 we had Rs. 2459.6 million in Rupee-denominated fixed deposits at 26 Indian banks at fixed interest rates ranging from 5.2% to 7.8%.

### **INTERNAL CONTROL SYSTEMS**

We believe we have a reasonable system of delegation at proper levels and an adequate system of internal control commensurate with the size and nature of our business. We believe we have an adequate and independent internal audit department for conducting extensive audit of various important operational and financial matters both at the head office and at our project offices. The internal controls are reviewed by the Internal Audit Department. The vigilance department deals with vigilance and disciplinary cases with emphasis on preventive vigilance. The Comptroller and Auditor General of India also conducts an annual statutory audit of our accounts as a PSU, the comments of which are published in our annual report. We have formed an Audit Committee consisting of three independent non-executive directors. Significant audit observations and follow-up action thereon are reported to the Audit Committee.

### **EFFECT OF INFLATION**

During fiscal 2001, 2002 and 2003, the All India Consumer Price Index increased by 3.8%, 4.3% and 4%, respectively. Although many of our expenses, including spare parts and other materials sourced abroad, are not affected by inflation in India, other expenses such as salaries and benefits may be affected by inflation in India. However, since we set the price of our dredging services based on various factors, including inflation, inflation has not had a significant effect on the result of our operations to date. We do not expect the inflation rates in India will have a material impact on our results of operations for the foreseeable future.

### **UNUSUAL AND INFREQUENT EVENTS OR TRANSACTIONS**

There have been no events, to our knowledge, other than as described in this Preliminary Sale Document, which may be called “unusual” or “infrequent”.

### **KNOWN TRENDS OR UNCERTAINTIES**

Other than as described in the sections titled “Risk Factors” and “Selected Financial Data and Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Preliminary Sale Document, to our knowledge there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on revenues or income of our Company from continuing operations.

#### **FUTURE RELATIONSHIP BETWEEN COSTS AND INCOME**

Other than as described in the sections titled "Risk Factors" and "Selected Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Preliminary Sale Document, to our knowledge there are no known factors which will have a material adverse impact on the operation and finances of our Company.

#### **TOTAL TURNOVER OF EACH MAJOR INDUSTRY SEGMENT IN WHICH THE COMPANY OPERATES**

We do not report industry segments under financial statements prepared in accordance with Indian GAAP, as we operate only in the dredging industry. However, in fiscal 2002 and fiscal 2003, we have reported our international operations as a separate segment in our statutory accounts as per Accounting Standard 17 on "Segment Reporting" issued by the Institute of Chartered Accountants of India.

#### **NEW PRODUCT OR BUSINESS SEGMENT**

Other than as described in the section titled "Our Business" and elsewhere in this Preliminary Sale Document, to our knowledge, there are no new products or business segments.

#### **DEPENDENCE ON SINGLE OR FEW SUPPLIERS/CUSTOMERS**

As described in the sections titled "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "About Us – Our Business" in this Preliminary Sale Document, our revenues are substantially dependent on a small number of Major Ports including Kolkata Port, which accounted for approximately 57% of our income from operations in fiscal 2003.

#### **COMPETITIVE CONDITIONS**

We expect competition to intensify from other Indian as well as foreign dredging companies. For further details please see the discussions of our competition in the Sections titled "Risk Factors" and "About Us – Our Business" in this Preliminary Sale Document.

#### **SIGNIFICANT DEVELOPMENTS AFTER SEPTEMBER 30, 2003 THAT MAY AFFECT OUR FUTURE RESULTS OF OPERATIONS**

Except as stated elsewhere in this Preliminary Sale Document, to our knowledge no circumstances have arisen since the date of the last financial statements as disclosed in this Preliminary Sale Document which materially and adversely affect or are likely to affect, the trading or profitability of our Company or the value of their consolidated assets or their ability to pay their material liabilities within the next twelve months.

Except as stated elsewhere in this Preliminary Sale Document, there is no subsequent development after the date of the Auditor's Report which we believe is expected to have a material impact on the reserves, profits, earnings per share and book value of our Company.

## REGULATIONS AND POLICIES

The GoI has over the years formulated various guidelines and regulations for the administrative functioning of PSUs and policies for the development of the Indian dredging industry.

### TRADE REGULATIONS AND DREDGING POLICY

The current MoS guidelines valid upto March 31, 2004 for the execution of maintenance and capital dredging at Major Ports in India under the administrative control of the MoS provide that our Company with

- A nomination process, whereby all ports (except Kolkata Port, which is required to nominate our Company for maintenance dredging) may choose to negotiate with our Company directly on a nomination basis for dredging services rather than being required to open the contracts to competitive bidding (until the dredging policy for Kolkata Port is finalized we will continue to be nominated to meet Kolkata Port's dredging requirements);
- A right of first refusal to perform a dredging contract before it is given to any foreign dredging company which contracts would otherwise be awarded to the foreign bidders/vessels, provided we have participated in the initial bidding; and
- A purchase preference arising from our status as a PSU whereby we can elect to perform any dredging contract where our bid is within 10% of the winning Indian bidder's price.

### MoS Press Note Released on January 19, 2004

It has now been decided by MoS by their press release dated January 19, 2004 to change the dredging policy. Reproduced below is the entire text of the MoS press note released on January 19, 2004 relating to revisions to the MoS guidelines for dredging at Major Ports from April 1, 2004 for a period of three years:

- i) **The maintenance dredging requirement of Kolkata Port shall continue to be met by dredging Corporation of India Limited for the remaining period of agreement between DCI and KOPT i.e. until March 31, 2007**
- ii) **All ports other than KoPT shall invite bids for dredging and DCI shall have the right of first refusal vis –a-vis the other companies, if its rate is within 10% of the lowest technically qualified offer.**
- iii) **This policy would be applicable to both maintenance and capital dredging works**
- iv) **In the respect of dredging contracts already entered into by major ports with DCI, the same shall continue until the validity of the contract, whereafter the above guidelines shall be applicable**
- v) **To ensure level playing field, DG (shipping) has already modified its guidelines of November, 2002 to allow the first right of refusal to Indian shipping companies vis-a vis foreign dredging companies (under the section 406 and 407 of the Merchant Shipping Act ) only if the bid of Indian companies is within 10% of the lowest offer.**
- vi) **DG Shipping would also be requested to frame suitable guidelines to ensure that permission to charter foreign dredging vessels to minor ports /private ports in India is given only if competitive bidding process has been followed for awarding the contract and the Indian Shipping Companies have been given the full opportunity to participate in the tender process.**

Under the provisions of the Merchant Shipping Act, 1958, a General Coastal Trade License is required from the DG Shipping GoI for dredging along the Indian coast. To dredge and to ply dredgers other than along the Indian coasts, a license of specified period, known as the Foreign Trade License, is required in addition to the General Coastal Trade License.

Pursuant to maritime laws and international conventions or protocols to which India is a signatory each dredger is required to keep onboard the following certificates:

- Certificate of Indian Registry
- Cargo Ship Safety Equipment Certificate
- Cargo Ship Safety Construction Certificate
- Safety Management Certificate
- Cargo Ship Safety Radio Certificate
- International Load Line Certificate
- International Deratting or Derrating Exemption Certificate
- International Oil Pollution Prevention Certificate
- Ship Station License issued by Ministry of Communications relating to Maritime Mobile /Aeromobile Station License
- Certificate of Class issued by the Indian Register of Shipping

In addition certain categories of floating staff manning dredgers such as the Master, Dredge Master, Chief Officer on the deck side and the Chief Engineer, Second and other watchkeeping engineers on the engine side of each dredger require to hold dredging related certificates in accordance with the provisions of the Merchant Shipping Act, 1958 and rules issued thereunder by DG Shipping.

### **GOI POLICY FOR PSUs**

The GoI formed the Bureau of Public Enterprises (BPE) in 1965 to provide policy and overall guidance to PSUs, which was later constituted as an independent administrative unit within the Ministry of Finance, Department of Expenditure in 1969. As a result of the re-organization of the Ministries/Departments of the Central Government in September 1985, BPE was transferred from Ministry of Finance to the Ministry of Industry.

In May 1990, BPE came to be known as the Department of Public Enterprises (“DPE”) in the Ministry of Heavy Industries and Public Enterprises. The DPE acts as a nodal agency for all PSUs and assists in policy formulation pertaining to the role of PSUs in the economy. The DPE collects, evaluates and maintains information on several areas in respect of PSUs.

The DPE has prescribed guidelines for PSUs relating to the following areas:

- Employees Stock Option Scheme
- Financial Policies
- Personnel Policies
- Wage Policies
- Disinvestment Policies
- Memorandum of Understanding related Policies
- Price Preference
- Accountability
- Board of Directors (including composition of the Board)
- Revisions in pay scales, allowances and perquisites of the functional Directors and senior management
- Voluntary Retirement Scheme
- Provisions relating to Dearness Allowance available to employees
- Reservations in PSUs for employment of SCs/STs/OCBs
- Miscellaneous matters

Further government companies as defined in the Companies Act have been made exempt, by way of notifications issued by the Central Government from time to time from several provisions of the Companies Act.

### **DISINVESTMENT POLICY OF GOI**

The policy of the GoI on disinvestment has evolved over the last decade and can be briefly stated in the various policy statements made over the years.

The Disinvestment Commission till date has given its recommendation for the disinvestment of 90 PSUs which disinvestments are at various stages of implementation.

#### **Industrial Policy Statement of July 24, 1991**

The Industrial Policy Statement of July 24, 1991 stated that the Government would divest part of its holdings in selected PSEs, but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class of investors. The objective for disinvestments was stated to be to provide further market discipline to the performance of public enterprises.

“In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises “.

#### **Disinvestment Commission Recommendations: February 1997- October 1999**

Pursuant to the above policy of the United Front Government, a Disinvestment Commission was set up in 1996. By August 1999, it made recommendations for disinvestment 58 PSEs. The recommendations indicated a shift from public offerings to strategic / trade sales with transfer of management.

### **Strategic & Non-strategic Classification**

On March 16, 1999, the Government classified the PSEs into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic PSEs would be those in the areas of:

- Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships;
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);
- Railway transport.

All other PSEs were to be considered non-strategic. For the non-strategic PSEs, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis. A decision in regard to the percentage of disinvestment i.e., Government stake going down to less than 51% or to 26%, would be taken on the following considerations:

- Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands, and
- Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before PSEs are privatised.

The Ministry of Disinvestment ("MODI"), set up in December 1999 and has been assigned the following functions:

- To manage all matters relating to disinvestment of Gol equity from PSUs;
- To take decisions on the recommendations of the Disinvestment Commission on the modalities of disinvestment, including restructuring; and
- To implement disinvestment decisions, including appointment of advisers, pricing of shares and other terms and conditions of disinvestment.

### **FOREIGN INVESTMENT REGULATIONS**

An industrial policy was formulated in 1991 ( the 'Industrial Policy 1991') in order to implement the economic reforms initiated by the Gol. The Gol has since amended the Industrial Policy 1991 from time to time in order to enable foreign direct investment in various sectors of the Indian industry in a phased manner, gradually allowing higher levels of foreign participation in Indian companies. At present foreign direct investment of up to 100% is permitted in projects for construction and maintenance of ports and harbors. When required, the government bodies responsible for granting foreign investment approvals are the FIPB and the RBI.

The PSU sector was opened to investment by non-residents in fiscal 1992 when the first phase of disinvestment of PSUs was initiated by the Gol.

### **FISCAL REGULATIONS**

In accordance with the I.T. Act any income earned by way of profits by a company incorporated in India is subject to tax levied on it in accordance with the tax rate declared as part of the annual budget passed by the Parliament.

Our Company like other companies in the shipping sector avails of certain benefits available to shipping companies under the I.T. Act. For details of the tax benefits see 'Statement of tax Benefits' .

Further the import of dredgers and/or their spare parts involves the levy and payment of customs duty in accordance with prevalent rates prescribed in the Customs and Excise Act 1962 and the Central Excise Act 1944 and rules and notifications issued thereunder from time to time.

### **ENVIRONMENTAL REGULATIONS**

The Environment Protection Act, 1986, the Water (Prevention and Control of Pollution) Act 1974 and the Air (Prevention and Control of Pollution) Act, 1981 require new development projects to obtain prior permission from the Ministry of Environment and Forests, Gol and also for companies to obtain consents from local state pollution control boards prior to making emissions and /or discharging effluents into the environment or carrying out development related activities in ecologically sensitive areas identified as coastal regulatory zones.

Obtaining environment clearances relating to a dredging project is the responsibility of the customer. However, during the execution of certain dredging projects and as a contractual obligation pursuant to the request of a customer, dredging companies may undertake to obtain or prepare environment studies for the period of contract.

Dredgers are required to obtain and renew certain environmental safety certificates such as a certificate stating that the safety management system of a ship complies with the requirements of the International Safety Management Code for Safe Operation of Ships and for Pollution Prevention; Certificates, International Deratting or Derrating Exemption Certificate, International Oil Pollution Prevention Certificate.

#### **INTERNATIONAL CONVENTIONS AND PROTOCOLS**

Dredging companies being in the maritime sector are required to comply with the provisions of the certain international maritime conventions and/or protocols relating to the environment protection and ships plying on the seas. Some of the international IMO and ILO conventions ratified by India amongst others are set out below by way of illustration.

##### **International Maritime Organisation**

1. International Management Code for the Safe Operations of Ships and for Pollution Prevention, 1998 (ISM Code)
2. International Ship and Port Facility Security Code (to be implemented from July 2004) (ISPS)
3. International Convention for the Safety of Life at Sea 1974 as modified by the Protocol of 1978
4. Convention of the International Regulations for Preventing Collisions at Sea, 1972 as amended
5. International Convention for the Prevention of Pollution from Ships, 1973 as modified by the Protocol of 1978.
6. Convention on Facilitation of International Maritime Traffic 1965
7. International Convention of Loadline, 1966
8. International Convention on Tonnage Measurement of Ships, 1969
9. International Convention on Civil Liability for Oil Pollution Damage, 1969 as modified by the Protocol of 1976
10. International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage 1971 as modified by the Protocol of 1976
11. Convention Agreement on the International Maritime Satellite Organization (INMARSAT)
12. International Convention on Standards of Training, Certification and Watch-keeping for Seafarers, 1978 (STCW)
13. International Convention on Salvage 1989 (SALVAGE)
14. Convention on the Prevention of Marine Pollution by Dumping of Wastes and other Matters, 1972 (LC72)

##### **International Labor Organization.**

1. Seamen's Articles of Agreement Convention 1926
2. Merchant Shipping (Minimum Standards) Convention 1976

## OUTSTANDING LITIGATION

Except as described below, there are no outstanding litigation, suits or criminal or civil prosecutions, proceedings or tax liabilities against our Company, and there are no defaults, non payment of statutory dues, overdue to banks/ financial institutions, defaults against banks/ financial institutions, defaults in dues payable to holders of any debentures, bonds or fixed deposits, and arrears on preference shares issued by our Company, defaults in creation of full security as per terms of issue/other liabilities, proceedings initiated for economic/civil/any other offenses (including past cases where penalties may or may not have been awarded and irrespective of whether they are specified under paragraph (i) of part 1 of Schedule XIII of the Companies Act) that would result in a material adverse effect on our business taken as a whole.

- A. Pending Arbitration Proceedings
- B. Pending Arbitration Proceedings against Government Departments/PSUs
- C. Litigation pending - Income Tax
- D. Litigation pending - Sales Tax and Entry Tax
- E. Litigation pending - Customs and Excise Gold Control Appellate Tribunal ("CEGAT") among other things
- F. Litigation pending - Money Recovery and Other Civil Suits
- G. Litigation pending - Labor, Employees and Trade Unions
- H. Potential Litigation
- I. Litigation pending by and/or against our Directors
- J. Litigation pending by and/or against our Promoters
- K. Litigation pending – DRC
- L. Outstandings Due to Small Scale Industries.

### A. PENDING ARBITRATION PROCEEDINGS

There are a total of 14 arbitration proceedings pending in which our Company is involved, out of which 13 arbitration proceedings are material. The pecuniary liability of the non material arbitration proceeding pending against our Company, depending on the outcome of the proceeding, is less than Rs.500,000.

- Our Company entered into a contract dated July 1, 1987 with a contractor, Calcutta Shipping & Marine Engineering Works, Kolkata ("CSMEW") for the purpose of carrying out painting and chipping works on our Company's vessels at Kolkata. A dispute on price variation arose and, in accordance with the arbitration clause contained in the contract the dispute was referred to arbitration. An award dated June 8, 1998 passed by the duly appointed arbitral tribunal upheld the contentions of CSMEW and directed that our Company (a) pay to CSMEW a sum of Rs. 2,607,703.50 together with interest at the rate of 15% per annum from January 1, 1992 onwards, (b) return the security deposit of Rs. 499,262 with interest at the rate of 15% from March 1, 1992 onwards and (c) pay to CSMEW an amount of Rs. 300,000 towards costs. Our Company filed a petition challenging the aforesaid arbitration award at the District Court at Visakhapatnam which petition was dismissed by an order of the District Court dated March 28, 2003. An amount of Rs. 6,910,897.23 in terms of the award was released on May 17, 2003, without prejudice to our Company's right to challenge the decision of the District Court. CSMEW contested the deduction of Rs.195,000 in advance and Rs. 17,707 (being the difference in security deposit due to CSMEW). Our Company on June 26, 2003 filed a petition in the High Court of Andhra Pradesh, Hyderabad questioning (i) the award of interest at the rate of 15% per annum by the arbitral tribunal (as against 12.5% claimed by CSMEW in its notice dated February 23, 1992 both pre-reference and lis pendens); (ii) the award of costs of arbitration of Rs. 300,000 and (iii) the rejection of our Company's counter claim of Rs. 1,731,000. A notice has been issued to CSMEW. The matter is currently pending in Court.
- Our Company entrusted the repair work of launching and beaching of two barges of Dredger Aquarius to a contractor firm, United Sea Service ("USS") at Paradip, by way of a contract executed in April 1992. USS was fully paid after executing the work. However, USS filed a petition in a Civil Court at Jagatsinghpur, Orissa for referring the dispute relating to the contract to arbitration and for the appointment of an arbitrator. An agreement was entered into between USS and our Company on February 16, 1995 for the withdrawal of the petition filed by USS. The arbitrators duly appointed, subsequently by their award dated April 30, 1999, awarded an amount of Rs. 309,042.50 along with interest at 10% per annum from February 28, 1994 to April 30, 1999 in favor of USS. Thereafter on January 25, 2000 our Company filed a petition in the Court of the Principal Senior Civil Judge at Visakhapatnam seeking to set aside the award with costs. Subsequently, USS has also filed a petition in 2000 in the same Court seeking a decree to be passed on the basis of the award plus interest at the rate of 10% per annum as stated earlier and additional interest at the rate of 24% per annum from May 1, 1999 onwards. The matter is currently pending and the hearing of the

matter has been adjourned to March 18, 2004.

- Our Company entered into a contract with Western India Shipyard Limited (“WISL”), pursuant to which our Company hired out Dredger IV to WISL for 11 days and the latter agreed to tow Dredger IV from Mangalore along with “A” frame pontoon to Goa and back. The dredger was brought back but due to a dispute between the tug owners and WISL, there was a delay of 17 days in handing over the “A” frame pontoon. Consequently, disputes arose between our Company and WISL relating to the payment of hire charges, which could not be resolved and were referred for settlement through arbitration. Arbitrators were duly appointed. The amount claimed by our Company is Rs. 8,689,958 with interest at the rate of 18% per annum from December 9, 1995 onwards. The counter claim of WISL is Rs. 4,712,077 with interest at the rate of 18% per annum from July 1, 1997. The hearing has been completed and the arbitral tribunal is in the process of making and publishing its award.
- Our Company has entered into a contract dated October 24, 1988 with IHC, for the acquisition of Dredgers XII and XIV. Dredger XII was delivered on August 22, 1990 and Dredger XIV was delivered on March 30, 1991. Thereafter on deployment it was discovered that the bottom doors were defective. This resulted in a loss of revenue for our Company in addition to the incurring of repair charges on various occasions. Our Company claimed from IHC an amount of Rs. 211,000,000 covering Rs.198,100,000 towards consequential losses and Rs. 12,900,000 towards guarantee repair costs. IHC denied the above claims on the plea that the guarantee is over and that they are not responsible for any consequential losses. Our Company therefore invoked the arbitration clause of the contract and referred the dispute to arbitration claiming from IHC Rs. 211,000,000 towards guarantee obligations for both these vessels and also consequential losses/damages until November 1993 with interest at the rate of 18% from January 4, 1996. IHC also raised certain counter claims amounting to Rs. 145,300,000 with interest at the rate of 18%. The arbitral tribunal made and published its award on December 28, 2002. They awarded Rs. 7,419,000 to our Company which is only part of the guarantee repair costs claimed. The other claims of our Company were rejected. Our Company challenged the award in the Court of the District Judge at Visakhapatnam. A petition has also been filed by our Company seeking the Court to direct IHC to extend the bank guarantee until the disposal of the main petition. The Court had accordingly passed interim orders directing IHC to extend the bank guarantee, and accordingly IHC had extended the two bank guarantees until February 28, 2004. IHC had also filed a petition before the Principal District Judge Court, Visakhapatnam challenging the arbitration award dated December 28, 2002. The hearing of the petitions filed by our Company and IHC have been adjourned to February 16, 2004.
- Our Company entered into a ship building contract dated December 20, 1996 with IHC whereby IHC agreed to build and deliver a trailer suction hopper dredger. Accordingly, Dredger XV was delivered on April 24, 1999. It sailed from Holland on April 27, 1999 and arrived at Mumbai on May 17, 1999. Due to a sudden tripping of electrical load, an accident occurred on May 26, 1999. Promptly, our Company made a claim against IHC which IHC refused to accept. IHC was asked to extend the performance guarantee until the settlement of the dispute. IHC invoked the arbitration clause in the contract for release of the performance guarantee, seeking expenses incurred to keep the bank guarantee valid and cost of arbitration amounting to a total of Rs. 147,200,000 with interest at the rate of 18% per annum from July 24, 2000. Our Company filed a counter claim seeking cost of guarantee repairs, cost of repair/spares consequent to the accident, miscellaneous expenditure, third party claim and revenue loss amounting to Rs. 151,800,000 with interest at the rate of 18% per annum. The arbitral tribunal made and published its award on May 29, 2003, whereby Rs. 2,000,000 were awarded to our Company for the cost of guarantee repairs. The other claims of our Company were rejected. IHC’s claims were also rejected. Our Company challenged the award in the District Court, Visakhapatnam seeking the District Court’s directions for IHC to extend the validity period of the bank guarantee until the disposal of the original petition. The Court passed an interim order directing IHC to extend the validity of bank guarantee and IHC accordingly extended the validity of the bank guarantee until April 24, 2004. The hearing of the matter has been adjourned to February 19, 2004.
- Our Company entered into a contract dated December 27, 1986 with Hyderabad Urban Development Authority (“HUDA”) for dredging 300,000 cubic meters in the Hussain Sagar Lake in Hyderabad. Several disputes arose with HUDA with regard to the non-payment of idle time charges including escalation charges and demobilization charges. Our Company therefore invoked the arbitration clause in the aforesaid contract and the matter was referred to a sole arbitrator who made and published an award on March 15, 2003 in favor of our Company and awarded interest at the rate of 15% per annum from the date of award until the date of realization. HUDA has released payment in respect of all the disputes except those pertaining to the idle time charges amounting to Rs. 8,701,110 payable to our Company. Our Company has filed a petition before the Senior Civil Judge at the City Civil Court, Hyderabad on May 27, 2003 seeking enforcement of the arbitral award for the outstanding claim along with interest. The hearing of the matter has been adjourned to February 10, 2004.
- The Company entered into a contract, by way of work order dated September 4, 1991, with Atanu Ganguly of Kolkata. Certain disputes pertaining to the amounts payable for hiring of equipment (a tug for towing floating crane/pipeline at Haldia Port) between our Company and Atanu Ganguly arose and were referred to arbitration. The sole arbitrator appointed passed an award on August 20, 1999 in favor of Atanu Ganguly amounting to Rs. 893,977 with

interest at the rate of 18% per annum from August 20, 1999. Our Company, thereafter, filed a petition before the Principal District Judge at Visakhapatnam challenging the arbitral award. The petition was dismissed by the Court order dated September 2, 2003. An amount of Rs.1,547,305 has been paid to Atanu Ganguly in full and final settlement of dues on January 31, 2004.

- A contract, by way of work order dated March 17, 1990, was entered into between our Company and an independent contractor, Srinivasa Engineering Works, pertaining to the repair works for our Inland Dredger, ID-II at Vijayawada. There was a dispute with respect to the bills submitted by the contractor, negotiations were held with the contractor for an amicable settlement, failing which the contractor invoked the arbitration clause of the contract claiming Rs. 4,129,847.03 including interest calculated up to September 26, 1998. The arbitrators did not publish the award expeditiously. Therefore the contractor filed a petition before the Principal Civil Judge at Visakhapatnam seeking the Court's interference to direct the arbitrators to publish an award. Our Company filed a counter reply opposing the same. The hearing of the matter was held on January 19, 2004. The petition has been allowed. The time for making the arbitral award has been extended until May 31, 2004.
- A contract dated April 19, 1990 for capital dredging in the Zuari and Mandovi rivers at Goa was awarded by our Company to Dredging & Desiltation Co. Pvt. Ltd., Kolkata. Certain disallowances were made out of the amount of Rs. 17,553,967 claimed by the contractor and the bill was settled for Rs. 566,000. For the disallowed amount, the contractor raised a dispute which was referred to arbitration in 1993. The arbitrators, by their award dated April 19, 1999, awarded an amount of Rs. 7,603,572 to the contractor plus interest at 18% per annum on the amount of Rs. 6,737,968 until a decree is passed in terms of the award or payment, whichever is earlier. The contractor filed a petition to enforce the award. Our Company then filed a petition before the Senior Civil Judge at Visakhapatnam challenging the arbitral award. Arguments by both sides were completed on December 12, 2003 and the Court has reserved the matter for orders.
- A contract dated March 9, 1995 was awarded to our Company for deepening the Kakinada Port by dredging in front of the berths, approaches and navigation channel. A dispute arose regarding the material to be dredged and the rate of dredging and the matter was referred by the Kakinada Port to their engineers, Howe (India) Private Limited, a third party, for deciding the rate of dredging soils in front of the berths. The approximate amount of the claim made by our Company was Rs. 84,000,000 which was not agreed to by the Kakinada Port. Howe (India) Private Limited recommended an increase in the rate of dredging. Kakinada Port went for arbitration against the decision of Howe (India) Private Limited. The arbitral tribunal appointed passed an award on December 27, 2000 for a sum of Rs. 45,346,542 along with interest at the rate of 12% per annum (from February 25, 1998 to the date of the award) and at the rate of 18% per annum (from the date of award to the date of actual payment) to be paid to DCI. Thereafter, the Kakinada Port, Government of Andhra Pradesh filed a petition before the III Additional District Judge, Kakinada, challenging the award, to which our Company filed a counter reply. The hearing of the matter has been adjourned to March 18, 2004.
- A contract dated August 6, 2001 was entered between Gujarat Maritime Board ("GMB") and our Company for dredging a total quantity of 507,150 cubic meters at the Okha Port for a total value of Rs. 68,885,169. Dredging operations commenced on August 20, 2001 and were completed on October 12, 2001. On the completion of dredging works and after completion of surveys, bills were raised and an amount of Rs. 43,877,000 was outstanding due to dispute relating to the work done by our Company. We issued a legal notice invoking arbitration. GMB sent a reply denying the allegations and also directing our Company to withdraw the legal notice. A petition has been filed in the High Court of Gujarat at Ahmedabad by our Company for appointment of an arbitrator for adjudication of the dispute between our Company and GMB. The hearing of the matter has been adjourned to February 20, 2004.
- The repairs and reconditioning of Dredger VII "Cutter Teeth" was entrusted to Dolphin Marine Engineering Works, Visakhapatnam by way of a contract dated April 23, 1991. Certain amounts were disallowed while settling the repair bills, which the repair contractor disputed and the dispute was referred to arbitration. The arbitrators awarded to the contractor an amount of Rs. 283,828 with interest at 18% from February 15, 1995 to May 31, 2000 amounting to Rs. 270,422 and other expenses amounting to Rs. 554,600, the amount was released by our Company to the contractor. After receiving the amount, the contractor filed a suit before the Additional Senior Civil Judge Court-I at Visakhapatnam for modification of the award to the extent of Rs. 2,603,074.67. Our Company has filed a counter reply. The hearing is adjourned to February 8, 2004.
- The Kochi Port Trust awarded our Company work for reclamation and development of land at the south end of Willingdon Island, Kochi on February 3, 1992. The above work involved earth filling of 497,810 cubic meters for a value of Rs. 37,827,612 and was to be completed within a period of 10 months. The work was partially subcontracted by our Company to Geo-Tech Construction ("Geo-Tech") by way of a contract dated February 7, 1992 with a stipulation to complete the work within three months. The value of the work awarded to Geo-Tech was Rs. 7,838,040. Geo-Tech failed to execute the work within the stipulated time and the work continued for a period of 19 months. Due to the delay, the work undertaken by our Company for Kochi Port Trust suffered severe delays. On completion of the subcontracted work, the amount as mutually agreed in the contract was paid to Geo-Tech. Thereafter, Geo-Tech

raised additional claims alleging that the progress of work was unduly delayed because of the delay in receipt of payments. The claims of Geo-Tech were refuted by our Company and Geo-Tech referred the dispute to arbitration. An arbitral award was passed on August 12, 1996 in favour of Geo-Tech for payment of Rs.3,805,760.50. Our Company filed a petition challenging the said award in the court of Additional Senior Civil Judge-I, Visakhapatnam on November 13, 1996. Pursuant to the Court's order dated October 31, 2002, an amount of Rs.304,942 being interest from the date of the order until April 21, 2003 was released to Geo-Tech on April 22, 2003. Geo-Tech filed an appeal in the High Court of Andhra Pradesh, Hyderabad challenging the aforesaid order dated October 31, 2002.

## **B. PENDING ARBITRATION PROCEEDINGS AGAINST GOVERNMENT DEPARTMENTS/PSUs**

There are a total of three pending arbitration proceedings against government departments/PSUs in which our Company is involved. All three are material arbitration proceedings. Their details are set out below.

- Our Company had taken up maintenance dredging at Ballari Bar at River Hooghly by deploying our cutter suction dredger pursuant to a dredging contract executed in 1994 between our Company and KOPT. During the execution of work disputes arose which were referred to the DPE for settlement through the Permanent Machinery of Arbitration. The arbitration was initiated in July 2000. Upon submission of the claims statement, KOPT submitted their counter-claim. The arbitrator examined the claims, counter claims and additional information during the hearings held on August 20, 2001, September 26, 2001 and December 20, 2001 at Delhi. Subsequently arbitration proceedings were also held at Calcutta and a final arbitral hearing was held at Delhi on May 27, 2002. Prior to the receipt of the arbitral award, due to the demise of the arbitrator, the final hearings are to be held afresh. The financial implications of this matter is Rs.70.8 million which would not be paid to us by KOPT if the award was in their favor. The hearing of this matter is adjourned to June 9, 2004.
- Our Company entered into a contract with Cochin Port in connection with Link Road Project, NH-47A by way of a contract executed in 1989. Subsequent to the work, disputes had arisen due to variation in strata and increase in dredging quantity. The matter was referred to the DPE for settlement through the Permanent Machinery of Arbitration. The arbitration was initiated in July 1999 and the claim statement was filed in March 2001. The arbitrator examined the claims, counter claims and additional information during hearings held on June 22, 2001 and September 25, 2001 in Delhi. Subsequently, the arbitrator visited the Link Road Project site on December 14, 2001 and December 15, 2001 to obtain more details. The arbitrator further advised that a chart showing the details of Link Road, SER Project and Borehole details be submitted for further examination. The required documents were duly submitted. The subsequent hearing was held at Delhi on March 4, 2002 and hearings were also held at Visakhapatnam from May 10, 2002 to May 12, 2002. Another hearing was held at Delhi on March 25, 2003 for certain clarifications. Prior to the receipt of the arbitral award, due to demise of the arbitrator, the hearings of both parties shall be held afresh. The financial implications of this matter is Rs. 32.88 million which would not be paid to us if the award is in favor of Cochin Port. The hearing of this matter is adjourned to July 16, 2004.
- During the execution of work, HSCL, Kayamkulam prevented our Company from carrying out dredging in order to carry out ground tests. After completion of the ground tests, HSCL engaged a dredger from another agency, keeping our Company's dredger idle. The matter was referred to DPE for settlement through the Permanent Machinery of Arbitration. The arbitration was initiated in March 2000. The matter is pending. The financial implications of this matter is Rs.4.665 million which would not be paid to us if the award is in favor of HSCL.

## **C. LITIGATION PENDING - INCOME TAX**

### **Appeals Filed By Our Company**

There are a total of five income tax appeals filed by our Company, all of which are material and the details of which are set out below.

- **ASSESSMENT YEAR 1991-92:**

Our Company's Return of Income for Assessment Year 1991-92 was assessed by the Assessing Officer ("A.O."), the Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the I.T. Act. The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No. ITA No.43/DCSR/VSP/94-95) before the Commissioner of Income Tax (Appeals) ("CIT(A)") against the assessments and adjustments made by the A.O. The CIT(A) allowed certain disputed items in favor of the Company by its order dated June 1, 1995 and disallowed the rest. Pursuant to the order of the CIT(A), the A.O. issued a consequential order dated September 30, 1997.

Our Company then filed an appeal (bearing No.ITA No.1474/H/95) before the Income Tax Appellate Tribunal ("ITAT") seeking relief for the disputed items disallowed by CIT(A) involving a disputed taxable income amount of Rs. 29,573,032 (as at September 6, 1995 which is the date of filing appeal). Depending on the outcome of the case, tax on the disputed taxable income would be calculated at the rate of 46%. The matter is currently pending and has

been adjourned for hearing to April 5, 2004.

The entire amount demanded by the Income Tax Department has been adjusted by the Income Tax Department towards refund due to the Company for the assessment year 1993-94. Our Company has claimed a refund in appeal. Hence, even if the Company loses this matter in appeal there will be no pecuniary liability for the Company.

- **ASSESSMENT YEAR 1992-93:**

Our Company's Return of Income for Assessment Year 1992-93 was assessed by the A.O., the Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the I. T. Act. The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.79/DCSR/VSP/95-96) before the CIT(A) against the assessments and adjustments made by the A.O. The CIT(A) allowed certain disputed items in favor of the Company by its order dated September 13, 1996 and disallowed the rest. Pursuant to the order of CIT(A), the A.O. issued a consequential order dated September 30, 1996.

Our Company then filed an appeal (bearing No. ITA No.2057/H/96) before the ITAT seeking relief for the disputed amount disallowed by CIT(A) involving a disputed taxable income amount of Rs. 24,890,270 (as at November 7, 1996 which is the date of filing appeal). Depending on the outcome of the case, tax on the disputed taxable income would be calculated at the rate of 51.75%. The matter is currently pending and has been adjourned for hearing to April 5, 2004.

The entire amount demanded by the Income Tax Department has been paid and/or adjusted towards advance tax paid by the Company. Hence, even if the Company loses this matter in appeal there will be no pecuniary liability for the Company.

- **ASSESSMENT YEAR 1993-94:**

Our Company's Return of Income for Assessment Year 1993-94 was assessed by the A.O., the Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the I.T Act. The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.25/DCSR/VSP/96-97) before the CIT(A) against the assessments and adjustments made by the A.O. The CIT(A) allowed certain disputed items in favor of the Company by order dated November 22, 1996 and disallowed the rest. Pursuant to the order of the CIT(A), the A.O. issued a consequential order dated December 31, 1997.

Our Company then filed an appeal (bearing No.ITA No.197/H/97) before the ITAT seeking relief for the disputed items disallowed by CIT(A) involving a disputed taxable income amount of Rs. 99,322,829 (as at January 22, 1997, which is the date of filing appeal). Depending on the outcome of the case, tax on the disputed taxable income will be calculated at the rate of 51.75%. The matter is currently pending and has been adjourned for hearing to April 5, 2004.

The entire amount demanded by the Income Tax Department has been adjusted towards refund due from the Income Tax Department to the Company for the assessment years 1989-90, 1994-95 and 1995-96, as evidenced by the consequential order dated December 31, 1997. Hence, even if the Company loses this matter in appeal there will be no pecuniary liability for the Company.

- **ASSESSMENT YEAR 2000-01:**

Our Company's Return of Income for Assessment Year 2000-01 was assessed by the A.O., the Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the I.T. Act. The A.O. disallowed certain items and issued a demand notice.

Our Company filed an appeal (bearing No. ITA No.0024/03-04) before the ITAT seeking relief for the disputed items disallowed by CIT(A) involving a disputed taxable income amount of Rs. 174,545,119 (as at April 24, 2003 which is the date of filing of appeal). Depending on the outcome of the case, tax on the disputed taxable income would be calculated at the rate of 38.5%. The matter is currently pending and has been adjourned for hearing to January 21, 2004.

The entire amount demanded by the Income Tax Department has been paid by the Company as evidenced by challan dated March 31, 2003. Hence, even if the Company loses this matter in appeal there will be no pecuniary liability for the Company.

- **ASSESSMENT YEAR 2001-02:**

Our Company's Return of Income for Assessment Year 2001-02 was assessed by the A.O., the Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the I.T. Act. The A.O. disallowed certain items and issued a demand notice.

Our Company filed an appeal (bearing No.ITA No.0025/03-04) before the CIT(A) against the assessments and adjustments made by the A.O. towards taxable income of the Company. The disputed taxable income amount involved is Rs. 155,795,633 (as at April 24, 2003 which is the date of filing of appeal). Depending on the outcome of the case, tax on disputed taxable income would be calculated at the rate of 39.55%. The matter is currently pending and has been adjourned for hearing to January 21, 2004.

The entire amount demanded by the Income Tax Department has been paid by the Company as evidenced by challan dated March 31, 2003. Hence, even if the Company loses this matter in appeal there will be no pecuniary liability for the Company.

#### **Appeals Filed By Income Tax Department**

There are a total of eight appeals filed by the Income Tax Department against our Company, all of which are material and the details of which are set out below.

- **ASSESSMENT YEAR 1991-92:**

Our Company's Return of Income for Assessment Year 1991-92 was assessed by the A.O., Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(1)(a) of the I.T. Act. The A.O. disallowed certain items and issued a demand notice.

Our Company has filed an appeal (bearing No.ITA No.139/DCSR/VSP/94-95), before the CIT(A) against the assessments and adjustments made by the A.O. The CIT(A) rejected the Company's appeal by way of an order dated September 12, 1996. Our Company then filed an appeal (bearing No.ITA No.2056/HYD/1996) before the ITAT. The ITAT by their order dated July 31, 2001 set aside the order of the CIT(A) and directed the A.O. to delete an amount of sales tax of Rs. 13,080,140 from the taxable income assessed by the A.O.

The CIT(A) Visakhapatnam then filed an appeal under Section 260A of the I.T. Act against the order of the ITAT in the High Court of Andhra Pradesh. The matter is currently pending and has been adjourned but not yet posted for hearing.

If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 1,203,372 (excluding interest).

- **ASSESSMENT YEAR 1993-94:**

Our Company's Return of Income for Assessment Year 1993-94 was assessed by the A.O., Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(1)(a) of the I.T. Act. The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.9/DCSR/VSP/95-96) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) rejected the Company's appeal by way of an order dated September 12, 1996. Our Company then filed an appeal (bearing No.ITA No.2058/HYD/1996) before the ITAT, Hyderabad. The ITAT by their order dated July 31, 2001 set aside the order of the CIT(A) and directed the A.O. to modify the order passed by deleting the amount of Rs. 18,387,822 added by the A.O. to the taxable income of the Company.

The CIT(A) filed an appeal under Section 260A of the I.T. Act against the order of the ITAT in the High Court of Andhra Pradesh. The matter is currently pending and has been adjourned but not yet posted for hearing.

If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 1,903,141 (excluding interest). This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1994-95:**

Our Company's Return of Income for Assessment Year 1994-95 was assessed by the A.O., Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the Income Tax Act. The A.O. disallowed certain items and issued a demand notice.

Our Company filed an appeal (bearing No.77/DCSR/VSP/97-98) before the CIT(A), Visakhapatnam against the assessments and adjustments made by the A.O.. The CIT (A) allowed the Company's appeal by way of an order dated March 22, 1999 and directed the A.O. to modify the order passed by deleting an amount of Rs. 82,043,924 added by the A.O. to the taxable income of the Company.

The Joint Commissioner of Income Tax ("JCIT"), then filed an appeal under Section 250 of the Income Tax Act against the order of the CIT(A) at the ITAT. The matter is currently pending and has been posted for hearing on February 18, 2004.

Depending on the outcome of the case, tax on the disputed taxable income of Rs. 82,043,924 will be calculated at

the rate of 51.75%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 42,457,732 (excluding interest and penalty) as tax on the disputed taxable income.

- **ASSESSMENT YEAR 1995-96:**

Our Company's Return of Income for Assessment Year 1995-96 was assessed by the A.O., Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the Income Tax Act. The A.O. disallowed certain items and issued a demand notice.

Our Company filed an appeal (bearing No.121/DCSR/VSP/97-98) before the CIT(A), against the assessments and adjustments made by the A.O. The CIT(A) allowed the Company's appeal by way of an order dated March 22, 1999 and directed the A.O. to modify the order passed by deleting an amount of Rs. 507,558,880 added by the A.O. to the taxable income of the Company.

The JCIT then filed an appeal under Section 250 of the I.T. Act against the order of the CIT(A). The matter is currently pending and has been posted for hearing on February 18, 2004.

Depending on the outcome of the case, tax on the disputed taxable income of Rs. 507,558,880 will be calculated at the rate of 46%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 233,477,085 (excluding interest and penalty) as tax on the disputed taxable income. This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet on the current fiscal year.

- **ASSESSMENT YEAR 1996-97:**

Our Company's Return of Income for Assessment Year 1996-97 was assessed by the A.O., JCIT, Visakhapatnam under Section 143(3) of the Income Tax Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing Appeal No.74/SR-1/VSP/99-2000) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated February 23, 2000 and directed the A.O. to modify the order passed by deleting an amount of Rs. 141,623,902 added by the A.O. to the taxable income of the Company.

The JCIT filed an appeal under Section 250 of the I.T. Act against the order of the CIT(A) at the ITAT, Visakhapatnam. The matter is currently pending and has yet to be posted for hearing.

Depending on the outcome of the case, tax on the disputed taxable income of Rs. 141,623,902 will be calculated at the rate of 46%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 65,146,995 (excluding interest) as tax on the disputed taxable income. This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1997-98:**

Our Company's Return of Income for Assessment Year 1997-98 was assessed by the A.O., JCIT, Visakhapatnam under Section 143(3) of the Income Tax Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No. ITA No.105/SR-1/VSP/2000-2001) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated January 31, 2001 and directed the A.O. to modify the order passed by deleting an amount of Rs. 50,365,619 added by the A.O. to the taxable income of the Company.

The JCIT filed an appeal under Section 250 of the Income Tax Act against the order of the CIT(A) at the ITAT. The matter is currently pending and has yet to be posted for hearing.

Depending on the outcome of the case, tax on the disputed taxable income of Rs.50,365,619 will be calculated at the rate of 43%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 21,657,216 (excluding interest) as tax on the disputed taxable income. This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1998-99:**

Our Company's Return of Income for Assessment Year 1998-99 was assessed by the A.O., Additional Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the Income Tax Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.85/SR-1/VSP/2001-2002) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated September 20, 2001 and directed the A.O. to modify the order passed by deleting an amount of Rs. 86,027,686 added by the A.O. to the taxable income of the Company.

The Additional Commissioner of Income Tax filed an appeal under Section 250 of the I.T. Act against the order of the CIT (A) at the ITAT. The matter is currently pending and has yet to be posted for hearing.

Depending on the outcome of the case, tax on the disputed taxable income of Rs. 86,027,686 will be calculated at the rate of 35%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 30,109,690 (excluding interest) as tax on the disputed taxable income. This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1999-2000:**

Our Company's Return of Income for Assessment Year 1999-2000 was assessed by the A.O., Deputy Commissioner of Income Tax, Visakhapatnam under Section 143(3) of the Income Tax Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing number ITA No.0310/02-03) before the CIT(A), Visakhapatnam against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated July, 4, 2003 and directed the A.O. to modify the order passed by deleting an amount of Rs. 108,431,682 added by the A.O. to the taxable income of the Company.

The Deputy Commissioner of Income Tax ("DCIT") filed an appeal under Section 250 of the I.T. Act against the order of the CIT(A) at the ITAT, Visakhapatnam. The matter is currently pending and has yet to be posted for hearing.

Depending on the outcome of the case, tax on the disputed taxable income of Rs. 108,431,682 will be calculated at the rate of 35%. If the Income Tax Department wins this appeal then the Company will be liable to pay Rs. 37,951,089 (excluding interest) as tax on the disputed taxable income. This amount has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

#### **Appeals Won By Our Company (Not Known Whether Income Tax Department Proposes To Profer An Appeal)**

There are a total of five appeals won by our Company under this category, all of which are material and the details of which are set out below.

- **ASSESSMENT YEAR 1995-96:**

Our Company's Return of Income for Assessment Year 1995-96 was assessed by the A.O. under Section 143(1)(a) of the I.T. Act. The income under dispute is Rs. 450,000,000 which was added by the A.O. to the taxable income of the Company under Section 33AC of the I.T. Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.10/DCSR /VSP/96-97) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT (A) rejected the Company's appeal by way of an order dated November 11, 1996. Our Company then filed an appeal at ITAT, Hyderabad. The ITAT by their order dated October 14, 1997 set aside the order of the CIT(A) and directed the A.O. to modify the order passed by deleting an amount of Rs. 450,000,000 added by the A.O. to the taxable income of the Company.

There is no information available with us or our tax auditors to indicate that the Income Tax Department appealed before the High Court of Andhra Pradesh. The limitation period for filing such an appeal, which is 120 days, has expired. Hence it is the view of our tax auditors, Brahmayya & Co., that there is no pecuniary liability for the Company with respect to this matter although the tax to be paid on the disputed taxable income has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1996-97:**

Our Company's Return of Income for Assessment Year 1996-97 was assessed by the A.O. under Section 143(1)(a) of the I.T. Act. The income under dispute is Rs.110,000,000 which was added by the A.O. to the taxable income of our Company under Section 33AC of the I.T. Act.

The A.O. disallowed certain items and issued a demand notice. JCIT filed an appeal (bearing No. ITA No.105/DCSR/VSP/96-97) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated November 5, 1997. The Income Tax Department then filed an appeal at the ITAT, Visakhapatnam. The ITAT by their order dated August 8, 2003 dismissed the appeal filed by

the Income Tax Department for want of clearance from the COD. The income under dispute is Rs.110,000,000 under Section 33 AC of the I.T.Act.

There is no information available with us or our tax auditors to indicate that the Income Tax Department intends to file an appeal. The limitation period for filing an appeal application before the COD is one month from the date of filing an appeal before an appellate forum. This limitation period has expired. Hence it is the view of our tax auditors, Brahmayya & Co., that there is no pecuniary liability for the Company with respect to this matter although the tax to be paid on the disputed taxable income has not been included in the contingent liabilities contained in the notes to accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1992-93:**

Our Company's Return of Income for Assessment Year 1992-93 was assessed by the A.O., Deputy Commissioner of Income Tax under Section 143(3) of the I.T. Act.

The A.O. disallowed certain items and issued a demand notice. Our Company filed an appeal (bearing No.ITA No.79/DCSR/VSP/95-96) before the CIT(A) against the assessments and adjustments made by the A.O. The CIT (A) allowed some of the items of the Company's appeal by way of an order dated September 13, 1996. The Deputy Commissioner of Income Tax then filed an appeal before the ITAT. The ITAT by their order dated August 8, 2003 dismissed the appeal filed by I.T. Department for want of clearance from the COD. The disputed taxable income is Rs. 1,579,000 added by the A.O. to the taxable income of the Company.

The limitation period for filing an appeal application before the COD is one month from the date of filing an appeal before appellate forum. This limitation period has expired.

- **ASSESSMENT YEAR 1996-97:**

The Annual Return in form 24 in respect of the income of floating employees for assessment year 1996-97 was assessed by the Income Tax Officer, Visakhapatnam under Section 221 of the I.T. Act.

The A.O. levied a penalty on delay in payment of tax deducted and issued a demand notice. Our Company filed an appeal (bearing No. ITA Appeal No.47/W5/VSP/96-97) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) allowed the Company's appeal by way of an order dated April 30, 1997. The Income Tax Officer then filed an appeal before the ITAT, Visakhapatnam. The ITAT by their order dated August 8, 2003 dismissed the appeal filed by I.T. Department for want of clearance from the COD. Depending on whether the I.T. Department files an appeal and the outcome of the case, the tax payable would be on the disputed income of Rs. 200,000.

There is no information available with us or our tax auditors Brahmayya & Co., to indicate that the Income Tax Department intends to file an appeal. The limitation period for filing an appeal application before the COD is one month from the date of filing an appeal before an appellate forum. This limitation period has expired. Hence it is the view of our tax auditors, Brahmayya & Co., that there is no pecuniary liability for the Company with respect to this matter although the tax to be paid on the disputed taxable income has not been included in the contingent liabilities contained in the notes to the accounts which form part of the balance sheet for the current fiscal year.

- **ASSESSMENT YEAR 1989-90 TO 1994-95:**

The Annual Return in Form 24 with respect to the income of floating employees for Assessment Years 1989-90 to 1994-95 was assessed by the A.O. under Section 201 (1) of the I.T. Act.

The A.O. disallowed certain items under Section 10(14) of the I.T. Act and issued a demand notice. Our Company filed an appeal (bearing No. ITA No.93, 94 and 75 to 78/C-1/VSP/95-96) before the CIT(A) against the assessments and adjustments made by the A.O.. The CIT(A) disallowed the Company's appeal by way of an order dated January 30, 1997. Our Company then filed an appeal before the ITAT, Hyderabad. The ITAT by their order dated May 31, 2002 set aside the order of the CIT(A) and directed the A.O. to modify the order passed by deleting an amount of Rs. 33,966,508 added by the A.O. to the taxable income of the Company. Depending on whether the Income Tax Department files an appeal and the outcome of the case, the disputed tax payable (excluding interest) under Section 201 of the I.T. Act is Rs. 33,966,508.

There is no information available with us or our tax auditors, Brahmayya & Co., to indicate that the Income Tax Department intends to file an appeal. The limitation period for filing such appeals, which is 120 days, has expired. Hence it is the view of our tax auditors, Brahmayya & Co., that there is no pecuniary liability for the Company with respect to this matter although the tax to be paid on the disputed taxable income has not been included in the contingent liabilities contained in the notes to the accounts which form part of the balance sheet for the current fiscal year.

## D. LITIGATION PENDING - SALES TAX AND ENTRY TAX

### Mangalore Project Office

- **ASSESSMENT YEAR 1986-87:**

Our Company's Sales Tax Return for the Assessment Year 1986-87 was assessed by the Assistant Commissioner of Commercial Tax ("ACCT"), Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 37,128,064.57 on which the ACCT calculated total tax payable to be Rs. 2,321,227.20. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs. 37,095,119.20. Consequent to the appeal filed by our Company before the Joint Commissioner of Commercial Tax (Appeal) which was rejected, our Company filed an appeal before the Karnataka Appellate Tribunal ("KAT"). The matter is pending before KAT.

- **ASSESSMENT YEAR 1987-88:**

Our Company's Sales Tax Return for the Assessment Year 1987-88 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs.36,807,732.50 on which the ACCT calculated total tax payable to be Rs. 239,288,700. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs 36,791,095 and filed an appeal before the JCCT (A) against the assessment made by the ACCT which was rejected. Our Company then filed an appeal before KAT. The KAT also dismissed the Company's appeal by an order (No.STA 4 of 1992) dated September 23, 2003. An appeal is yet to be filed before the High Court of Karnataka.

- **ASSESSMENT YEAR 1988-89:**

Our Company's Sales Tax Return for the Assessment Year 1988-89 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 18,823,433.88 on which the ACCT calculated total tax payable to be Rs. 1,176,667.80. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs. 18,814,722 and filed an appeal before the JCCT (A) against the assessment made by the ACCT which was allowed. In February 2001 Deputy Commissioner of Commercial Tax ("DCCT") (formerly known as ACCT) took up forfeiture proceedings and forfeited a sum of Rs. 1,175,920 against which DCI filed writ petitions before the High Court of Karnataka which were dismissed with directions to file an appeal. Appeals filed by DCI before JCCT(A) were also dismissed. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1989-90:**

Our Company's Sales Tax Return for the Assessment Year 1989-90 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 88,735,762.02 on which the ACCT calculated total tax payable to be Rs. 5,990,775.15. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs 88,685,708.92 and filed an appeal before the JCCT(A) against the assessment made by the ACCT which was allowed. In February 2001 DCCT (formerly known as ACCT) took up forfeiture proceedings and forfeited a sum of Rs 5,986,285 against which DCI filed writ petitions before the High Court of Karnataka which were dismissed with directions to file an appeal. Appeals filed by DCI before JCCT(A) were also dismissed. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1990-91:**

Our Company's Sales Tax Return for the Assessment Year 1990-91 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 50,264,912.79 on which the ACCT calculated total tax payable to be Rs. 3,392,623.80. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs. 50,181,406.97 and filed an appeal before the JCCT(A) against the assessment made by the ACCT which was allowed. In February 2001 DCCT (formerly known as ACCT) took up forfeiture proceedings and forfeited a sum of Rs. 3,387,245 against which DCI filed writ petitions before the High Court of Karnataka which were dismissed with directions to file an appeal. Appeals filed by our Company before JCCT(A) were also dismissed. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1991-92:**

Our Company's Sales Tax Return for the Assessment Year 1991-92 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 78,348,397.88 on which the ACCT calculated total tax payable to be Rs. 5,287,589.55. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs.78,141,635.88 and filed an appeal before the JCCT(A) against the assessment made by the ACCT which was allowed. In February 2001 DCCT (formerly known as ACCT) took up forfeiture proceedings and forfeited a sum of Rs. 5,274,560 against which DCI filed writ petitions

before the High Court of Karnataka which were dismissed with directions to file an appeal. Appeals filed by DCI before JCCT(A) were also dismissed. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1992-93:**

Our Company's Sales Tax Return for the Assessment Year 1992-93 was assessed by the ACCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The ACCT assessed the total taxable turnover of DCI to be Rs. 75,757,871.34 on which the ACCT calculated total tax payable to be Rs. 5,682,681. Out of the total taxable turnover assessed by the ACCT, DCI disputed an amount of Rs. 75,716,288.34 and filed an appeal before the JCCT(A) against the assessment made by the ACCT which was allowed. In February 2001 DCCT (formerly known as ACCT) took up forfeiture proceedings and forfeited a sum of Rs. 5,678,721 against which DCI filed writ petitions before the High Court of Karnataka which were dismissed with directions to file an appeal. Appeals filed by DCI before JCCT(A) were also dismissed. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1993-94:**

Our Company's Sales Tax Return for the assessment year 1993-94 was assessed by the DCCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The DCCT assessed the total taxable turnover of DCI to be Rs. 14,944.50 on which the DCCT calculated total tax payable to be nil. The total consideration of Rs. 127,068,642 received by DCI towards dredging work was exempted from levy of tax. Subsequently DCCT has forfeited the sum of Rs. 7,082,378 representing taxes remitted. The High Court of Karnataka acting on the writ petition filed by DCI had directed DCI on February 24, 2003 to file regular appeal against the forfeiture order before JCCT(A) which was also dismissed as per JCCT(A) order dated November 29, 2003. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1994-95:**

Our Company's Sales Tax Return for the assessment year 1994-95 was assessed by the DCCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The DCCT assessed the total taxable turnover of DCI to be Rs. 184,119 on which the DCCT calculated total tax payable to be nil. The total consideration of Rs.64,899,114 received by DCI towards dredging work was exempted from levy of tax. Subsequently DCCT has forfeited the sum of Rs. 3,707,848 representing taxes remitted. The High Court of Karnataka acting on the writ petition filed by DCI had directed on February 24, 2003 to file regular appeal against the forfeiture order before JCCT(A) which was also dismissed as per JCCT(A) order dated November 29, 2003. Currently DCI has to file an appeal against this matter before KAT.

- **ASSESSMENT YEAR 1996-97:**

Our Company's Sales Tax Return for the Assessment Year 1996-97 was assessed by the DCCT, Mangalore under Section 12 of the Karnataka Sales Tax Act, 1957. The DCCT assessed the total taxable turnover to be Rs. 173,271 on which the DCCT calculated total tax payable to be nil. The total consideration of Rs.174,586,790 received by DCI towards dredging work was exempted from levy of tax. Subsequently DCCT has forfeited the sum of Rs. 2,969,333 representing taxes remitted. The High Court of Karnataka acting on the writ petition filed by DCI had directed DCI on February 24, 2003 to file regular appeal against the forfeiture order before JCCT(A) which was also dismissed as per JCCT (A) order dated November 29, 2003. Currently DCI has to file an appeal against this matter before KAT.

#### **Paradip Project Office**

- **ASSESSMENT YEAR 1984-85**

Our Company's Sales Tax Return for the assessment year 1984-85 was assessed by the Sales Tax Officer ("STO"), under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs.88,344,634.69 on which the STO calculated total tax payable to be Rs. 11,079,478.74. As to date Rs. 3,773,910 is payable as tax for which a writ petition filed by DCI is pending before the High Court of Orissa. The High Court of Orissa by its order No.11238/2003 has directed that our Company file an appeal before alternate statutory authorities. Accordingly our Company has filed an appeal with the Assistant Commissioner of Sales Tax, Cuttak II Range.

- **ASSESSMENT YEAR 1985-86:**

Our Company's Sales Tax Return for the assessment year 1985-86 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover to be Rs. 36,371,424.11 on which the STO calculated total tax payable to be Rs. 4,534,762. As to date Rs. 1,416,892 is payable as tax for which a writ petition filed by DCI is pending before the High Court of Orissa. The High Court of Orissa by its order No.11238/2003 has directed that our Company file an appeal before alternate statutory authorities. Accordingly our Company has filed an appeal with the Assistant Commissioner of Sales Tax, Cuttak II Range.

- **ASSESSMENT YEAR 1986-87:**

Our Company's Sales Tax Return for the assessment year 1986-87 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 49,116,701.90 on which the STO calculated total tax payable to be Rs. 7,425,356.04. As to date Rs. 1,538,709.26 is payable as tax for which a writ petition filed by DCI is pending before the High Court of Orissa. The High Court of Orissa by its order No. 11238/2003 has directed that our Company file an appeal before alternate statutory authorities. Accordingly our Company has filed an appeal with the Assistant Commissioner of Sales Tax, Cuttak II Range.

- **ASSESSMENT YEAR 1987-88:**

Our Company's Sales Tax Return for the assessment year 1987-88 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 34,117,327 on which the STO calculated total tax payable to be Rs. 4,263,979.74. As to date the matter is pending before the Assistant Commissioner of Commercial Tax (Appeals) ("ACCT(A)").

- **ASSESSMENT YEAR 1988-89:**

Our Company's Sales Tax Return for the assessment year 1988-89 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 27,586,691.90 on which the STO calculated total tax payable to be Rs. 3,309,891.02. As to date Rs. 577,178 is payable as tax for which a writ petition filed by DCI is pending before the High Court of Orissa. The High Court of Orissa by its order No. 11238/2003 has directed that our Company file an appeal before alternate statutory authorities. Accordingly our Company has filed an appeal with the Assistant Commissioner of Sales Tax, Cuttak II Range.

- **ASSESSMENT YEAR 1989-90:**

Our Company's Sales Tax Return for the assessment year 1989-90 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 30,247,996.80 on which the STO calculated total tax payable to be Rs. 3,718,071.71. DCI has paid an amount of Rs. 3,842,005 and a balance of Rs. 123,933 was refundable. As to date, a writ petition filed by DCI is pending before the High Court of Orissa. The High Court of Orissa by its order No. 11238/2003 has directed that our Company file an appeal before alternate statutory authorities. Accordingly our Company has filed an appeal with the Assistant Commissioner of Sales Tax, Cuttak II Range.

- **ASSESSMENT YEAR 1990-91:**

Our Company's Sales Tax Return for the assessment year 1990-91 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 46,567,244 on which the STO calculated total tax payable to be Rs. 8,307,697. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. After the appeal filed by DCI before ACCT(A) was rejected, our Company filed an appeal before the Original Appellate Tribunal ("OAT"). The OAT allowed the Company's appeal by an order dated March 8, 2002. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the High Court of Orissa. The limitation period for filing such an appeal, which is 120 days, has expired.

- **ASSESSMENT YEAR 1991-92:**

Our Company's Sales Tax Return for the assessment year 1991-92 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 61,790,589.96 on which the STO calculated total tax payable to be Rs. 11,513,342.90. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. After the appeal filed by DCI before ACCT(A) was rejected, our Company filed an appeal before OAT. The OAT allowed the Company's appeal by an order dated March 8, 2002. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the High Court of Orissa. The limitation period for filing such an appeal, which is 120 days, has expired.

- **ASSESSMENT YEAR 1992-93:**

Our Company's Sales Tax Return for the assessment year 1992-93 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 56,766,029.46 on which the STO calculated total tax payable to be Rs. 10,571,037.78. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. After the appeal filed by DCI before ACCT(A) was rejected, our Company filed an appeal before the OAT. The OAT allowed the Company's appeal by an order dated March 8, 2002. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the High Court of Orissa. The limitation period for filing such an appeal, which is 120 days, has expired.

- **ASSESSMENT YEAR 1993-94:**

Our Company's Sales Tax Return for the assessment year 1993-94 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 60,134,430.38 on which the STO calculated total tax payable to be Rs. 10,583,660. Then our Company filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal is now pending before the ACCT(A).

- **ASSESSMENT YEAR 1994-95:**

Our Company's Sales Tax Return for the assessment year 1994-95 was assessed by the STO, under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 106,609,858.75 on which the STO calculated total tax payable to be Rs. 18,743,628.34. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

- **ASSESSMENT YEAR 1995-96:**

Our Company's Sales Tax Return for the assessment year 1995-96 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 185,335,300.98 on which the STO calculated total tax payable to be Rs. 32,614,002. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

- **ASSESSMENT YEAR 1996-97:**

Our Company's Sales Tax Return for the assessment year 1996-97 was assessed by the STO under section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 231,149,763.74 on which the STO calculated total tax payable to be Rs. 40,682,358.40. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

- **ASSESSMENT YEAR 1997-98:**

Our Company's Sales Tax Return for the assessment year 1997-98 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 185,663,253 on which the STO calculated total tax payable to be Rs. 33,574,275.03. Our Company filed an appeal before the ACCT(A) against the assessment made by the STO. After the appeal filed by DCI before the ACCT(A) which was rejected, DCI filed an appeal with the OAT. The matter is now pending before the OAT.

- **ASSESSMENT YEAR 1998-99:**

Our Company's Sales Tax Return for the assessment year 1998-99 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 213,596,407.50 on which the STO calculated total tax payable to be Rs.29,265,842.58. DCI filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

- **ASSESSMENT YEAR 1999-2000:**

Our Company's Sales Tax Return for the assessment year 1998-99 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 204,565,968 on which the STO calculated total tax payable to be Rs.28,230,103.58. DCI filed an appeal before the ACCT(A) against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

- **ASSESSMENT YEAR 2000-01:**

Our Company's Sales Tax Return for the assessment year 2000-01 was assessed by the STO under Section 12 of the Orissa Sales Tax Act, 1947. The STO assessed the total taxable turnover of DCI to be Rs. 213,745,579 on which the STO calculated total tax payable to be Rs. 29,496,903.70. DCI filed an appeal before the ACCT(A)

against the assessment made by the STO. The appeal was allowed. There is no information available with us or our tax consultant, Mr. A.K. Ray, Cuttack, to indicate that the Sales Tax Department appealed before the OAT. The limitation period for filing such an appeal, which is 60 days, has expired.

#### Entry Tax

- **ASSESSMENT YEAR 1992-93**

The assessment year 1992-93, DCCT (A-I) Mangalore has passed an order levying an entry tax of Rs. 10,600,000 on two of our dredgers of an estimated value of Rs. 530,000,000 under the Karnataka Entry Tax Act, 1979. The Company filed an appeal before the JCCT(A). The JCCT(A) has remanded the said appeal to DCCT for reassessment where the case is now pending.

- **ASSESSMENT YEAR 1993-94**

The assessment year 1993-94, DCCT (A-I) Mangalore has passed a provisional order levying an entry tax of Rs.100,000 on a dredger of an estimated value of Rs. 5,000,000. The Company filed an appeal before the JCCT(A).The JCCT(A) has remanded the said appeal to DCCT for reassessment where the case is now pending.

#### E. LITIGATION PENDING - CEGAT/CUSTOMS AND EXCISE

There are a total of six CEGAT proceedings pending against our Company. All are material proceedings. Their details are set out below.

- The erstwhile Ministry of Transport's Dredger III was transferred to our Company in 1976 by the GoI along with other dredgers. While operating at Paradip Port Dredger III ran aground near the entrance channel on June 22, 1985. It was thereafter declared a "wreck". Prior to the removal of the "wreck" from Paradip Port, the Assistant Commissioner of Customs, Paradip issued to our Company a demand notice for payment of customs duty of Rs.4,265,707. Our Company contested the demand for customs duty. Although the Customs Department did not accept our Company's contention, they withdrew the demand notice for Rs. 4,265,707 and directed our Company to file the Bill of Entry and to pay appropriate customs duty on the scrap of the "wreck" since our Company could not produce any evidence showing that duty had already been paid. Thereafter, our Company submitted an appeal in 1993 to the Collector of Customs (Appeals) against the demand of customs duty by Order No. 19/AC/CUS/PDP/93 dated March 10, 1993. However, the Commissioner of Customs by way of an order dated October 14, 1993 rejected the appeal. Our Company under protest filed the Bill of Entry and paid a total amount of Rs. 2,751,413 (Rs. 2,164,460 towards customs duty and Rs. 586,953 towards interest). Our Company then filed an appeal in 1994 with CEGAT, New Delhi seeking a refund.

CEGAT dismissed the appeal as our Company had not produced on record the required certificate of clearance from the Committee of Secretaries. The Committee of Secretaries did not clear our case and at COD, clearance is pending.

- Our Company had imported the following items during fiscal 1996 for Dredger Aquarius, for which four Bills of Entry were filed and the following amounts were paid as customs duty:

Sl. No.	Description	Bill of Entry No. & Date	Demand No. Date of Payment of Duty	Amount of Duty Paid (Rs.)
1.	Self Floating Pipeline (3 Nos.)	49571 dated October 9, 1995	1002244 dated October 24, 1995	2,825,150
2.	Discharge Dredge Sleeve (38 Nos.)	57765 dated November 23, 1995	1102573 dated November 24, 1995	8,964,555
3.	Ball Joint (1 No.)	64104 dated December 29, 1995	101058 dated January 8, 1996	375,882
4.	Ball Joint (21 Nos.)	7512 dated February 12, 1996	0202097 dated, February 16, 1996	7,859,522

While importing the above spare parts, our Company informed the Assistant Commissioner of Customs, Chennai that the above spare parts were required for the repair of dredgers and had requested that the benefit of Notification 106/92 dated March 1, 1992 issued by the Ministry of Finance, relating to exemption from payment of customs duty for spare parts be extended to our Company. Our Company's request was refused and to meet our Company's dredging schedule at Mangalore, customs duty amounting to a total of Rs. 20,025,109 was paid under protest. Subsequently, four writ petitions were filed by our Company in 1998 in Chennai High Court requesting a refund of the customs duty paid by our Company. The matter has been listed for hearing/ adjourned/ awaits listing.

- Our Company had imported certain spare parts by Purchase Order No. TM/SPB/ 58/ 85/ 1555/88-89 dated November 29, 1988 and TM/SPB/XI/167/1589 dated March 21, 1989 for repairs/ fitment of DR-XI through Sanghvi Reconditioners Pvt. Ltd. ("SRPL"), a workshop registered with the DG Shipping, by way of a contract dated January 1, 1998.

In December 1992, the Assistant Collector, Customs (A), Customs House, Mangalore served a demand notice dated December 31, 1992 to SRPL stating that an amount of Rs. 1,230,637 was short levied in respect of two consignments of spare parts. SRPL took up the matter with Assistant Commissioner of Customs, Mangalore who rejected the contentions made by SRPL. The matter was then presented in appeal to the Commissioner of Customs, Bangalore who rejected the appeal and confirmed the order levying customs duty and insisted on payment of interest. Pursuant to the provisions of the contract executed with SRPL, our Company was responsible for the payment of any customs duty levied/ demanded by the Customs authorities. SRPL therefore insisted our Company pay the disputed customs duty and interest. Our Company pursuant to the opinion of a consultant, Mr. P. C. Anand, dated May 9, 2001 paid the customs duty of Rs.1,230,637. SRPL failed to file an appeal with CEGAT within the prescribed period of 3 months. Pursuant to the opinions dated April 18, 2002 and July 4, 2002 from our Company's advocate and consultant respectively on customs matters, Mr. Vikram S. Nankani and Mr. P. C. Anand, respectively, an amount of Rs. 1,321,401 was paid under protest in the Central Recovery Cell, New Customs House, Mumbai – 38 through SRPL as interest to Mangalore Customs. Our Company is following up with SRPL for getting a refund from the Customs authorities.

- Our Company's Dredgers DR-XII and DR-XIV in fiscal 1991 contained initial spares which were declared as part of the dredgers and were cleared duty free at the time of import of the dredgers. However, in 1996 the Customs authorities issued a show cause notice to our Company in connection with the non-payment of Rs. 213,600,000 being customs duty and penalty levied on the said spares. The demand was confirmed in appeal by the Commissioner of Customs in 1997 and the customs duty demanded with penalty had to be paid by our Company. The matter was taken up with CEGAT. In the interim in accordance with the directions of the COD, an amount of Rs. 53,421,435 was deposited by our Company with the Customs, Customs House, Visakhapatnam towards payment of 25% of customs duty and penalty levied. CEGAT, by way of an order dated June 30, 2000, held in favor of our Company. Consequent to the decision of CEGAT, our Company claimed the deposited amount from the Customs. Customs House, Visakhapatnam while refunding the amount credited an amount of Rs. 28,421,437 into the Consumer Welfare Fund, Hyderabad. Our Company proffered an appeal dated February 25, 2002 seeking a refund of Rs.28,421,437. The matter is currently pending before the Commissioner of Customs (Appeals).
- Dredger Aquarius along with onboard spares, pipelines and other dredging equipment was imported in two shipments by vessels Sibig Venture and Malaysian Eagle and arrived in India by January 1991. The customs while accepting our Company's contention that the Dredger was exempt from payment of customs duty, provisionally assessed customs duty of Rs.115,836,401 on the spares, accessories and stores on a merit basis. As the Dredger was required for undertaking dredging and a delay in clearance would affect the dredging schedule, our Company paid the amount under protest. After the finalization of assessment confirming the duty, our Company proffered an appeal with the Collector of Customs (Appeal) for refunding the customs duty amount of Rs.113,200,000 paid by our Company. The Commissioner of Customs rejected the appeal. The matter went in appeal to CEGAT, Kolkata who by way of an order dated September 13, 2001 held in favor of our Company. Our Company based on the CEGAT order, claimed by way of a notice dated November 3, 2001 from the Assistant Commissioner of Customs, the disputed amount of Rs.113,200,000. The claim was rejected on grounds of being time barred and unjust enrichment. Our Company then filed an appeal dated June 27, 2003 with the Commissioner of Customs (Appeals) who held in favor of our Company and advised that our Company approach the Commissioner of Customs at Kolkata for refunding the amount. Accordingly, a letter dated October 16, 2003 was submitted by our Company to the Commissioner of Customs (Port) for refunding the amount. By order dated January 16, 2004 Rs.11,113,281,147 has been given to our Company but has been ordered to be credited to the Consumer Welfare Fund and the matter is being examined to file an appeal.
- Dredger Aquarius arrived at Haldia, India in 1991 with spares. The spares already onboard prior to import clearance were not physically checked. The contract had a provision that a joint inspection would be conducted at the time that Zanen Verstoep handed over the vessel to our Company and that any shortages of spares would be replaced by Zanen Verstoep. Subsequently, at the time of the joint inspection some shortages and excesses were found and adjustments were made. However, the customs authorities issued a show cause notice dated May 9, 1995 to our

Company for not intimating details of the additional spares available onboard for which customs duty amounting to Rs.33,500,000 was levied and had to be paid by our Company. An appeal was preferred by our Company with CEGAT, Kolkata against the Collector of Customs order dated December 5, 1995. CEGAT referred the matter to the Commissioner of Customs as the order was given without affording an adequate opportunity of personal hearing to our Company. The matter has been listed for hearing/ adjourned/ awaits listing.

#### **F. LITIGATION PENDING - MONEY RECOVERY AND OTHER CIVIL SUITS**

There are a total of 13 money recovery suits pending by and/or against our Company. Out of these there are 4 material cases the details of which are set out below. The total liability of the other 9 non-material cases for our Company, depending on the outcome of the proceedings is less than Rs. 1,000,000/-

- A contract was executed with Vizag Roadlines Corporation by our Company for the purpose of assembling and launching Inland Dredgers. They have filed a suit in 2003 against our Company for the recovery of an amount of Rs. 785,240 with interest of 24% per annum amounting to Rs. 526,640.32 from July 7, 2000 to April 23, 2003, cost of the suit and subsequent interest on the suit amount of Rs. 1,315,380.32 from April 24, 2003. The matter is pending before the 1st Additional District Judge, Visakhapatnam.
- Mr.E.Venkata Rao was employed by our Company as Senior Assistant (Stores) and applied for a loan for construction of his house under the House Building Advance Scheme of our Company. The loan and other dues were not repaid. Our Company filed a suit in 2001 for the recovery of money and the suit was decreed exparte on December 26, 2001 in favor of the Company, for a total amount of Rs. 686,994 (principal amount = Rs. 335,081 + Rs. 332,332 towards interest up to January 29, 2001 + Rs. 19,581 towards costs of the suit) together with subsequent interest at the rate of 18% per annum on the principal amount of Rs. 335,081 from the date of suit i.e., January 29, 2001. The decree has been challenged by the judgement debtor and the matter is pending before the Principal Senior Civil Judge at Vijianagaram.
- A suit was filed in 1996 at the Court of the Principal Senior Civil Judge, Kakinada by our Company against Black Sea Shipping for loss/damages caused to our Company's Tug VI. The suit was decreed on November 25, 2002 for Rs. 68,450,000 with interest at the rate 6% per annum thereon from November 11, 1996 in favor of our Company. Our Company has realized Rs. 10,927,432 lying in the custody of the Court being the auction sale proceeds of the vessel on September 11, 2003.
- A summary suit was filed in 1997 in the High Court at Mumbai by our Company against Essar Steel Ltd., for recovery of the admitted amount of Rs. 16,770,000 and interest due to our Company for the dredging work carried out at Hazira for Essar. However, in 2000, as per the direction of the Court, a Notice of Motion for recovery of the admitted principal amount was filed. On September 25, 2002, the Court passed a decree in favor of the Company. Essar Steel Ltd. has paid DCI Rs.16,770,000 by cheque on January 31, 2004. Our Company proposes to file another notice of motion for the balance claim for interest on the admitted amount of Rs. 16,770,000 at the rate of 24% from May 17, 1996.

#### **G. LITIGATION PENDING – LABOUR, EMPLOYEES AND TRADE UNIONS**

There are a total of 36 labour and employee related suits pending by and/or against our Company. Out of these there are 7 material cases the details of which are set out below which include 1 case related to VRS and 3 cases related to trade union disputes. The total liability of the other 29 cases for our Company is non material. Most of these litigations are filed against our Company by employees with respect to social caste issues disciplinary proceedings held against certain employees and transfer related cases. Depending on the outcome of the case in some of these cases the relief sought is reinstatement of employment with the Company. In such cases the liability for the Company would be to the extent of the remuneration of the employees concerned if re-instated.

- Mr. S. N. Singh was employed with our Company as 5/E/O, amongst the dredging fleet crew. On November 20, 1995 he was discharged from services on medical grounds of permanent disability. He was entitled, as per Clause 129(a) of INSA-MUI agreement for compensation of Rs. 120000 He was paid Rs. 84,000 after deducting Rs. 36,000 towards income tax liability. Mr. S. N. Singh filed a suit in 1998 claiming Rs. 718,790 towards payment of enhanced disability compensation on his discharge from service on medical grounds of permanent disability and retrenchment benefit, with interest at 12% per annum on the suit amount, from November 20, 1995 and costs of the suit. Our Company has contested the matter, which is currently pending before the Civil Judge (Senior Division), Ghazipur, U.P. The hearing of the matter is adjourned to March 23, 2004.
- Mr. P. K. Bhattacharya was employed with our Company as a General Steward. On April 20, 2000, he was discharged from services on medical grounds as permanently unfit for sea service. He filed an application in 2001, for payment of compensation for injury sustained out of and in the course of business on our Company Dredger VIII, for an amount of Rs. 12 00000 plus penalty at the rate of 50% and an interest of 6% per annum from April 20, 2000. The case is posted for hearing on January 20, 2004 for filing the medical certificate of Mr.Bhattacharya, who is required

to be examined by the doctor engaged by the Company to ascertain for genuineness of the claim preferred by the applicant regarding loss of earning capacity.

- Mr. S. M. Saheb was employed with us as Seaman since April, 1984. After his discharge from service on medical grounds w.e.f. April 12, 1995 he filed an application for payment of balance disability compensation of Rs. 677,040 , Rs. 500,000 towards damages, and interest at 24% from April 12, 1995 and costs of the suit. After his death on June 23, 1996 his legal representatives were added as parties, and the petition was dismissed by the Labor Court. Thereafter, in the year 2000, Smt. Shaik Mumtaz Begum, being the legal representative of Late Mr. S. M. Saheb, filed a Writ Petition in the High Court of Andhra Pradesh, Hyderabad, challenging the order dated January 12, 1999 passed by the Labor Court, Visakhapatnam, stating that the Petition is non-maintainable, being outside jurisdiction of the Labor Court. The matter is yet to be listed for hearing in the High Court.

#### **Cases relating to VRS**

- In the year 2003, the Dredging Corporation of India Voluntary Retirement Employees' Welfare Association filed a Writ Petition at the High Court of Andhra Pradesh, Hyderabad challenging a Board Resolution dated April 28, 2001 passed by the Board of Directors, the effect of which was to exclude employees who opted for the Voluntary Retirement Scheme, from the payment of revised perks. The relief sought involves payment of approx. Rs. 333, 000 p.m. from April 1, 1999 to December 31, 2000 towards perks and Rs. 427,000 towards gift to employees. The Union of India was also impleaded as a party. Our Company has filed its reply.

#### **Cases relating to Trade Unions**

- In the year 1998, the Company's Non-Executive Employees Union filed a Writ Petition at the High Court of Andhra Pradesh, Hyderabad challenging the induction of management trainees under the Executive Trainees Scheme in pursuance of the Advertisement No.1/97 published by the Company. The Union of India was also impleaded as a Party. The matter awaits listing for hearing.
- The crew members manning the dredgers/other vessels belonging to the Company are members of the Forward Seamen's Union of India ("FSUI"). A 'Work to Rule' agitation was to be conducted by FSUI with effect from 1.4.2003. Our Company filed a Writ Petition at the High Court of Andhra Pradesh, Hyderabad and obtained an order on March 28, 2003 restraining FSUI and its members from going on 'Work to Rule' agitation onboard the dredgers and other vessels of the Company. The FSUI has filed its reply. The matter is to be listed for hearing. Despite the court orders, the crew observed work to rule from April 1, 2003 to April 14, 2003.
- In July 2003, the Company initiated contempt of court proceedings against FSUI for violating the directions passed by the High Court of Andhra Pradesh, Hyderabad vide order dated March 28, 2003. Contempt Notice has been issued to the FSUI.

### **H. POTENTIAL LITIGATION**

Our Company is of the view that certain circumstances exist that may give rise to litigation in the future. Brief details of such circumstances are set out below.

#### **By The Company**

- Work relating to the removal of a sunken pipeline of 345 meters from the seabed across the navigational channel of Paradip Port Trust (PPT) and two other pipelines of 60 meters each was given to Dharti Dredging & Construction Ltd., Hyderabad ("DDCL") by our work order dated August 7, 2003 on "no cure no pay basis" at a lumpsum a rate of Rs. 2,200,000. The work was commenced on August 9, 2003 and they completed removal of only 308 meters. While DDCL were instructed to complete the balance work, a legal notice dated November 15, 2003 was issued by DDCL to release payment within one week from the date of receipt of notice failing which interest at 24% per annum (from the date the amount is payable) will be charged. In response our Company replied to the legal notice by letter dated December 15, 2003 instructing DDCL to commence the work before December 30, 2003 failing which alternative arrangements to complete the work at the risk and cost of DDCL would be made by our Company.
- DCI entered into an agreement with Hung Hua Construction Company Limited ("HHCCCL"), Taiwan for dredging and pumping 3.5 million cubic meters of material consisting of medium sand, fine silty sand and mud based on the data provided by HHCCCL. Out of the above quantity because it encountered different strata, DCI dredged 2.68 million cubic meters where as HHCCCL accepted and paid for 2.20 million cubic meters leaving a balance of 0.48 million cubic meters unpaid for. In addition to the above, under the contract executed with HHCCCL, DCI put up claims for idle time, fuel escalation and production loss and damages. The final amount due is USD 1.828 million. HHCCCL has been advised to arrive at an amicable settlement failing which DCI will resort to arbitration.
- The Income Tax Department issued a show cause notice dated October 22, 2003 for non-payment of tax dues of Rs. 229,415 and Rs. 954,233 respectively. DCI has paid the amounts under protest and has contested the demand

made by the Income Tax Department and filed an appeal before the CIT after paying Rs. 228,415 under protest.

- An amount of Rs. 65,104/- was erroneously paid excess to Mr. G.M.Patro, Ex. Assistant Manager (P&A) on his VRS. After many requests he paid Rs. 20,000/-. For the balance amount of Rs. 45,104/-, several reminders have been sent however the amount has not been remitted. The DCI issued a Notice for recovering the amount in September 2003. Another legal notice dated October 2, 2003 was issued by DCI to which Mr. G.M.Patro has replied by way of a legal notice demanding payment of arrears of perks with interest at 18% in the first instance and then demanding refund of excess amounts. Further action for the recovery of the said amount is under process.

#### **Against Our Company**

- The Jahazi Mazdoor Union (JMU) representing the shore-based non-executive employees, issued a Notice for Strike on October 23, 2003 for immediate settlement of their demands like career progression/up-gradations, payment of LTA on par with executives and regularization of services of casual employees, among other things. The matter, was admitted under conciliation and as a result, the proposed strike called on October 23, 2003 was deferred by JMU. Thereafter, conciliation meetings were held before the DCL. A letter dated December 18, 2003 from the DCL requested our Company to re consider our position on payment of LTA and regularizing casual employees. We are examining the matter. In the event of failure of conciliation proceedings before the conciliation officer, it is likely that the matter may be referred to the Industrial Tribunal for adjudication. The financial implication of an adjudication in favor of the workers would be approximately Rs. 5,000,000.
- Mr. N.C. Bhowmick, Code No.1047 Ex-Serang Mate, who retired from service with our Company on December 28, 2001 issued a legal notice dated September 3, 2003, for payment of Rs. 1,800,000 for performing the additional and extra duty of pilot from December 20, 2000 to June 20, 2001 and interest for delayed payment of provident funds, among other things. After examining the matter in consultation with the Operations Department, Tug-6 Master (under whom Mr. Bhowmick was serving prior to his retirement) advised that Serang Mates need not be paid short hand wages and that there is no justification for any claim of pilotage allowance. Accordingly a reply will be sent to Mr. Bhowmick by our Company.
- The maintenance of Jellingham Bar at Haldia ,KOPT was entrusted to our Company in July 1999. Our Company could not maintain the required depth due to heavy re-shoaling despite dredging the estimated quantities. KOPT reviewed the re-shoaling factor and increased their requirement in November, 1999. Since our Company did not have adequate capacity to meet the increased requirement, our Company sub contracted a part of the dredging at Jellingham Bar in June 2000 to Detlef Hegemann. Detlef Hegemann carried out the dredging under the above work order from July 23, 2000 for a period of one year (Phase-I work done Rs.25, 868,099 and Rs.41,607,737 was withheld towards under performance and security deposit). In accordance with the provisions of the contract a fresh extension for three months was given to Detlef Hegemann on August 25, 2001. The contract was finally terminated on November 25, 2001 (Phase-II). The total financial implication was Rs.650,000,000 (approximately). As on date our Company has released payments due to Detlef Hegemann except for Rs.58,700,000 towards under performance and Rs.63,400,000 towards refund of security deposit. (For Phase-I work done Rs.25,868,099 and Rs.41,607,737 was withheld towards under performance and security deposit respectively). The payment was due from October 2001 and Detlef Hegemann has claimed interest at 16% for the delayed payments. (For Phase-II work done, Rs.21,822,820, Rs.31,826,743 and Rs.1,003,591 was withheld towards security deposit, fuel escalation and foreign exchange difference respectively.). The payment for Phase-II was due from December 2001 and interest at 16% is being claimed by Detlef Hegemann. In this connection, the CBI has registered as regular case (RC-4/E/2002-KOL) dated June 28, 2002 against certain officers of our Company of the rank of JGM/DGM and submitted their report during November 2003 suggesting regular departmental action against officers. This matter has been referred to the CVC, New Delhi for further action.
- The work relating to the transportation of a pipeline from Vizag to Paradip was awarded during February 1996 to Vizag Road Lines Corporation ('VRLC') at a total value of Rs. 521,000 with instructions to complete the work within 15 days. On completion of work VRLC had submitted by Rs. 494,000 as their bill. After deducting an amount of Rs. 21,764 towards tax and crane charges the bill was settled for an amount of Rs. 472,000. Due to detention at Paradip octroi check post, additional detention charges for an amount of Rs. 30,000 were claimed by VRLC. This additional amount is disputed.
- Work relating to transportation of Tata R & H Crane from Cochin to Paradip was awarded to VRLC in August 1995 at a value of Rs. 119,940. Against the work an amount of Rs. 11,995 was deposited towards security. On completion of work payment was released, however the security deposit was not paid as VRLC had not lifted some of items belong to the crane at Cochin. VRLC is requesting release of above security amount and detention charges of Rs. 30,000. The claims are not admitted. The total disputed amount including security deposit is Rs. 42,000
- Work relating to the transportation of a pipeline from Goa to Vizag was awarded to VRLC in December 1997. The value of work was Rs. 321,666. As per contract the time allowed to complete the work was upto January 7, 1998.

However the work was completed on January 17, 1998. For the delay in completion of work penalty amounting to Rs. 28,945 was deducted from the bills. VRLC is requesting release of said amount.

- During the execution of work at River 'Ganga' for IWAI and while towing the dredger by IWAI from one dredging site to other, one of the spuds of ID-4 was broken and fell in the water. Sea Lord Diving Services (SLDS) at Chobepur near Varanasi was requested to salvage the broken spud. SLDS carried out the job and submitted a bill dated March 16, 2001 for Rs. 60,000 towards services provided. Since the claim appear to be on higher side it was disputed. An amicable settlement has yet not been arrived at.
- Salvage of ID-2 at Chobepur, Varanasi was also awarded to SLDS. On completion of salvage operations SLDS carried out repairs to ID-2 track pole to facilitate shifting a pontoon from the river bank to the safe zone. The amount of Rs. 10,000 claimed is on higher side it is disputed. An amicable settlement has not yet been arrived yet.
- Repairs, plastering and painting of DCI Administrative Office Building was awarded to Mr. K. Nageswara Rao, Civil Contractor, Vizag, in September 1998. The value of the work was Rs. 1,720,000. The work commenced in September, 1998 and was completed by March 1999. The total work executed by the contractor was 1,365,000. Since the contractor had not completed the work within the scheduled time as per the tender conditions liquidated damages at 10% on an amount of Rs. 145,000 was deducted from the bill. The contractor has disputed the above deduction and has requested release of the disputed amount.
- Our Company was awarded a capital dredging contract by Kakinada Port during February 1995. This contract included the design, manufacture, installation, and commissioning of Navigational Aids consisting of lighted buoys, transit lights including training of port personnel and maintenance of above equipment thereafter for one year. The work for navigational lights and transit lights etc was awarded to Ana Navigational Aids, New Delhi in October, 1995 at a value of Rs. 18,500,000. Since the contractor could not complete the subject work within the scheduled time as per the contract, liquidated damages for an amount of Rs. 1,846,000 were charged. Further the contractor had claimed an amount of Rs. 661,000 towards payment incurred on account of local tax. As per the contract, the offered rate includes local taxes, octroi, customs among other things hence the claim was not accepted. The contractor has requested a waiver off the liquidated damages and a release of the total outstanding payment of Rs. 2,500,000.
- Aqua Link Marine Services, Kolkata (ALMS) was awarded a contract for the supply of boat services with their tendered boat MV Meena Prasarak in connection with dredging requirements for KOPT. However, ALMS could not supply the tendered boat due to expiry of its statutory certificates and the boat MV Aryabarta was engaged on nomination basis. ALMS bills amounting to Rs 1,135,489 for the period from February 1, 2003 to July 11, 2003 remains outstanding. ALMS had suspended boat service from July 12, 2003 and has sent a remainder for release of payment.
- The DCI employees Provident Fund Trust (DCIL ECPF) had purchased bonds worth Rs. 4,000,000/- from IFCI at 12% p.a. for a period of 5 years in April 2000. From April 2002 onwards, IFCI arbitrarily reduced the interest from 12% to 9% and the original maturity period was extended for another five years. The DCIL ECPF Trust to objected this action by IFCI and issued a legal notice dated June 1, 2003 to IFCI insisting that IFCI honor the original bond terms and pay the interest accordingly. Currently correspondence is being exchanged between DCIL ECPF and IFCI.
- As on September 30, 2003, an amount of Rs 1545.8 million is outstanding from KoPT. These are outstanding payments/arrears due from KoPT against bills raised for dredging assignments performed by our Company upto September 30, 2003. Towards outstanding payments for the period June 1, 2000 to March 31, 2002 KoPT paid an amount of Rs 4430 million out of which we believe Rs 2379.2 million was released against bills/debit notes raised by our Company and Rs 2050.8 million, which we understand from verbal discussions with KoPT officials, was released as ad hoc/advance payments. In view of objections raised by KoPT's Government Audit, by letter dated December 24, 2001, KoPT informed our Company that they are compelled to recover Rs 1015.6 million against payments made for the fiscal 2001. Again, by a letter dated February 19, 2002, KoPT informed our Company that keeping in view the deductions made by Government Audit from the dredging bills of our Company, the payment for the dredging in fiscal 2001-02 will be withheld in the same manner Government Audit is disallowing, without quantifying the amount. As on September 30, 2003, an amount of Rs 866 million is outstanding from KoPT for the period June 1 to March 31, 2001 and fiscal 2002. Our Company disputed KoPT's contention and has taken up the matter with MoS.
- A complaint was lodged against Multi Dimensional Human Resources (MDHR), cleaning and maintenance contractor with the Station House Office, Law & Order, Harbour Police Station, Visakhapatnam, alleging that Shri. D. Manuel Reddy, Chief Executive, MDHR had indulged in forgery and cheating, by submitting fake State Bank of India challans to DCI. The complaint was registered as crime No.07/2002 under Sections 468,471 and 420 of the IPC. The police investigated the case and served a notice dated June 13, 2002 to DCI to the effect that the investigation disclosed no case for prosecution on the ground of "Mistake of Fact". The investigation report was filed before the

Court by the Harbour Police Authorities on July 26, 2002. The II Metropolitan Magistrate, Visakhapatnam, before whom the case is pending has to issue a notice to DCI requesting them to state their objection, if any, on the investigation report before passing any orders on the complaint. DCI's Counsel has applied to the Court for supply of the certified copies of the documents filed along with the investigation report for taking further action in the matter.

- M. Pallonji & Co.Pvt Ltd, Mumbai a contractor whose services were engaged by DCI to dredge 2.92 lakh cubic meters Kandla Port. The Kandla Port Trust (KPT) was to reimburse the charges of the contractor to DCI with 10% towards handling charges. The contractor was to complete the work by August 26, 2003 and then September 30, 2003. He could not complete it and extension of time was allowed upto January 6, 2004 after taking the approval from KPT. During dredging, Pallonji contested that he has encountered significant quantity of wooden logs, heavy metal scrap, which is in deviation from the dredging tender. In discussion between DCI and KPT, KPT has informed DCI that no extra compensation will be paid. Pallonji is yet to submit his final bill.
- A bill was raised by Western India Shipyard Ltd. ("WISL") for dry docking repairs of DCI Dredge- V in May 2003. DCI due to under performance by WISL paid a portion of the bill amount raised being full and final settlement of the bill. Consequent to a representation made by WISL, DCI confirmed that the bill was settled in full and final payment.
- 13 Search and rescue radar transponder (SARTS) were procured from M/s Moloobhoy & Sons, Mumbai (Moloobhoy) through the tender process. After installation of the SARTS on our dredgers while scrutinising the bill, DCI realized that customs duty had not been paid on the installed SARTS equipment as Moloobhoy had availed of duty exemption by importing under a ship repair license which was against the terms of DCI's tender. DCI has requested Moloobhoy to provide proof of payment of customs duty and kept the bills raised by Moloobhoy pending. Moloobhoy issued a legal notice dated September 25, 2003 requesting DCI to pay the bill or return the SARTS equipment. DCI replied by way of a legal notice dated October 16, 2003 for furnishing proof of payment of customs duty. No reply has been received to date. DCI has informed Customs authorities and a reply is awaited from them.
- The wreck of DCI Dredge III was salvaged from Paradip Port waters. Ground rent of Rs.27,000 per month was payable by DCI to Paradip Port for the wreck. Nilanchal Ispat Nigam, Cuttack was to dispose off the wreck. Despite several extensions NIN could not complete the work. An exemption from payment of ground rent was sought. No communication has been received.
- DCI had entered into a contract with Hooghly Dock &Port Engineers Limited (HDPE) Kolkata, in 1999 for the design, construction and supply of a multipurpose tug to be delivered in one year for Rs. 140.5 million. The tug has not been delivered to date despite a payment of Rs. 130.5 million to HDPE. HDPE has submitted a revised cost estimate stating various reasons for upward revision to which DCI does not agree. DCI has not initiated any legal action against HDPE nor has HDPE made any claims on DCI.

**I. LITIGATION PENDING BY/AGAINST THE DIRECTORS OF THE COMPANY**

There are no litigations pending by/against the Directors of our Company in their personal capacity. However, out of the litigations mentioned in this Section titled "Outstanding Litigations", there are some cases in which certain Directors of our Company have been made the respondents along with the Company.

**J. LITIGATION PENDING BY/AGAINST OUR PROMOTER**

To the best of the Company's knowledge, there is no litigation pending against the Gol, our Promoter which has a direct impact or bearing on the Company.

**K. LITIGATION PENDING – DRC**

The Official Liquidator by a letter dated January 13, 2004 has informed us that there is no outstanding litigation by or against DRC, including Income Tax cases which are ordinarily dealt by the Income Tax Department at the Assessing Officer(s) level.

**L. OUTSTANDINGS DUE TO SMALL SCALE INDUSTRIES**

As on September 30, 2003 the amounts due from our Company to small scale industrial undertakings exceeding Rs.100,000 for more than 30 days as per agreed terms is as follows:

Name of the Party	(Rs. in Million) September 30 2003
M/s Union Maritime Syndicate	} 1.8
M/s New Goa Ship Repairs	
M/s Balaji Ship Services.	
M/s Engg. Corporation Of India.	
M/s K. Con & Co	
M/s Rajendra Fabricators & Erectors	

### **MATERIAL DEVELOPMENTS**

In the opinion of the Board of Directors of our Company, there have not arisen, since the date of the last financial statements disclosed in this Preliminary Sale Document, any circumstances that materially or adversely affect or are likely to affect profitability of our Company or the value of its assets or its ability to pay its material liabilities within the next twelve months.

## STATUTORY APPROVALS

In view of the approvals listed below, our Company can undertake its current business activities. No further material approvals from any government authorities including the RBI are required to continue our Company's current business activities. However, our Company intends to participate more actively in international dredging markets in the future. In such a scenario our Company would be required to appraise itself of the legal requirements of obtaining the requisite approvals of any country in which we may conduct business.

### APPROVALS PERTAINING TO OUR COMPANY'S CURRENT BUSINESS

We have received the following important approvals pertaining to the current business activities of our Company.

#### Approvals/Licenses/Registrations for Dredgers owned by our Company

Our Company currently owns 12 dredgers and has all the necessary registrations and trading licenses for each dredger. The details of important registrations and licenses of each dredger are set out below.

#### 1. Coastal Trade License

For dredging along the Indian coast, a general coastal trade license is required from the DG Shipping. This license has been obtained for each dredger owned by our Company. The validity of this license is 60 months.

S.No	Name of Dredger	Registration No	Date of Issue	Date of Validity
1.	DCI Dredge V	GEN-68/1999	July 8, 1999	Until July 7, 2004
2.	DCI Dredge VI	GEN-22/2001	January 24,2001	Until January 23, 2006
3.	DCI Dredge VIII	GEN-06/2003	January 1, 2003	Until December 12, 2007
4.	DCI Dredge IX	GEN-58/2001	April 1, 2001	Until March 31, 2006
5.	DCI Dredge XI	GEN-171/2001	September 11, 2001	Until July 31, 2006
6.	DCI Dredge XII	GEN-110/2002	March 13, 2002	Until March 12, 2007
7.	DCI Dredge XIV	GEN-177/2001	September 14, 2001	Until August 27, 2006
8.	DCI Dredge XV	GEN-168/2000	November 20, 2000	Until November 15, 2005
9.	DCI Dredge XVI	GEN-197/2002	August 21, 2002	Until August 19, 2007
10.	DCI Dredge XVII	GEN-183/2002	August 12, 2002	Until August 15, 2007.
11.	DCI Dredge Aquarius	GEN- 53/2003	March 13, 2003	Until March 13 , 2008

*Note: (1) The licence for DCI Dredge VII is presently being applied for by our Company.*

#### 2. Foreign Trade License

To dredge and to ply dredgers other than along the Indian coasts, a license of specified period is required in addition to the general coastal trade license issued by the DG Shipping. This license is required for dredgers to ply/dredge in foreign waters. The validity of this license depends on the specific requirements and varies from case to case.

Details of our Company's dredgers with respect to which this license has been obtained are mentioned below.

S.No	Name of Dredger	Registration No	Date of Issue	Date of Validity
1.	DCI Dredge Aquarius	GEN-53/2003	March 16, 2003	Until March 15, 2005

The other dredgers of our Company do not currently ply in foreign waters and do not need this license.

#### 3. Other Approvals/Registrations/Certificates relating our Dredgers

Pursuant to maritime laws each dredger is required to keep onboard the following certificates.

- (a) Certificate of Indian Registry
- (b) Cargo Ship Safety Equipment Certificate
- (c) Cargo Ship Safety Construction Certificate
- (d) Safety Management Certificate

- (e) Cargo Ship Safety Radio Certificate
- (f) International Load Line Certificate
- (g) International Deratting or Derrating Exemption Certificate
- (h) International Oil Pollution Prevention Certificate
- (i) Ship Station License issued by Ministry of Communications relating to Maritime Mobile /Aeromobile Station License
- (j) Certificate of Class issued by the Indian Register of Shipping

Each of our Company's dredgers has obtained the above registrations or licenses.

#### 4. Certificates for floating staff manning the dredgers of our Company

In addition certain categories of floating staff manning the dredgers such as the Master, Dredge Master, Chief Officer on the deck side and the Chief Engineer, Second and other Watchkeeping Engineers on the engine side of each of the dredger are required to hold dredging-related certificates in accordance with the provisions of the Merchant Shipping Act, 1958 and rules issued thereunder by DG Shipping.

Each Master, Dredge Master, Chief Officer on the deck side and the Chief Engineer, Second and other Watchkeeping Engineers on the engine side of each dredger of our Company holds the necessary certificates of competency prescribed under the Merchant Shipping, Act 1958.

#### Approvals Pertaining to Administrative Matters

5. Letter No. CM/VSP/Zone.I/HT/DCI/D.No 1062/93 dated November 29, 1993 issued by the Divisional Engineer, Operation Division, Zone-I, Andhra Pradesh State Electricity Board to our Company which accepts and encloses an amendment agreement amending the provisions of an electricity supply agreement dated September, 24 1990 executed between the Andhra Pradesh State Electricity Board and our Company for supply of a 250 KVA transformer provided with a contracted maximum demand of 200 KVA and connected load of 261.5 KW.
6. Order dated September 30, 2003 passed by the AP Electricity Regulatory Commission, Hyderabad granting permission to our Company for the installation of a Captive Power Plant (2x 100 KVA DG sets) at Dredge House under the provisions of the AP Electricity Reform Act, 1998, in connection with petition No. 213 of 2003 filed by our Company seeking such approval.
7. Letter No.42/19/92-RIO dated July 23, 1992 issued by the Central Electricity Authority, Chennai granting approval to energize HV/EHV electrical installations of our Company under the Indian Electricity Rules, 1956.
8. Consent Order No. 13-G-1338/03-332 dated June 19, 2003 obtained from the Andhra Pradesh Pollution Control Board under Sections 25 and 26 of the Water (Prevention and Control of Pollution) Act, 1974 whereby our Company is permitted to discharge effluents subject to emission standards mentioned therein. The said consent order is valid until June 20, 2004.
9. Consent Order No. 13-G-1338/03-332 dated June 14, 2003 obtained from the Andhra Pradesh Pollution Control Board under Section 21 of Air (Prevention and Control of Pollution) Act, 1981 authorizing our Company to operate an 'industrial plant' in an air pollution control area through chimneys or outlets. The said consent order is valid up to June 20, 2004.

#### Approvals Relating to the Foreign Currency Loans Taken by our Company

10. Letter No.F.No.6(32)/97-ECB dated April 1, 1997 issued by the Department of Economic Affairs, Ministry of Finance, GoI granting approval for the first foreign currency loan taken by our Company from ABN AMRO Bank N.V.
11. Letters No.HY.EC.IMP./1985/09.04.222/97-98 dated September 24, 1997 and No.EC.HY.IMP/393/09.04.222/97-98 dated July 15, 1997, respectively, issued by the RBI, Hyderabad granting final approval and in principle approval for the first foreign currency loan taken by our Company from ABN AMRO Bank N.V.
12. Letter No.F.No.6(04)/2000-ECB dated January 27, 2000 issued by the Department of Economic Affairs, Ministry of Finance, GoI granting approval for the second foreign currency loan taken by our Company from ABN AMRO Bank N.V.
13. Letter No.HY.EC.IMP/12066/09.04.275/99-2000 dated March 23, 2000 issued by the RBI, Hyderabad granting final approval for the second foreign currency loan taken by our Company from ABN AMRO Bank N.V.
14. Letter No.F.6(188)/88-ECB dated December 12, 1988 issued by the Department of Economic Affairs, Ministry of Finance, GoI granting approval for the foreign currency loans taken by our Company from NIO, Netherlands and an exemption from tax in terms of Section 10(15)(iv)(c) of the I.T. Act.

15. Letter No. HY.EC.IMP/6948/208/88-89 dated January 12, 1989 issued by the RBI, Hyderabad granting in principle approval for the foreign currency loans taken by our Company from NIO, Netherlands.
16. Letter No. HY.EC.IMP/8306/208/88-89 dated February 21, 1989 issued by the RBI, Hyderabad granting final approval for the foreign currency loans taken by our Company from NIO, Netherlands.

#### **Approvals Relating to Tax Including Tax Matters Related to the External Commercial Borrowings Made By Our Company**

17. Letter No. F.No.463/274/97-FTD dated August 22, 1997 issued by the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Govt granting approval (with relation to Section 10(15)(iv)(c) of the I.T. Act) for the rate of interest, fees and other charges relating to the first foreign currency loan taken by our Company from ABN AMRO Bank N.V.
18. Letter No.F.No.463/123/2000-FTD dated May 2, 2000 issued by the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance, Govt granting approval (with relation to Section 10(15)(iv)(c) of the I.T. Act) for the rate of interest, fees and other charges relating to the second foreign currency loan taken by our Company from ABN AMRO Bank N.V.
19. Letter No. 760327/15 dated April 6, 1999 issued by the Joint Commissioner of Income Tax, Visakhapatnam to our Company granting a permanent account number 'AAACD602B' to our Company.

#### **Import-Export related approvals/registrations**

20. Letter No. PIC/IEC/86/88/VSP dated June 29, 1988 issued by the DGFT to our Company granting an import export code number '2688000683' to our Company for the import of spare parts for our dredgers.

#### **DPE related approvals specific to our Company**

21. Letter No. PD/28028/39/97-DCI dated November 8, 1999 issued by the MoS relating to the declaration of our Company as a Mini Ratna Category- I PSU.
22. Letter No.PD-28028/51/99-DCI dated April 1, 2002 issued by the MoS (Ports Wing) relating to the declaration of our Company as a Schedule -B PSU.

#### **Environment Approvals**

Obtaining environment clearances relating to a dredging project is the responsibility of our customer. However, during the execution of certain dredging projects and as a contractual obligation pursuant to the request of our customer, our Company undertakes to obtain or prepare environment studies for the period of the contract. Depending on specific contractual obligations, tests and environmental management plans may also be drawn and executed for our Company either by us or through an external agency or expert.

The DG Shipping has issued a Certificate No. DGS/DOC/02/056 dated July 9, 2002 to our Company certifying that the safety management system of our Company complies with the requirements of the International Safety Management Code for Safe Operation of Ships and for Pollution Prevention.

#### **General**

In addition to the above, in accordance with Article 26 of our Articles of Association and DPE Guidelines issued from time to time, we are required to obtain the consent of the President of India for matters relating to, among other things, calling up unpaid capital, increase in authorized capital, issue of shares, disposal of property having an original book value of Rs. 2,500,000, formation of subsidiaries, reduction of capital, implementation of our Company's five year plans and annual plans for development and capital budget.

We are also required to obtain permission from the COD, Govt prior to pursuing any litigation with other PSUs or government departments. The permission is obtained by us from time to time as and when required.

#### **APPROVAL FOR WHICH AN APPLICATION IS MADE AND WHICH IS MATERIAL TO OUR BUSINESS**

1. Our Company is in the process of applying for a coastal trade licence for DCI Dredge VII.

## **OTHER INFORMATION**

### **LISTING**

The Equity Shares of our Company are listed on the NSE (the Designated Stock Exchange) BSE, CSE and DSE.

Notice No.4392/92 dated November 30, 1992 issued by BSE informed members of BSE that the Equity Shares of our Company are listed and admitted to dealings on BSE. Letter No.6398 dated December 4, 1992 issued by DSE informed our Company that our Equity Shares are listed and admitted to dealings on DSE. Letter dated October 7, 1996 and a confirmation letter No.CSTA/LD/075/2004 dated January 19, 2004 issued by CSE informed our Company that our Equity Shares are listed on CSE. Letter No.NSE/LIST/60226 dated January 13, 2004 issued by NSE informed our Company that our Equity Shares have been listed on NSE.

### **COMPLIANCE WITH SEBI GUIDELINES AND THE LISTING AGREEMENT**

Our Company shall comply with all disclosure and accounting norms as specified by SEBI from time to time. Our Company has made disclosures from time to time in compliance with the terms of the Listing Agreements executed with the Stock Exchanges.

### **OTHER RELATIONSHIPS**

Certain BRLMs and their respective affiliates have performed investment banking, commercial banking or advisory services for the Government from time to time for which they have received customary fees and expenses. In addition, each Underwriter may, from time to time, engage in transactions with and perform services for the Government and us in the ordinary course of business.

## OTHER PARTICULARS ABOUT US

### DETAILS OF BORROWINGS OF THE COMPANY

As at December 31, 2003 other than as disclosed below, our Company has no borrowings.

Sl. No	Nature of borrowings/ debt	Sanctioned Amount	Amount outstanding	Date of Drawal	Date of maturity	Interest rate	Security
1.	Unsecured Foreign Currency Loan (in the form of EUR/INR Currency cum Interest Swap) from ABN Amro Bank	NLG 41,000,000 Or Euro 18,604,989 INR 936,761,196 (at the rate of 1 Euro = 50.35 (swap rate))	Euro 13,132,933.11  /INR 661,243,182(at the rate of 1 Euro = 50.35 (swap rate))	2000-2001  Swap from August 26, 2003	17 half yearly instalments from August 14,2001	INR fixed rate 5.05 %  (it is a currency swap DCI receives interest at the rate of EUR Floating Rate - 6 months Euribor plus spread 0.20 %)	Unsecured but have been hedged with HSBC
2	A second unsecured Foreign Currency Loan (in the form of EUR/INR Currency Cum Interest Swap) from ABN Amro Bank	NLG 19,377,000 Or Euro 8,792,899 INR 442,722,465 (at the rate of 1 Euro = 50.35 (swap rate))	Euro 4,137,835  /INR 208,339,990	1998-1999 Swap From August 28, 2003	17 half yearly instalments from September 1999	INR 4.83% semi annual  (since it is a currency swap DCI receives interest on Euro at floating rate of 6 months Euribor plus 35 bps)	Unsecured but have been hedged with ABN Amro
3	Unsecured Foreign Currency Loan from Netherlands Investings Bank, Netherlands(1) (at the rate	NLG 41,460,000 Or Euro 18,813,728 /INR 1,088,562,302  of 1 Euro = 57.86 as on 31 <sup>st</sup> December 2003)	Euro 2,098,734  INR 121,432,749	1989-1991	Last installment payable in January 2004	2.5 % fixed rate  1989	Unsecured but guaranteed by Gol by way of a guarantee dated 31,
4	A second unsecured Foreign Currency Loan from Netherlands Investings Bank, Netherlands(1)	NLG 41,460,000 Or Euro 18,813,728 /INR 1088,562,302 (at the rate of 1 Euro = 57.86 as on 31 <sup>st</sup> December 2003)	Euro 2,098,734  /INR 121,432,749	1989-1990	Last installment payable in January 2004	2.5% fixed rate	Unsecured but guaranteed by Gol by way of a guarantee dated 31, 1989

- (1) There is no working capital or overdraft facilities availed of by our Company
- (2) The Company has overdraft facilities with Syndicate Bank of up to Rs. 150 Million (Rs. 15 Crores) but has never drawn from them.
- (3) A Rupee loan of Rs. 720 million had been taken by the Company from the Union Bank of India. The said loan was settled in July 2002 as evidenced by letter dated July 22, 2002 from the Union Bank of India.
- (4) A loan had been sanctioned by the Govt to the Company, vide Ministry of Surface Transport letter no PD/28015/1/89-DCI dated March 31, 1994. The loan together with interest was fully paid off by our Company in fiscal 2003 as evidenced by letter no. PAD/Control/DCI/2002-03/163 dated August 1, 2002 issued by the office of the Chief Controller of Accounts, Ministry of Road Transport & Highways and the Ministry of Shipping.

#### STOCK MARKET DATA FOR OUR EQUITY SHARES

The equity share capital of our Company is listed on the BSE, DSE, CSE and NSE. Particulars relating to our Equity Shares listed on the Stock Exchanges are set out below:

- a. High, low and average market prices of the Equity Shares of the Company during the preceding three years.

S.No.	Year	High (Rs)	Low (Rs)	Avg (Rs)	No of shares Traded (High) <sup>1</sup>	No of shares Traded (Low) <sup>2</sup>	No of shares Traded (Avg) <sup>3</sup>
1.	Year 2003	564	219	335	3548	10383	2563
2.	Year 2002	392	86	262	12118	300	3468
3.	Year 2001	108	66	81	12094	1550	1339

Source: BSE

<sup>1</sup> Represents the total number of shares traded on the day the price was the highest in the respective year.

<sup>2</sup> Represents the total number of shares traded on the day the price was lowest in the respective year.

<sup>3</sup> Represents the average number of shares traded corresponding to the average price during the respective year.

- b. Monthly high and low prices for the six months preceding the date of submitting the Preliminary Sale Document to SEBI (which prices shall be updated until the time of filing the Final Sale Document with the RoC/ Stock Exchanges).

S.No.	Month	High (Rs)	Low (Rs)	Avg. Volume Traded
1.	January 2004	554	446	1940
2.	December 2003	564	395	4467
3.	November 2003	408	387	1209
4.	October 2003	458	392	2530
5.	September 2003	394	343	1436
6.	August 2003	399	343	3281

Source: BSE

- c. Number of Equity Shares traded on the days when the high and low prices were recorded in the relevant Stock Exchanges.

S.No	Month	No. of Shares Traded (High)	No. of Shares Traded (Low)
1.	January 2004	4943	3498
2.	December 2003	3548	4494
3.	November 2003	995	1430
4.	October 2003	8617	1542
5.	September 2003	6588	251
6.	August 2003	3185	1818

**d. The market price immediately after the date on which the resolution of the Board of Directors approving the Offer was passed.**

<b>S.No</b>	<b>Date of Board Resolution</b>	<b>Market Price (Rs)</b>
1.	November 28, 2003 and January 19, 2004	On November 29, 2003 there was no trading. The next day on which shares were traded was December 1, 2003 and the market price (closing) was 400 and on January 20, 2004 the market price closing was Rs.523.

The Equity Shares of our Company are not actively traded and this has been indicated in the external risk factors and on the cover page of this Preliminary Sale Document.

**PARTICULARS REGARDING PUBLIC ISSUES DURING THE LAST FIVE YEARS**

We have not made any public issue or rights issue or offers for sale during the last five years. The GoI had in March 1992 disinvested 1.44 % of its shareholding in our Company.

**COMPANIES UNDER THE SAME MANAGEMENT**

There are no companies under the same management within the meaning of Section 370(1B) of the Companies Act. However, the Company had in the past invested in DRC, details relating to which have been disclosed under Chapter titled "Group Companies and Subsidiaries"

**MECHANISM FOR REDRESSAL OF INVESTOR GRIEVANCES**

The Company has a shareholders/investor grievances committee to deal with the grievances of investors/shareholders and to suggest remedies for improvement.

The minutes of the meetings of the shareholders/ investor grievances committee are placed before the Directors during Board meetings for the information of the Board of Directors.

As at the date of the last balance sheet of our Company there were no investor complaints pending..

Four complaints were received during November - December 2003 relating to non-receipt of dividend warrants primarily due to the change of address of shareholders. One complaint was redressed by sending a duplicate demand draft. Another complaint was redressed by re-sending the dividend warrant returned to our Company as undelivered. Two complaints are pending the demand drafts for which will be sent by January 15, 2004 after the expiry of the three-month validity period of the dividend warrant.

Mr. Y.V. Subbarao, Company Secretary is the Secretary of the aforesaid Committee and is also the designated Compliance Officer of our Company. His contact details are set out in the next paragraph.

**MECHANISM FOR REDRESSAL OF AND DISPOSAL OF INVESTOR GRIEVANCES RELATING TO THE OFFER**

The Selling Shareholder has by letter No.4/53/2003-MODI dated February 11, 2004 authorised the Company Secretary who is also the Compliance Officer of our Company and the Registrar to the Offer to redress any pre-Offer or post-Offer related problems or complaints received from investors participating in this Offer. The Company Secretary or the Registrar to the Offer may be contacted at the following address and / or telephone numbers.

**COMPLIANCE OFFICER**

**Mr. Y.V. Subbarao**

**Dredging Corporation of India Limited**

Company Secretary

Address: Dredge House, Port Area, Visakhapatnam – 530 035, Andhra Pradesh, India.

Tel No: +91 891 256 6537

Fax No: +91 891 252 9846

E-mail: [yvsubbarao@dci.co.in](mailto:yvsubbarao@dci.co.in)

## **REGISTRAR TO THE OFFER**

Karvy Consultants Limited  
Karvy House, 46, Avenue 4, Street No.1,  
Banjara Hills, Hyderabad- 500-034, India  
Tel No: +91-40-2331 2454, 2332 0751-53  
Fax No: +91-40-2331 1968, 2332 3049  
Email: [dcilipo@karvy.com](mailto:dcilipo@karvy.com)

All grievances relating to the Offer may be addressed to the Compliance Officer or Registrar to the Offer, giving full details such as name, address of the Bidder, number of Equity Shares applied for, amount paid on application and the collection center where the Bid Cum Application Form was submitted.

Our Company estimates that the average time required by us or the Registrar to the Offer for the redressal of routine investor grievances shall be 15 working days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, our Company will seek to redress these complaints as expeditiously as possible.

## STATUTORY AND OTHER INFORMATION

### CHANGES IN AUDITORS DURING THE LAST THREE YEARS

Pursuant to Section 619 of the Companies Act the auditors of a government company shall be appointed or reappointed by Comptroller and Auditor General of India ("CAG"). Pursuant to Section 224(8)(aa) of the Companies Act the remuneration of the auditors of a government company shall be fixed by the members in a general meeting or in such manner as the government company in a general meeting may determine. The CAG changes the statutory auditors of our Company after three to four years as a routine procedural matter. The changes in our Auditors during the last three years are set out below:

	Name of Auditor	Fiscal	Date of Appointment	Date of resignation	Reason for change
1.	M/s. Grandhy & Co.	2002 and 2003	September 27,2001  October 17, 2002	N.A.	Changed by CAG after continuous appointment for four years until fiscal 2003
2.	M/s. Sriramamurthy & Co.	2004	October 29, 2003	N.A.	N.A.

### COMMISSION AND BROKERAGE ON PREVIOUS ISSUES

Except as stated elsewhere in the Preliminary Sale Document, no sum has been paid or is payable as commission or brokerage for subscribing or procuring or agreeing to procure subscription for any of our Equity Shares since our inception.

### PREVIOUS RIGHTS AND PUBLIC ISSUES

We have not made any public issue or rights issue or offers for sale during the last five years. The Gol had in March 1992 disinvested 1.44 % of its shareholding in our Company.

### OUTSTANDING DEBENTURES OR BOND ISSUES

We have not made any issue of convertible or non-convertible debentures or bonds at any time.

### OUTSTANDING PREFERENCE SHARES

We have not made any issue of preference shares.

### CAPITALISATION OF RESERVES OR PROFITS

We have not capitalized our reserves or profits at any time.

### ISSUES OTHERWISE THAN FOR CASH

The Gol through the erstwhile Ministry of Shipping and Transport (now known as the Ministry of Shipping) had at the time of our Company's incorporation in fiscal 1977 transferred dredgers and other floating crafts valued at Rs. 237,551,000 .Out of this, an amount of Rs. 198,386, 000 was treated as being towards equity, against which 198,386 Equity Shares of Rs. 1000/- were allotted to President of India. The balance amount due to the Gol was treated as a loan to the Company.

Subsequently, MoS transferred a ship named 'Dredger VIII' and other equipment to our Company in the year 1977. Once again a sum of Rs. 81,600,000 out of the aggregate value of the transferred assets was treated as equity against which shares were allotted to Gol and the balance was treated as another loan.

Except as stated above and in the Section titled "Capital Structure" in the Preliminary Sale Document, we have not issued any Equity Shares for consideration otherwise than for cash.

### OPTION TO APPLY

Equity Shares being offered through this Preliminary Sale Document can be applied for in the dematerialized form only.

### PURCHASE OF PROPERTY

There is no property which we have purchased or acquired or proposes to purchase or acquire which is to be paid for wholly or partly out of the proceeds of the present Offer or the purchase or acquisition of which has not been completed on the date of this Preliminary Sale Document.

We have not purchased any property in which any of our promoters and/or Directors, have any direct or indirect interest in any payment made thereof.

## REMUNERATION OF OUR DIRECTORS

Our Directors are broadly speaking categorised into the following three broad categories:

1. Functional / Whole time Directors;
2. Non Executive Government Directors
3. Non Executive Non Government Directors

## REMUNERATION OF FUNCTIONAL/WHOLE TIME DIRECTORS

Since our Company is a PSU remuneration paid to our functional or whole time Directors is as per the regulations prescribed by the GoI as received through the administrative ministry, MoS and guidelines relating to pay scales and perquisites of Board level executives that are issued from time to time by the DPE.

The pay scales of Board level appointments including the Chairman and Managing Director depend on whether a PSU is listed as a Schedule-A PSU, a Schedule-B PSU, a Schedule-C PSU or a Schedule-D PSU.

The current pay scales for Chairmen and Managing Directors of Schedule-A, B, C and D PSUs are as follows:

- Schedule "A" Rs. 27,750 – 750 - 31,500
- Schedule "B" Rs. 25,750 – 650 – 30,950
- Schedule "C" Rs. 22,500 – 600 – 27,300
- Schedule "D" Rs. 20,500 – 500 – 25,000

Though our Company has been upgraded by GoI to a Schedule -B PSU the up gradation of the pay scales of our Board level executives i.e., Chairmen and Managing Director, Director (Finance) and Director (Operations & Technical) is awaiting Government approval.

### Chairman and Managing Director

#### Mr. Neerav Kumar Gupta

The terms of Mr. N.K Gupta's appointment (including remuneration) are contained in letter no. PD/28028/51/98-DCI dated August 21, 2002 issued by MoS (Ports Wing), GoI. Details of his remuneration package are set out below.

- Basic Salary: Rs. 23,700 per month
- Residential Accommodation: allotted from the Company's residential accommodation pool or arranged by way of lease, self lease or payment of house rent allowance
- Dearness Allowance: paid in accordance with the Industrial Dearness Allowance Scheme contained in DPE OM dated June 25, 1999.
- City compensatory allowance subject to prescribed ceilings
- Facility of a Car for private use
- Membership of two clubs

### Director Finance

#### Mr. A.K. Dhar

The terms of Mr. A.K Dhar's appointment (including remuneration) are contained in letter no. PD-28028/15/99-DCI dated December 2, 1999 issued by Ministry of Surface Transport. Details relating to his remuneration package are set out below.

- Basic Salary: Rs. 24,000 per month
- Residential Accommodation: allotted from the Company's residential accommodation pool or arranged by way of lease, self lease or payment of house rent allowance
- Dearness Allowance: paid in accordance with the DPE OM dated March 19, 1993.
- City compensatory allowance subject to prescribed ceilings
- Facility of a Car for private use
- Membership of two clubs

## **Director (Operations and Technical)**

### **Mr. G.G. Rao**

The terms of Mr. G.G Rao's appointment (including remuneration) are contained in a letter no. PD/28028/51/98-DCI dated December 21, 2001 issued by MoS (Ports Wing), Gol. Details relating to his remuneration package are set out below.

- Basic Salary: Rs. 21, 500 per month
- Residential Accommodation: allotted from the Company's residential accommodation pool or arranged by way of lease, self lease or payment of house rent allowance
- Dearness Allowance: paid in accordance with the DPE OM dated June 25, 1999.
- City compensatory allowance subject to prescribed ceilings
- Facility of a Car for private use
- Membership of two clubs

The functional/ whole time Directors of our Company are also entitled to perks such as contributory Provident Fund, Gratuity, Leave Travel Concession, House Building Advance, and Vehicle Advance among other things

### **Remuneration of Non Executive Government Directors**

So far as Non-Executive Directors who are government officers are concerned, they are not paid any remuneration or sitting fee for attending the Board/Committee meetings.

Accordingly Mr. T. Srinidhi and Mr. N.K. Jawa who are officers of the MoS are not paid any sitting fees or remuneration. They are however paid traveling and boarding expenses.

### **Remuneration of Non Executive Non Government Directors**

Other Non-Executive Non Government Directors are presently paid a sitting fee of Rs. 3,000 per meeting of the Board or any committee thereof. Mr. C.V.Dikshith and Dr.S.Kathioli Non-Executive Non Government Directors are each presently paid a sitting fee and traveling and boarding expenses for attending each meeting of the Board or a committee thereof.

The Company does not pay any commission on the profits to the Directors.

### **INTEREST OF PROMOTERS AND DIRECTORS**

Except as stated in "Related Party Transactions", and to the extent of shareholding in our Company, the promoter does not have any other interest in our business.

The Chairman and Managing Director and other Whole time Directors are interested to the extent of remuneration paid to them for services rendered as our officers or employees of the Company.

All Directors may be deemed to be interested in the contracts, agreements/ arrangements entered into or to be entered into by the Company with any company in which they hold Directorships or any partnerships in which they are a partner.

The Company has not entered into any contract, agreements or arrangement during the preceding two years from the date of the Preliminary Sale Document in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them.

### **BORROWING POWERS OF DIRECTORS**

Article 25 of the Articles of Association provides that the business of the Company shall be managed by the Board of Directors who may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do' In accordance with Section 292 of the Act the Board of Directors therefore has the power to (by means of the resolution passed at a meeting of the Board from time to time), borrow and/or secure the payment of any sums of money for the purposes of the Company.

The Board of Directors of the Company is authorized to borrow by way of cash credit, overdraft, working capital loan from scheduled banks or financial institutions up to a limit of Rs. 4,000 million.

### **QUALIFICATION SHARES**

Article 21 of our Articles of Association read with Article 66 of Table A in Schedule I to the Companies Act specifically provide that our Directors are not required to hold any qualification shares.

**REVALUATION OF ASSETS**

We have not revalued any of our Company 's assets since its inception.

**CLASSES OF SHARES**

Our authorized capital is Rs. 300,000,000 which is divided into 30,000,000 Equity Shares of Rs. 10 each.

**PAYMENT OR BENEFIT TO PROMOTERS OR OFFICERS OF THE COMPANY**

No amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to our Promoter or officers except (as already disclosed in this Preliminary Sale Document) for the normal remuneration and benefits for services rendered by our Directors, officers or employees and dividend.

## DIVIDEND POLICY

Pursuant to Gol, Ministry of Finance guidelines issued in June 2001 PSUs have to declare a dividend of 20% of post-tax profit or of equity capital whichever is higher. PSUs in the oil, petroleum, chemicals and infrastructure industries and PSUs not belonging to the industries have to respectively pay a dividend of at least 30% and 20% respectively of post-tax profits or 20% of equity share capital whichever is higher. Our Company is a non oil PSU. With a view to meet debt servicing and plan expenditure for coming years our Company has declared dividend less than the stipulated 20 % of post tax profit but in excess of 20% of paid-up capital of equity.

Details of the dividend paid by our Company to its shareholders in the last five fiscal years are set out below.

	<b>Fiscal 2003</b>	<b>Fiscal 2002</b>	<b>Fiscal 2001</b>	<b>Fiscal 2000</b>	<b>Fiscal 1999</b>
Face value of Equity Shares(in Rs. Per share)	10	10	10	10	10
Paid-up Capital (in Rs. Millions)	280	280	280	280	280
Dividend Rate	100%	75%	50% (including interim dividend of 25%)	50% (including interim dividend of 25%)	33%
Dividend amount (in Rs. Millions)	280	210	140	140	92.4
Dividend Tax (in Rs. Millions)	35.9	—	14.3	23.1	9.2

The amounts paid as dividend in the past are not indicative of our dividend policy in the future.

## STATEMENT OF TAX BENEFITS

### M/s Sriramamurthy & Co.

Chartered Accountants  
47-9-39/17, Flat No 3C  
Sai Sadan Apartments  
Dwaraka Nagar  
Visakhapatnam - 530 016

We hereby state the tax benefits available to M/s Dredging Corporation of India ("the Company") and its shareholders under the provisions of the Income Tax Act, 1961 and other direct and indirect tax laws presently in force.

The contents of this statement is based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

A shareholder is advised to consider in his own case the implications of an investment in the shares.

For and on behalf of  
**SRIRAMAMURTHY & CO.**  
Chartered Accountants

**D.Prasanna Kumar**  
Partner

Place: Mumbai  
Date: 21<sup>st</sup> January 2004

### A. To the Company - Under the Income Tax Act, 1961

- a. In accordance with and subject to the conditions specified in Section 33 AC of the Income Tax Act, 1961 the Company is entitled to deduction of the entire Taxable Income from business of Dredging to the extent of twice the aggregate of the paid-up Share Capital, the general reserves and amount credited to the Share premium Account. At present, the aggregate of these amounts in the hands of the Company is Rs 13157.2 million out of which an amount of Rs 2589.0 million has already been claimed as deduction. Thus, the Company need not pay tax on future Income to the extent of Rs 10568.2 million. However, the Income Tax department has disputed the stand of the Company classifying 'dredgers' as 'ships' for which the above benefit is available under section 33 AC and the cases are pending before the Appellate Authorities.
- b. As per provisions of the withdrawn Section 80I of the Income Tax Act, the Company is entitled to claim deduction at 25% from the profit earned by the following Dredgers up to the year mentioned below:

S.No.	Name of the Dredger	Up to Fin. Year
1)	Dredge XV	2006-07
2)	Dredge XVI	2007-08
3)	Dredge XVII	2008-09

- c. In accordance with and subject to the provisions of Section 35, the Company would be entitled to deduction in respect of expenditure on Scientific Research related to the Business.

### B. To the Members of the Company - Under the Income Tax Act, 1961

#### B.1 Resident Members

- a. In terms of Section 10(23) of the Income Tax Act, 1961 all Mutual Funds set up by Public Sector Banks or Public Financial Institutions or Mutual Funds registered under the Securities and Exchange Board of India or authorized by the Reserve Bank of India, subject to the conditions specified therein are eligible for exemption from income tax on all their income, including income from investment in the shares of the company.
- b. By virtue of Section 10 (34) of the IT Act, dividend income referred to in Section 115-0 of the IT Act, are exempt from tax in the hands of the shareholders.

- c. By virtue of insertion of new Section 10(36) of the IT Act, any income arising to the shareholder from the transfer of a long term capital asset being an eligible equity share in a company purchased on or after the 1st day of March 2003 and before 1st day of March 2004 and held for a period of twelve months or more would not be liable to tax in the hands of the shareholder. The transaction of purchase and sale of such equity share are entered into on a recognised stock exchange in India

For this purpose “eligible equity share” means

- Any equity share in a company being a constituent of BSE - 500 Index of the Stock Exchange, Mumbai as on 1.3.2003.
  - Any equity share in a company allotted through a ‘public issue’ on or after 1.3.2003 and listed in a recognized stock exchange in India before 1.3.2004
  - “Public issue” as mentioned above includes the offer of equity shares in a company to the public through a prospectus whether by the company or the existing shareholders of the company.
- d. Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under Section 10(36) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of 3 years in bonds issued by
- National Bank for Agriculture and Rural Development established under Section 3 National Bank for Agriculture and Rural Development Act, 1981;
  - National Highway Authority of India constituted under Section 3 of National Highway Authority of India Act, 1988;
  - Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956;
  - National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987;
  - Small Industries Development Bank of India established under Section 3(1) of the Small Industries Development Bank of India Act, 1989;
- e. Under Section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (in cases not covered under Section 10(36) of the Act) on the transfer of shares of the Company, as and when it is listed, will be exempt from capital gains tax if the capital gain are invested in shares of an Indian Company forming part of a eligible public issue, within a period of 6 months after the date of such transfer.
- f. Under Section 54F of the Income Tax Act, 1961 long term capital gains (in cases not covered under Section 10(36) of the Act) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gain tax subject to other conditions, if the sale proceeds from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
- g. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act long term capital gains arising (in cases not covered under Section 10(36) of the Act), i.e., if shares are held for a period exceeding 12 months, on transfer of shares in the Company, as and when it is listed, shall be taxed at a rate of 20% (plus applicable surcharge) after indexation as provided in the second proviso to Section 48 or at 10% (plus applicable surcharge) without indexation, at the option of the shareholder.

## **B.2 Non-Resident Indians/ Non Residents Members [Other than FIIs and Foreign venture capital investors]**

- a. By virtue of Section 10 (34) of the IT Act, dividend income referred to in Section 115-0 of the IT Act, are exempt from tax in the hands of the shareholders.
- b. By virtue of insertion of new Section 10(36) of the IT Act, any income arising to the shareholder from the transfer of a long term capital asset being an eligible equity share in a company purchased on or after the 1st day of March 2003 and before 1st day of March 2004 and held for a period of twelve months or more would not be liable to tax in the hands of the shareholder. The transaction of purchase and sale of such equity share are entered into on a recognised stock exchange in India

For this purpose “eligible equity share” means

- Any equity share in a company being a constituent of BSE - 500 Index of the Stock Exchange, Mumbai as on 1.3.2003.

- Any equity share in a company allotted/transferred through a 'public issue' on or after 1.3.2003 and listed in a recognized stock exchange in India before 1.3.2004
  - "Public issue" as mentioned above includes the offer of equity shares in a company to the public through a prospectus whether by the company or the existing shareholders of the company.
- c. A non-resident Indian (i.e. an individual being a citizen of India or person of Indian origin) has an option to be governed by the provisions of Chapter XII-A of the Income Tax Act, 1961 viz. "Special Provisions Relating To Certain Incomes of Non-Residents".
- d. Under Section 115E of the Income Tax Act, 1961, where shares in the company are subscribed for in convertible Foreign Exchange by a Non Resident Indian, capital gains arising to the non-resident on transfer of shares held for a period exceeding 12 months shall (in cases not covered under Section 10(36) of the Act) be concessionaly taxed at the flat rate of 10%. (Without indexation benefit and protection against foreign exchange fluctuation plus applicable Surcharge).
- e. Under provisions of Section 115F of the Income Tax Act, 1961 long term capital gains (not covered under Section 10(36) of the Act) arising to a non-resident Indian from the transfer of shares of the company subscribed to in convertible Foreign Exchange shall be exempt from Income tax, if the net consideration is reinvested in specified assets within six months of the date of transfer. If only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.
- f. Under provisions of Section 115G of the Income Tax Act, 1961 it shall not be necessary for a Non-Resident Indian to furnish his return of income if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted therefrom.
- g. Under Section 115I of the Income Tax Act, 1961, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any Assessment Year by furnishing his Return of Income under Section 139 of the Income Tax Act declaring therein that the provisions of the chapter shall not apply to him for that assessment year and if he does so the provisions of this chapter shall not apply to him instead the other provisions of the Act shall apply.
- h. Under the first proviso to Section 48 of the Income Tax Act, 1961, in case of a non-resident, in computing the capital gains arising from transfer of shares of the company acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case.
- i. Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10(36) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of 3 years in bonds issued by
- National Bank for Agriculture and Rural Development established under Section 3 National Bank for Agriculture and Rural Development Act, 1981;
  - National Highway Authority of India constituted under Section 3 of National Highway Authority of India Act, 1988;
  - Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956;
  - National Housing Bank established under Section 3(1) of the National Housing Bank Act, 1987; and
  - Small Industries Development Bank of India established under Section 3(1) of the Small Industries Development Bank of India Act, 1989;
- j. Under Section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10(36) of the Act) on the transfer of shares of the Company, as and when it is listed, will be exempt from capital gains tax if the capital gain are invested in shares of an Indian Company forming part of a eligible public issue, within a period of 6 months after the date of such transfer.
- k. Under Section 54F of the Income Tax Act, 1961 long term capital gains (not covered under Section 10(36) of the Act) arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gain tax subject to other conditions, if the sale proceeds from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

- I. Under Section 112 of the Income Tax Act, 1961 and other relevant provisions of the Act, long term capital gains (not covered under Section 10(36) of the Act) arising on transfer of shares in the Company, as and when it is listed, i.e. if shares are held for a period exceeding 12 months shall be taxed at a rate of 20% (plus applicable surcharge) [after indexation as provided in the second proviso to Section 48; indexation not available if investments made in foreign currency as per the first proviso of Section 48 stated above] or at 10% (plus applicable surcharge) [without indexation], at the option of the shareholder.

### **B.3 Foreign Institutional Investors [FIIs]**

- a. By virtue of Section 10 (34) of the IT Act, dividend income referred to in Section 115-0 of the IT Act, are exempt from tax in the hands of the shareholders of the Company.
- b. By virtue of insertion of new Section 10(36) of the IT Act, any income arising to the shareholder from the transfer of a long term capital asset being an eligible equity share in a company purchased on or after the 1st day of March 2003 and before 1st day of March 2004 and held for a period of twelve months or more would not be liable to tax in the hands of the shareholder. The transaction of purchase and sale of such equity share are entered into on a recognised stock exchange in India

For this purpose “eligible equity share” means

- Any equity share in a company being a constituent of BSE - 500 Index of the Stock Exchange, Mumbai as on 1.3.2003.
  - Any equity share in a company allotted/transferred through a ‘public issue’ on or after 1.3.2003 and listed in a recognized stock exchange in India before 1.3.2004
  - “Public issue” as mentioned above includes the offer of equity shares in a company to the public through a prospectus whether by the company or the existing shareholders of the company.
- c. The income by way of short term capital gains or long term capital gains (not covered under Section 10(36) of the Act) realized by FIIs on sale of shares in the company would be taxed at the following rates as per section 115AD of the Income Tax Act, 1961
    - Short term capital gains - 30% (plus applicable surcharge)
    - Long term capital gains - 10% (without cost indexation plus applicable surcharge)

(Shares held in a company would be considered as a long-term capital asset provided they are held for a period exceeding 12 months.)

- d. Under Section 54EC of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10(36) of the Act) arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of 3 years in bonds issued by:
  - National Bank for Agriculture and Rural Development established under Section 3 National Bank for Agriculture and Rural Development Act, 1981;
  - National Highway Authority of India constituted under Section 3 of National Highway Authority of India Act, 1988; .
  - Rural Electrification Corporation Limited, the company formed and registered under the Companies Act, 1956;
  - National Housing Bank established under Section 3( 1) of the National Housing Bank Act, 1987; and
  - Small Industries Development Bank of India established under Section 3(1) of the Small Industries Development Bank of India Act, 1989;
- e. Under Section 54ED of the Income Tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains (not covered under Section 10(36) of the Act) on the transfer of shares of the Company, as and when it is listed, will be exempt from capital gains tax if the capital gain are invested in shares of an Indian Company forming part of a eligible public issue, within a period of 6 months after the date of such transfer.

### **B.4 Venture Capital Companies/ Funds**

In terms of Section 10(23FB) of the Income Tax Act, 1961 all Venture capital companies/ funds registered with Securities and Exchange Board of India, subject to the conditions specified, are eligible for exemption from income tax on all their income, including income from sale of shares of the company.

**C. Benefits to Members of the Company under the Wealth Tax Act, 1957**

Shares of the company held by the shareholder will not be treated as an asset within the meaning of Section 2(ea) of Wealth Tax Act, 1957, hence Wealth Tax Act will not be applicable.

**D. Benefits to Members of the Company under the Gift Tax Act, 1957**

Gifts of shares of the company made on or after October 1, 1998 would not be liable to Gift tax.

**Notes**

- All the above benefits are as per the current tax law as amended by the Finance Act, 2003 and will be available only to the sole/first named holder in case the shares are held by joint holders.
- In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.

In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her participation in the scheme.

## RELATED PARTY TRANSACTIONS

### Summary of significant transactions with related parties (as defined by Accounting Standard 18 – ‘RELATED PARTIES’ issued by the Institute of Chartered Accountants of India)

Names of related parties and nature of relationship are summarized below:

Sr. No.	Category of related parties	Six months ended September 30, 2003 Names	Year ended March 31, 2003 Names	Year ended March 31, 2002 Names	Year ended March 31, 2001 Names
1.	Associates	a. Dredge Repair Company of India Ltd <sup>(1)</sup>	a. Dredge Repair Company of India Ltd	a. Dredge Repair Company of India Ltd	NA
2.	Directors	a. Mr. N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao	a. Mr N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao	a. Mr N. K. Gupta b. Mr. C. S. Sastry c. Mr. A. K. Dhar d. Mr. G. G. Rao	a. Mr. C. S. Sastry b. Mr. A. K. Dhar
3.	Key Managerial Personnel	a. Mr. K. Kiriti b. CDR. A. K. Kar c. Mr. M.N.K.S. Varma d. Capt. M.V.R. Murthy e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. Subba Rao h. Capt A. K. Nanda i. Mr. S.S. Raghveer	a. Mr. K. Kiriti b. Mr. K. Madhava Rao c. Mr. T. Anand d. Mr. M.N.K.S. Varma e. Capt. M.V. Rao f. Capt. A. K. Nanda g. Mr. P. Rama Rao h. Mr. V.V.N. Murthy i. Mr. Y. V. SubbaRao j. Mr. S.S. Raguveer	a. Mr. K. Kiriti b. Mr. S. S. Raguveer c. Mr. M.N.K.S. Varma d. Capt. M.V. Rao e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. SubbaRao	a. Mr. K. Kiriti b. Mr. Dwarakavas c. Mr. G. G. Rao d. Mr. K.V.S. Rao e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. Subba Rao

<sup>1</sup>Refer setion titled ‘Group Companies including subsidiaries’ for more information.

(Rs. million)

Name of the transactions	September 30, 2003			March 31, 2003			March 31, 2002			March 31, 2001	
	Amount Recoverable	Remuneration	Advances	Amount Recoverable	Remuneration	Advances	Amount Recoverable	Remuneration	Advances	Remuneration	Advances
Associate	0.7			0.7			0.7				
Directors		0.9	0.1		1.9	0.0		2.5	0.0	1.3	0.0
Key Managerial Personnel		1.8	0.5		3.5	0.6		3.1	0.9	1.7	0.2
<b>Total</b>	<b>0.7</b>	<b>2.7</b>	<b>0.6</b>	<b>0.7</b>	<b>5.4</b>	<b>0.6</b>	<b>0.7</b>	<b>5.6</b>	<b>0.9</b>	<b>3.0</b>	<b>0.2</b>

**Note:**

As per the exemption available in clause 9 of the Accounting Standard 18 relating to Related Party Disclosures issued by the Institute of Chartered Accountants of India, transactions with the state owned entities have not been included in the related parties transactions.

## MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

Pursuant to the provisions of Sections 12 and 13 of Part II to Schedule II of the Companies Act and Clauses 6. 19.12 and 6. 19. 13 of Chapter 6 to the SEBI Guidelines, the main provisions of the Articles of Association of DCI relating to voting rights, dividend, lien on Equity Shares, modification of rights, forfeiture of Equity Shares, restrictions on transfer and transmission of Equity Shares/debentures and/or on their consolidation /splitting are detailed below. Table A of Schedule I to the Companies Act is applicable to the Company by virtue of Article 1 of our Articles of Association. Certain provisions not contained in our Articles, which find place in Table A are, reproduced below.

Main Provisions of the Articles of Association including applicable provisions Table A of Schedule 1 to the Companies Act

### SHARE CAPITAL AND VARIATION OF RIGHTS - Provisions of Table A

- Article 3(1) - "If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the provisions of Sections 106 and 107, and whether or not the company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class."
- Articles 3(2)- "To every such separate meeting, the provisions of these regulations relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class in question. "
- Article 4- "The rights conferred upon the holders of the shares of any class issued with preferred or other right shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith."

### VOTE OF MEMBERS

- Article 16 (a)- "The President may, so long as he is member of the Company within the meaning of the Act authorize from time to time such persons, whether a member of the Company or not as he thinks fit to act as his representative at any General Meeting of the Company or at any meeting of any class of members of the Company".
- Article 16 (b) - "The President may, if he is a creditor (including a holder of debentures) of the Company within the meaning of the Act authorize from time to time such person as he thinks fit to act as his representative at any meeting of any creditors of the Company held in pursuance of the Act of any rules made therein or in pursuance of the provisions contained in any debenture or trust deed, as the case may be."
- Article 16 (c)- "The President may, from time to time, revoke or cancel any authorization made in sub-clause (a) or sub-clause (b) of this Article and made any fresh authorization or authorizations."
- Article 16 (d)- "The production at the meeting of the Company or at the meeting of any creditors of the Company of an order made executed in the name of the President authenticated as provided by the Constitution of India in respect of such authorization, revocation or cancellation as aforesaid shall be accepted by the Company as sufficient and conclusive evidence thereof."
- Article 16 (e)- "Any person authorized by the President to represent him as aforesaid may, if so authorized by the order of the President appoint another person [whether a member or not], as a proxy or substituted authority, whether special or general, to represent the President as aforesaid."
- Article 16 (f)- "Any person authorized or appointed as aforesaid shall be entitled to exercise the same rights or powers including the right to vote by proxy, on behalf of the President."
- Article 17 - "Upon a show of hands, every member present in person shall have one vote and upon poll, the voting rights of member, shall be laid down as in Section 87 of the Act. Votes on behalf of the President shall be given as provided in Art 16."

### VOTES OF MEMBERS - Provisions of Table A

- Article 56 - "Subject to any rights or restrictions for the time being attached to any class or classes of shares,—(a) on a show of hands, every member present in person shall have one vote ; and (b) on a poll, the voting rights of members shall be as laid down in Section 87."
- Article 57- "In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.
- For this purpose, seniority shall be determined by the order in which the names stand in the register of members. "

- Article 58 - "A member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee or other legal guardian, and any such committee of guardian may, on a poll, vote by proxy."
- Article 59- "No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the company have been paid."
- Article 60 - "(1) No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes.  
(2) Any such objection made in due time shall be referred to the chairman of the meeting, whose decision shall be final and conclusive. "
- Article 61 - " The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, shall be deposited at the registered office of the company not less than 48 hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote, or, in the case of a poll, not less than 24 hours before the time appointed for the taking of the poll; and in default the instrument of proxy shall not be treated as valid."
- Article 62 - "An instrument appointing a proxy shall be in either of the forms in Schedule IX to the Act or a form as near thereto as circumstances admit."
- Article 63 - "A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the previous death or insanity of the principal or the revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given:  
Provided that no intimation in writing of such death, insanity revocation or transfer shall have been received by the company at its office before the commencement of the meeting or adjourned meeting at which the proxy is used."

#### **LIEN ON SHARES**

- Article 7- "The Company shall have a first and paramount lien upon all the shares (other than fully paid-up shares) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all monies (whether presently payable or not) called or payable at a fixed time in respect of such shares and no equitable interest in any shares shall be created except up to the footing and condition that shall be created except upon the footing and condition that this article will have full effect. And such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares. Unless otherwise agreed the registration of a transfer of shares shall operate as a waiver of the company's lien, if any, on such shares. The Directors may at any time declare any shares wholly or in part to be exempt from the provision of this clause."

#### **LIEN - Provisions of Table A**

- Article 10- "The company may sell, in such manner as the Board thinks fit, any shares on which the company has a lien:  
Provided that no sale shall be made: -  
(a) unless a sum in respect of which the lien exists is presently payable; or  
(b) until the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder for the time being of the share or the person entitled thereto by reason of his death or insolvency."
- Article 11 - "(1) To give effect to any such sale, the Board may authorize some person to transfer the shares sold to the purchaser thereof.  
(2) The purchaser shall be registered as the holder of the shares comprised in any such transfer.  
(3) The purchaser shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale."
- Article 12 - "(1) The proceeds of the sale shall be received by the company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable.  
(2) The residue, if any, shall, subject to a like lien for sums not presently payable as existed upon the shares before the sale, be paid to the person entitled to the shares at the date of the sale."

## **CALLS ON AND FORFEITURE OF SHARES**

- Article 8 - “(1) All the provisions contained in Schedule 1. Table A of the Act in respect of calls of shares and forfeiture thereof shall apply to the company except the provision to Regulation 13(l) thereof.
- (2) Monies paid in advance of calls shall not in respect thereof confer a right to dividend or to participate in the profits of the company.
- (3) No unclaimed dividend shall be forfeited by the board and the company shall comply with all the provisions of Section 205-A of the Act. In respect of all unclaimed or unpaid dividend.”

### **CALLS ON SHARES - Provisions of Table A**

- Article 13- “(1) The Board may, from time to time, make calls upon the members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of transfer thereof made payable at fixed times:
- Provided that no call shall exceed one-fourth of the nominal value of the share or be payable at less than one month from the date fixed for the payment of the last preceding call.
- (2) Each member shall, subject to receiving at least fourteen days’ notice specifying the time or times and place of payment, pay to the company, at the time or times and place so specified, the amount called on his shares.
- (3) A call may be revoked or postponed at the discretion of the Board.”
- Article 14- “A call shall be deemed to have been made at the time when the resolution of the Board authorizing the call was passed and may be required to be paid by installments.”
- Article 15- “The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.”
- Article 16- “(1) If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest thereon from the day appointed for payment thereof to the time of actual payment at five per cent per annum or at such lower rate, if any, as the Board may determine.
- (2) The Board shall be at liberty to waive payment of any such interest wholly or in part.”
- Article 17- “(1) Any sum which by the terms of issue of a share becomes payable on transfer or at any fixed date, whether on account of the nominal value of the share or by way of premium, shall, for the purposes of these regulations, be deemed to be a call duly made and payable on the date on which by the terms of issue such sum becomes payable.
- (2) In case of non-payment of such sum, all the relevant provisions of these regulations as to payment of interest and expenses, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.”
- Article 18- “The Board -
- (a) may, if it thinks fit, receive from any member willing to advance the same, all or any part of the monies uncalled and unpaid upon any shares held by him; and
- (b) upon all or any of the monies so advanced, may (until the same would, but for such advance, become presently payable) pay interest at such rate not exceeding, unless the company in general meeting shall otherwise direct, six per cent. per annum, as may be agreed upon between the Board and the member paying the sum in advance.”

### **FORFEITURE OF SHARES - Provisions of Table A**

- Article 29- “If a member fails to pay any call, or installment of a call, on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or installment remains unpaid, serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued.”
- Article 30- “The notice aforesaid shall: -
- (a) name a further day (not being earlier than the expiry of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made; and
- (b) state that, in the event of non-payment on or before the day so named, the shares in respect of which the call was made will be liable to be forfeited.”

- Article 31- "If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect."
- Article 32- "(1) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board thinks fit.  
(2) At any time before a sale or disposal as aforesaid, the Board may cancel the forfeiture on such terms as it thinks fit."
- Article 33- "(1) A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the company all monies which, at the date of forfeiture, were presently payable by him to the company in respect of the shares.  
(2) The liability of such person shall cease if and when the company shall have received payment in full of all such monies in respect of the shares."
- Article 34- "(1) A duly verified declaration in writing that the declarant is a director, the manager or the secretary, of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share.  
(2) The company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favor of the person to whom the share is sold or disposed of.  
(3) The transferee shall thereupon be registered as the holder of the share.  
(4) The transferee shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share."
- Article 35- "The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified."

#### **TRANSFER AND TRANSMISSION OF SHARES**

- Article 10- "Subject to the provisions of Section 111 of the Act, the Board may, at its own absolute and controlled discretion and without assigning any reason, decline to register or acknowledge any Transfer of shares, whether fully paid or not (notwithstanding that the proposed Transferee be already a member), but in such cases it shall, within one month from the date on which the instrument of Transfer was lodged with the company, send to the Transferee and the Transferor notice of the refusal to register such transfer, provided that registration of a transfer shall not be refused on the ground of the Transferor being either alone or jointly with any other person or persons indebted to the company on any account whatsoever except a lien on the shares.  
  
In the case of death of any one or more of the persons named in the Register as the joint holders of any share, the survivor or the survivors shall be the only persons recognised by the Company as having any title to interest in such share, but nothing herein, contained shall be taken to release the estate of a deceased joint-holder from any liability on shares held by him jointly with any person."
- Article 10A- "Upon show of hands every member present shall have one vote and upon poll the voting rights of the members shall be laid down as in Section 87 of the Act. Votes on behalf of the President shall be given as provided in Article 16."

#### **TRANSFER OF SHARES - Provisions of Table A**

- Article 19- "(1) The instrument of transfer of any share in the company shall be executed by or on behalf of both the transferor and transferee.  
(2) The transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof."
- Article 20- "Subject to the provisions of Section 108, the shares in the company shall be transferred in the Share Transfer Form."
- Article 21- "The Board may, subject to the right of appeal conferred by Section 111, decline to register: -  
(a) the transfer of a share, not being a fully paid share, to a person of whom they do not approve; or  
(b) any transfer of shares on which the company has a lien."

- Article 22- "The Board may also decline to recognize any instrument of transfer unless -
- (a) a fee of two rupees is paid to the company in respect thereof;
  - (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; and
  - (c) the instrument of transfer is in respect of only one class of shares."
- Article 23- "Subject to the provisions of Section 154, the registration of transfers may be suspended at such times and for such periods as the Board may from time to time determine:
- Provided that such registration shall not be suspended for more than thirty days at any one time or for more than forty-five days in the aggregate in any year."
- Article 24- "The company shall be entitled to charge a fee not exceeding two rupees on the registration of every probate, letters of administration, certificate of death or marriage, power of attorney, or other instrument."

#### **TRANSMISSION OF SHARES - Provisions of Table A**

- Article 26- "(1) Any person becoming entitled to a share in consequence of the death or insolvency of a member may, upon such evidence being produced as may from time to time properly be required by the Board and subject as hereinafter provided, elect, either: -
- (a) to be registered himself as holder of the share; or
  - (b) to make such transfer of the share as the deceased or insolvent member could have made.
- (2) The Board shall, in either case, have the same right to decline or suspend registration, as it would have had, if the deceased or insolvent member had transferred the share before his death or insolvency."
- Article 27- "(1) If the person so becoming entitled shall elect to be registered as holder of the share himself, he shall deliver or send to the company a notice in writing signed by him stating that he so elects.
- (2) If the person aforesaid shall elect to transfer the share, he shall testify his election by executing a transfer of the share.
- (3) All the limitations, restrictions and provisions of these regulations relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or insolvency of the member had not occurred and the notice or transfer were a transfer signed by that member."
- Article 28- "A person becoming entitled to a share by reason of the death or insolvency of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company:
- Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or to transfer the share, and if the notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share, until the requirements of the notice have been complied with."

#### **BOARD OF DIRECTORS**

- Article 19- "(a) The Chairman of the Board of Directors and the Government representatives, including at least one Finance representative, shall be appointed by the President of India. Other Members of the Board of Directors shall be appointed or reappointed by the President of India in consultation with the Chairman of the Board of Directors. The Directors shall be appointed for such period and shall be paid such remuneration as the President of India may, from time to time, determine.
- (b) The President of India at his discretion may appoint the same person or two different persons as the Chairman of the Board of Directors and the Managing Director of the Company for such period and on such terms and conditions as he may think fit and may revoke such appointment. The Chairman and the Managing Director appointed shall be entitled to hold office until the expiry of their respective tenures unless either or both is/are removed earlier by the President of India and any vacancy arising either by death, removal, resignation or otherwise may be filled by fresh appointment by the President of India.

- (c) The President of India may from time to time remove any Director from Office before the expiry of the period referred to in Article 19(a) and may appoint another in his place. The President of India may also fill up any vacancy caused by the death, resignation, retirement or otherwise of a Director.”

#### **MANAGEMENT OF BUSINESS**

Article 26- “Notwithstanding anything contained in these articles, the Chairman shall reserve for the consideration of the President the following matters relating to the working of the Company, namely:

- a) Calling up unpaid capital or increase in the authorized capital of the Company or issuing of any unissued shares forming part of the original authorized capital and fixing the terms and conditions on which the capital is to be raised.
- b) \*
- c) Appointment of any foreign national.
- d) Disposal of any property having an original book value of Rs. 25 lakhs and above.
- e) Formation of subsidiary companies.
- f) Any proposal for action relating to reduction of capital.
- g) Implementation of the Company’s five year plans and annual plans of development and capital budget.
- h) Agreements involving any foreign collaboration or consultancy proposed to be entered into by the company.
- i) Appointments of persons who have already attained the age of 58 years to post carrying a monthly salary of Rs. 5700\*\* and above.
- j) Voluntary winding up of the company.
- k) Any important matter relating to the Company’s establishment.
- l) Any other matter which in his opinion involves an important issue of general policy.
- m) Entering into partnership and/or arrangement for sharing profit.
- n) Taking or otherwise acquiring and holding share in any other Company.
- o) Division of Capital into different classes of shares.
- p) Promotion of a new company.

No action shall be taken by the company, in respect of any matter reserved for consideration of the President as aforesaid until his approval to the same has been obtained.”

#### **PRESIDENT’S RIGHTS TO ISSUE DIRECTIVE**

Article 28- “Notwithstanding anything contained in these Articles, the President may, from time to time, issue such directives or instructions as may be considered necessary in regard to the finances, conduct of business and affairs of the Company. The Company shall give immediate effect to the directions or instructions so issued. In particular, the President shall have the powers:

- (i) To give directions to the Company as to the exercise and performance of its functions in matters involving national security or substantial public interest.
- (ii) To call for such reports, accounts and other information with respect to property and activities of the company, as may be required from time to time.”

Article 29- “The Company shall, whenever its Revenue Budget for any financial year shows an element of deficit which is proposed to be met by obtaining funds from the Government, submit the same to the President for approval.”

## **CONSOLIDATION/SPLITTING OF SHARES –Provisions of Table A**

- Article 45- “The company may, by ordinary resolution, -
- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
  - (b) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the memorandum, subject, nevertheless, to the provisions of clause (d) of sub-Section (1) of Section 94;
  - (c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person”

## **DIVIDENDS AND RESERVES – Provisions of Table A**

- Article 85- “The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board.”
- Article 86- “The Board may from time to time pay to the members such interim dividends as appear to it to be justified by the profits of the company.”
- Article 87- “(1) The Board may, before recommending any dividend, set aside out of the profits of the company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the company may be properly applied, including provision for meeting contingencies or for equalizing dividends; and pending such application, may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the Board may, from time to time, think fit.
- (2) The Board may also carry forward any profits which it may think prudent not to divide, without setting them aside as a reserve.”
- Article 88- “(1) Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but if and so long as nothing is paid upon any of the shares in the company, dividends may be declared and paid according to the amounts of the shares.
- (2) No amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this regulation as paid on the share.
- (3) All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date such share shall rank for dividend accordingly.”
- Article 89- “The Board may deduct from any dividend payable to any member all sums of money if any, presently payable by him to the company on account of calls or otherwise in relation to the shares of the company.”

**FINANCIAL STATEMENT UNDER INDIAN GAAP AS AT AND FOR THE SIX  
MONTHS ENDED SEPTEMBER 30, 2003.**

**M/s. Sriramamurthy & Co.**

Chartered Accountants  
47-9-39/17, Flat No 3C  
Sai Sadan Apartments  
Dwaraka Nagar  
Visakhapatnam - 530 016

**Auditors' Report**

To The Board of Directors  
Dredging Corporation of India Limited  
Dredge House, Port Area  
Visakhapatnam – 530 035

We have audited the attached Balance Sheet of the Dredging Corporation of India Limited ("the Company") as at September 30, 2003, the Profit and Loss account and the Cash Flow statement of the Company for the six months ended on that date annexed thereto. (Financial statements as at and for the six months ended September 30, 2002 have been audited by us and adopted here). These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We report that:

- (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- (c) The Balance Sheet, Profit and Loss account and the Cash Flow statement dealt with by this report are in agreement with the books of account;
- (d) In our opinion, the Balance Sheet, Profit and Loss account and the Cash Flow statement dealt with by this report comply with the Accounting Standards referred to in sub section (3C) of section 211 of the Companies Act, 1956;
- (e) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India.
  1. in the case of Balance Sheet, of the state of affairs of the Company as at 30th September, 2003;
  2. in the case of the Profit and Loss Account, of the profit for the six months ended on that date; and
  3. in the case of Cash Flow Statement, of the cash flows for the six months ended on that date.

**FOR SRIRAMAMURTHY & CO.**

Chartered Accountants

Place: Mumbai

Date: 21st January 2004

**D.PRASANNA KUMAR**

Partner

## Balance Sheet as at

(Rs. million)

	Schedule	September 30 2003		September 30, 2002	
<b>SOURCES OF FUNDS</b>					
<b>Shareholders' funds:</b>					
Share Capital	II	280.0		280.0	
Reserves and Surplus	III	7074.7	7354.7	5485.0	5765.0
<b>Loan funds:</b>					
Unsecured loans	IV		1091.8		1376.8
<b>Deferred Tax Liability</b>	V		457.3		311.4
<b>Total</b>			<b>8903.8</b>		<b>7453.2</b>
<b>APPLICATION OF FUNDS</b>					
<b>Fixed assets</b>					
Gross block	VI	8300.0		8195.2	
Less: Accumulated depreciation		4055.4		3543.5	
Net block		4244.6		4651.7	
Capital work- in – progress		131.1	<b>4375.7</b>	85.7	<b>4737.4</b>
<b>Investments</b>					
<b>Current assets, loans and advances</b>					
Inventories	VII	93.7		119.2	
Sundry Debtors	VIII	1658.9		1235.5	
Cash and Bank Balances		2912.9		1494.7	
Other Current Assets		602.1		499.2	
Loans and Advances		752.0		370.7	
		<b>6019.6</b>		<b>3719.3</b>	
<b>Less: Current liabilities and provisions</b>					
Current Liabilities	IX	981.5		860.3	
Provisions		510.0		143.2	
		<b>1491.5</b>	<b>4528.1</b>	<b>1003.5</b>	<b>2715.8</b>
<b>Total</b>			<b>8903.8</b>		<b>7453.2</b>
Notes to accounts	XVIII				
Accounting Policies	I				

Schedules referred to above form an integral part of the accounts.

For and on behalf of the Board of Directors

Place : Mumbai

Date : 21st January 2004

K. Kiriti  
Joint General  
Manager (Finance)Y.V. Subba Rao  
Company SecretaryA. K. Dhar  
Director (Finance)N. K. Gupta  
Chairman and  
Managing DirectorAs per our Report of even date  
FOR SRIRAMAMURTHY & CO.  
Chartered Accountants

Place : Mumbai

Date : 21st January 2004

D. Prasanna Kumar  
Partner

**Profit and Loss Account for the half year ended**

(Rs. million)

	Schedule	September 30	
		2003	2002
<b>INCOME FROM:</b>			
Operations	X	2391.6	2119.0
Others	XI	126.4	70.9
		<b>2518.0</b>	<b>2189.9</b>
<b>EXPENDITURE ON:</b>			
Operations	XII	1414.3	1276.7
Administration	XIII	99.9	105.7
Interest		18.5	46.8
Depreciation		251.3	241.1
Provisions	XIV	81.2	144.1
		<b>1865.2</b>	<b>1814.4</b>
<b>PROFIT BEFORE EXTRAORDINARY ITEMS &amp; PRIOR PERIOD ADJUSTMENTS:</b>		<b>652.8</b>	<b>375.5</b>
Extraordinary items	XV	0.0	1.4
Prior period adjustments	XVI	(0.1)	2.3
Add: Provisions no longer required written back	XVII	197.6	382.1
<b>PROFIT BEFORE TAX</b>		<b>850.3</b>	<b>761.3</b>
Less: Provision for Income Tax			
- Current		5.0	1.6
- Deferred		69.3	166.0
<b>PROFIT AFTER TAX</b>		<b>776.0</b>	<b>593.7</b>
Add/ Deduct: Excess /short provisions of Income Tax relating to earlier years		0.0	0.0
<b>Balance of Profit</b>		<b>776.0</b>	<b>593.7</b>
Deduct: Transfer to Reserve U/s 33 AC of IT Act		668.9	367.3
Add: Balance brought forward from previous year		287.6	585.2
Deduct: Proposed Dividend		0.0	0.0
Dividend Tax thereon		0.0	0.0
Deduct: Transfer to General Reserve		0.0	0.0
Balance of profit carried to balance sheet		394.7	811.6
Earnings per share: Basic and Diluted (not annualized) (Rs. per equity share of Rs. 10 each)	XIX	27.71	21.20
Notes on Accounts	XVIII		

Schedules referred to above form an integral part of the accounts.

For and on behalf of the Board of Directors

Place : Mumbai

Date : 21st January 2004

K. Kiriti  
Joint General  
Manager (Finance)

Y.V. Subba Rao  
Company Secretary

A. K. Dhar  
Director (Finance)

N. K. Gupta  
Chairman and  
Managing Director

As per our Report of even date  
FOR SRIRAMAMURTHY & CO.  
Chartered Accountants

Place : Mumbai

Date : 21st January 2004

D. Prasanna Kumar  
Partner

Cash Flow Statement for the half year ended

(Rs. million)

	September 30 2003		September 30, 2002	
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
<b>Profit before Tax</b>		<b>850.3</b>		<b>761.3</b>
Less: Extraordinary items		0.0		(1.4)
		<b>850.3</b>		<b>759.9</b>
<b>ADJUSTMENT FOR:</b>				
Depreciation	251.3		241.1	
Interest Expense	18.5		46.8	
Interest Income	(90.9)	178.9	(64.7)	223.2
<b>Operating Profit before working capital changes:</b>		<b>1029.2</b>		<b>983.1</b>
Increase in inventory	(32.2)		(18.2)	
Increase in Sundry Debtors	(366.2)		(49.6)	
Increase in other current Assets	(245.8)		(9.5)	
Increase in Trade Payables	110.2	(534.0)	(298.5)	(375.8)
Cash generated from operations		495.2		607.3
Less: Interest paid	(16.4)		(47.2)	
Add: Income Taxes refund	124.5	108.1	62.1	14.9
<b>Net Cash from operating activities (A)</b>		<b>603.3</b>		<b>622.2</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of Fixed Assets		(5.2)		(17.9)
Interest received		69.0		71.0
Proceeds from sale of equipments		0.0		1.6
<b>Net Cash from investing activities (B)</b>		<b>63.8</b>		<b>54.7</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>				
Payment of Long term Borrowings		(82.9)		(834.8)
Dividend Paid		0.0		(210.0)
<b>Net Cash from financing activities ( C )</b>		<b>(82.9)</b>		<b>(1044.8)</b>
<b>Net increase/decrease in cash and cash equivalents (A+B+C)</b>		<b>584.2</b>		<b>(367.9)</b>
<b>Cash &amp; Equivalents as at 01.04. (Opening Balance)</b>		<b>2328.7</b>		<b>1862.6</b>
<b>Cash &amp; Equivalents as at 30.09. (Closing Balance)</b>		<b>2912.9</b>		<b>1494.7</b>

For and on behalf of the Board of Directors

Place : Mumbai  
Date : 21st January 2004

K. Kiriti  
Joint General  
Manager (Finance)

Y.V. Subba Rao  
Company Secretary

A. K. Dhar  
Director (Finance)

N. K. Gupta  
Chairman and  
Managing Director

As per our Report of even date  
FOR SRIRAMAMURTHY & CO.  
Chartered Accountants

Place : Mumbai  
Date : 21st January 2004

D. Prasanna Kumar  
Partner

## Schedule I

### Accounting Policies

#### 1. Basis of Preparation of Financial Statements:

- a) The Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles.
- b) The Company generally follows mercantile system of accounting and recognizes significant items of income and expenditure on accrual basis.

#### 2. Operational Income:

- a) Unbilled values of works executed up to end of financial period are considered as income although bills are raised subsequently.  
The Corresponding debit balances are shown under "Current Assets-unbilled operational income receivable".
- b) Claims preferred on Customers for works/items not contemplated are considered as income on their acceptance.
- c) Income in respect of incomplete dredging jobs undertaken on insitu basis are accounted for on the basis of estimated realizable value of the work done up to end of financial period.

#### 3. Other Income:

- a) Interest on Fixed Deposits with Banks under reinvestment scheme is considered in accounts at the rates applicable to the total term of deposit compounding the interest receivable.
- b) Sale proceeds of condemned and unserviceable Spares, Stores, Empties, Waste Oil, etc are accounted for in the financial period of disposal.
- c) Claims against Suppliers for liquidated damages are accounted on final settlement of bills.
- d) Interests on Tax refunds are accounted on receipt basis.

#### 4. Operational Expenses:

- a) Spares and Stores:  
Spares and Stores, Oil and Lubricants delivered to the Crafts during the year and acknowledged by the Master/C.E.O. are charged to revenue. Provision is made in the accounts towards consumption of the material dispatched to crafts up to 30th June in respect of which acknowledgements are not received.
- b) Insurance:  
Final adjustments to Insurance Premium paid are considered in accounts on the basis of demands received.
- c) Repairs:  
Every ocean-going dredger will be dry-docked in every financial year. In case, as on the last day of any financial year, any dredger or dredgers has or have not been so dry-docked for any reason a provision for dry-dock expenditure as estimated by Technical Department of the Company is made in the accounts in the said financial year.

#### 5. Depreciation:

Depreciation is provided under straight-line method in accordance with Schedule XIV of the Companies Act read with Circular No.1/12/92-CL-V, Circular No.14/93, dt.20-12-93 issued by the Department of Company Affairs. In respect of following depreciation is provided on straight-line method at the following rates based on the technical estimation of the useful lives of such assets:-

- a) Pipeline Equipment: 25% for Mild Steel Pipeline equipment and 12.5% for High Density polyethylene pipeline equipment.
- b) Second hand assets: as per the estimated balance service life.
- c) Exchange rate variation: Any Change in the value of asset due to exchange rate variation is provided for the balance un-expired life of the asset.
- d) Leasehold land: Leasehold land is amortised over the period of lease.
- e) Building on lease: Cost of Buildings constructed on leasehold land is amortised over the lease period.
- f) Cost of Library: Cost of Library is considered as other Establishment expenditure.

**6. Fixed Assets:**

- a) Fixed Assets are stated at historical cost less depreciation (historical cost include financing cost and other related overheads)
- b) Items of Fixed Assets of a value of less than Rs.5000/- (Rupees Five thousand only) each are capitalized and 100% depreciation charged in the year. However, numerical account of such assets is maintained.
- c) Grants in Aid relating to specific Fixed Assets are shown as deduction from the gross value of the assets concerned in arriving at book value.

**7. Transaction of Foreign Currencies:**

- a) Current Assets and Liabilities in Foreign Currencies are converted at financial period end exchange rate communicated by the bankers of the Company and resultant loss if any, is charged to Profit and Loss Account.
- b) In respect of assets acquired/constructed under foreign suppliers credit/foreign currency loans, the increase or decrease in the outstanding liability is ascertained on the basis of rate of exchange as on the last day of the financial period, communicated by the Bankers of the Company, and is adjusted in the cost and included in the carrying amount of the related fixed asset.
- c) Income & Expenditure is accounted for at average rate except depreciation, which is converted at the rates, adopted for the corresponding fixed assets.

**8. Stock of Spares and Stores:**

- a) Stock of spares and stores is valued at weighted average cost and is inclusive of:
  - i) Customs Duty, if any, as applicable to the whole consignment and
  - ii) Overheads at pre-determined rate.
- b) Reconditioned spares are valued at the respective cost of reconditioning.
- c) Value of Materials dispatched by Foreign Suppliers before the end of the financial period of a year is considered in the accounts of that period; provided dispatch documents are retired or accepted within 15 days of the end of the accounting period.

**9. Investments:**

Investments are considered long term and valued at cost.

**10. Retirement Benefits:**

- a) Provision for Gratuity Liability is made on the basis of actuarial valuation.
- b) Provision for encashment of leave is made on the basis of actuarial valuation except in the case of crew and monthly paid workers of floating employees who are entitled to settlement of leave in full on signing off. Provision in this case is made for the leave at credit on the last day of the financial period.

**Schedule II****Share Capital**

(Rs. million)

	September 30, 2003	September 30, 2002
<b>AUTHORISED:</b>		
3,00,00,000 Equity Share of Rs.10/- each	300.0	300.0
<b>ISSUED SUBSCRIBED AND PAID-UP:</b>		
For cash 1400 Equity Shares of Rs.10/- each fully paid	0.0*	0.0*
For consideration other than cash 2,79,98,600 Equity Shares of Rs.10/- allotted as fully paid	280.0	280.0
	<b>280.0</b>	<b>280.0</b>

\*Rs. 14,000/-

**Schedule III****Reserves & Surplus**

(Rs. million)

	September 30, 2003		September 30, 2002	
<b>CAPITAL RESERVE: (*)</b>				
As per last Balance Sheet		45.2		45.2
<b>GENERAL RESERVES:</b>				
As per last Balance Sheet	3315.9		3140.9	
Add: Transfer during the period	0.0	3315.9	0	3140.9
<b>Reserve U/s 33AC of the Income Tax Act 1961</b>				
As per last Balance Sheet	1530.0		0.0	
Add: Transfer during the period	668.9	2198.9	367.3	367.3
<b>Reserve u/s 33AC Utilization Account</b>				
As per last Balance Sheet		1120.0		1120.0
PROFIT AND LOSS ACCOUNT		394.7		811.6
		<b>7074.7</b>		<b>5485.0</b>

\* Represents sale proceeds/ claims realized in excess of original cost of assets sold.

**Schedule IV****Unsecured Loans****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
<b>UNSECURED LOANS:</b>		
From Foreign Banks (Installments repayable within one year - Rs. 384.5 million, as on September 30, 2002, Rs. 353.7 million)	1091.8	1376.8
	<b>1091.8</b>	<b>1376.8</b>

**Schedule V****Deferred Tax Liability****(Rs. million)**

	<b>September 30, 2003</b>		<b>September 30, 2002</b>	
Deferred Tax Liability in respect of:				
Depreciation		733.6		582.3
Less: Deferred Tax Asset On account of provisions for doubtful debts	187.0		192.9	
Others	89.3	276.3	78.0	270.9
		<b>457.3</b>		<b>311.4</b>

**Schedule VI**  
Fixed Assets

	(Rs. million)									
	Gross Block			Depreciation			Net Block			
	As on 31-3-03	Additions	Deductions/ Adjustments	As on 30-9-03	Upto 31-3-03	During the period	Deductions/ Adjustments	Upto 30-9-03	As on 30-9-03	As on 31-3-03
Land										
(A) Free hold	3.6	0.0	0.0	3.6	0.0	0.0	0.0	0.0	3.6	3.6
(B) Lease hold	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.2	0.2
Buildings <sup>^</sup>	30.5	3.8	0.0	34.3	19.5	0.6	0.0	20.1	14.1	11.0
Dredgers <sup>#</sup>	7873.4	(23.6)*	0.0	7849.8	3463.9	242.6	0.0	3706.5	4143.4	4409.5
Ancillary crafts	44.6	0.0	0.0	44.6	28.9	0.7	0.0	29.6	15.1	15.8
Pipeline, ball & Sockets joints etc.	265.6	0.0	0.0	265.6	232.2	4.7	0.0	236.9	28.7	33.4
Other operational assets	33.7	0.0	0.0	33.7	16.4	0.7	0.0	17.1	16.6	17.3
Furniture, fittings, Equipments, etc	21.9	0.6	0.0	22.5	9.3	0.6	0.0	9.9	12.5	12.5
Computers	39.8	0.8	0.0	40.6	29.4	1.3	0.0	30.7	9.9	10.4
Motor vehicles	1.2	0.0	0.0	1.2	0.6	0.1	0.0	0.7	0.5	0.6
Temp. Structures	3.9	0.0	0.0	3.9	3.9	0.0	0.0	3.9	0.0	0.0
Fixtures/erections	<b>8318.4</b>	<b>(18.4)</b>	<b>0.0</b>	<b>8300.0</b>	<b>3804.1</b>	<b>251.3</b>	<b>0.0</b>	<b>4055.4</b>	<b>4244.6</b>	<b>4514.3</b>
Capital work in progress	131.1	0.0	0.0	131.1	0.0	0.0	0.0	0.0	131.1	131.1
<b>TOTAL</b>	<b>8449.5</b>	<b>(18.4)</b>	<b>0.0</b>	<b>8431.1</b>	<b>3804.1</b>	<b>251.3</b>	<b>0.0</b>	<b>4055.4</b>	<b>4375.7</b>	<b>4645.4</b>

<sup>^</sup>Buildings include Rs.0.8 Million being the cost of four residential flats at Mumbai which are yet to be registered in the name of the Company.

\*The decrease in outstanding liability due to exchange rate variation on foreign currency loans amounting to Rs 23.6 Million has been adjusted in the carrying amount of the assets. (Accounting Policy 7 b)

<sup>#</sup> The Collector of Customs, Calcutta issued a demand for short levy of customs duty on spares held on board dredger Aquarius amounting to Rs.33.5 Million. This amount was capitalized in the year 1994-95 based on the show cause notice issued. The Company has contested the demand. However, an amount of Rs. 15.0 Million was paid pursuant to directions by CEGAT, Calcutta, under protest.

## Schedule VII

### Investments

(Rs. million)

	September 30, 2003	September 30, 2002
At Cost - Non-Trade (Unquoted) 5 Shares of Rs.50/- each fully paid-up in Mittal Chambers Premises Co-operative Society Ltd., Mumbai	0.0*	0.0*

\* Rs. 250/-

## Schedule VIII

### Current Assets, Loans and Advances

(Rs. million)

	September 30, 2003		September 30, 2002	
<b>CURRENT ASSETS:</b>				
<b>INVENTORIES:</b>				
Stock of spares and stores (Note 1) (Valued at cost and as certified by the Management)	113.6		138.9	
Less: Provision for unserviceable Spares & Stores	19.9	<b>93.7</b>	19.7	<b>119.2</b>
<b>SUNDRY DEBTORS (Unsecured):</b>				
a. Debts outstanding for a period exceeding six months				
Unsecured - Considered good	822.1		589.6	
- Considered doubtful	521.3		525.0	
	1343.4		1,114.6	
b. Other Debts:				
Unsecured - Considered Good	836.8		645.9	
	2180.2		1760.5	
Less: Provision for doubtful debts	521.3	<b>1658.9</b>	525.0	<b>1235.5</b>
<b>CASH AND BANK BALANCES:</b>				
a. Cash on Hand	6.1		5.4	
b. Cheques on Hand	82.9		0.0	
c. With Scheduled Banks:				
i) Current Account	364.3		12.5	
ii) Fixed Deposit Account (Note 2)	2,459.6		1,475.6	
d. Remittance in transit	-	<b>2,912.9</b>	1.2	<b>1,494.7</b>

(Rs. million)

	September 30, 2003		September 30, 2002	
<b>OTHER CURRENT ASSETS:</b>				
a. Interest accrued on Deposits and Advances	125.1		80.3	
b. Unbilled Operational Income	477.0	<b>602.1</b>	418.9	<b>499.2</b>
<b>LOANS AND ADVANCES:</b>				
Advances recoverable in cash or in kind or for value to be received:				
a. Secured-considered good	50.2	-	33.8	
b. Unsecured (Note 3)	52.9	<b>103.1</b>	82.0	<b>115.8</b>
c. Income Tax Paid & Tax deducted at source	1,014.4	-	856.2	
Less: Provision for Income Tax	520.8	<b>493.6</b>	747.8	<b>108.4</b>
<b>DEPOSITS:</b>				
a. Customs, Post & Telegraphs	0.6		0.6	
b. Others	41.2	<b>41.8</b>	44.1	<b>44.7</b>
<b>PREPAID EXPENSES</b>		<b>4.4</b>		<b>9.3</b>
<b>CLAIMS &amp; OTHER RECOVERABLES:</b>	137.7		121.1	
Less: Provision for doubtful claims (Note 4)	28.6	<b>109.1</b>	28.6	<b>92.5</b>
		<b>6,019.6</b>		<b>3719.3</b>

Notes:

1. Inventories include spares and stores in transit Rs.49.6 millions. (As on September 30, 2002, Rs. 66.8 millions)
2. Fixed deposits include Rs 35.0 millions (As on September 30, 2002, Rs. 35.0 millions) lodged with banks as security against guarantees issued on behalf of the Company.
3. Advances recoverable in cash or kind include advance on capital works Rs.0.03 million (As on September 30, 2002, Rs. 43.3 millions)
4. Doubtful Claims as on September 30, 2003 and 2002 represent:
  - a. Rs.0.1 million recoverable from a supplier in respect of cost of defective equipment returned to him for which the company filed a suit in 1984-85.
  - b. Amount recoverable towards cash found short in 1986-87 during physical verification Rs.0.1 million.
  - c. Rs.28.4 million customs duty paid on dredgers claimed for refund is being disputed by customs department.

**Schedule IX**

**Current Liabilities and Provisions**

(Rs. million)

	September 30, 2003	September 30, 2002
<b>CURRENT LIABILITIES:</b>		
a. Sundry Creditors Note (1)	176.4	132.8
b. Deposits from contractors	76.6	68.5
c. Advances from customers	12.0	14.1
d. Other liabilities	710.3	639.0
e. Interest accrued but not due on loans	6.2	5.9
f. Unclaimed Dividend	0.0	0.0
<b>Sub Total</b>	<b>981.5</b>	<b>860.3</b>
<b>PROVISIONS:</b>		
a. For Proposed Dividend	280.0	0.0
b. For dividend Tax	35.9	0.0
c. For employee benefits	62.9	48.3
d. For contractual obligations	4.0	4.0
e. For other Losses	0.0	0.0
f. For shortages/Losses and unserviceable assets	1.0	1.0
g. For dry-dock repairs due	126.2	89.9
<b>Sub Total</b>	<b>510.0</b>	<b>143.2</b>
<b>Total</b>	<b>1491.5</b>	<b>1003.5</b>

**Notes:**

Sundry creditors include:

- a) Amount due to the following Small Scale Industrial undertakings to whom a sum exceeding Rs.1 lakh is outstanding for more than 30 days as per agreed terms:

(Rs. million)

Name of the Party	September 30, 2003
M/s Union Maritime Syndicate	1.8
M/s New Goa Ship Repairs	
M/s Balaji Ship services.	
M/s Engg. Corporation Of India.	
M/s . K. Con & Co	
M/s Rajendra Fabricators & Erectors	

(Rs. million)

Name of the Party	September 30, 2002
M/s Union Maritime Syndicate M/s New Goa Ship Repairs M/s Balaji Ship services. M/s Engg. Corporation Of India. M/s . K. Con & Co M/s Rajendra Fabricators & Erectors M/s Bhagavan Eng.works	7.5

b) Amounts due to Small Scale Industries other than (a) above: Nil

**Schedule X****Operational Income****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
a. Dredging and Deployment Income	2112.2	1993.0
b. Mobilization Income	17.8	30.6
c. Chartering Income	70.4	40.7
d. Escalation Income	184.9	41.2
e. Expenses recovered	0	0.0
f. Other Operational Income	6.4	13.6
	<b>2391.7</b>	<b>2119.1</b>
Less: Rebates/Discounts	0.1	0.1
	<b>2391.6</b>	<b>2119.0</b>

**Schedule XI****Other Income****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
<b>INTEREST</b>		
a. On Fixed Deposits	88.6	63.3
b. On House Building and other Advances	2.2	1.4
c. On Tax Refunds	0.0	0.0
<b>MISCELLANEOUS INCOME</b> (Note 2 to Schedule XVIII)	35.6	6.2
	<b>126.4</b>	<b>70.9</b>

**Schedule XII****Operational Expenses****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
a. Pay and benefits to operational staff	190.7	204.0
b. Contribution to provident and other funds	4.5	4.3
c. Spares and stores	268.9	187.4
d. Repairs and Maintenance	304.8	296.6
e. Fuel and lubricants	550.4	505.7
f. Insurance	43.7	43.2
g. Other Operational Expenses (Note 3 to Schedule XVIII)	51.3	35.5
	<b>1414.3</b>	<b>1276.7</b>

**Schedule XIII****Administrative Expenses****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
a. Pay and Benefits to Employees	56.4	58.9
b. Contribution to Provident and other funds	4.1	3.9
c. Remuneration to Directors/ Managing Director: (Note 4 of Schedule XVIII)		
i) Chairman-cum-Managing Director	0.4	0.2
ii) Director (Finance)	0.3	0.3
iii) Director (Operations & Technical)	0.2	0.2
d. Rent	1.1	1.3
e. Rates and Taxes	0.3	0.4
f. Other Establishment Expenses (Note 5 of Schedule XVIII)	37.1	40.5
	<b>99.9</b>	<b>105.7</b>

**Schedule XIV****Provisions****(Rs. million)**

	<b>September 30, 2003</b>	<b>September 30, 2002</b>
a. For Doubtful Debts	0.0	54.2
b. For Doubtful claims	0.0	0.0
c. For Other losses	0.0	0.0
d. For Unserviceable Assets	0.0	0.0
e. For Dry-dock repairs due	81.2	89.9
	<b>81.2</b>	<b>144.1</b>

**Schedule XV****Extraordinary items****(Rs. million)**

<b>Particulars</b>	<b>September 30, 2003</b>	<b>September 30, 2002</b>
Credits:		
Profit on Sale of Assets	0.0	1.5
Debits:		
a) Loss on Sale/Write off of assets	0.0	0.1
b) On account of Arbitration	0.0	0.0
<b>Net Debit</b>	<b>0.0</b>	<b>0.0</b>
<b>Credit</b>	<b>0.0</b>	<b>1.4</b>

**Schedule XVI**

**Prior Period Adjustments**

(Rs. million)

	September 30, 2003		September 30, 2002	
	DEBIT	CREDIT	DEBIT	CREDIT
<b>EXPENDITURE:</b>				
<b>OPERATIONAL EXPENSES:</b>				
a. Payments & Benefits to Employees	-		0.1	
b. Repairs and Maintenance	-		0.6	
c. Spares & Stores	-		0.4	0.1
d. Fuel and Lubricants	-		0.1	
e. Other Operational Expenses	-		6.0	
<b>ADMINISTRATIVE EXPENSES:</b>				
a. Payments & Benefits to Shore Officers and Staff			6.0	
b. Rent, Rates and Taxes	-			
c. Other Establishment Expenses	-		1.8	
<b>DEPRECIATION</b>	-		-	
<b>INCOME:</b>				
Operational Income	0.1			17.2
Other Income				
<b>Net Debit</b>	<b>0.1</b>			<b>0.0</b>
<b>Credit</b>	<b>0.0</b>			<b>2.3</b>

**Schedule XVII**

**Provisions no longer required written back**

(Rs. million)

	September 30, 2003	September 30, 2002
a. Provision for doubtful debts and contractual obligations	8.6	4.2
b. Provision for unserviceable spares and stores	0.6	5.1
c. Provision for dry-dock repairs due	188.4	286.7
d. Provision for other losses	0.0	31.0
e. Provision for Employee Benefits	0.0	55.1
	<b>197.6</b>	<b>382.1</b>

## Schedule XVIII

### Notes on Accounts

#### 1. Contingent Liabilities

(Rs. million)

	September 30, 2003	September 30, 2002
a. Letters of Credit	33.1	34.2
b. Claims made against the Company not acknowledged as debts excluding claims covered by insurance	87.0	87.3
c. Estimated amount of contracts remaining to be executed on capital account and not provided for	14.5	14.5
d. Sales Tax claimed by some State Governments and disputed by the Company (Sales Tax levied by some state government, though upheld by Sales Tax Tribunal, Orissa, has been disputed by the Company at various levels.)	7.5	7.5
e. Income Tax Demands against which the appeals and rectification petitions are pending and the amount paid /collected there-against being reflected under the head Income Tax paid under protest and grouped loans and advances	191.3	152.0

#### 2. Break up of Misc. income (refer schedule - XI)

(Rs. million)

	September 30, 2003	September 30, 2002
a. Sale of Scrap, Empties, Condemned Stores etc.	3.5	1.6
b. Rent recoveries	0.3	0.4
c. Others	31.8	4.2
	<b>35.6</b>	<b>6.2</b>

#### 3. Break up of Operational expenses (refer schedule - XII)

(Rs. millions)

	September 30, 2003		September 30, 2002	
a. Lodging Expenses: Floating Staff		4.0		2.1
b. Travelling, Porterage & Conveyance - Floating Staff		3.3		2.3
c. Equipment Transportation Expenses		0.6		0.2
d. Direct Works Expenses:				
i) Boat/Tug Hire charges	4.9		8.0	
ii) Crane hire charges	0		0.0	
iii) Pipeline laying/maintenance expenses	0.4		0.4	
iv) Payments to Contractors	15.6		0.0	
v) Others	11.5	32.4	12.5	20.9
Misc. Expenses		11.0		10.0
		<b>51.3</b>		<b>35.5</b>

4. Break up of salary and allowance of Directors (refer schedule - XIII)

(Rs million)

	Chairman-cum- Managing Director		Director (Finance)		Director (Operational & Technical)	
	30-09-03	30-09-02	30-09-03	30-09-02	30-09-03	30-09-02
a. Salary	0.3	0.2	0.3	0.3	0.2	0.2
b. Provident Fund Contribution	0.0	0.0	0.0	0.0	0.0	0.0
c. Medical Expenses	0.1	0.0	0.0	0.0	0.0	0.0
	<b>0.4</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>

5. Break up of other establishment expenses (refer schedule – XIII)

(Rs. million)

	September 30, 2003		September 30, 2002	
a. Recruitment expenses		0.5		0.3
b. Traveling Expenses		11.0		11.6
c. Bank Charges & Guarantee fee		2.7		3.7
d. Printing & Stationery		1.0		1.0
e. Postage, Telegrams, Phones & Telex		2.7		2.3
f. Insurance		0.8		0.7
g. Repairs and Maintenance of Building		2.6		2.1
h. Repairs and Maintenance of vehicles and others		0.2		0.1
i. Expenditure on data processing		0.5		0.3
j. Advertisement & Publicity		1.5		1.9
k. Cost of Library		0.0		0.0
l. Remuneration to Auditors:				
i) As Auditors	0.0		0.0	
ii) For other Services	0.1	0.1	0.0	0.0
m. Tax Audit Fees		0		0.0
n. Legal Adviser fee & expenses		0.1		0.4
o. Electricity, Water Charges		1.9		1.6
p. Others		11.5		14.5
		<b>37.1</b>		<b>40.5</b>

6. Earnings in Foreign Exchange

(Rs. million)

	September 30, 2003	September 30, 2002
From: Dredging Operations	0.0	44.1
Chartering of Dredger	70.4	40.7

## 7. Value of imports

(Rs. million)

	September 30, 2003	September 30, 2002
a. Components and spare parts- (CIF Value)	231.8	141.3
b. Value of imported Spares and components consumed	246.7	171.8
c. Value of indigenous spares and components consumed	14.0	15.6
d. Percentage of imported spares & components consumed to total spares & components consumed	94.6%	91.7%
e. Percentage of indigenous spares & components consumed to total spares & components consumed	5.4%	8.3%

## 8. Expenditure in foreign currency

(Rs. million)

	September 30, 2003	September 30, 2002
a. Interest paid on loans from Foreign Banks	16.5	19.4
b. Capital expenditure	82.9	77.1
c. Number of Foreign Tours	5.0	6.0
d. Travelling	1.6	1.0

## 9. GENERAL

- a) Letters seeking confirmation of balances have been sent to customers and replies are awaited.
- b) The CEGAT issued orders during the year 2001-02 setting aside the earlier orders of the Customs Department levying duty of Rs.113.3 Million on the accessories and spares of Dr-Aquarius. Since the process of refund is long winding, the necessary adjustments to capital cost of the dredger will be made on receipt of the refund.
- c) Escalation Claims for Labour and Material have been preferred on the basis of latest available indices.
- d) Sundry Debtors include an amount of Rs.16.8 Million (previous year Rs.16.8 Million) due from a customer in respect of which the Company has filed a civil suit for recovery.
- e) Consequent upon the change in Accounting policy 10 (b) regarding provision for encashment of leave on the basis of actuarial valuation, the liability carried in the balance sheet as on September 2002 is reduced by Rs. 55.1 Million and correspondingly the profits for the half year ended September 2002 has increased by similar amount.
- f) Figures have been rounded off to decimals of Million.

## Schedule XIX

### Earnings Per Share

(Rs. million)

	September 30, 2003	September 30, 2002
Profit available for equity shareholders	776.0	593.7
Weighted average number of shares outstanding during the period (nos.)	28000000	28000000
Basic and diluted earnings per share (Rs) (not annualized)	27.71	21.20
Face value per share (Rs)	10.00	10.00

## Related Parties Transactions

Summary of significant transactions with related parties (as defined by Accounting standard 18 - 'RELATED PARTIES' issued by the Institute of Chartered Accountants of India)

Names of related parties and nature of relationship are summarized below:

Sr. No.	Category of related parties	Six months ended September 30, 2003 Names	Six months ended September 30, 2002 Names
1.	Associates	a. Dredge Repair Company of India Ltd.	a. Dredge Repair Company of India Ltd.
2.	Directors	a. Mr. N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao	a. Mr. N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao
3.	Key Managerial Personnel	a. Mr. K. Kiriti b. CDR A. K. Kar c. Mr. MNKS Varma d. Capt. MVR Murthy e. Mr. P. Rama Rao f. Mr. VVN Murthy g. Mr. Y V Subba Rao	a. Mr. K. Kiriti b. Mr. K Madhav Rao c. Mr. MNKS Varma d. Capt. M V Rao e. Mr. P. Rama Rao f. Mr. VVN Murthy g. Mr. Y V Subba Rao h. Mr. S S Raguveer i. Mr. T Anand

## Nature of the transactions

(Rs. million)

Particulars	Six months ended September 30, 2003			Six months ended September 30, 2002		
	Amount Recoverable	Remuneration	Advances	Amount Recoverable	Remuneration	Advances
Associate	0.7			0.7		
Directors		0.9	0.1		1.0	
Key Managerial Personnel		1.8	0.5		1.8	0.7
<b>Total</b>	<b>0.7</b>	<b>2.7</b>	<b>0.6</b>	<b>0.7</b>	<b>2.8</b>	<b>0.7</b>

**FINANCIAL STATEMENTS AS RESTATED UNDER INDIAN GAAP FOR THE YEARS ENDED MARCH 31, 1999, 2000, 2001, 2002, 2003 AND FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2003**

**Sriramamurthy & Co.**

Chartered Accountants  
47-9-39/17, Flat No 3C  
Sai Sadan Apartments  
Dwaraka Nagar  
Visakhapatnam - 530 016

**Auditors' Report**

To,  
The Board of Directors  
Dredging Corporation of India Limited  
Port Area  
Visakhapatnam - 530 035

Dear Sirs,

We have examined the accounts of Dredging Corporation of India Limited ('the Company') for the financial year ended March 31, 1999 audited by M/s Murthy Associates, Chartered Accountants and for the financial years ended March 31, 2000, 2001, 2002 and 2003 audited by M/s Grandhy & Co, Chartered Accountants and for six months ended September 30, 2003, being the last date to which the accounts of the company have been made up and audited by us.

In accordance with the requirements of:

- (a) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 (" the Act")
- (b) The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 issued by SEBI on January 19, 2000 in pursuance of Section 11 of SEBI Act, 1992. (SEBI Guidelines) and
- (c) Appointment Letter from the Company dated 8th December 2003, requesting us to make this report for the purpose of the Offer Document being issued by the company in connection with the Offer for Sale by the Government of India of 5,600,000 equity shares in the Company (referred to as the Offer), we report that

The restated profits of the Company for the financial years ended March 31, 1999, 2000, 2001, 2002, 2003 and six months ended September 30, 2003 are as set out in Annexure I to this report. These profits have been arrived at after charging all expenses including depreciation and after making such adjustments and regroupings as in our opinion are appropriate and more fully described in the notes appearing in Annexure I to this report.

The restated assets and liabilities of the Company as at March 31, 1999, 2000, 2001, 2002, 2003 and six months ended September 30, 2003 are as set out in Annexure II to this report after making such adjustments and regroupings as in our opinion are appropriate and more fully described in the notes appearing in Annexure I to this report.

The restated Cash Flow Statement for the years ended March 31, 1999, 2000, 2001, 2002, 2003 and six months ended September 30, 2003 are set out at Annexure III to this report.

The significant accounting policies and notes on accounts are as set out in Annexure IV.

The rates of dividends declared by the Company in respect of the financial years ended March 31, 1999, 2000, 2001, 2002, 2003 and six months ended September 30, 2003 are as set out in Annexure V to this report.

We have examined the following financial information relating to the Company for the purpose of inclusion in the Offer Document:

- i. Details of Loans as per Annexure VI
- ii. Details of Other Income as per Annexure VII
- iii. Accounting Ratios based on the adjusted profits relating to earnings per share, net asset value and return on net worth as per Annexure VIII
- iv. Capitalisation statement as at March 31, 2003 as per Annexure IX
- v. Statement of Tax Shelters as per Annexure X
- vi. Other Financials Statements as per Annexure XI.

In respect of financial information contained in this report, we have relied upon the audited financial statements for the years

ended March 31, 1999, 2000, 2001, 2002 and 2003 which were audited by Chartered Accountants other than us, as referred to above.

In our opinion the financial information of the Company as stated to this report read with significant accounting policies as per Annexure IV to this report, after making adjustments and regrouping as considered appropriate, have been prepared in accordance with Part II of Schedule II of the Act and the SEBI Guidelines.

This report is intended solely for your information and for inclusion in the Offer Document in connection with the Offer for Sale by the Government of India of 5,600,000 equity shares in the Company and is not to be used, referred to or distributed for any other purpose without our written consent.

Yours faithfully

FOR SRIRAMAMURTHY & CO.  
Chartered Accountants

D.Prasanna Kumar  
Partner

Place: Mumbai  
Date: 21st January 2004

## Annexure I:

## Summary of Profits and Losses, as Restated

(Rs. million)

Particulars	Six months Ended September 30, 2003	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
<b>Income/ Revenue</b>						
Income from Operations	2391.6	4928.0	4889.6	3843.5	2932.5	2218.7
Other income	126.4	267.2	125.7	185.0	385.8	271.5
<b>Total</b>	<b>2518.0</b>	<b>5195.2</b>	<b>5015.3</b>	<b>4028.5</b>	<b>3318.3</b>	<b>2490.2</b>
<b>Expenditure</b>						
<b>Operational Expenses</b>						
Payment and Benefits to Operational Staff	195.2	402.3	352.6	328.1	285.7	278.2
Repairs & Maintenance	304.8	364.6	322.8	369.7	282.8	142.6
Spares & Stores	268.9	448.9	339.7	318.4	226.8	167.8
Fuel & Lubricants	550.4	1128.9	1011.4	812.8	578.8	376.9
Other Operational Expenses	95.0	239.1	178.6	163.9	117.0	153.5
<b>Administrative Expenses</b>						
Payment and Benefits to Shore Staff	61.4	130.2	96.3	150.4	184.9	122.1
Other Establishment Expenses	38.5	78.9	78.0	182.7	94.9	61.9
Interest	18.5	70.1	130.3	51.4	50.7	62.6
Depreciation	251.3	502.2	416.8	141.4	236.5	221.1
Provisions	81.2	297.0	678.5	69.0	162.3	217.7
<b>Total Expenses</b>	<b>1865.2</b>	<b>3662.2</b>	<b>3605.0</b>	<b>2587.8</b>	<b>2220.4</b>	<b>1804.4</b>
<b>Net Profit Before extra-ordinary items &amp; Prior period adjustments</b>	<b>652.8</b>	<b>1533.0</b>	<b>1410.3</b>	<b>1440.7</b>	<b>1097.9</b>	<b>685.8</b>
Add: Extraordinary items	0.0	(4.3)	1.4	0.3	0.0	(0.2)
Prior period adjustments	(0.1)	1.8	108.7	(3.9)	(2.5)	(1.1)
Add: Provisions no longer required written back	197.6	358.8	125.6	135.1	135.1	75.5
<b>Profit Before Tax</b>	<b>850.3</b>	<b>1889.3</b>	<b>1646.0</b>	<b>1572.2</b>	<b>1230.5</b>	<b>760.0</b>
Less: Taxation - Current	5.0	28.4	485.2	485.1	490.1	344.1
Less: Taxation - Deferred	69.3	242.6	145.4	0.0	0.0	0.0
<b>Profit After Tax</b>	<b>776.0</b>	<b>1618.3</b>	<b>1015.5</b>	<b>1087.1</b>	<b>740.4</b>	<b>415.9</b>
Excess/short provisions of Income Tax relating to earlier years	0.0	105.0	0.0	0.0	(13.9)	2.5
<b>Net profit After Tax as per audited statement of accounts (A)</b>	<b>776.0</b>	<b>1723.3</b>	<b>1015.5</b>	<b>1087.1</b>	<b>726.5</b>	<b>418.4</b>

## Annexure I:

## Summary of Profits and Losses, as Restated (Contd.)

(Rs. million)

Particulars	Six months Ended September 30, 2003	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
<b>B/f</b>	<b>776.0</b>	<b>1723.3</b>	<b>1015.5</b>	<b>1087.1</b>	<b>726.5</b>	<b>418.4</b>
Adjustment on account of:						
<b>(I) Changes in Accounting Policies</b>						
a. Dry dock repairs (Note 1)		0.0	(25.0)	105.8	1.7	(82.5)
b. Employee Benefits (Note 2)		(41.6)	0.6	(5.7)	(1.2)	17.3
c. Depreciation on lease hold Building (Note 3)		0.0	0.0	0.0	8.2	(0.7)
Total of Adjustments		(41.6)	(24.4)	100.1	8.7	(65.9)
Tax Impact of Adjustments (Note 4)		0.0	0.0	0.0	0.0	0.0
<b>Total of Adjustments-Net of Tax Impact (B)</b>		<b>(41.6)</b>	<b>(24.4)</b>	<b>100.1</b>	<b>8.7</b>	<b>(65.9)</b>
<b>(II) Prior Period Items</b>						
a. Expenditure:						
i. Operational expenses						
a) Payments and benefits to employees		0.0	1.9	(0.8)	(0.4)	(0.9)
b) Repairs & Maintenance		0.6	(0.3)	(0.3)	0.1	(0.1)
c) Spares & Stores		0.4	0.0	(0.3)	(0.2)	1.3
d) Fuel & Lubricants		0.1	0.0	(0.1)	0.0	(6.5)
e) Other Operational Expenses		6.1	(32.5)	26.7	(0.2)	2.5
f) Insurance		0.0	0.0	0.0	0.0	0.0
ii. Administration Expenses						
a) Payments & Benefits to Shore Employees		6.1	(2.3)	(3.3)	(0.4)	0.0
b) Rent Rates and Taxes		0.0	(89.7)	89.7	0.0	0.0
c) Other Establishment Expenses		2.1	0.3	(2.4)	0.2	0.5
iii. Depreciation		0.0	10.1	(10.1)	0.0	0.0
b. Income						
i. Operational Income	0.1	(17.3)	4.0	15.1	1.8	(0.2)
ii. Other Income		0.1	(0.1)	0.0	0.0	0.6
Provision for tax for earlier years		(105.0)	0.0	(8.3)	98.5	23.5
Total of Adjustment	0.1	(106.9)	(108.6)	105.9	99.4	20.7
Tax Impact of Adjustments (Note 4)	0.0	0.1	(1.0)	(1.0)	(0.3)	1.0
<b>Total of Adjustments-Net of Tax Impact (C)</b>	<b>0.1</b>	<b>(106.8)</b>	<b>(109.6)</b>	<b>104.9</b>	<b>99.1</b>	<b>21.7</b>
<b>Adjusted Profit (A+B+C)</b>	<b>776.1</b>	<b>1574.9</b>	<b>881.5</b>	<b>1292.1</b>	<b>834.3</b>	<b>374.2</b>
Transfer from reserves u/s 33AC *	0.0	0.0	0.0	560.0	0.0	0.0
Transfer to reserves u/s 33AC Reserve	(668.9)	(1530.0)	(560.0)	0.0	0.0	0.0

(Rs. million)

Particulars	Six months Ended September 30, 2003	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
Transfer to utilization reserve u/s 33AC	0.0	0.0	(560.0)	0.0	0.0	0.0
Carry forward Profit from previous year	287.5	733.5	3951.2	2362.2	1765.1	1534.2
<b>Profit available for appropriation</b>	<b>394.7</b>	<b>778.4</b>	<b>3712.7</b>	<b>4214.3</b>	<b>2599.4</b>	<b>1908.4</b>
Less:						
General Reserve	0.0	175.0	2769.2	108.8	74.1	41.6
Proposed Dividend	0.0	280.0	210.0	140.0	140.0	92.4
Corporate Dividend Tax	0.0	35.9	0.0	14.3	23.1	9.2
<b>Balance Carried Forward to Balance Sheet</b>	<b>394.7</b>	<b>287.5</b>	<b>733.5</b>	<b>3951.2</b>	<b>2362.2</b>	<b>1765.2</b>

The accompanying significant accounting policies and notes are an integral part of this statement.

\* Reserves u/s 33AC denotes reserves for shipping business under section 33AC of Income Tax Act, 1961.

#### NOTES:

- The Company changed its accounting policy for dry-docking repairs of ocean going dredgers with effect from financial year 2000-01 by changing the periodicity of dry-docking.

As per the previous accounting policy, the provisioning in respect of ocean going dredgers which have not been dry-docked for more than the specified period, indicated below, as on the last day of any financial year, is made in accounts (as certified by Technical Department).

Type of dredger	Age	Specified period
Trailer Suction Dredgers	More than 10 years	18 Months
Trailer Suction Dredgers	Upto and including 10 years	24 Months
Cutter Suction Dredgers	More than 10 years	24 Months
Cutter Suction Dredgers	Upto and including 10 years	30 Months

It has been observed in practice that DCI's dredgers, which work in various locations in different soil and other related conditions, require more frequent repairs and dry-dock. Further, foreign dredging firms, which are becoming increasingly active in India, normally undertake extensive repair work to their dredgers to put them in good working condition before they deploy them on any assignment. This gives them the advantage of less or no breakdowns while working on an assignment, and hence more uninterrupted dredging days and productivity.

Keeping the above in view, as also to increase its competitiveness, it was felt necessary that DCI undertake major dry dock repairs of its dredgers on an annual basis in every financial year. The extent and cost of repairs to be undertaken each year for each dredger is to be estimated by the Technical Department. While every effort is made to dry-dock the dredgers every year, it may sometimes not be possible to do so for operational reasons. In such an event, suitable provision is made in the accounts on the basis of estimates of Technical Department. This should ensure uniform charge on account of repairs to accounts each year.

- Provision for encashment of leave at credit of the employees has been made on an estimated basis until financial year 2001-02. The Company changed its policy to provide for encashment of leave on the basis of actuarial valuation.

The Company has been making the provision for the leave at credit of employees as on 31st March on actual basis. The Accounting Standard on Retirement Benefits (AS15) requires leave encashment provision for employees to be made on actuarial valuation. To bring the provision in line with AS 15, the valuation is to be made on actuarial basis and accordingly the earlier accounting policy was amended.

- Leasehold lands and Buildings on leasehold land are amortized over the balance period of the lease with effect from financial year 1999-2000.

Earlier depreciation on buildings on leasehold land was being charged to accounts at the rates prescribed for buildings under the Companies Act, 1956. The amendment to the accounting policy was made, as technically the service life of the building constructed on leasehold land cannot exceed the lease period.

4. Income Tax rates applicable to the respective Financial Years have been adopted for arriving at the notional impact of the adjustments
5. Impact of adjustments on account of prior period items pertaining to Financial Years prior to 1998-99 has been adjusted in the opening balance for the Financial Year 1998-99
6. Adjustments made in a particular year in respect of excess/ short provision of taxes relating to earlier years have been considered in the relevant years.

## Annexure II:

## Summary of Assets and Liabilities, as Restated

(Rs. million)

Particulars	As At September 30, 2003	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
<b>A. Fixed assets :</b>						
Gross Block	8300.0	8318.4	8057.0	6229.0	4382.7	3520.1
Less: Accumulated Depreciation	4055.4	3804.1	3312.8	2938.4	2789.8	2561.8
Net Block	4244.6	4514.3	4744.2	3290.6	1592.9	958.3
Add: Capital work in progress	131.1	131.1	74.1	1399.1	866.3	877.7
<b>Total</b>	<b>4375.7</b>	<b>4645.4</b>	<b>4818.3</b>	<b>4689.7</b>	<b>2459.2</b>	<b>1836.0</b>
<b>B. Investments :</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>
<b>C. Current Assets, Loans &amp; Advances</b>						
Inventories	93.7	61.5	100.9	87.3	99.3	91.8
Sundry Debtors	1658.9	1292.6	1185.9	1332.3	651.0	717.8
Cash & Bank balances	2912.9	2328.7	1862.6	881.8	1891.1	2074.5
Other Current Assets	602.1	518.7	515.2	501.6	507.0	217.5
Loans & Advances	752.0	934.4	537.3	678.7	504.7	635.8
<b>Total</b>	<b>6019.6</b>	<b>5135.9</b>	<b>4201.9</b>	<b>3481.7</b>	<b>3653.1</b>	<b>3737.4</b>
<b>D. Liabilities &amp; Provisions :</b>						
Current liabilities & provisions	1491.5	1616.4	1486.0	1258.8	1451.5	1230.9
Deferred Tax (Asset)/ Liability	457.3	388.0	145.4	0.0	0.0	0.0
Secured Loans	0.0	0.0	677.6	0.0	0.0	0.0
Unsecured Loans	1091.8	1198.3	1391.6	2269.4	1155.4	1508.3
<b>Total</b>	<b>3040.6</b>	<b>3202.7</b>	<b>3700.6</b>	<b>3528.2</b>	<b>2606.9</b>	<b>2739.2</b>
<b>E. Net Worth (A+B+C-D)</b>	<b>7354.7</b>	<b>6578.6</b>	<b>5319.6</b>	<b>4648.1</b>	<b>3510.3</b>	<b>2839.1</b>
Net worth represented by						
<b>F. Share Capital</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>	<b>280.0</b>
<b>G. Reserves and Surplus</b>						
Capital Reserve	45.2	45.2	45.2	45.2	45.2	45.2
Reserve U/s 33 AC of the Income Tax Act 1961	2198.9	1530.0	0.0	0.0	560.0	560.0
Reserve U/s 33 AC Utilisation Account	1120.0	1120.0	1120.0	0.0	0.0	0.0
General Reserve	3315.9	3315.9	3140.9	371.7	262.9	188.8
Balance as per profit & Loss Account	394.7	287.5	733.5	3951.2	2362.2	1765.1
<b>Total</b>	<b>7074.7</b>	<b>6298.6</b>	<b>5039.6</b>	<b>4368.1</b>	<b>3230.3</b>	<b>2559.1</b>
<b>H. Miscellaneous Expenditure to the extent not written off</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>I. Net Worth (F+G-H)</b>	<b>7354.7</b>	<b>6578.6</b>	<b>5319.6</b>	<b>4648.1</b>	<b>3510.3</b>	<b>2839.1</b>

The accompanying significant accounting policies and notes are an integral part of this statement.

## Annexure III:

## Summary of Cash Flow, as Restated

(Rs. million)

Particulars	For the Six months ended Year September 30, 2003	For the ended Year March 31, 2003	For the ended Year March 31, 2002	For the ended Year March 31, 2001	For the ended Year March 31, 2000	For the ended Year March 31, 1999
<b>A. Cash flow from Operating activities:</b>						
<b>Profit Before Tax</b>	<b>850.3</b>	<b>1,745.3</b>	<b>1,510.6</b>	<b>1,776.9</b>	<b>1338.4</b>	<b>715.8</b>
Adjustments for:						
Depreciation	251.3	502.3	416.8	151.5	228.3	221.8
Interest Expense	18.5	70.1	130.3	51.3	50.7	62.5
Interest Income	(90.9)	(143.1)	(83.9)	(145.8)	(362.6)	(239.2)
<i>Operating Profit Before Working Capital changes</i>	<i>1029.2</i>	<i>2,174.6</i>	<i>1,973.8</i>	<i>1,833.9</i>	<i>1254.8</i>	<i>760.9</i>
<b>Adjustments for changes in working capital:</b>						
(in crease) / Decrease in Sundry Debtors	(32.2)	(106.8)	146.4	(681.3)	66.7	(390.1)
(Increase) / Decrease in Other Current Assets, Loan & Advances	(366.2)	67.0	24.5	(134.4)	(338.1)	179.5
(Increase) / Decrease in Inventories	(245.8)	39.4	(13.7)	12.0	(7.5)	(17.8)
Increase / (Decrease) in Payables	110.3	26.6	173.0	(186.3)	159.4	2.1
<i>Cash generated from operating activities</i>	<i>495.3</i>	<i>2,200.8</i>	<i>2,304.0</i>	<i>843.9</i>	<i>1135.3</i>	<i>534.6</i>
Taxes (Paid) / Received (Net of TDS)	(16.5)	374.4	(374.5)	(590.5)	(328.2)	(367.7)
Interest Paid	124.5	(72.3)	(131.7)	(48.9)	(51.0)	(63.0)
Extra ordinary items	0.0	(5.7)	0.0	0.3	0.0	0.2
<b>Net cash from / (used in) operating activities</b>	<b>603.3</b>	<b>1,748.4</b>	<b>1,797.8</b>	<b>204.8</b>	<b>756.1</b>	<b>104.1</b>
<b>B. Cash flow from Investing activities:</b>						
Purchase of fixed assets	(5.2)	(66.8)	(490.8)	(2,376.6)	(959.1)	(700.7)
Sale of fixed assets	0.0	3.1	2.0	0.1	0.0	0.6
Sale of Investments	0.0	0.0	4.9	0.0	0.0	0.0
Interest Received (Revenue)	69.0	126.5	76.5	217.0	366.6	238.8
<b>Net cash from / (used) in investing activities</b>	<b>63.8</b>	<b>62.8</b>	<b>(407.4)</b>	<b>(2,159.5)</b>	<b>(592.5)</b>	<b>(461.3)</b>
<b>C. Cash flow from Financing activities:</b>						
Proceeds from long term borrowings	0.0	0.0	120.0	1,352.2	0.0	404.0
Repayment of long term borrowings	(82.9)	(1,135.2)	(375.3)	(243.7)	(245.4)	(223.9)
Dividend Paid		(210.0)	(154.3)	(163.1)	(101.6)	(101.7)

(Rs. million)

Particulars	For the Six months ended Year September 30, 2003	For the ended Year March 31, 2003	For the ended Year March 31, 2002	For the ended Year March 31, 2001	For the ended Year March 31, 2000	For the ended Year March 31, 1999
<b>Net cash from / (used) in financing activities</b>	<b>(82.9)</b>	<b>(1,345.2)</b>	<b>(409.6)</b>	<b>945.4</b>	<b>(347.0)</b>	<b>78.4</b>
<b>D. Net Increase / (Decrease) in Cash &amp; Cash Equivalents (A+B+C)</b>	<b>584.2</b>	<b>466.0</b>	<b>980.8</b>	<b>(1,009.3)</b>	<b>(183.4)</b>	<b>(278.8)</b>
<b>E. Opening Balance of Cash and cash equivalents</b>	<b>2328.7</b>	<b>1,862.7</b>	<b>881.8</b>	<b>1,891.1</b>	<b>2074.5</b>	<b>2353.3</b>
<b>F. Closing Balance of Cash and cash equivalents</b>	<b>2912.9</b>	<b>2,328.7</b>	<b>1,862.6</b>	<b>881.8</b>	<b>1891.1</b>	<b>2074.5</b>
<b>Cash and cash equivalents comprise</b>						
Cash, Cheques & Drafts (in hand) and Remittances in transit	89.0	81.3	118.7	13.8	8.9	36.1
Balance with Scheduled Banks in Current Accounts	364.3	122.3	374.6	266.4	30.1	190.5
Balance with Scheduled Banks in Deposit Accounts	2459.6	2,125.0	1,369.2	601.6	1852.1	1847.9

## **Annexure IV**

### **A. Significant Accounting Policies**

#### **1. Basis of Preparation of Financial Statements:**

- a. The Financial Statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles.
- b. The Company generally follows mercantile system of accounting and recognizes significant items of income and expenditure on accrual basis.

#### **2. Operational Income:**

- a. Unbilled values of works executed up to end of financial period are considered as income although bills are raised subsequently.
- b. The Corresponding debit balances are shown under "Current Assets-unbilled operational income receivable".
- c. Claims preferred on Customers for works/items not contemplated are considered as income on their acceptance.
- d. Income in respect of incomplete dredging jobs undertaken on insitu basis are accounted for on the basis of estimated realizable value of the work done up to end of financial period.

#### **3. Other Income:**

- a. Interest on Fixed Deposits with Banks under reinvestment scheme is considered in accounts at the rates applicable to the total term of deposit compounding the interest receivable.
- b. Sale proceeds of condemned and unserviceable Spares, Stores, Empties, Waste Oil, etc are accounted for in the financial period of disposal.
- c. Claims against Suppliers for liquidated damages are accounted on final settlement of bills.
- d. Interests on Tax refunds are accounted on receipt basis.

#### **4. Operational Expenses:**

- a. Spares and Stores:  
Spares and Stores, Oil and Lubricants delivered to the Crafts during the year and acknowledged by the Master/ C.E.O. are charged to revenue. Provision is made in the accounts towards consumption of the material dispatched to crafts up to 30th June for half year accounts and 31st December for annual accounts in respect of which acknowledgements are not received.
- b. Insurance:  
Final adjustments to Insurance Premium paid are considered in accounts on the basis of demands received.
- c. Repairs:  
Every ocean-going dredger will be dry-docked in every financial year. In case, as on the last day of any financial year, any dredger or dredgers has or have not been so dry-docked for any reason a provision for dry-dock expenditure as estimated by Technical Department of the Company is made in the accounts in the said financial year.

#### **5. Depreciation:**

Depreciation is provided under straight-line method in accordance with Schedule XIV of the Companies Act read with Circular No.1/12/92-CL-V, Circular No.14/93, dt.20-12-93 issued by the Department of Company Affairs. In respect of following depreciation is provided on straight-line method at the following rates based on the technical estimation of the useful lives of such assets:-

- a. Pipeline Equipment: 25% for Mild Steel Pipeline equipment and 12.5% for High Density polyethylene pipeline equipment.
- b. Second hand assets: as per the estimated balance service life.
- c. Exchange rate variation: Any Change in the value of asset due to exchange rate variation is provided for the balance un-expired life of the asset.
- d. Lease hold land: Leasehold land is amortised over the period of lease.

- e. Building on lease: Cost of Buildings constructed on leasehold land is amortised over the lease period.
- f. Cost of Library: Cost of Library is considered as other Establishment expenditure.

**6. Fixed Assets:**

- a. Fixed Assets are stated at historical cost less depreciation (historical cost include financing cost and other related overheads).
- b. Items of Fixed Assets of a value of less than Rs.5000/- (Rupees Five thousand only) each are capitalized and 100% depreciation charged in the year. However, numerical account of such assets is maintained.
- c. Grants in Aid relating to specific Fixed Assets are shown as deduction from the gross value of the assets concerned in arriving at book value.

**7. Transaction of Foreign Currencies:**

- a. Current Assets and Liabilities in Foreign Currencies are converted at financial period end exchange rate communicated by the bankers of the Company and resultant loss if any, is charged to Profit and Loss Account.
- b. In respect of assets acquired/constructed under foreign suppliers credit/foreign currency loans, the increase or decrease in the outstanding liability is ascertained on the basis of rate of exchange as on the last day of the financial period, communicated by the Bankers of the Company, and is adjusted in the cost and included in the carrying amount of the related fixed asset.
- c. Income & Expenditure is accounted for at average rate except depreciation, which is converted at the rates, adopted for the corresponding fixed assets.

**8. Stock of Spares and Stores:**

- a. Stock of spares and stores is valued at weighted average cost and is inclusive of:
  - i. Customs Duty, if any, as applicable to the whole consignment and
  - ii. Overheads at pre-determined rate.
- b. Reconditioned spares are valued at the respective cost of reconditioning.
- c. Value of Materials dispatched by Foreign Suppliers before the end of the financial period of a year is considered in the accounts of that year; provided dispatch documents are retired or accepted within 15 days of the end of the accounting year.

**9. Investments:**

Investments are considered long term and valued at cost.

**10. Retirement Benefits:**

- a. Provision for Gratuity Liability is made on the basis of actuarial valuation.
- b. Provision for encashment of leave is made on the basis of actuarial valuation except in the case of crew and monthly paid workers of floating employees who are entitled to settlement of leave in full on signing off. Provision in this case is made for the leave at credit on the last day of the financial period.

**B. Contingent Liabilities as at:****(Rs. million)**

<b>Particulars</b>	<b>As At September 30, 2003</b>	<b>As At March 31, 2003</b>	<b>As At March 31, 2002</b>	<b>As At March 31, 2001</b>	<b>As At March 31, 2000</b>	<b>As At March 31, 1999</b>
Contingent Liabilities on account of:						
a) Letter of Credits	33.1	35.8	54.5	9.5	22.4	1.4
b) Claims against the Company not acknowledged as debts	87.0	87.6	83.2	58.3	136.6	135.0
c) Estimated amount of Contracts remaining to be executed on Capital Account and not provided for	14.5	14.5	32.5	439.7	2780.7	222.6
d) Sales Tax claimed by some State Governments and disputed by the Company. (deposited under protest)	7.5	7.5	7.5	7.5	7.5	7.5
e) Income Tax demands against which the appeals and rectification petitions are pending (deposited under protest)	191.3	180.4	53.1	81.6	81.5	81.5
f) Uncalled liability on the Shares of DRCI Ltd	0.0	0.0	0.0	0.0	0.0	5.1

**Annexure V:****Dividends**

We further report that the dividends declared by M/s Dredging Corporation of India Limited in respect of the six months ended September 30, 2003 and for the financial years ended March 31, 2003, 2002, 2001, 2000, 1999 are as under:

**(Rs. million)**

<b>Particulars</b>	<b>Six months Ended September 30, 2003</b>	<b>Year ended March 31, 2003</b>	<b>Year ended March 31, 2002</b>	<b>Year ended March 31, 2001</b>	<b>Year ended March 31, 2000</b>	<b>Year ended March 31, 1999</b>
Equity Share Capital	280.0	280.0	280.0	280.0	280.0	280.0
Rate of Dividend	0.0	100%	75%	50%	50%	33%
Amount of Dividend	0.0	280.0	210.0	140.0	140.0	92.4
Corporate Dividend Tax	0.0	35.9	0.0	14.3	23.1	9.2

**Annexure VI:**

**Detail of Loans**

**1) Secured Loans**

(Rs. million)

Particulars	As At September 30, 2003	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
Long Term Loans						
From Union bank of India. (Secured by hypothecation of Dredger DCI DR XVII)	0.0	0.0	677.6	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>677.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Note: Term Loan from Union Bank of India has been preclosed during Financial Year 2002 - 2003

**2) Unsecured Loans**

(Rs. million)

Particulars	As At September 30, 2003	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
Foreign Currency Loans from Banks						
- NIO Bank, Netherlands (for acquisition of Dredger XII & XIV)	222.2	217.9	361.0	521.1	708.2	964.3
- ABN Amro Bank, Netherlands (for acquisition of Dredger XV)	208.3	241.7	244.6	278.3	327.2	404.0
- ABN Amro Bank, Netherlands (for acquisition of Dredger XVI)	661.3	738.7	705.9	770.0	0.0	0.0
	<b>1091.8</b>	<b>1198.3</b>	<b>1311.5</b>	<b>1569.4</b>	<b>1035.4</b>	<b>1368.3</b>
Rupee loans- Union Bank of India (for acquisition of Dredger XVII)	0.0	0.0	0.0	600.0	0.0	0.0
Government of India (for acquisition of Dredger-Aquarius)	0.0	0.0	80.0	100.0	120.0	140.0
<b>Total</b>	<b>1091.8</b>	<b>1198.3</b>	<b>1391.5</b>	<b>2269.4</b>	<b>1155.4</b>	<b>1508.3</b>

Notes:

- Interest Rates on the above loans is as follows:
 

NIO Bank, Netherlands	2.50% per annum payable half yearly
ABN Amro Bank, Netherlands DR XV	0.35% over 6 months floating Euro Euribor
ABN Amro Bank, Netherlands DR XVI	0.20% over 6 months floating Euro Euribor
Union Bank of India	Prime Term Lending Rate of the Bank
- The repayment schedule of the loans outstanding as on 30.09.2003 is as follows:
  - The loan from NIO Bank is repayable in full during January 2004. (Rs.217.9 Million)
  - The loan from ABN Amro DR XV is repayable in half yearly instalments of Rs.26.0 Million each until September 2007
  - The loan from ABN Amro DR XVI is repayable in half yearly instalments of Rs.55.1 Million each until August 2009
- Rupee Term Loan from Union Bank of India has been shown under Secured Loans as at 31.03.2002 since the Dredger XVII has been hypothecated during the Financial Year 2001-02.

**Annexure VII:****Statement of Details of Other Income****(Rs. million)**

<b>Particulars</b>	<b>Six months Ended September 30, 2003</b>	<b>Year ended March 31, 2003</b>	<b>Year ended March 31, 2002</b>	<b>Year ended March 31, 2001</b>	<b>Year ended March 31, 2000</b>	<b>Year ended March 31, 1999</b>	<b>Nature of Income</b>
a) Interest on:							
Fixed Deposits with Banks	88.6	140.1	80.4	141.5	242.3	216.8	Recurring
Discount allowed on Certificate of Deposits	0.0	0.0	0.0	0.0	2.0	16.9	Recurring
House building and other advances to Employees	2.2	3.0	3.5	4.3	4.6	4.8	Recurring
Income Tax refunds	0.0	83.7	0.0	0.0	113.8	0.7	Non Recurring
b) Sale of Scrap	3.5	3.3	9.0	3.4	2.1	1.8	Recurring
c) Rent recoveries	0.3	0.7	0.6	0.4	0.5	0.3	Recurring
d) Others	31.8	36.4	32.2	35.4	20.5	30.1	Recurring
<b>Total</b>	<b>126.4</b>	<b>267.2</b>	<b>125.7</b>	<b>185.0</b>	<b>385.8</b>	<b>271.4</b>	

The classification of recurring income and non-recurring is based on current operations and business activity of the company.

**Annexure VIII:****Summary of Accounting Ratios****(Rs. million)**

<b>Key Ratios</b>	<b>Six months ended September 30, 2003</b>	<b>Year ended March 31, 2003</b>	<b>Year ended March 31, 2002</b>	<b>Year ended March 31, 2001</b>	<b>Year ended March 31, 2000</b>	<b>Year ended March 31, 1999</b>
Net Profit after tax and adjustment and excluding extraordinary items (A)	776.1	1570.6	882.9	1292.4	834.3	374.0
Net worth excluding revaluation reserve (B)	7354.7	6578.7	5319.6	4648.1	3510.3	2839.1
Weighted Average Number of Equity Shares Outstanding during the year (Nos) (C)	28000000	28000000	28000000	28000000	28000000	28000000
Earning Per Share (Rs.)	27.71	56.09	31.53	46.16	29.80	13.36
Net Asset Value per Share (Rs.)	262.67	234.95	189.99	166.00	125.37	101.40
Return on Net worth (%)	10.55	23.87	16.60	27.80	23.77	13.17

Formulae:

$$\text{Earnings Per Shares (Rs.)} = \frac{A}{C} = \frac{\text{Net Profit after tax and adjustment and excluding extraor dinary items}}{\text{Weighted Average Number of Equity Shares Outstanding During for the year}}$$

$$\text{Net Asset Value Per Share (Rs.)} = \frac{B}{C} = \frac{\text{Net worth excluding revaluation reserve}}{\text{Weighted Average Number of Equity Shares Outstanding During the year}}$$

$$\text{Return on Net Worth (\%)} = \frac{A}{B} = \frac{\text{Net Profit after tax and adjustment and excluding extraor dinary items}}{\text{Net Worth excluding revaluation reserve}}$$

**Notes:**

1. Ratios have been computed on the basis of the adjusted profits and Network for the respective years

**Annexure IX:**

**Capitalisation Statement**

(Rs. million)

Particulars	Post-issue as at September 30, 2003	Pre-issue as at September 30, 2003	Pre-issue as at March 31, 2003
Short Term Debt	-	-	-
Long Term Debt (A)	1091.8	1091.8	1,198.3
<b>Total Debt</b>	<b>1091.8</b>	<b>1091.8</b>	<b>1,198.3</b>
Share Holders Funds			
Share Capital	280.0	280.0	280.0
Reserves after adjustment of Miscellaneous expenditure, to the extent not written off #	7074.7	7074.7	6298.7
<b>Total shareholders Funds (B)</b>	<b>7354.7</b>	<b>7354.7</b>	<b>6578.7</b>
<b>Long Term Debt/ Total Shareholders Fund (A/B)</b>	<b>0.15</b>	<b>0.15</b>	<b>0.18</b>

# Reserves have been taken after considering the adjustments.

The Government of India is selling 56,00,000 shares in the Company and accordingly no money is received from this offer. Therefore there is no change in Capitalisation statement, pre and post issue.

**Annexure X:**

**Statement of Tax Shelters**

(Rs. million)

Particulars	Six months ended September 30, 2003	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
Profit Before Tax but after Extraordinary items as per books (A)	850.3	1889.3	1646.1	1572.2	1230.6	760.0
Tax on actual rate on profits	305.0	694.3	587.6	621.8	473.8	266.0
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Donations	0.0	0.0	0.5	20.0	26.7	0.1
Deduction U/S 80G	0.0	0.0	0.0	(20.0)	(26.7)	(0.1)
Deduction U/S 80IA	0.0	(0.8)	(132.9)	(125.5)	(104.5)	(99.1)
Difference between tax depreciation and book depreciation	(63.0)	(331.7)	(669.6)	(276.6)	(45.3)	79.0
Capital Expenditure debited to Profit & Loss A/c (voyage Expr) & Customs duty	0.0	0.0	0.0	89.7	(12.3)	0.0
Voluntary Retirement Scheme	0.0	0.0	5.1	54.7	0.0	0.0
Provision for employee benefits	0.0	0.0	12.7	0.0	0.0	19.8
Provision for contractual obligations	0.0	0.0	0.0	0.0	51.8	2.4
Disallowance u/s 43B	4.0	7.7	7.5	46.3	4.3	3.3
Provision for Doubtful Debts	0.0	63.5	331.4	8.2	34.6	31.3
Provision for Unservicable Assets	0.0	0.1	1.1	7.7	0.0	1.7
Provision for Dry dock Repairs	81.2	233.4	286.7	53.1	76.0	182.4
Provision for doubtful claims	0.0	0.0	28.4	0.0	0.0	0.0
Provision for other losses	0.0	0.0	31.0	0.0	0.0	0.0
Loss on Sale of Assets	0.0	0.1	0.0	0.0	0.0	0.3
Sales Tax refunds received	0.0	0.0	0.0	0.0	0.0	6.6
Deductions under 43B	(6.0)	(7.5)	(7.3)	(17.5)	(4.2)	(3.1)
VRS compensation	0.0	(12.0)	(12.0)	(10.9)	0.0	0.0
Borrowing Costs capitalised in the books and claimed as revenue expense in income tax*	0.0	0.0	(52.2)	(23.0)	0.0	0.0
Provisions no longer required written back						
a) for dry dock repairs	(197.6)	(286.7)	(125.7)	(123.4)	(129.4)	(60.0)
b) for doubtful debts	0.0	(8.6)	0.0	(11.7)	(4.8)	(15.5)
Provision for unserviceable assets	0.0	(4.5)	0.0	0.0	(0.9)	0.0
Balance provision for						
Productivity linked bonus	0.0	(0.1)	(28.8)	(0.2)	(0.4)	(0.3)
Provision for other losses	0.0	(31.0)	0.0	0.0	0.0	0.0

(Rs. million)

Particulars	Six months ended September 30, 2003	Year ended March 31, 2003	Year ended March 31, 2002	Year ended March 31, 2001	Year ended March 31, 2000	Year ended March 31, 1999
Capital Expenditure debited to Profit & Loss A/c(voyage Expr)&Customs duty*	0.0	0.0	(107.2)	0.0	0.0	0.0
Profit on Sale of Assets	0.0	(1.5)	(1.4)	0.0	0.0	(0.1)
Provision for employee benefits	0.0	(40.7)	0.0	0.0	0.0	0.0
Income exempted U/s 33 AC of IT ACT	(668.9)	(1469.0)	(560.0)	0.0	0.0	0.0
Net Adjustments (B)	(850.3)	(1889.3)	(992.7)	(329.1)	(135.1)	148.7
Tax Saving thereon	305.0	(694.3)	(354.4)	(130.2)	(52.0)	52.0
Profit as per Income Tax Returns (A+B)	0.0	0.0	653.4	1243.1	1095.5	908.7
Taxable Income as per MAT Returns	65.1	306.1	0.0	0.0	0.0	0.0
Tax as per Income Tax Returns	5.0	24.1	233.2	491.7	421.8	318.0

**Annexure XI:****Other Financial Information****1. Sundry Debtors**

(Rs. million)

Particulars	As At September 30, 2003	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
<b>A: Debts outstanding</b>						
for a period exceeding six months						
Unsecured - Considered good	822.1	1024.7	79.6	498.0	147.5	128.7
- Considered doubtful	521.3	529.9	470.8	139.5	142.9	110.7
	<b>1343.4</b>	<b>1554.6</b>	<b>550.4</b>	<b>637.5</b>	<b>290.4</b>	<b>239.4</b>
<b>B: Other Debts:</b>						
Unsecured - Considered Good	836.8	268.0	1106.3	834.3	503.5	589.0
	<b>836.8</b>	<b>268.0</b>	<b>1106.3</b>	<b>834.3</b>	<b>503.5</b>	<b>589.0</b>
Less: Provision for doubtful debts	521.3	529.9	470.8	139.5	142.9	110.7
<b>TOTAL</b>	<b>1658.9</b>	<b>1292.7</b>	<b>1185.9</b>	<b>1332.3</b>	<b>651.0</b>	<b>717.7</b>

Note:

No amount is recoverable directly from the promoters, i.e., Government of India or from subsidiaries or from associates (except as stated in the section titled 'Related Parties Transaction') or the directors or the key managerial personnel or from any entity, which is directly or indirectly related to or is controlled by the promoter/ director/ key managerial personnel. Similarly no amount is due from any of the relatives or from an entity, which is directly or indirectly related to or is controlled by the relatives of the directors or key managerial personnel.

## 2. Value of Quoted Investments

As there are no quoted investments as at September 30 2003 and March 31, 2003, 2002, 2001, 2000 and 1999, the book value and market value of quoted investments of the Company as on September 30 2003 and March 31, 2003, 2002, 2001, 2000 and 1999 are stated to be NIL.

## 3. Loans and Advances

(Rs. million)

Particulars	As At September 30, 2003	As At March 31, 2003	As At March 31, 2002	As At March 31, 2001	As At March 31, 2000	As At March 31, 1999
<b>A. Loans</b>						
Secured - Considered Good	50.2	46.0	35.8	35.8	44.2	46.4
Unsecured - Considered Good	12.6	8.0	12.6	12.4	1.8	3.1
<b>Sub total</b>	<b>62.8</b>	<b>54.0</b>	<b>48.4</b>	<b>48.2</b>	<b>46.0</b>	<b>49.5</b>
<b>B. Advances recoverable in cash or in kind or for value to be received</b>						
Unsecured - Considered Good	647.4	811.8	437.2	582.6	416.6	498.7
- Considered Doubtful	28.6	28.6	28.6	0.2	0.2	0.4
Less: Provision for Doubtful Advances	28.6	28.6	28.6	0.2	0.2	0.4
<b>Sub total</b>	<b>647.4</b>	<b>811.8</b>	<b>437.2</b>	<b>582.6</b>	<b>416.6</b>	<b>498.7</b>
<b>C. Deposits - Considered Good</b>						
Balance with Customs, Port Trust and other Government Authorities	0.6	0.6	0.5	0.6	0.6	69.2
Other Deposits	41.2	67.9	51.1	47.3	41.5	18.5
<b>Sub total</b>	<b>41.8</b>	<b>68.5</b>	<b>51.6</b>	<b>47.9</b>	<b>42.1</b>	<b>87.7</b>
<b>Total</b>	<b>752.0</b>	<b>934.3</b>	<b>537.2</b>	<b>678.7</b>	<b>504.7</b>	<b>635.9</b>

### Note:

No amount is recoverable directly from the promoters, i.e., Government of India or from subsidiaries or from associates (except as stated in the section titled 'Related Parties Transaction') or the directors or the key managerial personnel or from any entity, which is directly or indirectly related to or is controlled by the promoter/ director/ key managerial personnel. Similarly no amount is due from any of the relatives or from an entity, which is directly or indirectly related to or is controlled by the relatives of the directors or key managerial personnel.

#### 4. Segment Results as Restated

The following table presents the Segment profits, assets and liabilities information relating to the Business segment for the six months ended September 30, 2003 and for the year ended March 31, 2003 and March 31, 2002. There are no reportable Secondary segments of the company. (Rs. million)

Information about business segment -Primary	Six months ended September 30, 2003			Year ended March 31, 2003			Year ended March 31, 2002		
	Operations in India	Operations Outside India	Total	Operations in India	Operations Outside India	Total	Operations in India	Operations Outside India	T total
<b>Segment Revenue</b>									
Operational Income	2391.7	0.0	2391.7	4866.6	44.2	4910.8	4626.1	267.5	4893.6
Other Income	126.4	0.0	126.4	267.3	0.0	267.3	125.6	0.0	125.6
<b>Total Revenue</b>	<b>2518.1</b>	<b>0.0</b>	<b>2518.1</b>	<b>5133.9</b>	<b>44.2</b>	<b>5178.1</b>	<b>4751.7</b>	<b>267.5</b>	<b>5019.2</b>
<b>Segment results</b>									
Profit (+)/ Loss (-) before tax and interest from each segment	794.6	0.0	794.6	1815.7	(4.6)	1811.1	1667.8	(12.7)	1655.1
Less: Interest Expense	18.5	0.0	18.5	70.0	0.0	70.0	130.3	0.0	130.3
<b>Profit Before Tax</b>	<b>776.1</b>	<b>0.0</b>	<b>776.1</b>	<b>1745.70</b>	<b>(4.6)</b>	<b>1741.1</b>	<b>1537.5</b>	<b>(12.7)</b>	<b>1524.8</b>
<b>Capital Employed</b>									
Segment Assets- Segment Liabilities	8772.8	0.0	8772.8	6066.2	1819.3	7885.5	5202.5	1829.9	7032.4
<b>Total Capital Employed</b>	<b>8772.8</b>	<b>0.0</b>	<b>8772.8</b>	<b>6066.2</b>	<b>1819.3</b>	<b>7885.5</b>	<b>5202.5</b>	<b>1829.9</b>	<b>7032.4</b>

#### 5. APPLICABILITY OF AS21, AS23 AND AS27:

As the Company does not have Subsidiaries and there are no investments in Joint Ventures and Associates, AS 21, AS23 and AS27 issued by the Institute of Chartered Accountants of India are not applicable to the Company.

## RELATED PARTY TRANSACTIONS

### Summary of significant transactions with related parties (as defined by Accounting Standard 18 – ‘RELATED PARTIES’ issued by the Institute of Chartered Accountants of India)

Names of related parties and nature of relationship are summarized below:

Sr. No.	Category of related parties	Six months ended September 30, 2003 Names	Year ended March 31, 2003 Names	Year ended March 31, 2002 Names	Year ended March 31, 2001 Names
1.	Associates	a. Dredge Repair Company of India Ltd <sup>(1)</sup>	a. Dredge Repair Company of India Ltd	a. Dredge Repair Company of India Ltd	NA
2.	Directors	a. Mr. N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao	a. Mr N. K. Gupta b. Mr. A. K. Dhar c. Mr. G. G. Rao	a. Mr N. K. Gupta b. Mr. C. S. Sastry c. Mr. A. K. Dhar d. Mr. G. G. Rao	a. Mr. C. S. Sastry b. Mr. A. K. Dhar
3.	Key Managerial Personnel	a. Mr. K. Kiriti b. CDR. A. K. Kar c. Mr. M.N.K.S. Varma d. Capt. M.V.R. Murthy e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. Subba Rao h. Capt A. K. Nanda i. Mr. S.S. Raghveer	a. Mr. K. Kiriti b. Mr. K. Madhava Rao c. Mr. T. Anand d. Mr. M.N.K.S. Varma e. Capt. M.V. Rao f. Capt. A. K. Nanda g. Mr. P. Rama Rao h. Mr. V.V.N. Murthy i. Mr. Y. V. SubbaRao j. Mr. S.S. Raguveer	a. Mr. K. Kiriti b. Mr. S. S. Raguveer c. Mr. M.N.K.S. Varma d. Capt. M.V. Rao e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. SubbaRao	a. Mr. K. Kiriti b. Mr. Dwarakavas c. Mr. G. G. Rao d. Mr. K.V.S. Rao e. Mr. P. Rama Rao f. Mr. V.V.N. Murthy g. Mr. Y. V. Subba Rao

<sup>(1)</sup>Refer setion titled ‘Group Companies including subsidiaries’ for more information.

(Rs. million)

Name of the transactions	Six months ended September 30, 2003			Year ended March 31, 2003			Year ended March 31, 2002			Year ended March 31, 2001	
	Amount Recoverable	Remuneration	Advances	Amount Recoverable	Remuneration	Advances	Amount Recoverable	Remuneration	Advances	Remuneration	Advances
Associate	0.7			0.7			0.7				
Directors		0.9	0.1		1.9	0.0		2.5	0.0	1.3	0.0
Key Managerial Personnel		1.8	0.5		3.5	0.6		3.1	0.9	1.7	0.2
<b>Total</b>	<b>0.7</b>	<b>2.7</b>	<b>0.6</b>	<b>0.7</b>	<b>5.4</b>	<b>0.6</b>	<b>0.7</b>	<b>5.6</b>	<b>0.9</b>	<b>3.0</b>	<b>0.2</b>

**Note:**

As per the exemption available in clause 9 of the Accounting Standard 18 relating to Related Party Disclosures issued by the Institute of Chartered Accountants of India, transactions with the state owned entities have not been included in the related parties transactions.

## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND U.S. GAAP

The financial statements forming part of this document have been prepared by taking in to consideration Indian GAAP as applicable, provisions of the Companies Act and the SEBI guidelines. Indian GAAP differs from that of U.S. GAAP in certain key areas.

The financial statements have not been prepared in accordance with U.S. GAAP. The differences between the two have not been ascertained.

The significant differences are broadly summarized below

	<b>PARTICULARS</b>	<b>INDIAN GAAP</b>	<b>U.S. GAAP</b>
1	<b>Financial Statements</b>	As per the requirement of Schedule VI of the Companies Act 1956, the companies are required to present Balance Sheet and Profit & Loss account for two years along with relevant accounting policies and notes there on. Besides, all the listed companies with a turnover exceeding Rs. 50 Crores are required to present cash flow statements also.	Not required to be prepared in any specific format, but should comply with disclosure requirements of U.S. Accounting Standards, for two years along with cash flow statements and statement of changes in stock holders equity along with the relevant accounting policies and notes on accounts.
2	<b>Fixed Assets &amp; Depreciation</b>	Fixed Assets are Accounted on historical cost method. Revaluation is allowed on a systematic basis. There is no restriction on the frequency of revaluation. However the amount of upward revaluation should not exceed the reasonably recoverable amount of assets.  Depreciation is provided at the rates prescribed in Schedule XIV to the Companies' Act, 1956. The useful life of the asset is not prescribed. Wherever necessary a higher rate can be adopted depending on the useful life of the assets.	Revaluation is not permitted  Depreciation is provided on the basis of estimated economic life of the asset. Depreciation is a process of application and not of valuation. However, long lived assets and certain identifiable intangible assets must be reviewed for impairment.
3	<b>Investments</b>	Long term investments are carried at cost except for other than temporary diminution in value. Current investment are carried at lower of cost or fair value determined on individual basis. The aggregate market values of quoted long term investments are required to be disclosed and not adjusted.	The method of valuation depends on classification of the investments.  If held to maturity they are carried at cost, adjusted for any amortization of premium or discount and subject to any diminution in value.  Trading securities are taken at market value and the profit or loss arising from  revaluation is recognised in the profit & loss statement.  Available for sale securities are reported at market value. The unrealised gains & losses are reported as a separate component of shareholders' equity.

	<b>PARTICULARS</b>	<b>INDIAN GAAP</b>	<b>U.S. GAAP</b>
4	<b>Intangible Assets</b>	<p>Subject to fulfillment of certain conditions intangible assets are capitalized. and amortized over useful life not exceeding 10 years in general . Amortization should be either on consumption pattern or on straightline method.</p> <p>No revaluation is permitted. Subsequent expenses cannot be capitlized unless they bring in some incremental benefit.</p>	<p>Subject to fulfillment of certain conditions, purchased intangible assets are capitalized. No ceiling for useful life of intangibles is specified.</p> <p>Intangibles with a specified useful life should be amortized over their estimated useful life in line with Indian GAAP.</p>
5	<b>Share and Debentures issue Expenses</b>	<p>Share and debenture Issue expenses, can be charged off or adjusted against premium account or can be treated as deferred revenue expenses.</p>	<p>Direct cost of issuing share capital is deducted from the issue proceeds and the net amount only is taken as Equity .</p> <p>Debt issue costs are amortized over the life of the debt</p>
6	<b>Proposed Dividend</b>	<p>Proposed dividends are accounted for in the financial statements of the year to which they relate, even though proposed or declared after the Balance Sheet date.</p>	<p>Dividends are accounted for at the point of time they are formally declared by the Board of Directors.</p>
7	<b>Accounting for Taxes on Income</b>	<p>Accounting for tax on Income is based on 'Income Statement approach'. Based on the analysis of differences between the profit as per profit &amp; loss statement and profits chargeable to tax, the difference are classified in to permanent differences and timing differences. As per the Accounting Standard only timing differences are considered and the resultant asset/ liability is presented as deferred tax asset/liability in the financial statements. However deferred tax asset is to be recognised to the extent there is reasonable or virtual certainty of its being realised..</p> <p>Deferred tax assets and liabilities should be measured using the tax rates that have been enacted and in force by the Balance Sheet date.</p>	<p>A current tax liability or asset is recognised for the estimated taxes payable or refundable for the year as per tax returns.</p> <p>A deferred tax liability or asset is recognised for the estimated future tax effects attributable to temporary differences.</p> <p>The ascertainment of current and deferred tax liability and asset is based on provisions of the enacted tax law.</p> <p>The effects of future changes in tax laws or rates are not considered.</p> <p>Deferred tax assets are recognised if recovery is possible</p>
8	<b>Changes in accounting policies</b>	<p>Impact of changes in accounting policies and prior period items must be recognised in the profit &amp; loss statement of the year in which the change occurs.</p> <p>The change resulting from adoption of an Accounting Standard has to be adjusted against opening retained profit.</p> <p>The effect of correction of errors is recognised in the current year's. profit statement with disclosure.</p>	<p>Prior period Items are accounted by adjusting them to prior years and retained profits.</p> <p>The effect of change in accounting policies generally included in the years' profit &amp; loss statement, with a separate disclosure.</p> <p>Figures for all the earlier years affected by the change must be restated.</p>

	<b>PARTICULARS</b>	<b>INDIAN GAAP</b>	<b>U.S. GAAP</b>
9	Presentation of Current liabilities	It is not required to show the current portion of long term liabilities as current liability. However a separate disclosure by way of a note is required.	It is required to show the current portion of long term liabilities as current liability.
10	Extra ordinary items	Extraordinary items are shown separately with out adjustment for the tax effect thereon.	Extraordinary items are shown net of taxes below the regular income, or in notes.
11	Items outside the scope of financial statements	<p>Schedule VI of the Companies Act 1956 stipulates the disclosure of amounts contracted to be paid for the unexecuted portion and not provided for on capital account.</p> <p>Accounting Standards require specific disclosure for commitments and contingent liabilities.</p>	<p>Commitments made by an enterprise have to be disclosed. Contingent gains/ losses must be recognised or disclosed in the financial statements if certain conditions are met.</p> <p>It is also required that enterprises disclose guarantees including indirect guarantees of indebtedness of others and for consideration of variable interest entities.</p>

## MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this Preliminary Sale Document) and documents which are or may be deemed to be material have been attached to the copy of this Preliminary Sale Document delivered to the RoC for filing and also documents for inspection referred to hereunder, may be inspected at our registered office situated at **Core – 2, First Floor, 'Scope Minar', Plot No.2A&2B, Laxmi Nagar District Centre, Delhi - 110091** or at our head office situated at **'Dredge House', Port Area, Visakhapatnam – 530 035, Andhra Pradesh, India** from 10.00 a.m to 12.00 noon from the date of this Preliminary Sale Document until the date of Offer Closing Date.

### Material Contracts

1. Memorandum of Understanding dated January 23, 2004 executed between BRLMs, Company and Selling Shareholder along with interse allocation of responsibilities between BRLMs.
2. Letter of appointment dated October 16, 2003 to KMCC from Gol for their appointment as BRLM to the Offer.
3. Letter of appointment dated October 16, 2003 to Enam from Gol for their appointment as BRLM to the Offer.
4. Letter of appointment dated November 25, 2003 from Gol to Crawford Bayley & Co and Linklaters Allen and Gledhill for their appointment as Legal Advisors to the Offer.
5. Letter of appointment dated January 20, 2004 from Gol to Karvy Consultants Limited for their appointment as Registrar to the Offer.
6. Letters from the Government of India dated January 30, 2004 appointing Escrow Collection Bankers and Bankers to the Offer bearing No. 7/4/2004-MODI.

### Material Documents

1. Our Memorandum and Articles of Association as amended from time to time.
2. Our certificate of incorporation dated March 29, 1976.
3. Resolution of the Board of Directors of the Company passed at its meeting held on November 28, 2003, January 19, 2004 and February 14, 2004 with respect to the Offer for Sale.
4. Letter No.P.O/28015/35/2001-DCI dated December 10, 2003 issued by MoS authorizing the Company for taking necessary actions with regard to the disinvestment of 20% of the paid-up equity share capital of our Company by Gol by way of the Offer for Sale.
5. Letter No. FC.II. 336(2003)/445(2003) dated January 6, 2004 issued by FIPB stating that they have no objection for the transfer of the Gol's shareholding to the extent of 20% of the paid-up equity share capital of the Company through a public offer to FIIs, NRIs, FCVFs registered with SEBI and bilateral and multilateral developmental financial institutions on repatriation basis.
6. Letter No. DO.No. 9 (3)/ 2004 –FIPB dated February 12, 2004 from the FIPB.
7. Approval from the RBI for transfer of shares in this Offer to Non Resident Indians, FIIs and Foreign Venture Capital Funds registered with SEBI and Multilateral and Bilateral Development Financial institutions, pursuant to its letter no. EC.DEL.FID.II / 06.04.3659/ 03-04 dated February 7, 2004.
8. Notice No.4392/92 dated November 30, 1992 issued by BSE informing members of BSE that the Equity Shares of our Company are listed and admitted to dealings on BSE.
9. Letter No.6398 dated December 4, 1992 issued by DSE informing our Company that our Equity Shares are listed and admitted to dealings on DSE.
10. Letter No.CSTA/LD/075/2004 dated January 19, 2004 evidences that our Equity Share Capital is listed on CSE.
11. Letter No.NSE/LIST/60226 dated January 13, 2004 issued by NSE informing our Company that our Equity Shares have been listed and admitted to dealings on NSE.
12. The Report of the Auditors M/s Sriramamurthy & Co as set out herein dated January 21, 2004.
13. A copy of the tax benefit report dated January 23, 2004 from our auditors M/s Sriramamurthy & Co, Chartered Accountants.
14. Copies of the Annual Reports for the years ended March 31, 1999, 2000, 2001, 2002 and 2003

15. Consent dated February 12, 2004 of Mr. D.V. Subba Rao for inclusion of his name as Legal Counsel to the Company in the Preliminary Sale Document and the Final Sale Document.
16. Consent dated February 12, 2004 of M/s. Brahmayya and Co. for inclusion of their name as Tax Advisors to the Company in the Preliminary Sale Document and the Final Sale Document
17. Consents of: (a) Auditors (b) Escrow Collection Bankers and Bankers to the Offer (c) Book-Running Lead Managers (d) Syndicate Members (e) Domestic Legal Counsel to the Offer (f) International Legal Counsel to the Offer (g) Directors (h) Company Secretary (i) the Registrar to the Offer (j) Bankers to the Company in their respective capacities.
18. Power of Attorney issued by Directors of our Company for signing and making necessary changes to documents to this Offer.
19. Letter No.:PO/28015/35/2001-DCI from GoI, Ministry of Shipping (Ports Wing) dated January 15, 2004 authorizing Mr. N.K.Jawa, Mr. T.Srinidhi and Mr. P.C.Dhasmana to sign the documents in relation to the Offer.
20. Letter No. CAV/COY/Central Govt. DREDCO(1)/61 dated October 29, 2003 from CAG appointing M/S Sriramamurthy & Co as Auditors for the year fiscal 2004.
21. Letters from BSE,CSE,NSE and DSE granting permission to use their name in the Offer documents.
22. SEBI guidance letter dated February 13, 2004 addressed to the Joint Secretary, Ministry of Disinvestment.
23. Letter from the Ministry of Disinvestment dated February 11, 2004 authorizing Company Secretary and Compliance Officer of the Company to redress investor complaints.
24. Letter from the Ministry of Disinvestment No. 4/13/2002-MODI dated February 9, 2004.
25. Due Diligence Certificate dated January 23, 2004 to SEBI from Kotak Mahindra Capital Company Limited and Enam Financials Consultants Private Limited.
26. Due Diligence Certificate dated February 14, 2004 to the Ministry of Shipping, Government of India from Kotak Mahindra Capital Company Limited and Enam Financials Consultants Private Limited.
27. Letter from the Ministry of Disinvestment dated February 14, 2004 regarding correspondence with Department of Company Affairs.

SEBI in its letter dated January 29, 2004 has advised that, *"The relevant SEBI (DIP) Guidelines are applicable to an offer for sale by an unlisted company only. Thus the SEBI (DIP) Guidelines do not envisage a listed company facilitating one of the shareholders to dispose off his holdings through an offer for sale."* Further, SEBI in its letter dated February 13, 2004 has advised that, *"It may be specifically understood that the shares offered under this sale offer being already listed on the stock exchanges, the SEBI guidelines for public issues/offers are not applicable to this sale offer by the selling shareholder"*. However, the Selling Shareholder has vide its letter dated February 9, 2004 addressed to the BRLMs and the Company stated that, *"Government would voluntarily adopt the SEBI (DIP) Guidelines particularly the 100% Book Building process for DCI Public Offer. Further, the processes, procedures and practices, which are generally followed in the 100% book building process save deviations indicated in the subsequent paragraphs would be adopted for DCI Public Offer."* SEBI by its letter dated January 29, 2004 and February 13, 2004 has also stated that this *"Preliminary Sale Document does not constitute an offer document or prospectus in terms of the SEBI Guidelines"* and that Preliminary Sale Document *"is not a document issued by or on behalf of the Company and the document may be filed with Registrar of Companies only if required."* Therefore, the following declaration/confirmation is being made voluntarily in the above context only:

## DECLARATION

All the relevant provisions of the Companies Act, 1956, and the guidelines issued by the Government of India or the guidelines issued by the Securities and Exchange Board of India, established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Preliminary Sale Document is contrary to the provisions of the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be.

## CONFIRMATION

All the provisions of the Securities Contract (Regulation) Act, 1956 and the provisions of the Securities Contracts (Regulation) Rules, 1957, as applicable, and the terms of the listing agreements have been complied with and continuous disclosures have been made thereunder.

### SIGNED BY THE DIRECTORS

Mr. N.K. Gupta	
Mr. A.K. Dhar	*
Mr. G.G. Rao	*
Mr. N.K.Jawa	*
Mr. C.V. Dikshith	*
Dr. S. Kathiroli	*
Mr. T. Srinidhi	*

\*through their duly Constituted Attorney, Mr.Y.V. Subbarao

### SIGNED BY THE SELLING SHAREHODLER

Mr.N.K.Jawa  
Director (PO)  
Ministry of Shipping  
(As authorised vide letter No. PO/28015/35/2001-DCI dated January 15, 2004).

Date: February 14, 2004

Place: Mumbai