

REPORT ON CORPORATE GOVERNANCE

1. Brief statement on Company's philosophy on code of governance

Transparency, fairness, disclosure and accountability are central to the working of the company and its board of directors. Aarvee has complied with the requirement of the corporate governance in terms of clause 49 of the listing agreement.

The fundamental concern of corporate governance is to ensure the conditions whereby a company's directors and managers act in the interest of the company and its various stakeholders. Your company has always been guided by a strong conviction of adhering to transparency, accountability and integrity. The company strongly believes in maintaining a simple and transparent corporate structure driven solely by business needs. Shareholders interests are utmost and the management is only a trustee of the shareholders capital to carry out the activities in a truthful manner.

2. Board of Directors

Composition & particulars of Directors

The Board of Directors of the company is having optimum combination of Executive & Non-Executive Directors as suggested in the Corporate Governance norms. The current strength of the Board is ten comprising three Executive Directors and seven Non-executive Directors, of these seven Non-Executive Directors, five are independent Directors and two are Non-independent Directors.

| | |
|--------------------------------|---|
| Executive Directors | Shri Vinod P. Arora , Chairman & Managing Director (Promoter) Shri Ashish V. Shah, Managing Director (Promoter) Shri Kalpesh V. Shah, Whole-time Director |
| Non Executive Directors | Shri Rajesh P. Arora Shri Parmanand T. Arora |
| Independent Directors | Shri Sanjay S. Majmudar Shri Ashok C. Gandhi Shri Arvind D. Sanghvi Shri Amol R Dalal Shri Tilak Raj Kapoor |

Number of Board Meetings held & the dates on which held

| Date | Board Strength | No of Directors Present |
|--------------------|----------------|-------------------------|
| 30th May, 2011 | 10 | 09 |
| 10th August 2011 | 10 | 08 |
| 12th November 2011 | 10 | 09 |
| 9th February, 2012 | 10 | 06 |

Details of Directors, Attendance of Directors at the Board Meetings, at the Annual General Meeting held on 30th September, 2011 and number of memberships held by Directors in the Board/Committee of other Companies

| Sr. No. | Name | Category | Attendance particulars | | No. of other Directorship & Committee membership/chairmanship | | |
|---------|---|--------------------|------------------------|------------------------|---|----------------------|------------------------|
| | | | Board Meeting | AGM held on 30.09.2011 | Other Directorship | Committee Membership | Committee Chairmanship |
| 1. | Shri Vinod P. Arora (Chairman & Managing Director) | Promoter Executive | 4 | Yes | 2 | - | - |
| 2. | Shri Ashish V. Shah (Managing Director) | Promoter Executive | 4 | Yes | - | - | - |

| | | | | | | | |
|-----|--|------------------------------|---|-----|---|---|---|
| 3. | Shri Kalpesh V. Shah (Wholetime Director) | Promoter Executive | 4 | Yes | - | - | - |
| 4. | Shri Parmanand T. Arora | Promoter Non-Executive | 3 | - | - | - | - |
| 5. | Shri Rajesh P. Arora | Promoter Non-Executive | 3 | - | - | - | - |
| 6. | Shri Sanjay S. Majmudar | Independent Non executive | 3 | Yes | 5 | 4 | - |
| 7. | Shri Ashok C. Gandhi | Independent Non executive | 4 | - | 6 | 6 | - |
| 8. | Shri Arvind D. Sanghvi | Independent Non executive | 0 | - | 2 | - | - |
| 9. | Shri Tilak Raj Kapoor | Independent Non executive | 3 | - | - | - | - |
| 10. | Shri Amol R. Dalal | Independent Non executive | 4 | Yes | 1 | - | - |

- Directorship in other companies mentioned above excludes directorships in private limited companies.
- While calculating the number of Chairmanship/Membership in Committees of other Companies, Membership/ Chairmanship of only Audit Committee and Shareholders' Grievance Committee have been considered pursuant to clause 49 of the Listing Agreement. None of the Directors is a member in more than ten committees and act as a chairman in more than five committees across all companies in which he is a Director.

Appointment/Reappointment of Directors:

The Directors who retire by rotation and who are eligible for re-appointment are:

- Shri Parmanand Arora** is 85 years old, is having more than 65 years of experience in textile business. He is founder of Arora Group of Companies, Delhi & promoter of Aarvee Denims And Exports Limited. He is Director of the Company since 1992. Shri Parmanand Arora is father of Shri Vinod Arora, Chairman & Managing Director of the Company.
- Shri Tilakraj Kapoor** is 79 years old and qualified as B.A. He is holding directorship in various private limited companies. Mr. Kapoor is independent director of the Company.

3. Audit Committee

(I) Brief Description of terms of reference:

The broad terms of reference of the Audit Committee include:

- To supervise financial reporting process and to ensure financial and accounting control.
- To ensure compliance with the accounting policies of the Company.
- To interact with the internal and statutory auditors to ascertain the quality and veracity of Company's transactions and to review the manner in which they are performing their responsibilities.
- To review the internal audit function.
- To review and discuss the financial statements before they are presented to the Board of Directors.
- To review financial and risk management policies.
- To approve the appointment of Chief Financial Officer (CFO) or equaling officer in the Company.
- To carrying out such other functions as may be specifically referred to the committee by the Board of Directors and / or other Committee of Directors of the Company.

Internal Control

Management feels that the internal controls in place are sufficient considering the size, nature and complexities of the operations of the company. Audit committee overlooks the operation and if required, modifications are put in place. The internal audit function is also reviewed by the audit committee of the board. Internal Audit department of the Company is regularly reviewing the internal control systems of the company and to report it to the management and Audit committee.

(II) Composition of Audit Committee

Constitution of Audit Committee meets with the requirements of Corporate Governance guidelines as well as the provisions of section 292 A of the companies Act, 1956.

Audit Committee constituted by the Board of Directors consists of three Independent Directors, viz. Shri Sanjay S. Majmudar as Chairman of the Committee, Shri Ashok C. Gandhi and Shri Amol R. Dalal, as members.

(III) Meetings and Attendance during the year

Audit Committee met on 30th May, 2011, 10th August, 2011, 12th November, 2011 and 9th February, 2012, to consider quarterly / yearly financial results of the Company during the financial year under review.

Details of attendance of members of Audit Committee at the Audit Committee meeting held during the year 2011-12 are as under:

| Sr.No. | Name of Member | Attendance Particulars |
|--------|----------------------|------------------------|
| 1. | Shri Sanjay Majmudar | 3 |
| 2. | Shri Ashok Gandhi | 4 |
| 3. | Shri Amol Dalal | 4 |

4. Remuneration Committee

(I) Brief Terms of reference and Remuneration Policy:

The remuneration Committee has been constituted to recommend and review remuneration of Directors and senior management personnel from time to time. The remuneration policy of the Company is to reward the performance and achievements of the Directors periodically.

(II) Composition of the Committee:

Remuneration Committee consists of three Independent Directors viz. Shri Sanjay S. Majmudar as Chairman of the Committee, Shri Ashok C. Gandhi and Shri Amol R. Dalal as members.

(III) Meetings and Attendance

One meeting of the committee was held on 30th May, 2011; whereas all members of the committee were remain present. The committee reviewed the revised remuneration structure of three Vice president of the Company.

(IV) Details of remuneration of Directors

The aggregate value of salary and perquisites paid to Managing/Whole time Directors for the financial year ended March 31, 2012 is as under:

| | | |
|----|---|---------------|
| 1. | Shri Vinod P. Arora, Chairman & Managing Director | ₹ 36,00,000/- |
| 2. | Shri Ashish V. Shah, Managing Director | ₹ 27,00,000/- |
| 3. | Shri Kalpesh V. Shah, Whole-time Director | ₹ 18,00,000/- |

The sitting fees paid during the financial year 2011-12 for attending the Board & Committee Meetings are as follows:

| | | |
|----|-------------------------|-----------|
| 1. | Shri Sanjay S. Majmudar | ₹ 18000/- |
| 2. | Shri Amol R. Dalal | ₹ 24000/- |
| 3. | Shri Ashok C. Gandhi | ₹ 24000/- |
| 4. | Shri Arvind D. Sanghvi | ₹ Nil |

5. Shareholder Committee

(I) Share Transfer Committee

The Board has long back constituted a Share Transfer Committee consisting of three executive Directors.

The Committee meets at frequent intervals, to approve inter-alia, transfer/transmission of shares, deletion of names, split/consolidation of shares etc. Details of shares transfer/transmissions approved by the Committee are placed at the Board Meetings from time to time.

Committee consists of Shri Vinod P. Arora, Shri Ashish V. Shah & Shri Kalpesh V. Shah.

(II) Shareholder's Grievance Committee

The Shareholder's Grievance Committee specifically looks into redressing of shareholders and investor's complaints such as transfer of shares, non-receipt of declared dividends and to ensure expeditious share transfer process.

The Company has constituted the Shareholder's Grievance Committee under the Chairmanship of Shri Amol Dalal, Independent - Non Executive Director of the Company with a view to monitor the redressal of Investor's grievances. The other two members of the Committee are Shri Vinod P. Arora, Chairman and Managing Director and Shri Kalpesh V. Shah, Whole time Director. The Committee met four times during the year viz. 10th April, 2011, 12th July, 2011, 10th October, 2011 and 9th January, 2012 and all the three members of the Committee were present at the above meetings.

The details of the Complaint received/solved/pending during the year are as below:

| Sr. No. | Nature of Complaint | Complaints received | Complaints solved | Complaints pending |
|---------|---|---------------------|-------------------|--------------------|
| 1. | Non receipt of Shares Certificate after transfer etc. | Nil | Nil | Nil |
| 2. | Non receipt of Dividend Warrants | 01 | 01 | Nil |
| 3. | Query regarding Demat credit | Nil | Nil | Nil |
| 4. | OTHERS | Nil | Nil | Nil |
| | Total | 01 | 01 | Nil |

6. General Body Meetings

(I) Annual General Meetings

The details of the last Three Annual General Meetings of the Company held at the registered office of the Company are as under:

| Annual General meeting | Date | Time | No. of Special Resolution passed |
|------------------------|----------------------------------|------------|----------------------------------|
| 22 nd AGM | 30 th September, 2011 | 10.00 A.M. | 3 |
| 21 st AGM | 30 th September, 2010 | 10.00 A.M. | 6 |
| 20 th AGM | 30 th September, 2009 | 10.00 A.M. | - |

No special resolution was put through postal ballot in the last AGM nor is any resolution proposed for this year. No Extra Ordinary General Meeting was held in the last financial year.

7. Code of Business Conduct and Ethics

The Board has laid down comprehensive Code of Business Conduct and Ethics. The Board Members and Senior Management Personnel are responsible for and are committed to setting the standards of Conduct contained in this code and for updating this standards, as appropriate, to ensure their continuing relevance, effectiveness and responsiveness to the needs of local and international investors and all other stakeholders as also to reflect corporate, legal and regulatory developments. This code is being adhered to in letter and in spirit. This Code has posted on the Company's website i.e. www.aarvee-denims.com. The Confirmation of Managing Director for the Compliance of the Code of Business Conduct and Ethics is as under:

I hereby confirm that:

"The Company hereby affirms that it has complied with the Code of Business Conduct and ethics and received affirmation from Board Members and senior management Personnel of its compliance."

Ashish V. Shah
Managing Director

8. Insider Trading

The Board has laid down Code of Conduct for Insider Trading in compliance with SEBI(Prohibition of Insider Trading) Regulations 1992. All the directors and senior management personnel who are expected to have access to unpublished price sensitive information concerning the Company is responsible for adherence to this code.

9. CEO/CFO Certification:

The managing Director has certified to the Board as required under clause 49(v) of the Listing Agreement for the year ended 31st March, 2012.

10. Risk Management Policy

Business Risk Evaluation and Management is an ongoing process with in the Company. During the year under review a detailed exercise on Risk Management was carried out covering the entire gamut of business operation and Audit Committee and Board Members are reviewing and updating the said policy every quarter.

11. Disclosures

None of the transactions with any of the related parties were in conflict with the interests of the Company.

So far no Penalties or strictures have been imposed on the Company by any Stock Exchange or SEBI or any Statutory Authority on any matter related to Capital Market.

12. Means of Communication

Financial Results are published normally in leading English financial newspaper and in Vernacular daily Newspaper.

The Company supply copies of the Financial Results and Annual Report of the Company to various Analysts, registered Share Brokers, various Government Departments & Agencies, and other Investors and all those interested in getting the same as and when request received from them for the same. The Financial Results of the Company are available on the Company's website i.e www.aarvee-denims.com

Management Discussion & Analysis is a part of Annual Report attached herewith.

13. General Shareholder Information**A. 23rd Annual General Meeting**

Day, Date, Time : Saturday, 29th September, 2012 at 10.00.a.m.

Venue **AARVEE DENIMS AND EXPORT LTD.**
Registered Office at 188/2, Ranipur Village, Opp. CNI Church, Narol,
Ahmedabad - 382 405

B. Financial Calendar

The Company follows April to March as its financial calendar. The results for every quarter beginning from April will be declared within the time period prescribed under the Listing Agreement.

C. Date of Book Closure

From 1st September 2012

D. Listing on Stock Exchanges

The Company's shares are listed on Bombay Stock Exchange Ltd and National Stock Exchange Ltd. The Company has paid the listing fees to the stock exchange for the year 2012-13.

E. Stock Code and ROC Code

Bombay Stock Exchange Ltd. - 514274

National Stock Exchange Ltd. - AARVEEDEN

ISIN No. allotted to the Company for Dematerialisation of Equity Shares - INE273D01019

The Company is registered in the State of Gujarat, India

Having Corporate Identity Number (CIN) is: L17110GJ1988PLC010504

F. Market Price :

High, Low during each month in last financial year - Highest & Lowest Share Price of the company as quoted on The Stock Exchange, Mumbai (BSE) and National Stock Exchange Ltd (NSE) during the period from April - 2011 to March - 2012 is produced hereunder:

| Month & year | BSE | | | NSE | |
|------------------|-------------|----------------|---------------|----------------|---------------|
| | BSE SENSEX* | High Price (₹) | Low Price (₹) | High Price (₹) | Low Price (₹) |
| April - 2011 | 19135.96 | 69.00 | 56.20 | 69.95 | 52.20 |
| May - 2011 | 18503.28 | 71.00 | 49.05 | 63.75 | 60.00 |
| June - 2011 | 18845.87 | 62.00 | 47.50 | 62.00 | 47.95 |
| July - 2011 | 18197.20 | 53.40 | 40.00 | 54.00 | 46.00 |
| August - 2011 | 16676.75 | 51.00 | 26.50 | 55.00 | 29.10 |
| September - 2011 | 16453.76 | 39.00 | 31.20 | 40.00 | 30.60 |
| October - 2011 | 17705.01 | 38.45 | 32.60 | 39.00 | 33.20 |
| November - 2011 | 16123.46 | 37.65 | 30.00 | 38.00 | 29.15 |
| December - 2011 | 15454.92 | 34.95 | 27.55 | 34.95 | 33.05 |
| January - 2012 | 17193.55 | 38.25 | 27.40 | 40.00 | 27.45 |
| February - 2012 | 17752.68 | 43.95 | 36.00 | 45.95 | 34.90 |
| March - 2012 | 17404.20 | 42.95 | 32.00 | 44.80 | 32.00 |

* Closing prices on the last working day of month.

G. Registrar and Share Transfer Agent

Mr. Rakesh Joshi

Sharepro Services (India) Pvt Ltd.

416-420, 4th.Floor Devnandan Mall, Opp.Sanyash Ashram, Ellisbridge, Ahmedabad -380006 , Gujarat

Tel Nos. : (079) 26582381 to 84, Fax No. : (079) 26582385

Email : rakesh.joshi@shareproservices.com

H. Share Transfer System

Equity Shares of the Company received from the Investors for the purpose of Transfer in their name are being processed for transfer at interval of every fortnight depending upon load in each calendar month and after completing the procedure of Share Transfer are being returned to the Transferors within a period of ranging from two to three weeks, provided the documents lodged with the Registrars/company are clear in all respects.

I. Distribution of Shareholding as on 31-03-2012

| No. of Shares | Shareholders | | Shareholding | |
|---------------|--------------|---------------|-----------------|---------------|
| | Number | % | Number | % |
| Up to 500 | 9844 | 93.68 | 1356304 | 5.78 |
| 501-1000 | 362 | 3.45 | 294983 | 1.26 |
| 1001-2000 | 124 | 1.18 | 188642 | 0.80 |
| 2001-3000 | 40 | 0.38 | 102661 | 0.44 |
| 3001-4000 | 21 | 0.20 | 74419 | 0.32 |
| 4001-5000 | 18 | 0.17 | 84960 | 0.36 |
| 5001-10000 | 31 | 0.30 | 227681 | 0.97 |
| Above 10000 | 67 | 0.64 | 21130150 | 90.07 |
| Total | 10507 | 100.00 | 23459800 | 100.00 |

J. Shareholdings Pattern as on 31-03-2012

| Sr. No. | Category | No. of Shares held | % of Shareholding |
|----------|---|--------------------|-------------------|
| A | PROMOTERS' HOLDINGS | | |
| | Indian Promoters/Person Acting in Concert | 14903124 | 63.53 |
| | Foreign Promoters | | |
| | Sub Total | 14903124 | 63.53 |
| B | | | |
| 1 | Institutional Investors | | |
| | a. Mutual Funds | — | — |
| | b. Banks/Financial Institutions | 300 | — |
| | c. Insurance Companies | 493758 | 2.10 |
| | d. FIs | — | — |
| | e. Foreign Financial Institution | 3373100 | 14.38 |
| | Sub -Total | 3867158 | 16.48 |
| 2 | Non Institutional Investors | | |
| | a. Private Corporate Bodies | 124138 | 0.53 |
| | b. Indian Public | 3052482 | 13.01 |
| | c. NRIs | 1512898 | 6.44 |
| | Sub -Total | 4689518 | 19.99 |
| | Grand - Total | 23459800 | 100.00 |

K. Dividend declared for the last 10 years

| Financial Year | % Dividend per share |
|----------------------------|----------------------|
| 2002-03 | 10 |
| 2003-04 | 10 |
| 2004-05 (Interim Div.) | 5 |
| 2004-05 (Final Div.) | 10 |
| 2005-06 (I Interim Div.) | 5 |
| 2005-06 (II Interim Div.) | 5 |
| 2005-06 (III Interim Div.) | 5 |
| 2005-06 (Final Div.) | 5 |
| 2006-07 (Interim Div.) | 5 |
| 2006-07 (Final Div.) | 5 |
| 2009-10 (Interim Div.) | 5 |
| 2009-10 (Final Div.) | 5 |
| 2010-11 | 5 |

L. Dematerialisation of Shares and liquidity

| Electronic / Physical* | No of Shares | % |
|------------------------|-----------------|---------------|
| NSDL | 22228187 | 94.75 |
| CDSL | 491000 | 2.09 |
| Physical | 740613 | 3.16 |
| TOTAL | 23459800 | 100.00 |

*As on 31st March, 2012

As on 31st March, 2012, 22719187 (96.84%) Equity Shares of the Company were dematerialised. 100% promoters share holdings are in dematerialized form.

M. Plant Location
Spinning Plant-I

Survey No. 215-217, Village Sari, Sarkhej-Bavla Highway,
Tal. Sanand, Dist. Ahmedabad -382 210.

Spinning Plant-II

Survey No. 212/2 -212/4, Village Sari, Sarkhej-Bavla Highway,
Tal. Sanand, Dist. Ahmedabad -382 210.

Weaving Plant

188/2, Ranipur Village, Opp. CNI Church,
Near Narol Circle, Ahmedabad-382 405.

Composite Mill

191, Moje - Shahwadi, Narol - Sarkhej Highway,
Ahmedabad-382 405

N. Address for correspondence

For any grievance or assistance regarding dematerialization of shares, share transfers, transmissions, change of address, non-receipt of dividend or any other query relating to shares, and please write to: cs@aarvee-denims.com

The Company Secretary

Amish P. Shah
Aarvee Denims And Export Ltd.,
Registered Office: - 188/2, Ranipur Village, Opp. CNI Church, Narol, Ahmedabad-382 405.
Tele : (079)30417000, E-mail: cs@aarvee-denims.com

Amish P. Shah
Company Secretary

N. C. Shah & Associates

Chartered Accountants
191/1, New Cloth Market,
Ahmedabad - 380 002.

Deloitte Haskins & Sells

Chartered Accountants
'Heritage', 3rd Floor, Nr. Gujarat Vidhyapith,
Off Ashram Road, Ahmedabad - 380 014.

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

**To the Members of
Aarvee Denims and Exports Limited,**

We have examined the compliance of conditions of corporate governance by **Aarvee Denims and Exports Limited** ('the Company') for the year ended on March 31, 2012 as stipulated in Clause 49 of the Listing Agreement of the Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Company's management. Our examination has been limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring compliance of the conditions of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For N. C. Shah & Associates

Chartered Accountants
(Registration No.109692W)

Nitin C. Shah

Proprietor
Membership No.34633

Place : Ahmedabad
Date : 28th May, 2012

For Deloitte Haskins & Sells

Chartered Accountants
(Registration No.117365W)

H. P. Shah

Partner
Membership No. 33331

Place : Ahmedabad
Date : 28th May, 2012