

ELGI FINANCE LIMITED

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23rd Annual
Report
31-3-2006

ELGI FINANCE LIMITED

Board of Directors

Dr. Jairam Varadaraj
Managing Director

C.N. Subramanian

B. Balakrishnan

S.A. Subramanian

Auditors

M/s. Suri & Co.,
Chartered Accountants
Coimbatore

Registered Office

"INDIA HOUSE",
1443/1 Trichy Road,
Coimbatore - 641 018.

Registrars and Transfer Agents

Registered Office :

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound
L.B.S. Marg, Bhandup West,
Mumbai - 400 078.
Phone : 91-022-55555454
Fax : 91-022-55555353
E-mail : isrl@vsnl.com

Branch Office :

Intime Spectrum Registry Limited
Surya, 35 May Flower Avenue
(Behind Senthil Nagar)
Sowripalayam Road
Coimbatore - 641 028.
Phone : 91-0422-2314792
91-0422-2316755
E-mail : coimbatore@intimespectrum.com

*Members are requested to bring their copy of the
Annual Report to the Annual General Meeting.*

ELGI FINANCE LIMITED**NOTICE OF THE ANNUAL GENERAL MEETING**

Notice is hereby given that the Twenty Third Annual General Meeting of the Members of Elgi Finance Limited will be held on Monday, the 11th day of September, 2006 at 4.00 P.M. at Ardra Convention Centre, No.9, North Huzur Road, Coimbatore-641 018 to transact the following business.

ORDINARY BUSINESS :

1. To consider and adopt the Balance Sheet as at 31st March, 2006, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors there on.
2. To appoint a Director in the place of Sri. B. BALAKRISHNAN who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

NOTES

1. **A member entitled to attend and vote at a meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be member.**
2. The instrument appointing a proxy should be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
3. The Register of Members and Share Transfer Register of the Company will remain closed from 01.09.2006 to 11.09.2006 (both days inclusive).
4. As required under the provisions of section 205A of the Companies Act, 1956, the Company has transferred unclaimed dividends upto the financial year ended 30.09.1997 to the Investor Education and Protection Fund of the Central Government. There after the Company has not declared Dividend.
5. Members can avail the nomination facility, under Section 109A of the Companies Act, 1956, by filing up Form No.2B with the Share Transfer Agent and by execution of the relevant form with the Depository Participants concerned.

ISIN ACTIVATION CODE ALLOTTED : INE424D01018 (WITH M/S.CDSL)

Particulars about the directors proposed for reappointment as per Clause 49(vi)(a) of the Listing Agreement.

Name	: Sri. B. Balakrishnan
Age	: 42 years
Qualification	: B.Com., F.C.A.
Expertise	: Finance, Accounts & Administration

23rd ANNUAL REPORT

Other Directorships : 1. Elgi Securities Ltd
2. Darkhorse Portfolio Investment Ltd.
3. Premier Industrial Drives Pvt Ltd
4. Madura Public Conveyance Pvt Ltd.

Committee Chairman : Elgi Finance Limited - Audit Committee,
Remuneration Committee and
Share Transfer and Shareholders Grievance Committee.

The appointee Director does not hold any shares in the Company.

Coimbatore
28/06/2006

By Order of the Board

JAIRAM VARADARAJ
Managing Director



ELGI FINANCE LIMITED**DIRECTORS' REPORT**

Your Directors present the Twenty Third Annual Report together with the Audited Accounts for the year ended 31st March, 2006.

FINANCIAL RESULTS :

	Year Ended 31/03/2006 (Rs. in lacs)	Year Ended 31/03/2005 (Rs. in lacs)
GROSS INCOME	8.50	106.43
Profit / (Loss) before Interest, Depreciation and Provision for Tax	(1.57)	96.90
Add / (Less):		
a) Interest	(3.62)	(7.56)
b) Depreciation	(0.24)	(0.83)
c) Provision for Taxation	(0.02)	421.90
Balance Loss	5.45	333.39
Add : Previous Years Loss B/F	2894.53	2561.14
Balance Loss Carried Over	2899.98	2894.53

OPERATIONS :

During the year, the Company has been able to finalise solutions to most of the tax demands and a minor waiver is yet pending for clearance. The company continued the process of realising the receivables on behalf of the Companies to whom the receivables have been assigned.

FIXED DEPOSITS :

The Company has not accepted any fixed deposits during the year. There is no dues payable on account of fixed deposits at the end of the year.

DIVIDEND :

Due to losses incurred by the Company during the year, the Board of Directors do not recommend any dividend for the year.

GROUP COMPANIES :

As per SEBI (Substantial Acquisition of Shares and Takeover) regulation, 1997, as amended by SEBI (Substantial Acquisition of Shares and Takeover) (Second Amendment) Regulations, 2002, the following are the group companies falling within the Regulation 3(1)(e)(i) :

1. Elgi Equipments Limited
2. Elgi Ultra Industries Limited
3. Elgitread (India) Limited
4. Elgi Securities Limited
5. Dark Horse Portfolio Investment Limited
6. Premier Industrial Drives (P) Limited
7. Salem Services (P) Limited
8. Madura Public Conveyance (P) Limited

OUTLOOK FOR THE CURRENT YEAR :

Considering the NBFC space has been filled in by banks, the company will take up other activity after finalisation of the tax cases.

DIRECTORS :

Sri. B. Balakrishnan will retire by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

23rd ANNUAL REPORT**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS / OUTGO :**

Furnishing of details regarding CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS / OUTGO are not applicable to the Company.

LISTING :

The shares of the Company have been listed in Stock Exchange, Mumbai, Madras Stock Exchange and Coimbatore Stock Exchange. The listing fees payable have been duly paid. Steps has been already taken to delist the Shares from Madras Stock Exchange Limited. Due to non receipt of necessary intimation letter from Coimbatore Stock Exchange Ltd., the Listing fee has not been paid so far.

REPORT ON CORPORATE GOVERNANCE :

A detailed report on Corporate Governance is annexed to this Annual Report. The Company has complied with the conditions of corporate governance as stipulated in clause 49 of the listing agreement. The certificate obtained from the auditors of the Company regarding compliance of conditions is annexed to this report.

DIRECTORS' RESPONSIBILITY STATEMENT :

In compliance of Section 217 (2AA) of the Companies Act, 1956, as amended by the Companies (Amendment) Act, 2000, the Directors of your Company confirm:

- That all applicable Accounting Standards have been followed in the preparation of annual accounts and that there are no material departures.
- That such Accounting Policies have been selected and applied consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2006 and of the Loss of the Company for the year ended on that date.
- That proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the Provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- That the Annual Accounts have been prepared on a going concern basis.

AUDITORS :

M/s. Suri & Co., Chartered Accountants, will retire at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

PERSONNEL :

There are no employees covered by the particulars required to be disclosed under Section 217 (2A) of the Companies Act, 1956.

ACKNOWLEDGEMENTS :

Your Directors wish to thank and place on record their appreciation to the employees of the Company, who have supported, contributed and have put in their fullest co-operation in the day-to-day operations of the Company.

By Order of the Board

JAIRAM VARADARAJ
Managing Director

B. BALAKRISHNAN
Director

Coimbatore
28/06/2006

ELGI FINANCE LIMITED**MANAGEMENT DISCUSSION AND ANALYSIS REPORT****INDUSTRY STRUCTURE AND DEVELOPMENT**

The NBFC industry has been over shadowed by bankers entering the micro finance space.

OPPORTUNITIES AND THREATS

There are no fresh opportunities in the Financing Industry. The Company has to identify a different business plan for its sustenance.

SEGMENT-WISE OR PRODUCT-WISE PERFORMANCE

The Company did not have any financing activities or any other activity other than collections during the year.

OUTLOOK

Considering the NBFC space has been filled in by banks, the company will take up other activity after finalisation of the tax cases.

RISK AND CONCERNS

Since the Company is only acting as a collection entity there are no significant risks associated with this operation.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a proper and adequate internal control system to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that transactions are authorised, recorded and reported correctly.

The Audit Committee meets periodically with the Management and the Statutory Auditors to review the internal control systems.

DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

Please refer Director's Report on Operations.

MATERIAL DEVELOPMENTS IN HUMAN RESOURCES / INDUSTRIAL RELATIONS FROM, INCLUDING NUMBER OF PEOPLE EMPLOYED

There has been no material developments in human resources / industrial relations front. As on 31st March, 2006, the Company has 2 employees.

ANNEXURE TO DIRECTOR'S REPORT**REPORT ON CORPORATE GOVERNANCE : (In compliance with Clause 49 of the Listing Agreement)****1) Company's Philosophy on Code of Governance :**

Your Company firmly believes in transparency in its dealings and lays emphasis on integrity and regulatory compliance. The Elgi Group considers good corporate governance a prerequisite for meeting the needs and aspirations of its shareholders of the Company. With this end in view, this year's Annual Report has made substantial disclosures on the Board, Board Committees as also on the financial and stock performance.

2) Board of Directors :

The Board of Directors consists of 4 Directors.

23rd ANNUAL REPORT

- a) Composition and category of Directors and attendance of each Director at the Board Meetings, last Annual General Meeting and Number of other Directorship and Chairmanship / Membership of Committee of each Director in various Companies

Director	Category	Attendance Particulars		No. of Directorship in Public Companies	No. of Committee positions	
		Board Meeting	Last AGM		Member	Chairman
Dr. Jairam Varadaraj Managing Director	Executive - Promoter	5	Yes	8	4	—
Sri. S.A. Subramanian	Independent Non-Executive	5	Yes	—	3	—
Sri. C.N.Subramanian	Independent Non-Executive	5	Yes	2	3	—
Sri. B.Balakrishnan	Independent Non-Executive	5	Yes	2	—	3

Board Meetings and Annual General Meeting :

During the year under review, 5 Board Meetings were held, the dates being 23rd April 2005, 28th June 2005, 27th July 2005, 29th October 2005 and 28th January 2006. The Annual General Meeting was held on 5th September 2005.

Shareholdings of Directors

Name of the Director	No. of shares held	% of holding
Dr. Jairam Varadaraj	51,900	0.67%
Mr. C.N. Subramanian	200	—

Other Directors do not hold any shares in the Company.

3) AUDIT COMMITTEE :

Composition, name of members and Chairpersons, meetings and attendance during the year

Name of the Member	Category	No. of Meetings held	Attendance
Sri. B.Balakrishnan Chairman	Independent - Non Executive	4	4
Sri. S.A.Subramanian,	Independent - Non Executive	4	4
Sri. C.N.Subramanian	Independent - Non Executive	4	4

The Chairman of the Audit Committee is Shri. B.Balakrishnan, Chartered Accountant.

The terms of reference of this Committee are as required by SEBI under clause 49 of the Listing Agreement. Besides having access to all the required information from within the Company, the Committee can obtain external professional advice whenever required. The Committee acts as a link between the statutory and internal auditors and the Board of Directors of the Company. It is authorised to select and establish accounting policies, review reports of the Statutory and Internal Auditors and meet with them to discuss their finding, suggestions and other related matters. The Committee is empowered to recommend the appointment and remuneration payable to the Statutory Auditors.

During the year under review, 4 Meetings of the Audit Committee were held, the dates being 28th June 2005, 27th July 2005, 29th October 2005 and 28th January 2006.