



ESCORTS FINANCE LIMITED



18TH
ANNUAL REPORT
2005 - 06



COMPANY'S INFORMATION

Board of Directors

Mr. Munendra Kumar Singh
Chairman

Mr. Sukesh Kumar Jain

Mr. Brijesh Singhal

Chief Executive Officer

Mr. Partha Sarkar

Company Secretary

Mrs. Ruchika Gupta

Auditors

N.M. Rajji & Co.
E-7/14, Vasant Vihar,
New Delhi-110 057

Registered Office

N-6, Pratap Building,
Connaught Circus,
New Delhi-110 001

Bankers

Bank of Baroda

The Jammu & Kashmir Bank Ltd.

Dena Bank

Indian Overseas Bank

State Bank of Indore

The Bank of Rajasthan Ltd.

Vijaya Bank

The Federal Bank Ltd.

Bombay Mercantile Co-Op. Bank Ltd.

ESCORTS FINANCE LIMITED**REGISTERED OFFICE : N-6, PRATAP BUILDING, CONNAUGHT CIRCUS, NEW DELHI - 110 001****NOTICE**

Notice is hereby given that the **Eighteenth Annual General Meeting** of the Company will be held on **Wednesday, December 27, 2006 at 10:30 A.M.** at Sri Sathya Sai International Centre and School, Pragati Vihar, Lodhi Road, New Delhi - 110 003 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at March 31, 2006 and Profit and Loss Account for the year ended March 31, 2006 and the Report of Auditors' and Directors' thereon.
2. To appoint M/s. N.M.Raiji & Co., Chartered Accountants, New Delhi as Statutory Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS:

3. Appointment of Mr. Sukesh Kumar Jain as a Director of the Company:

To consider and, if thought fit, to pass with or without modification(s) the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT Mr. Sukesh Kumar Jain, who was co-opted as an Additional Director with effect from November 14, 2005 by the Board of Directors of the Company and who ceases to hold office pursuant to Sec.260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

4. Appointment of Mr. Brijesh Singhal as a Director of the Company:

To consider and, if thought fit, to pass with or without modification(s), the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT Mr. Brijesh Singhal, who was co-opted as an Additional Director with effect from April 18, 2006 by the Board of Directors of the Company and who ceases to hold office pursuant to Sec.260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from him under Section 257 of the Companies Act, 1956 proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

5. Appointment of Mr. Munendra Kumar Singh as a Director of the Company:

To consider and, if thought fit, to pass with or without modification(s), the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT Mr. Munendra Kumar Singh, who was co-opted as an Additional Director with effect from August 31, 2006 by the Board of Directors of the Company and who ceases to hold office pursuant to Sec.260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from him under Section 257 of the

Companies Act, 1956 proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company."

6. Appointment of Mr. Partha Sarkar as Manager designated as Chief Executive Officer of the Company:

To consider and, if thought fit, to pass with or without modification(s) the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT pursuant to provisions of Section 198, 269 read with Schedule XIII, 309, 349, 350, 385, 386 and 388 and all other applicable provisions, if any, of the Companies Act, 1956, consent of the shareholders be and is hereby accorded for appointment of Mr. Partha Sarkar as Manager designated as Chief Executive Officer of the Company for a period of 5 years w.e.f. 4th May, 2006 at Nil remuneration.

RESOLVED FURTHER THAT the Board of Directors of the Company, be and are hereby authorised to take all the necessary steps in this regard."

By Order of the Board,
for **Escorts Finance Limited**

Place : New Delhi
Dated : 31.10.2006

Ruchika Gupta
Company Secretary

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF. SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES MAY BE IN THE FORM ANNEXED HERETO AND TO BE EFFECTIVE MUST BE LODGED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, which sets out details relating to special business, is annexed hereto.
3. The Register of Members and Share Transfer Books of the Company will remain closed from December 20, 2006 to, December 27, 2006 (both days inclusive).
4. Shareholders/Proxyholders are requested to produce at the entrance attached admission slip duly completed and signed, for admission to the meeting hall.
5. Members are informed that Share Transfer and related activities are being carried out by Alankit Assignments Limited, Registrar and Transfer Agents, at the following address:

ALANKIT ASSIGNMENTS LIMITED

Alankit House
2E/21, Jhandewalan Extension,
New Delhi - 110 055
Tel.: 23541234, 42541234 Fax: 2355 2001, 4254 1201
E-mail : alankit@alankit.com

All correspondence may kindly be sent to the above address only.

NOTICE CONTD...



6. The Equity Shares of the Company can only be traded in electronic mode w.e.f. June 26, 2000 as per SEBI guidelines. The Company has already entered into agreements with National Securities Depository Ltd. and Central Depository Services (I) Ltd for the same. Interested members may opt to convert physical shares of the Company in the electronic mode after sending request for dematerialisation through their Depository Participant.
7. Section 109A of the Companies Act, 1956 has extended nomination facility to individuals holding shares in Companies. Shareholders, in particular those holding shares in single name, are requested to avail the above facility by furnishing to the Company, particulars of their nominees. Shareholders may please write to the Company Secretary for the prescribed Nomination Form 2B.
8. Members are requested to notify immediately any change in their address (with pin code) to Alankit Assignments Limited, quoting their folio numbers
9. Members desirous of obtaining any information concerning the accounts and operations of the Company are requested to address their questions in writing to the Company Secretary at least ten days before the date of the meeting, so that the information required may be made available at the meeting.
10. Copies of Memorandum & Articles of Association of the Company and all other material documents referred to hereinabove will be available for inspection at the Registered Office of the Company between 11.00 A.M. and 1.00 P.M. on all working days except Saturdays, Sundays and other holidays and will also be available at the Meeting.
11. Members who have not yet paid their "Allotment Money" are advised to send the same along with interest calculated @ 17% p.a. for delayed period i.e. from 07.05.95 till the date of payment, through demand draft / cheque payable at Delhi in favour of the Company, to avoid forfeiture.
12. Members, who have not encashed their earlier Dividend Warrants, may write to the Company Secretary for revalidation/duplicate warrants. Unclaimed dividend for the year 1998-99 declared on 23rd day of July 1999 has been duly transferred to Investor Education and Protection Fund.
13. Members are requested to bring their copy of Annual Report to the meeting. No extra copy would be available for distribution at the meeting.
14. Brief Resume and other information, in respect of the Directors seeking appointment/re-appointment at the Annual General Meeting, as required under Clause 49 of the Listing Agreement with the Stock Exchanges are given hereunder. Mr. Rajan Nanda and Mr. Sunil Kataria have since resigned.

A. Mr. Sukesh Kumar Jain

Date of Birth	: January 01, 1959
Date of Appointment	: November, 14, 2005
Qualification	: B.Com from Agra University Chartered Accountant from ICAI
Expertise in specific	: He has very good exposure functional areas of Finalization of Balance Sheet, Internal Audit & Budgeting and working experience of analysis of Accounts, Taxation and MIS. He has worked with Companies like Dharampal Premchand Limited as Asst. General Manager (Finance & Accounts); Jaypee Cement Limited as Manager (Finance & Accounts); Modi Rubber Limited as Controller of Accounts; and Espirit Clothing Exports (P) Ltd. As Dy. Manager Accounts.
Outside Directorships held	: NIL
Outside Committee positions held	: NIL
Shareholding in the Company	: NIL

B. Mr. Brijesh Singhal

Date of Birth	: October 30, 1968
Date of Appointment	: April 18, 2006
Qualification	: B.Com from Jamia Millia Islamia University; M.B.A (HR) from Jamia Millia Islamia University; LL.B from University of Delhi.
Expertise in specific	: He is practicing as an functional areas Advocate since 1998 in Delhi High Court and all District Courts including Tribunals, Forums subordinate to the Delhi High Court. He has a vast knowledge in cases pertaining to corporate matters and panel lawyer for various Companies. He has worked with M/s. Skyline Builders as Manager Legal.
Outside Directorships held	: NIL
Outside Committee positions held	: NIL
Shareholding in the Company	: NIL

NOTICE CONTD...

**C. Mr. Munendra Kumar Singh**

Date of Birth	: January 01, 1960
Date of Appointment	: August 31, 2006
Qualification	: M.A. (Pol. Science) from Allahabad University; LL.B from Allahabad University.
Expertise in specific functional areas	: He has 15 years of rich experience as an Advocate in Supreme Court of India and Delhi High Court.
Outside Directorships held	: NIL
Outside Committee positions held	: NIL
Shareholding in the Company	: NIL

EXPLANATORY STATEMENT UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956**Item No. 3**

Mr. Sukesh Kumar Jain was appointed as an Additional Director of the Company with effect from November 14, 2005 pursuant to Section 260 of the Companies Act, 1956 (the Act), and applicable provisions of Articles of Association of the Company. He will hold the office of Director upto the date of the ensuing Annual General Meeting. The Company has received a notice pursuant to Section 257 of the Act, in writing along with requisite deposit, proposing him as a candidate for the office of Director of the Company and he will be liable to retire by rotation.

Your Directors recommend the appointment for your approval.

Except Mr. Sukesh Kumar Jain no other Director is concerned or interested in this resolution.

Item No. 4

Mr. Brijesh Singhal was appointed as an Additional Director of the Company with effect from April 18, 2006 pursuant to Section 260 of the Companies Act, 1956 (the Act), and applicable provisions of Articles of Association of the Company. He will hold the office of Director upto the date of the ensuing Annual General Meeting. The Company has received a notice pursuant to Section 257 of the Act, in writing from him along with requisite deposit, proposing himself as a candidate for the office of Director of the Company and he will be liable to retire by rotation.

Your Directors recommend the appointment for your approval.

Except Mr. Brijesh Singhal no other Director is concerned or interested in this resolution.

Item No. 5

Mr. Munendra Kumar Singh was appointed as an Additional Director of the Company with effect from August 31, 2006 pursuant to Section 260 of the Companies Act, 1956 (the Act), and applicable provisions of Articles of Association of the Company. He will hold the office of Director upto the date of the ensuing Annual General Meeting. The Company has received a notice pursuant to Section 257 of the Act, in writing from him along with requisite deposit, proposing himself as a candidate for the office of Director of the Company and he will not be liable to retire by rotation.

Your Directors recommend the appointment for your approval.

Except Mr. Munendra Kumar Singh no other Director is concerned or interested in this resolution.

Item No. 6

The Board of Directors in its meeting held on May 04, 2006 appointed Mr. Partha Sarkar as Manager of the Company, designated as Chief Executive Officer.

Mr. Partha Sarkar is a B.Tech (IIT Delhi) and PGDBA (IIM Ahmedabad) and has over 32 years rich experience in various Reputed Corporate Houses like Hindustan Lever Limited, Tata Finance Limited and RPG Itochu Finance Limited. Mr. Partha Sarkar was Managing Director of the Company since 22nd June, 2001 and has been instrumental in restructuring the Company but due to some personal difficulty he resigned from the office of Director before expiry of his term. Considering his valuable contribution to the Company. Board of Directors persuaded him to take the position of Chief Executive Officer of the Company.

Your Directors recommend the appointment for your approval.

None of the Directors is concerned or interested in this resolution.

By Order of the Board,
for **Escorts Finance Limited**

Place : New Delhi
Dated : 31.10.2006

Ruchika Gupta
Company Secretary

DIRECTORS' REPORT**DIRECTORS' REPORT****TO THE MEMBERS**

Your Directors are pleased to present the Eighteenth Annual Report, together with the Audited Accounts of the Company for the Financial Year ended 31st March 2006, and the Auditors' Report thereon.

FINANCIAL RESULTS

(Rs. in Crores)

	Financial Year ended 31 st March, 2006	Financial Year ended 31 st March, 2005
Gross Income	29.99	37.52
(Loss)/Profit before write off, provisions & tax	(20.11)	7.54
Bad debts written off	2.53	2.40
Provisions/Income reversals as per RBI norms (net)	2.68	2.18
Provision for doubtful stock on hire & debts	189.40	-
Prior period expenses	17.25	-
Provision for doubtful advances	38.77	-
Provision for taxation	(0.23)	2.71
(Loss)/Profit after tax	(270.51)	0.25
Surplus from last year	23.67	23.47
(Loss)/Profit available for appropriation	(246.84)	23.72
APPROPRIATIONS		
Transfer to:		
Special Reserve	-	0.05
General Reserve	-	-
(Deficit)/Surplus carried forward	(246.84)	23.67
	(246.84)	23.72

DIVIDEND

In view of the losses suffered by the Company, no dividend has been considered for the year.

OPERATIONS OVERVIEW

Your Directors have kept you informed in the past about the grim outlook for the company's business. The banking industry with large volume of low cost funds has been effectively taking over NBFC's finance business and market share over the last 3 to 4 years and your Company is not an exception. The construction equipment and tractor financing business were the only areas where the Company was still able to generate some returns, as banks are yet to enter these areas in a big way. However, during the year under review, the banks have increased their presence in these sectors also and have penetrated all the geographical areas where the Company is operating, rendering your Company's business unviable.

Your Company's credit rating was downgraded in January 2005 and the Company was restricted by RBI norms from accepting any fresh fixed deposits. The refund of matured deposits became difficult as the Company was facing a major fund crisis. The only available alternative for your Company to maintain its business and maintain liquidity for refunding fixed deposits was by borrowing from banks. However, the banks did not provide any assistance and your Company was unable to fulfill its financial commitments.

Under these circumstances there was a significant exodus of officers from the Company at all levels and because of the grim

outlook, the Company is unable to attract sufficient number of quality officers. The Company's ability to recover instalments of its Hire Purchase/lease financing has suffered due to this. Customers defaulted in loan repayments when they realized that fresh business would not be forthcoming from the Company. Consequently, the quality of the company's portfolio has also deteriorated rapidly during the year under review, and appropriate provisions have had to be made in the accounts.

SCHEME OF ARRANGEMENT AND COMPROMISE

Realizing that your Company, was not in a position to meet its obligations to fixed deposit holders and secured creditors, the Board turned to the promoter, Escorts Limited, with a request for a bailout package.

Escorts Limited have come out with a scheme to settle the dues of Fixed Deposit Holders and Secured Creditors of Escorts Finance Limited (EFL).

Salient features of the Scheme are as under :-

1. Escorts Limited shall, in lieu of the Fixed Deposits held by the Fixed Deposit Holders of EFL, grant all of them Liquidity Options in the form of either Equity Shares or Fully Convertible Unsecured Debentures of Escorts Limited for value equivalent to 75% of the aggregate of principal amount of the Fixed Deposit held by each Fixed Deposit Holder together with the interest and penal interest accrued thereon, if any, as at the effective date.

DIRECTORS' REPORT CONTD...

2. In addition to grant of liquidity options to the Fixed Deposit holders of EFL, Escorts Limited shall assume the liabilities towards the Secured Creditors of EFL on such terms and conditions as may be mutually agreed by and between Escorts Limited, EFL and the Secured Creditors of EFL.

3. In consideration for the above, EFL shall treat Escorts Limited as Unsecured Creditor for 75% of the Fixed Deposit Value and assign, part of its Loans and Advances and part of its Stock-on-Hire appearing in the provisional Balance Sheet as at the Specified Date to Escorts Limited. Escorts Limited shall realize these assets to settle the outstanding of EFL's Secured Creditors as on Effective Date.

To implement the above Scheme Escorts Limited and Escorts Finance Limited approached the Hon'ble High Court of Delhi under Section 391 to 394 of the Companies Act, 1956. The Hon'ble High Court admitted your Company's application and issued directions for holding meetings of Fixed Depositors and Secured Creditors of your Company on 5th May, 2006 and the Scheme has been duly approved by the requisite majority. The Shareholders, Secured Creditors and Unsecured Creditors of Escorts Limited approved the Scheme at their meetings held on 10th May 2006. These meetings were conducted under the supervision of the Court and necessary approvals were secured.

Following this, your Company has filed a petition before the Hon'ble High Court of Delhi for the approval of the Scheme. At present the Scheme is subjudice before the Court. If approved and on successful implementation of the Scheme of Arrangement and Compromise, your Company will be in a position to settle all its creditors.

At this juncture your Board through the following Management Discussion and Analysis seeks to place before the shareholders sequence of events, which lead to the current situation in the Company and the steps being taken to come to a settlement with its creditors. Once the Company is able to overcome the crises, it would then refocus on expanding its business and developing new business avenues.

MANAGEMENT DISCUSSION AND ANALYSIS**Industry Structure and Development**

The Non Banking Finance Companies (NBFC) sector in India is represented by a mix of a few large companies with nationwide presence and a few small and medium sized companies with regional focus, primarily engaged in equipment leasing, hire purchase financing, investments, corporate loans, IPO funding and venture capital etc. The Reserve Bank of India regulates and supervises these NBFCs.

The NBFCs are facing stiff competition from banks and financial institutions. Due to easy availability of low cost funds with them throughout the country, the banks and financial institutions are able to provide services similar to NBFCs at much cheaper rate.

Segment-wise or Product-wise Performance

The Company is primarily engaged in the business of hire purchase, leasing and bill discounting. Since the risk and returns in these businesses are similar, therefore, these are grouped as a single segment. This is in accordance with the guiding principle enunciated in the Accounting Standard on Segment Reporting (AS- 17) issued by The Institute of Chartered Accountants of India.

Future Outlook

The basis of the new business would be the existing business of construction equipment finance franchisee and tractor finance agency business.

Your Company sees suitable opportunities in these business areas based on the expected growth rate of the economy and in particular high growth rate in the construction, infrastructure and agricultural areas which are your company's areas of competence and involvement.

Your Company is right now engaged in a major cost reduction programme and upon successful implementation of the Scheme of Arrangement and Compromise, should be able to generate profits from the subsequent years. Other businesses could be considered only after the implementation of proposed Scheme of Arrangement and Compromise.

Risks and Concerns

The collections from the existing portfolio of the Company will get exhausted in the next two years. The funds so collected would help repayments and in meeting operating expenses till the time the new initiatives taken by your Company start showing results. The current construction equipment finance franchisee business would bring in limited profits. The future of the Company would depend upon the growth of new businesses after the Scheme of Arrangement and Compromise is implemented.

Financial Performance

As already mentioned, the year under review was a traumatic one for the Company. With virtual stoppage of its funds based business, your Company has made provisions and written off debtors amounting to Rs.250.63 crores. With operational losses of Rs.20.11 crores, the total loss for the year amounted to Rs.270.74 crores.

Internal Control Systems And Their Adequacy

The company's internal control systems which had served it well in the past, suffered a serious set back due to scarcity of staff and the virtual impossibility of attracting quality staff.

The controls are being rebuilt and designed to serve the new business model of the Company.

Human Resource Development

There was a rapid deterioration of quality manpower at all levels in the Company due to negative growth in business. Your Company is striving to start new businesses and focussing to build a motivated team to achieve its business goals.

Cautionary Statement

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations are significant changes in political and economic environment in India, tax laws, RBI regulations, exchange rate fluctuation and other costs.

DIRECTORS' REPORT CONTD...**FINANCIAL RESOURCES****a) Fixed Deposits:**

Credit Analysis & Research Limited (CARE) had downgraded the credit rating for the Fixed Deposit Programme of the Company from 'CARE (BBB) +' to CARE BB+ with effect from January, 2005 and further to CARE B with effect from October, 2005.

Fixed Deposits as on 31.03.2006 stood at Rs. 143.08 Crores. Deposits aggregating to Rs. 66.34 Crores had matured for payment but remained unpaid as on 31st March, 2006. As per the provisions of NBFCs Acceptance of Public Deposits (Reserve Bank) Directions 1998, your Company had stopped accepting the public deposits and is required to bring deposits down to Rs. 10 Crores by January 2008.

b) Banks' Funds:

As the Company is withdrawing from the fund based business, it proposes to retire the funds borrowed from banks and is engaged in discussion with banks in this regard.

INVESTORS' SERVICES

Alankit Assignments Limited, a Category I Registrar and Transfer Agent is carrying on the share transfer work in both physical as well as electronic modes. The shares of your Company can only be traded in electronic mode. Therefore, the shareholders who have not yet dematerialized their shares may contact their respective Depository Participants for facilitating dematerialization of their shares.

DIRECTORS

Mr. Brijesh Singhal, Mr. Sukesh Kumar Jain and Mr. Sunil Kataria have been appointed as additional Directors of the Company by the Board of Directors. They hold office upto the ensuing Annual General Meeting.

Mr. Harpreet Singh Malik, Mr. Pradeep Kumar Gupta, Mr. Rakesh Chopra and Mr. Munendra Kumar Singh have resigned from directorship of the Company. The Board of Directors placed on record their appreciation of the valuable advice and counsel rendered by them during their tenure as Directors.

Mr. Partha Sarkar resigned from the post of Managing Director of the Company. He has been appointed as a "Manager" of the Company in terms of the provisions of the Companies Act, 1956.

Mr. Rajan Nanda who was appointed as Managing Director of the Company w.e.f. 30.06.2005 resigned from the said post on 26.12.2005 but continued as the Chairman of the Company. In terms of Section 256 of the Companies Act, 1956, Mr. Rajan Nanda, retires by rotation at the ensuing Annual General Meeting. However, he has expressed his unwillingness to be reappointed as Director and the casual vacancy arising is proposed not to be filled in.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a Report on Corporate Governance along with a certificate from M/s N.M. Rajji & Co., Chartered Accountants, confirming compliance of conditions of corporate governance are enclosed as Annexure A.

AUDITORS

M/s N.M. Rajji & Co., Auditors of the Company will hold office until the conclusion of the ensuing Annual General Meeting. The Company has received letter from them to the effect that their reappointment as statutory auditors for the financial year 2006-2007, if made, would be within the prescribed limits under Section 224 (1)(b) of the Companies Act, 1956.

AUDITORS OBSERVATIONS AND COMMENTS THEREON

The observations made by the Statutory Auditors in the Auditor's Report are dealt with separately in the Notes to the Profit & Loss

Account and the Balance Sheet, forming Schedule 16 of the Accounts. These are self explanatory and do not call for any further comments.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby confirm:

1. that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year ended 31st March, 2006 and of the loss of the Company for that period;
3. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. that the Directors have prepared the annual accounts for the financial year ended 31st March, 2006 on a going concern basis.

PARTICULARS OF EMPLOYEES

None of the employees of your Company is in receipt of remuneration requiring disclosure pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, hence no such particulars are annexed.

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956

- a. Conservation of energy and technology absorption
Your Company being engaged in financing business does not have any activity relating to Conservation of energy and technology absorption
- b. Foreign Exchange Earning and Outflow
During the period under review, there was no foreign exchange outflow from your Company and it had no foreign exchange earnings.
- c. Amount due to small scale industries
There was no amount due to any small scale industry.

ACKNOWLEDGEMENT

Your Directors wish to thank and acknowledge the co-operation and assistance extended by the Banks, Financial Institutions, Government Agencies, Customers and Depositors.

The Directors also wish to convey their deep appreciation of the contribution made by all employees to the operations of the Company, in particular those who continued with the Company and extended their full support during this difficult period. We also convey our thanks to our esteemed shareholders for their continued support and encouragement.

For and on behalf of the Board

Place : New Delhi
Date : 29.07.2006

Rajan Nanda
Chairman

REPORT ON CORPORATE GOVERNANCE**Annexure - A**

A detailed report on Corporate Governance practices followed at Escorts Finance Limited for the period April 01, 2005 to March 31, 2006 is given below:

I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate Governance refers to a set of policies, laws, regulations, procedures etc. through which Companies are directed and controlled. Corporate Governance strengthens investor's trust and aids the Company in increasing long-term shareholders value. Your Company believes in practicing good Corporate Governance in true spirit and endeavour to improve on these aspects on an ongoing basis.

II. BOARD OF DIRECTORS**Composition and Category of Director**

The Board should have an optimum combination of Executive and Non-Executive Directors with not less than fifty percent of the Board comprising of Non- Executive Directors. Further, at least one-third of the Board should comprise of Independent Directors if the Chairman is Non-Executive and at least half of the Board should comprise of Independent Directors in case of an Executive Chairman.

As on March 31, 2006, the Company's Board comprised of six Directors, which includes one Executive, one Non-Executive and four Independent Directors. The composition of the Board is in conformity with the Listing Agreement.

The details of Directors with regard to their outside directorships and committee positions are as follows:

Name	Promoter/Executive/Non-Executive/ Independent ¹	No. of Outside Directorships Held ⁶		Outside Committee Positions held ⁷	
		Director	Chairman	Member	Chairman
Mr. Rajan Nanda ²	Promoter/Non-Executive Chairman	1	6	NIL	1
Mr. Partha Sarkar	Executive (Managing Director)	3	NIL	NIL	NIL
Mr. Pradeep Kumar Gupta	Independent	1	NIL	NIL	NIL
Mr. Munendra Kumar Singh ³	Independent	NIL	NIL	NIL	NIL
Mr. Sukesh Kumar Jain ⁴	Independent	NIL	NIL	NIL	NIL
Mr. Sunil Kataria ⁵	Independent	NIL	NIL	NIL	NIL

1. Independent Director means a Director defined under Clause 49 of the Listing Agreement.
2. Resigned from the post of Managing Director with effect from December 26, 2005.
3. Appointed as an Additional Director with effect from June 30, 2005.
4. Appointed as an Additional Director with effect from November 14, 2005.
5. Appointed as an Additional Director with effect from January 20, 2006.
6. Excluding Directorships in private limited Companies, foreign Companies and Companies under Section 25 of the Companies Act, 1956.
7. Only two committees viz. the Audit Committee and Shareholders'/Investors' Grievance Committee are considered.

Attendance of Directors at Board Meetings and the last Annual General Meeting

The Board shall meet at least four times a year, with a maximum gap of four months between any two meetings.

During 2005-06, the Board of Directors met 13 (thirteen) times (including 6 (six) adjournments) on June 30, 2005; July 29, 2005 (adjourned to August 03, 2005); August 30, 2005; October 04, 2005; October 10, 2005 (adjourned to November 14, 2005); December 26, 2005; January 31, 2006 (adjourned to February 14, 2006; February 20, 2006; February 28, 2006 and March 04, 2006).

The directors' attendance at the Board Meetings and the last Annual General Meeting are as follows:

Name	No. of board meetings held during tenure	No. of board meetings attended	Attendance at the last AGM
Mr. Rajan Nanda	13	5	Yes
Mr. Partha Sarkar	13	13	Yes
Mr. Pradeep Kumar Gupta	13	4	Yes
Mr. Munendra Kumar Singh ¹	12	8	Yes
Mr. Sukesh Kumar Jain ²	6	4	No
Mr. Sunil Kataria ³	5	3	No
Mr. Rakesh Chopra ⁴	7	4	No
Mr. Harpreet Singh Malik ⁵	8	5	Yes

REPORT ON CORPORATE GOVERNANCE CONTD...



1. Appointed as an Additional Director with effect from June 30, 2005.
2. Appointed as an Additional Director with effect from November 14, 2005.
3. Appointed as an Additional Director with effect from January 20, 2006.
4. Resigned from Directorship with effect from November 15, 2005.
5. Resigned from Directorship with effect from January 20, 2006.

Code of Conduct

The Board shall lay down a code of conduct for all Board members and senior management of the Company. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the Company shall contain a declaration to this effect signed by the Chief Executive Officer.

The Company is not having website to post the Code of Conduct.

Declaration by CEO

The CEO of the Company has given the Certificate as below as per the requirement of Clause 49 of the Listing Agreement:

I hereby confirm that

The Company has obtained from all the members of the Board and Senior Management, affirmation that they have complied with the code of conduct for Directors and Senior Management in respect of the Financial Year 2005-06.

Place : New Delhi

Date : 29.07.06

Partha Sarkar

(Chief Executive Officer)

III. AUDIT COMMITTEE**Composition**

A qualified and independent Audit Committee shall be set up with minimum three Directors as members and two-thirds of the members of the committee shall be independent Directors. All members of the audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise. The Chairman of the Audit Committee shall be an Independent Director and shall be present at Annual General Meeting to answer shareholder queries. The Company Secretary shall act as the Secretary of the committee.

Your Company's Audit Committee was originally constituted on 18.11.1996. As on March 31, 2006, the composition of the Audit Committee was as under:

Director	Designation	Category
Mr. Suresh Kumar Jain	Chairman	Independent Director
Mr. Sunil Kataria	Member	Independent Director
Mr. Pradeep Kumar Gupta	Member	Independent Director
Mr. Munendra Kumar Singh	Member	Independent Director

Terms of Reference

The Audit Committee is performing in terms of Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956. The role of the audit committee includes the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of Section 217 of the Companies Act, 1956
 - b. Changes, if any, in accounting policies and practices and reasons for the same.
 - c. Major accounting entries involving estimates based on the exercise of judgment by management
 - d. Significant adjustments made in the financial statements arising out of audit findings
 - e. Compliance with listing and other legal requirements relating to financial statements
 - f. Disclosure of any related party transactions
 - g. Qualifications in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval
6. Reviewing, with the management, performance of statutory and internal auditors and adequacy of the internal control systems.
7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
8. Discussion with internal auditors any significant findings and follow up there on.
9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.