ESCORTS

61st Annual Report 2005 - 2006

Growth. Re-energized.

CHAIRMAN'S MESSAGE

Dear Shareholders,

We all are experiencing highly changing and challenging times like never before. Adapting to such changing scenario and responding fast and effective to the challenges are the keys to success. With our firm belief in creating long term value, we have successfully stood up to the situation and it is a pleasure sharing with you that we have had a healthy year of business recovery, reiterating the capability of your company.

Concerted efforts by us to unleash our potential and turnaround the Company have paid rich dividends. Our resurgence can be attributed to a host of initiatives like reinforced focus on core businesses, expansion of our production capacity and product portfolio, widening of our geographical reach, continued concentration on fiscal discipline and innovative management principles.

But more importantly, we are building structures for collaborations across functions, empowering employees to offer faster and better customer satisfaction. We are building a corporate culture that encourages and supports performance and leadership. Systems and processes are being continuously evaluated to establish best in class practices in our operations. Keeping pace with changing times, we have brought in new ideas and new competencies into our operations. We have infused highly experienced and competent new talent into the organization. In the midst of a modern day knowledge economy, we are laying increasingly greater emphasis on Knowledge Management to help us innovate and lead the market of future.

In today's Global Market place we have to be Globally Competitive for which we aim to Excel. We know that in the years to come our domestic market alone cannot accommodate the growth we are looking for. The mandate is clear: to spruce up share of exports in our businesses.

Today, farming practices are being made commercial with increased government support. Up-gradation of infrastructure and easier availability of complementary facilities are making a difference. Private capital with enterprise is creating the front end of market with opening of retail outlets. All these will culminate in the farmers' prosperity which will have a direct impact on their enhanced investments in tractors and farm mechanisation equipment. The growth of Agri economy provides substantial opportunity for your Company's growth.

Indian Railways is on a modernisation spree with a focus to increase freight and passenger capacity, run faster and safer trains. Escorts is a major manufacturer and supplier of equipments to Railways including brakes, couplers, suspension products, rail fastening systems, composite brake blocks and vulcanized rubber parts, all essential upgrades the rolling stock would require. With our new manufacturing plant set up at Rudrapur, in addition to capacity enhancement, we will also be substantially adding to our existing product portfolio.

In the domestic market, we are witnessing a fast growing automotive sector and with it the rising demand for Auto Suspension Products. This sector is on a steep growth path and is expected to further grow in the coming years. Apart from meeting the growing domestic demand, a substantial export market development will provide us with growing revenues in this business.

A spectacular boom is taking place in real estate development and expansion in industrial investment. Both the sectors have a high dependency on material handling equipment like cranes, forklifts and loaders. Your subsidiary company Escorts Construction Equipment Limited (ECEL) has an established product range of such equipment. The government's focus has also resulted in an accelerated pace in the roads and buildings construction, nationwide. There is a surge in the demand for road compaction machines for which ECEL is rightly placed. With the right product mix for the sector, ECEL is comfortably placed with a healthy order book. To effectively meet the demand, ECEL is setting up a large manufacturing facility in Ballabgarh (Haryana) which will be completed in 12 months.

With a lean cost structure, focused lines of business and all out efforts to make the best of people and processes, Escorts seems to be well poised for exciting days ahead. We are confident that all our initiatives will be instrumental for us to regain a leadership position in our areas of operation. But changes of the magnitude we are looking at will require substantial efforts on our part and continued faith of yours. Our determination and your continued support give us the optimism to take the organisation to a new altitude of business efficiency. We are extremely grateful to you, dear shareholders, for your continued faith in us. The future looks bright and promising and it is with the hallmark of a leader that we humbly take up the challenge to surpass your expectations.

My sincere thanks to our employees, who are the real source of our prowess and our growing inspiration, to the members of the Board for their advice and guidance and to all our customers, partners and well-wishers who have been with us all along and have provided us with their valuable advice and cooperation all these years.

Rajan Nanda
Chairman and Managing Director

BOARD OF DIRECTORS

Chairman & Managing Director

Mr. Rajan Nanda

Executive Director & COO

Mr. Nikhil Nanda

Directors

Dr. M. G. K. Menon

Dr. S. A. Dave

Dr. P. S. Pritam

Mr. S. C. Bhargava

Vice President - Law & Company Secretary

Mr. G. B. Mathur

Registered Office

11, Scindia House, Connaught Circus,
New Delhi 110 001

Corporate Centre

15/5 Mathura Road, Faridabad 121 003

Auditors

M/s. S. N. Dhawan & Co.

Bankers

Standard Chartered Bank

ABN Amro Bank

Bank of Baroda

Citibank N. A.

Deutsche Bank

Hongkong & Shanghai Banking Corporation Limited

HDFC Bank Limited

Punjab National Bank

State Bank of India

State Bank of Travancore

The United Western Bank Limited

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TEN YEARS' SUMMARY OF OPERATIONS

(Rs. Crores)

RESULTS FOR THE PERIOD	2005-06	2004-05 @	2003-04@	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Total Income	*** 1929	** 1,847	1292	1124	1327	1579	1570	1320	1418	1657
Index	*116*	*111*	*78*	*68*	*80*	*95*	*95*	*80*	*86*	*100*
Cost of Sale	1798	1,649	* 1593	1017	1256	1397	1375	1152	1210	1437
Index	*125*	*115*	*111*	*71*	*87*	*97*	*96*	*80*	*84*	*100*
Interest	96	167	121	85	66	61	53	58	44	53
Index	*181*	*315*	*228*	*160*	*125*	*115*	*100*	*109*	*83*	*100*
Profit before Tax	34	31	(422)	22	5	121	142	110	164	167
Index	*21*	*19*	(353)	13	3	72	85	66	98	100
Taxation	13	39	-	2	5	14	30	26	34	40
Index	*33*	*98*	-	*5*	*11*	*35*	*75*	*65*	*85*	*100*
Deferred Taxation	*2*	*(47)*	*(108)*	*(4)*	*(8)*	-	-	-	-	-
Index	(129)	617	1420	50	100	-	-	-	-	-
Profit after Tax	19	39	(314)	24	8	107	112	84	130	127
Index	*15*	*31*	(347)	19	6	84	88	66	102	100
Dividend	-	-	-	7	7	33	32	32	30	28
Index	-	-	-	*26*	*26*	*116*	*114*	*114*	*107*	*100*
Dividend Tax	-	-	-	1	-	3	4	3	3	3
Index	-	-	-	*31*	-	*100*	*133*	*100*	*100*	*100*
Profit/ (Loss)	19	39	(314)	16	1	71	76	49	97	96
Index	*20*	*41*	*(427)*	*17*	*1*	*74*	*79*	*51*	*101*	*100*
YEAR END POSITION										
Fixed Assets :										
Gross Block	1422	1,013	1034	1012	963	952	845	740	665	678
Less : Depreciation	534	493	447	386	332	290	245	205	170	163
: Provision for impairment -			6	5	5	-	-	-	-	-
Net Block	888	520	581	621	626	662	600	535	495	516
Index	*172*	*101*	*113*	*120*	*121*	*128*	*116*	*104*	*96*	*100*
Investments	456	497	613	619	517	548	475	487	381	261
Index	*175*	*190*	*235*	*237*	*198*	*210*	*182*	*187*	*146*	*100*
Net Current Assets	172	172	247	548	529	392	610	531	564	504
Index	*34*	*34*	*49*	*109*	*105*	*78*	*121*	*105*	*112*	*100*
Net Deferred Tax Assets	76	79	32	(77)	(80)	-	-	-	-	-
Index	*(195)*	*(198)*	*(139)*	*95*	*100*	-	-	-	-	-
Share Capital	72	72	72	72	72	72	72	72	68	65
Index	*111*	*111*	*111*	*111*	*111*	*111*	*111*	*111*	*105*	*100*
Reserves #	946	546	521	844	835	950	911	857	811	732
Index	*129*	*75*	*71*	*115*	*114*	*130*	*124*	*117*	*111*	*100*
Loans	590	668	894	816	719	618	743	651	582	495
Index	*119*	*135*	*181*	*165*	*145*	*125*	*150*	*132*	*118*	*100*

@ The figures for 2003-04 and 2004-05 are for 15 months whereas current year and all other previous years' figures are for 12 months. Therefore, the figures of the current year are not comparable with that of the imemdiately preceding period.

* Includes Loss on Sale/Provision for Diminution in the value of Investments, Loans to Telecom and Other Businesses amounting to Rs. 185.02 Crores.

** Includes profit on divestment of healthcare business amounting to Rs. 505.51 Crores

*** Includes profit on divestment of Carraro India Limited shareholidng amounting to Rs. 94.92 Crores

\# Includes addition on account of Revaluation of Land amounting to Rs. 387.64 Crores

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Sixty First Annual Report of your Company together with the Audited Statements of Accounts for the year ended on September 30, 2006.

FINANCIAL RESULTS

(Rs. In Crores)

	Year ended 30th Sept. 2006 (12 Months)	Period ended 30th Sept. 2005 (15 Months)
(A) INCOME & PROFIT/(LOSS)		
1. Sales & Business Income	**1,787.88**	1,294.94
2. Total Expenses	**1,673.79**	1,305.03
3. Profit /(Loss) before Interest, Depreciation, Amortisation & Exceptional Items (1-2)	**114.09**	(10.09)
4. Interest & Finance Charges (Net)	**84.95**	159.65
5. Cash Profit before Taxation from Business Operations (3-4)	**29.14**	(169.74)
6. Depreciation & Amortisation	**47.05**	61.95
7. Profit/(Loss) before Tax & Exceptional Items (5-6)	**(17.91)**	(231.69)
8. Exceptional Items (Expenses)	**42.58**	243.02
9. Income from Investments	**94.93**	505.73
10. Profit before Tax (7-8+9)	**34.44**	31.02
11. Profit after Tax	**19.00**	39.09
(B) DIVIDENDS		
1. Provision for Dividend	**--**	--
2. Dividend Tax	**--**	--
(C) SHAREHOLDERS' FUNDS		
1. Share Capital	**72.23**	72.23
2. Reserves & Surplus	**946.34**	545.90
3. TOTAL (1+2)	**1,018.57**	618.13

DIVIDEND

The Board of Directors have decided not to recommend any dividend for the year ended September 30, 2006 due to inadequacy of profits and also with a view to conserve the resources.

SHARE CAPITAL

The present issued & paid up Equity Share Capital of the Company is Rs.72,23,22,400/- divided into 7,22,32,240 Equity Shares of Rs.10 each.

During the year, your Company issued 36,11,610 Convertible Share Warrants ("Share Warrants") to the Promoter Group as approved by the Shareholders in the Annual General Meeting held on 31st March, 2006. The said Share Warrants were issued in accordance with the Preferential Issue Guidelines of Securities & Exchange Board of India ("Preferential Issue Guidelines") convertible into equal number of Equity Shares at a price of Rs. 83.79 each of the face value of Rs. 10/- each at a premium of Rs. 73.79 per Equity Share within 18 months from the date of issuance, i.e. 31st March, 2006.

Yet another set of 36,11,610 share warrants were also issued and allotted to the Promoter Group in accordance with the Preferential Issue Guidelines. The issue of the said share warrants was approved by the shareholders through postal ballot on 7th November, 2006. These share warrants will be converted into equal number of Equity Shares at a price of Rs. 124.05 each of the face value of Rs.10 each at a premium of Rs. 114.05 per Equity Share within 18 months from the date of their issuance i.e. 22nd November, 2006.

The Equity Shares issued upon the conversion of the said Share Warrants shall remain in 'Lock-in' for a period of three years from the date of issue of such Share Warrants.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

Your Company had, in the previous year, decided to strategically focus its economical and managerial resources on three major businesses and to divest the other businesses of the Company over a period of time. The three core businesses identified by the Company for long term growth are Agri Machinery, Railway Equipment & Auto Components and Construction Equipment. Your Company is a dominant player in each of these businesses and possesses requisite strengths like technical know-how, solid brand equity, a very effective and loyal distribution network, technical manpower and professional management to take these businesses to the global scale. The decision to remain focused on the core business resulted in remarkable turnaround in the performance of the Company.

Your Company is slowly getting out of all the unrelated business activities and the sale of your Company's stakes in the software companies as also divestment of its 49% stake in the joint venture, Carraro India Limited, were steps aligned with the overall vision to remain focused on the three core businesses.

2. AGRI MACHINERY BUSINESS

The primary operations of your Company, the Agri Machinery Business Group (AMG), demonstrated significant improvement in performance during the current year. The resurgence demonstrated by AMG was across the entire operations of the Business and in a balanced manner which is evinced by the results with an increase in turnover from Rs. 1051.97 crores (15 months previous year) to Rs. 1600.24 crores (12 months this year) and in EBIT from a loss of Rs. 111.88 crores (15 months previous year) to a positive of Rs. 91.06 crores (12 months this year). In essence, culled out for the same period of 12 months, this indicates a doubling of turnover, a significant swing in EBIT and underpins AMG's commitment to profitable growth.

a) Industry

The Indian Tractor Industry witnessed robust growth for the third consecutive year with an increase of 26.6% in the financial year 2005-2006. The Industry achieved a record level of 3.08 lac Tractors for the domestic market, topping the erstwhile high of 2.70 lacs in 1999-2000. The current growth has been driven by the Government's increased thrust on developing Agriculture with a specific focus on yield improvement to meet the increased requirement of Agricultural produce emanating from the overall increase in disposable incomes and the population growth. Arable land area remains limited and water tables are shrinking, which again add to the need for more mechanized farming and hence the need for more Tractors. Nationalized and Private Banks, through focused and innovative retail financing initiatives, have also increasingly supported the Indian farmer in his procurement of agricultural machinery. The Industry has also registered an impressive increase of 16% in Exports which volumes have now begun significantly contributing to the Industry's total production. Indeed the Indian Tractor Industry has made significant international investments, which are now bearing fruit.

b) Business Strategy

Your Company launched the year looking at the Business in its Market Scope, Product Scope, Geographical Scope and Learning Scope. We laid down a clear Vision for the AMG Business and articulated a clear strategy. We deployed concurrent action plans across functions while integrating processes across these functions to deliver customer satisfaction at one end and Shareholder Value at the other. Key was leveraging the Strategy & Review loop. We have embarked on transformational change.

c) Sales & Marketing and Exports

Repositioning of our Brands was integral to our Marketing Strategy. We enhanced Reach & Access by institutionalizing a National Sales & Service grid pan India. Today we have over 1200 dealers, sub-dealers, distributors and stockists, over 200 Sales Offices. Our focus was to make a

Tri-Offering to our valued customer of Product, Service and Spares instead of Product alone. Service seeded the unique measurable of Customer Satisfaction Index and Spares became a key facilitator of referrals. We converted Exports from an activity to a Business, which also sought profitable growth. All this enabled AMG to sell 47,612 tractors during 2005-2006 and the enablers were both the Domestic & Export Markets where we doubled our volumes in each. Our growth was higher than the market signaling significant recovery in market share.

We repositioned our two International Subsidiaries in their respective markets; enhanced their Reach & Access by mirroring a similar strategy as in India and thereby leveraged competitive advantage. Both Subsidiaries have demonstrated significant growth. In addition, we increased our geographical spread and now cater to 31 countries.

d) Materials Management

Recognising the vulnerability of the Automotive Sector in India to Materials Management, we instated this function with full care. Current year saw the ramp-up of Supply Volumes; streamlining of small scale vendors; institutionalization of Supplier Quality Assurance (SQA) and Vendor Quality Assurance (VQA) and indeed nurturing Vendor Partnerships. We are now focusing our efforts on Vendor Development i.e. Current Suppliers, Alternate Suppliers and New Suppliers, all in a fiercely competitive environment.

e) Manufacturing Operations

Production at 48,282 scaled a new high and all this with excellent HR & IR where we signed a watershed Settlement with our workers, which paves the way for actualising our Vision “Go Global”. Based on man-machine utilization norms and with some optimal investment in balancing equipment, we are now capable of producing 98,940 Tractors p.a. on a 2 shift basis i.e. a 37% increase over the previous capacity of 72,000 Tractors p.a. from the same assets. This is concurrent with flexible manufacturing norms allowing model mix inter-changeability across plants of AMG and flexibility in engine assembly to enable the manufacture of new advanced engines.

During the year, initiatives have been taken on de-bottlenecking, value engineering, strategic sourcing, supply chain management and consolidation of the vendor base so as to be able to deliver speedy, market oriented manufacturing abilities. AMG has further launched an intensive initiative of Quality, both pre-delivery as well as in the field, so as to ensure customer satisfaction.

Addressing the growing export volumes, your Company has invested in a containerizing facility within the factory premises so as to ensure high quality and high volume capabilities on stuffing and packing containers.

f) Knowledge Management

Assessing our technological advantage, AMG introduced the concept of Knowledge Management in the Organisation where the Knowledge Management Centre (KMC) is now the Knowledge Receptacle driving the Business. The “Knowledge Funnel & Gate” methodology is used to sift Value-Add Ideas and conceptualise them to a Project stage. KMC is tentacled to every function of the Business and builds the intellectual capital of AMG. KMC also drives R&D to business-focused development.

g) Industry Outlook & AMG positioning

The Tractor industry has over the last 3 years developed into a highly competitive industry with a large number of competitors. We believe this healthy competition coupled with political awareness of the critical role that agriculture plays in the Indian Economy, will ensure strong double-digit growth over the next few years. The AMG business has put in place the tools to meet and outperform the challenges emerging from this positive environment and has strategies in position to capitalize on the significant opportunities.

3. RAILWAY EQUIPMENT BUSINESS

The Division maintained its good performance and a dominant position in the industry in spite of increased competition and price pressure for existing products.

The Second manufacturing facility in Uttranchal has now been commissioned, with first commercial dispatch having been made in October 2006. The facility is poised to undertake commercial production shortly, for some of the new products hitherto under development.

The Indian Railways have now turned around, with paradigm shift to Change and Transformation. The focus in the coming years is on Technology Driven, Public / Private Sector participation and Technology infusion in Rolling Stock, Infrastructure and Signalling. The Division plans to explore and leverage the opportunities arising out of the above, for a substantial growth in the years ahead.

4. AUTO SUSPENSION PRODUCTS BUSINESS

The Auto Suspension Products Business took fresh initiatives in the current year : (i) to develop new OEM customers in the domestic market; (ii) to leverage the After Market Network, and (iii) to aggressively reduce costs through alternate material sourcing from outside India. These initiatives are likely to improve the business performance in the coming years.

Exports initiatives started in the previous year have shown encouraging results. Revenues continue to grow from business with prestigious OEMs in the European and South East Asia Markets; as also in the “After Market” from Europe and South East Asia. The Business is expecting greater volumes in the coming years, which should help in revamping ASP's economy. The Business envisages 30% Exports in the total sales turnover in the next fiscal year.

The division has initiated steps to explore Technology sources of international repute for new products lines to participate in the huge opportunity provided by the rapidly growing Auto Component Industry.

5. FINANCIAL PERFORMANCE

There was a remarkable turnaround in the performance of the Company during the year. Sales Revenue grew by 72% over the previous year on an annualised basis. PBDIT from business operations was Rs.114.09 Crores versus loss of Rs.10.09 Crores in the previous 15 months period - a turnaround of Rs.124 Crores. The interest and finance cost at Rs.84.95 Crores was significantly lower than the previous 15 months figure of Rs.159.65 Crores. Consequently, the cash profit before tax from business operations was Rs.29.14 Crores as opposed to a Cash loss of Rs.169.74 Crores in the previous 15 months period, a turnaround of almost Rs. 200 Crores.

The operational turnaround was further supported with income from investments of Rs. 94.93 Crores primarily on account of sale of 49% shareholding in the joint venture Carraro India Limited.

After providing for Exceptional items of Rs. 42.58 Crores (Rs. 243.02 Crores in the previous period), the Company recorded Profit Before Tax of Rs. 34.44 Crores and Profit After Tax of Rs. 19.00 Crores in the current year as compared to Rs. 31.02 Crores and Rs. 39.09 Crores respectively during the previous period.

The Company also revalued its Land during the year to reflect its current market value resulting in an addition of Rs. 387.64 Crores in the Reserves as Revaluation Reserve.

The sharp turnaround in the performance of the Company was possible due to a combination of factors.

(a) The top management team of the Company was revamped with induction of fresh blood from outside the Company under the leadership of the Executive Director and Chief Operating Officer. A host of initiatives were undertaken, under the new leadership with the overall objective of establishing your Company as a serious and dominant player in the Agri space.

(b) The market network was considerably widened with the opening of new distribution points and new offices.

(c) Funds available from the divestment of the healthcare business were used to reduce and reprofile the overall debt structure of the company and ramp up the business operations, which were languishing till last year due to paucity of working capital funds.

(d) A renewed partnership of the Company's management together with the new Union leadership was able to successfully conclude a “long-term agreement” for all manufacturing locations in a very harmonious manner. The agreement helped your Company to increase its overall production capacity from 72,000 tractors to approximately 1,00,000 tractors per annum for which very little capital expenditure is to be incurred. This will further help the Company in making the optimum use of its productive assets.

6. INDUSTRIAL RELATIONS

The Industrial relations with the workers and staff of the Company have remained cordial and peaceful during the year under review. During the year, your Company's commitment to building harmonious employees relation was evident in the successful conclusion of Long-Term Wage Agreements for all manufacturing locations. The collaborative spirit of partnership across all sections of employees has resulted in significant enhancement in quality and productivity.

7. EMPLOYEE STOCK OPTION SCHEME

The Board of Directors of your Company with a view to motivate and retain the employees of your Company have decided to launch Escorts Employee Stock Option Scheme 2006 (“ESOS”), in accordance with the guidelines framed by SEBI. The Board has constituted a Compensation Committee, comprising majority of Independent Directors.

Under the ESOS, the shareholders have approved the issue of 36,11,612 Equity Shares, which in due course would be issued by the Compensation Committee to the employees as per the policy framed by them.

8. RISKS & CONCERNS

The major risks associated with the Tractor Industry are inadequacy of monsoons since more than 70% of sowing land is dependent on rainfall, non-availability of credit (almost 90% of tractor sales are funded by credit) and the policies of the Government with regard to the agriculture sector. However, given the increasing recognition and contribution of the agriculture sector to the growth of Indian economy and the mere fact that the agriculture sector employs over 60% of the country's population and accounts for almost a quarter of the GDP, a high growth in the agriculture sector is imperative to sustain the growth of Indian economy. Given all this, we do not foresee any problems both with regard to credit availability and procurement policies of the Government in the near future.

9. OPPORTUNITIES AND THREATS

Agri opportunity

The growing domestic demand for food grains and Agri products promises a very good future for Company's core business. We believe that India can be a major exporter of grains and other Agri products and increased demand, both Domestic and Exports, will call for increased yields, which besides other key inputs will result in increased Farm mechanization. Tractor density as well as the HP input per hectare is extremely low relative to international standards, tractor population today is concentrated in 10% of villages and even today 70% of our villages do not have a tractor. All this shows great potential for the growth in this industry.

Auto Components/Railway Opportunity

India has become a very important centre for manufacture of auto components in the world, presenting huge opportunities for Companies in this Sector. The Company has started looking at the possibility of manufacturing & marketing various auto components for future growth.

Indian Railways with major modernization initiatives present another area of opportunity for the Companies Railway Equipment business.

Construction Equipment Business

The Construction Equipment Business is done by your company through its 100% subsidiary Escorts Construction Equipment Ltd. (ECEL). ECEL has achieved a sharp increase in its gross revenues in the financial year 2005-06. Turnover was at Rs. 315.67 Crores in Financial Year 2005-06 as against Rs. 175.78 Crores achieved in the previous fiscal year. Profit before tax was substantially higher at Rs. 26.76 Crores as against Rs. 4.97 Crores in the previous fiscal year.

Apart from continuing growth in the material handling equipment range, the business also witnessed significant growth in road construction equipment segment as well. The road construction equipment segment is showing further growth in the current year 2006-07.

The business is on the growth path, which is well supported by the favourable market demand prevailing in the industry. New models and variants are being worked upon, which will be introduced in the market in future.

In this backdrop the business is expected to further increase its revenues in the current fiscal year 2006-07.

10. INTERNAL CONTROL SYSTEMS

The Company has an effective Audit Committee comprising of Independent, Non-executive and professionally qualified Directors, who interact with the Statutory Auditors, Internal Auditors, Cost Auditors and Auditees. The Committee deals with all accounting, financial reporting and internal control matters.

Your Company has adequate system of internal controls. This ensures that Company assets are safeguarded and protected against loss from unauthorized use or disposition and that transactions are authorized, recorded and reported correctly.

The internal control systems have been designed to ensure that the financial and other records are reliable for preparing financial and other statements and for maintaining accountability of assets.

11. FORWARD LOOKING STATEMENTS

Statements in this Report, particularly those which relate to Management Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations with use of the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will”, and other similar expressions may constitute “forward looking statements” within the meaning of applicable laws and regulations. Actual results, performance or achievements might materially differ from those either expressed or implied.

SCHEME OF COMPROMISE AND ARRANGEMENT

Your Company has filed in the High Court of Delhi a Scheme of Compromise & Arrangement (“Scheme”) to bail out the fixed deposit holders of Escorts Finance Limited. The Scheme was approved by the Shareholders, Secured & Unsecured Creditors of your Company and the Fixed Deposit holders and Secured Creditors of Escorts Finance Limited on 10th May, 2006 and 5th May, 2006 respectively in the Court convened meetings. The Scheme is still to be approved by the High Court of Delhi.

MATERIAL CHANGES

No material changes in the business of the Company or its subsidiaries including the classes of business in which the Company has an interest, have taken place during the financial year ended 30th September, 2006.

RISK MANAGEMENT PROCESS HIGHLIGHTS

Your Company has a well defined Risk Management policy established at the Board level to review the risk assessment and its minimization. The process is based on pre-identified types of risks and the risk events or factors which require regular assessment and response. Based on the probability and impact of the risk, the risks are priortised and reports are forwarded to the Board of Directors through the channels of the Functional Heads, the Management Committee and the Audit Committee.

CONSOLIDATED FINANCIAL STATEMENTS

In compliance of Clause 32 and Clause 50 of the Listing Agreement with Stock Exchanges, the Company has prepared Consolidated Financial Statements as per the Accounting Standards applicable to the Consolidated Financial Statements issued by Institute of Chartered Accountants of India. The Audited Consolidated Financial Statements along with the Auditor's Report have been annexed with this Report.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Information required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 is given in **Annexure A** and forms an integral part of this Report.