

19th
ANNUAL REPORT
2005 - 2006

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FCL TECHNOLOGIES
& PRODUCTS LIMITED



FCL TECHNOLOGIES & PRODUCTS LIMITED

NINETEENTH ANNUAL REPORT

2005-2006

BOARD OF DIRECTORS

ASHOK CHATURVEDI
Chairman & Managing Director

G. GOSWAMI
Nominee-IFCI

M.G. GUPTA

RAVI KATHPALIA

R.K. JAIN

PRADEEP TYLE

DEPUTY GENERAL MANAGER (ACCOUNTS) & COMPANY SECRETARY

BASANT KUMAR

AUDITORS

VIJAY SEHGAL & CO.
Delhi
Statutory Auditors

JAIN SINGHAL & ASSOCIATES
New Delhi
Internal Auditors

BANKERS

ORIENTAL BANK OF COMMERCE
ALLAHABAD BANK

REGISTERED OFFICE

110, First Floor, Bhanot Corner,
Pamposh Enclave
Greater Kailash - I
New Delhi - 110 048
Tel. : 26440917, 26440925
Fax : 26216922
E-mail : flexsec@vsnl.net

CORPORATE OFFICE

A-107-108, Sector-IV
NOIDA - 201 301 (U.P.)

OFFICES

118-119, Damji Shamji Udyog Bhawan,
1st Floor, 25A, Veera Desai Road,
Andheri (West),
Mumbai - 400 053

FMC Fortuna, Unit No. A-16
234/3A (2nd Floor)
Acharya Jagdish Chandra Bose Road
Kolkata - 700 020

443, IInd Floor, 7th Block
Koramangala
Bangalore - 560 095

WORKS

L-1, Industrial Area, Ghirongi (Malanpur),
Distt. Bhind, Madhya Pradesh - 477 117.

C-5-8, Sector-57, Phase - III
NOIDA - 201 301 (U.P.)

C-3, Sector-57, Phase - III
NOIDA - 201 301 (U.P.)



FCL TECHNOLOGIES & PRODUCTS LIMITED

NOTICE

Notice is hereby given that the 19th Annual General Meeting of the Members of FCL Technologies & Products Limited will be held on Tuesday, the 12th day of September, 2006 at 10.00 A.M. at Air Force Auditorium, Subroto Park, New Delhi - 110010 for transacting the following business: -

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet of the Company as at 31st March, 2006 and the Profit & Loss Account for the year ended on that date together with Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. M.G. Gupta, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Statutory Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at a remuneration to be decided by the Board of Directors. M/s. Vijay Sehgal & Co., Chartered Accountants, Delhi retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to the provisions of Section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter called "the Board" which term shall include any Committee in whom the Board may vest any or all of its power under this Resolution) to create mortgages/charges on the immoveable and/or moveable properties, both present and future, in respect of all or any one or more of the properties and/or undertakings of the Company together with power to take over the management of the business and concern of the Company in certain events and ranking subsequent, subservient and subordinate to all the existing prior mortgages/charges and the mortgages and/or charges that may be created in future in favour of public financial institutions, banks or any other lending institutions for their term loan(s) and debentures etc, on such terms and conditions and at such times and in such forms and manner as the Board of Directors, may deem fit, in favour of Allahabad Bank to secure the working capital facilities of Rs.5000 lacs together with interest thereon and further interest, if any, costs, charges, expenses etc.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to vary and/or alter the terms and conditions of the security aforesaid in consultation with the Bank and other mortgages as may be necessary.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to prepare, finalise and execute with the said bank documents, deeds, writings and agreements, as may be necessary for creating mortgages and/or charges as aforesaid and to do all such acts, deeds,

matters and things as may be necessary and/or expedient for giving effect to this resolution.

By Order of the Board

Place : NOIDA

BASANT KUMAR

Dated : 26th July, 2006

Dy. General Manager (Accounts)
& Company Secretary

Regd. Office:

110, First Floor, Bhanot Corner
Pamposh Enclave, Greater Kailash-I
New Delhi - 110048.

NOTES:

1. Explanatory Statement as required under Section 173(2) of the Companies Act, 1956 is annexed hereto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ANOTHER PERSON AS HIS PROXY TO ATTEND AND ON A POLL TO VOTE INSTEAD OF HIMSELF. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. A BLANK FORM OF PROXY IS ENCLOSED AND IF INTENDED TO BE USED, IT SHOULD BE RETURNED DULY COMPLETED TO THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY EIGHT HOURS BEFORE THE SCHEDULED TIME OF THE MEETING.
3. Corporate Members intending to send their authorized representative(s) are requested to send a duly certified copy of the Board Resolution authorizing their representatives(s) to attend and vote at the Annual General Meeting.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from 6.09.2006 to 12.9.2006 (both days inclusive).
5. Members holding shares in physical form are requested to notify change in address, if any, to the Company's **new Registrar and Share Transfer Agents (RTA), Beetal Financial & Computer Services Pvt. Ltd., BEETAL House, 3rd Floor, 99, Madangir, Near Dada Harsukh Dass Mandir, Behind Local Shopping Centre, New Delhi - 110062** quoting correct Folio Number(s) and in case of shares held in dematerialized form to the concerned Depository Participant.
6. In the case of joint holders, if more than one holder intend to attend the meeting, they must obtain additional admission slips on request from the Registered Office of the Company.
7. Members, who are holding shares in identical order of names in more than one Folio, are requested to write to the Company/ RTA for consolidating their holdings into one Folio.
8. Members seeking further information about the accounts of the Company are requested to write to the Company **at least one week before the date of the meeting giving details of the information required.**
9. Members/Proxies should bring the Attendance Slip duly filled in for attending the Annual General Meeting. No extra attendance slip will be provided at the Annual General Meeting.
10. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the meeting.
11. Trading in the shares of the Company has been made compulsory in dematerialized form w.e.f. 24.07.2000. The Company has already joined the Depository system and the ISIN for the shares of the Company is INE 145B01013. Members, who desire to have their holding of shares dematerialized are requested to approach the Company's RTA through a Depository Participant.

**FCL TECHNOLOGIES & PRODUCTS LIMITED**

12. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Company's Registrar and Share Transfer Agents, Beetal Financial & Computer Services Pvt. Ltd.
13. The Company has paid the Annual Listing fees for the year 2006-2007 to the following Stock Exchanges viz., Bombay Stock Exchange Ltd., Mumbai and National Stock Exchange of India Ltd., Mumbai in which the Company's equity shares are presently listed.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT 1956**ITEM NO. 4**

Section 293(1)(a) of the Companies Act, 1956 provides *inter-alia* that the Board of Directors of a public Company shall not, without the consent of such Company in General Meeting sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the Company or where the Company owns more than one undertaking, the whole or substantially the whole of the any such undertaking.

Mortgaging/charging by the Company of its immovable and moveable properties in favour of lenders as aforesaid may be regarded as disposal of the whole or substantially the whole of the said undertaking(s) of the Company and therefore, requires consent of the Company pursuant to Section 293(1)(a) of the Companies Act, 1956.

The Company has availed working capital limits of Rs.5000 lacs from Allahabad Bank. The said facilities taken from the said Bank will be secured by way of second charge by mortgages/charges/hypothecations in such manner & form and on such of the moveable and immovable properties of the Company as the Board may direct, ranking subsequent, subservient & subordinate to all the existing charges thereon.

The Board recommends this Resolution for your approval.

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

By Order of the Board

BASANT KUMAR

Dy. General Manager (Accounts)
& Company Secretary

Place : NOIDA

Dated : 26th July, 2006

Regd. Office:

110, First Floor, Bhanot Corner

Pamposh Enclave, Greater Kailash-I

New Delhi - 110048.

DETAILS OF DIRECTORS SEEKING RE-APPOINTMENT AT THE FORTHCOMING ANNUAL GENERAL MEETING
(Pursuant to Clause 49 of the Listing Agreement)

Name of Director	Shri M. G. Gupta
Date of Birth	02.03.1934
Date of Appointment	29.04.1999
Experience in Specific Functional Area	He is a retired IAAS (India Audit & Accounts Services) officer having vast and rich experience in the field of Audit & Accounts. He was in the service of Central Govt. and during his illustrious career with the Government, he had held various prestigious and responsible positions in different Ministries and Departments. He retired in 1992 as Vice Chairman & Member Finance, Delhi Development Authority.
Qualification	M.Sc. (Physics), Indian Audit & Accounts Service
Directorship in other Public Limited Companies	Flex Industries Limited Flex Foods Limited Credit Capital Assets Management Co. Limited B T W Industries Limited
Chairman/Member of Committee of the Public Limited Companies on which he is Director.	<u>Audit Committee</u> Flex Industries Limited FCL Technologies & Products Limited Flex Foods Limited Credit Capital Assets Management Co. Limited <u>Shareholders'/Investors' Grievance Committee</u> Flex Industries Limited FCL Technologies & Products Limited

Details of shareholding/other convertible instruments of non-executive directors of the company
(Pursuant to Clause 49 of the Listing Agreement)

S.No.	Name of the Director	No. of Shares	Other Convertible Instruments
1	Mr. M.G. Gupta	Nil	Nil
2	Mr. Pradeep Tyle	100	Nil
3	Mr. Ravi Kathpalia	Nil	Nil
4	Mr. R.K. Jain	Nil	Nil
5	Dr. G. Goswami	Nil	Nil



FCL TECHNOLOGIES & PRODUCTS LIMITED

DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting this Nineteenth Annual Report along with the Audited Accounts of the Company for the financial year ended 31st March, 2006.

FINANCIAL RESULTS

The summarized financial results for the year ended 31st March, 2006 and for the previous year ended 31st March, 2005 are as under:

	(Rs. in Lacs)	
	Year Ended 31.03.2006	Year Ended 31.03.2005
Sales & Job Work (Net)	40708.64	46761.94
Other Income	756.51	240.54
Profit before Interest, Financial Charges, Depreciation & Taxation	2736.94	3157.90
Less:		
i) Interest & Financial Charges	1391.03	1378.10
ii) Depreciation	1065.74	1027.02
Profit before tax	280.17	752.78
Less:		
- Provision for Income Tax	23.60	52.66
- Provision for Wealth Tax	0.66	0.79
- Deferred Tax Asset/(Liability)	-	305.16
- Fringe Benefit Tax	12.70	-
Add:		
Deferred Tax Asset/(Liability)	31.22	-
Profit after tax	274.43	394.17

REVIEW OF OPERATIONS

The financial year under review has brought a mixed bag of results for the Company. Better demand of inks & adhesives, which could mainly be attributed to the growth of flexible packaging industry enabled the inks & adhesive business of the Company to register a satisfactory growth both volume as well as value wise. However, low demand coupled with higher raw material costs and depleted margins in the PET Chips business had an adverse impact on the overall performance and profitability of the Company in general and in the performance of PET Chips business in particular.

Your Company during the year under review achieved a turnover of Rs.41465.15 lacs including other income of Rs.756.51lacs as against a turnover of Rs.47002.48 lacs including other income of Rs.240.54 lacs during the previous financial year. It ended the year under review with net profit after tax of Rs.274.43 lacs as compared to the net profit after tax of Rs.394.17 lacs of the previous financial year.

The Board of Directors of the Company after carefully considering the overall financial scenario, regret their inability to recommend any dividend.

The operational performance of each business segment of the Company has been comprehensively covered in the Management Discussion and Analysis Report and the same is deemed to be a part of the Directors' Report.

SCHEME OF ARRANGEMENT

Considering the current and future business prospects of the Company vis-à-vis the industry trend and other factors both financial and business prudence, the Board of Directors of your Company at their meeting held on May 20, 2006 has in principle approved Scheme of Arrangement subject to the necessary

approvals of Shareholders, Creditors and sanction of the Hon'ble High Court of Delhi *inter-alia* involving the following:

- amalgamation of Flex Securities Limited (the wholly owned subsidiary) with Flex Engineering Limited.
- amalgamation of Flex Engineering Limited (post amalgamation of Flex Securities Limited with Flex Engineering Limited) and FCL Technologies & Products Limited with Flex Industries Limited

Upon the scheme becoming effective and in consideration of the amalgamation of the Company into Flex Industries Limited (FIL), FIL shall issue and allot to all the Shareholders of the Company 1 (one) equity share credited as fully paid up in FIL for every 3 (three) equity shares held by them in the Company on such date fixed as record date after the Effective Date as the Board of Directors of FIL may determine. For the purpose of such allotment fractional entitlements, if any, shall be rounded off to the nearest figure. The equity shares so issued to the Shareholders of the Company shall rank *pari-passu* with the existing shares of FIL.

The Hon'ble High Court of Delhi has convened the meetings of the Shareholders and Creditors on 11th August, 2006 for their approval.

The merger will result in pooling of resources of all the companies and the merged entity will emerge as a single entity providing end-to-end solutions in packaging industry. It will unlock and enhance value for the Shareholders.

FIXED DEPOSIT

During the year under review, the Company did not accept any fixed deposit from any person.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Mr. M.G. Gupta, Director of the Company retires by rotation at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.



FCL TECHNOLOGIES & PRODUCTS LIMITED

Brief resume of Mr. M.G. Gupta, nature of his expertise in specific functional areas and the name of the companies in which he holds the Directorship and the Chairmanship/Membership of the Committees of the Board and his shareholding in the Company, as stipulated under clause 49 of the Listing Agreement with the Stock Exchanges, are given as Annexure to the Notice convening the Annual General Meeting.

None of the Directors of your Company is disqualified as per provisions of Section 274(1)(g) of the Companies Act, 1956. Your Directors have made necessary disclosures as required under various provisions of the Companies Act, 1956 and Clause 49 of the Listing Agreement.

DIRECTORS' RESPONSIBILITY STATEMENT

On the basis of the compliance certificates received from the executives of the Company, subject to the disclosures in the Annual Accounts and also on the basis of discussion with the Statutory/Internal Auditors of the Company, from time to time, we state as under:

1. That in preparation of the Annual Accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed and that there have been no material departure.
2. That the Directors have selected such Accounting policies and applied them consistently and made judgement and estimates that were 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 and of the profit of the Company for the year under review.
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 on a going concern basis.

The Company's Internal Auditors have conducted periodic audit to provide reasonable assurance that the Company's established policies and procedures have been followed. The Audit Committee constituted by the Board reviews the internal control and financial reporting issues with Internal Auditors.

AUDITORS & AUDIT

M/s. Vijay Sehgal & Co., Chartered Accountants, Delhi, Auditors of the Company, retire at the forthcoming Annual General Meeting and, being, eligible offer themselves for re-appointment. The Company has received a letter from them to the effect that their

appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act, 1956.

The observations of the Auditors and the relevant notes on the Accounts of the Company are self-explanatory and therefore do not call for any further comments.

CORPORATE GOVERNANCE

The Securities & Exchange Board of India (SEBI) stipulated Corporate Governance standards for listed companies through Clause 49 of the Listing Agreement of the Stock Exchanges. SEBI, through Circulars dated 29.10.2004 and 29.03.2005 has revised the existing Clause 49 and has mandated listed companies to comply with revised Clause 49 by 31.12.2005. Accordingly, your Company has already put in place systems and procedures and is fully compliant with revised Clause 49 of the Listing Agreement entered into with Stock Exchanges. A separate report on Corporate Governance along with the Auditors' Certificate on its compliance by the Company is included as a part of the Annual Report

PARTICULARS OF EMPLOYEES

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in Annexure 'A' forming part of this Report.

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

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 'B' forming part of this Report.

PERSONNEL

Personnel relations with all employees remained cordial and harmonious through out the year. Your Directors wish to place on record their sincere appreciation to the employees of the Company for their devoted service

ACKNOWLEDGEMENT

Your Directors take this opportunity to thank and acknowledge the co-operation and assistance received from various agencies of the Central Government, Government of Uttar Pradesh & Madhya Pradesh, Financial Institutions, Banks and Customers during the year under review. The Board also wishes to place on record their deep appreciation of the continued support of the Shareholders of the Company.

For and on behalf of the Board

Place : NOIDA
Dated : 26th July, 2006

ASHOK CHATURVEDI
Chairman & Managing Director

ANNEXURE 'A' TO THE DIRECTORS' REPORT

Information as per Section 217(2A) read with Companies (Particulars of Employees) Rules, 1975 forming part of Directors' Report

A. EMPLOYED FOR THE FULL YEAR

Sl. No.	Name	Age	Designation	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Date of Appointment	Last Employment (Position held)
01.	Mr. R.P. Agrawal	74	Corporate Advisor	32,24,273	C.A., LL.B.	49	15.11.2002	Flex Engineering Limited (Corporate Advisor)
02	Mr. Ajay Tandon	50	Executive Vice President (Operations)	27,54,769	B.E. (Mechanical Engineering)	28	02.08.1999	Paradise Plastics Limited (Chief Executive Officer)

**FCL TECHNOLOGIES & PRODUCTS LIMITED****B. EMPLOYED FOR PART OF THE YEAR : NIL**

1. Remuneration includes Salary, bonus, contribution to Provident Fund and all other perquisites taxable or non-taxable.
2. Information about qualification and last employment is based on particulars furnished by the concerned employee.
3. None of the Directors of the Company is related to Mr. R.P. Agrawal or to Mr. Ajay Tandon.
4. None of the above employees hold by themselves or alongwith their spouse and dependant children 2% or more of the equity shares of the Company.
5. The aforesaid appointments are non-contractual and terminable by notice on either side.

ANNEXURE 'B' TO THE DIRECTORS' REPORT

Information regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo pursuant to Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of Directors' Report.

1. Conservation of Energy**A) Inks & Adhesives Division**

Energy consumption is closely watched and monitored by the staff by optimizing equipment utilization, its proper upkeep and regular preventive maintenance. Energy saving devices is employed wherever possible keeping in mind cost benefit of the device and as per requirements.

Since overall energy cost is very small compared to total cost of production it is rather difficult to really quantify the effect in terms of cost savings due to conservation of energy.

B) Poly-Condensation Division (Pet Chips)**i) Measures Taken**

- a) Provided VFD in HTM blower fan.
- b) All the earlier measures taken for energy conservation are being continued.

ii) Additional Proposal for Energy Conservation

At present, the Company has no fresh or additional proposal to implement for further conservation of energy.

iii) Impact of above measures

Due to the aforesaid energy conservation measures the Company has been able to save 1000 units per day in cooling water system by optimization distribution.

PARTICULARS OF CONSERVATION OF ENERGY

	Year ended 31 st March, 2006	Year ended 31 st March, 2005
I. Power & Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (in lacs)	21.01	18.50
Total Amount (Rs. in lacs)	90.96	76.92
Rate/Unit (Rs.)	4.33	4.16
(b) Own Generation		
Through Diesel Generator		
Units (in lacs) (KWH)	101.51	112.56
Units/Ltr. of Diesel Oil (KWH)	3.96	3.69
Cost/Unit (Rs.)	3.90	5.23
2. Coal		
Quantity (MT)	Nil	Nil
Total Amount (Rs./lacs)	Nil	Nil
Average Rate (Rs./MT)	Nil	Nil
3. Furnace Oil		
Quantity (Ltrs. in lacs) (KL)	10440.26	93.24
Total Amount (Rs./lacs)	1543.45	1008.91
Average Rate (Rs. per KL)	14784.00	10821.00



FCL TECHNOLOGIES & PRODUCTS LIMITED

II. Consumption per unit of production

Description		Electricity (KWH/Tonne)		Furnace Oil (KL/Tonne)		Own Generation (KWH/Tonne)	
		Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
(a) Pet Chips	MT	Nil	Nil	54312	60948	54312	60948
	Units	Nil	Nil	0.19	0.15	183	179
	Rs./MT	Nil	Nil	2842	1655	690	920
(b) Inks & Adhesives	MT	8267	6051	Nil	Nil	8267	6051
	Units	223	264	Nil	Nil	22	25
	Rs./MT	936	1083	Nil	Nil	236	203
(c) Zipper Slider	No. In Lacs (Mtrs./Nos.)	1385	2098	Nil	Nil	1385	2098
	Units	188	122	Nil	Nil	20	103
	Rs./No. In Lacs (Mtrs./Nos.)	983	542	Nil	Nil	149	742

2. Research & Development (R & D)

A) Inks & Adhesives Division

During the year, the R & D team has developed the following products:

- New generation cost effective polyether base solventless adhesive system for Flexpak.
- Development work on three new polyester polyols for different applications completed.
- New ink system for PVC profiles.
- Special coating for producing matt effect in laminates.
- P.U. dispersion based lamination adhesives.

Benefits derived

The Company has established newly developed products with its customers commercially.

Future Plan

- Development of coating & process for embossing on films.
- Polyurethane resin for inks/coating applications.
- Prepolymers for shoe sole systems.
- P.U. adhesive systems for industrial use.

B) Poly-Condensation Division (Pet Chips)

Company has produced and successfully commercialized special film grade chips for mat film and ultra clear film.

3. Expenditure in R & D.

During the year under review the total expenditure incurred by the Company on R&D activities are as follows:

	(Rs. in lacs)
Revenue	5.49
Capital	4.78

4. Technology Absorption, Adaptation & Innovation

- A new high efficiency PLC controlled grinding mill has been installed & commissioned for manufacture of high quality gravure inks.
- No technology has been imported during the year under review.

5. Foreign Exchange Earnings and Outgo

	(Rs. in lacs)
a) Earnings (FOB value of Exports and Services)	4745.48
b) Outgo	2053.57

For and on behalf of the Board

ASHOK CHATURVEDI

Chairman & Managing Director

Place : NOIDA

Dated : 26th July, 2006



FCL TECHNOLOGIES & PRODUCTS LIMITED

MANAGEMENT DISCUSSION & ANALYSIS

(The Company assumes no responsibility in respect of forward-looking statements, which may be amended or modified in future on the basis of subsequent developments or events).

BUSINESS REVIEW

The activities of the Company can be broadly divided into two business segments i.e. manufacturing and dealing in Poly-condensation (PET Chips) and Inks & Adhesives.

POLY-CONDENSATION (PET CHIPS)

A) Segment Review & Analysis

This business has facility to produce polyester chips of film grade, yarn grade and bottle grade. The state-of-art manufacturing facilities using indigenous technologies was set up mainly to cater to the demand of film grade and yarn grade chips. The film grade chips is used as raw material for manufacturing of polyester films. The unit made utmost use of its *state of the art* batch processing manufacturing facilities, by conveniently switching over to produce different grades of chips based on the demand and orders in hand.

However, post 2001-02, the market for film grade and yarn grade chips in India has over grown itself, with installation and commissioning of number of production facilities by new entrants as well as by the end users themselves. This has led to misbalancing of supply demand ratio and resulted in stiff drop in price and margins. Further, the rise in the price of petro-chemical products, more particularly in PTA and MEG, the basic raw materials for production of chips, across the globe during the last couple of years due to various factors has resulted in higher input cost for the unit.

The Company primarily utilized its production capacity during most part of the financial year under review for production of film grade chips to cater to the demand of Flex Industries Limited, an associate company and thus turnover both volume and value wise of this business could mainly be attributed by film grade polyester chips.

The yarn grade chips market in India is going through a dull and difficult phase. Though, there has been demand for yarn grade chips, the falling price and margins and competition from country like China and Indonesia have made it quite un-remunerative. However, the Company still continues to produce yarn grade chips as well and its contribution to the overall turnover was quite low.

The business/market of bottle grade chips in India in the initial phase had shown lot of promise with better demand and margins. However, over a period of time with the entry of new players with huge capacity, the market has become quite competitive and the margins were not that attractive as it used to be earlier. Since, the Company was catering to the demand of outside entities for bottle grade chips and it was un-remunerative, the Company has strategically decided to mainly concentrate on production of film grade polyester chips.

During the year under review, the segment achieved sales volume of 54326 metric tones as against sales volume of 61413 metric tones during the previous financial year. The turnover in terms of value was Rs. 34812.19 lacs as against Rs. 45691.51 lacs of the previous financial year.

B) Opportunities & Threats

The manufacturing facilities of the Company has the unique batch processing facility, which enables it to change over to production of different grade of chips depending on the demand and orders in hand.

Over the last couple of years there has been significant increase in the installed capacity of polyester and other plastic films, which auger well for the polyester chips industry being one of the basic raw materials of polyester films.

However, while the price of finished polyester chips remains constant, the input cost for production of polyester chips fluctuates as it heavily depends on the price of different petro-chemical products, more particularly on PTA and MEG. In the recent past there has been an unprecedented increase in the price of various petro-chemical products, which has resulted in higher input cost, thereby drastically reducing the margins.

With the commissioning of heavy fuel based generator, it is expected that the power cost will come down which shall result into mitigating the effect of rising input cost on the profitability of the Company.

The domestic market for bottle grade chips in the recent past has been flooded with both small and big players, thereby unbalancing the supply demand ratio. This has led to severe competition. Moreover, in spite of the presence of so many players, the market is being dominated by some major players having massive production capacities and captive source for raw materials. These players in accordance with their requirements generally decide the marketing policies and pricing structure of bottle grade chips. This has forced most of the small manufacturers of bottle grade chips to quit the market and concentrate on other grades of chips.

INKS & ADHESIVES

A) Segment Review & Analysis

Printing ink is a mixture of colouring matter dispersed or dissolved in a vessel to form a fluid or paste, which is used for printing on a substrate and then dried. Depending on the process and end use, inks are classified into letterpress, lithographic, flexographic, rotogravure and others. Although, most of the raw materials used in ink manufacture are available in India, a large percentage is imported due to huge demand.

The growth of the printing ink sector including that of rotogravure and flexographic inks has been very fast. Many new and innovative products are being introduced on a regular basis to meet the specific requirements of customers and other factors such as environmental concerns.

However, to meet the current as well as future requirements of the end users with regard to quality, technology and innovative products, the Indian Inks industry needs to update its research & development activities for increased qualitative and quantitative products by absorption of imported technology and its upgradation through in-house R&D. The requirements of the printing inks of the future are high gloss, instant setting, high speed, quick drying etc. Development work towards modification of resins, structural vehicles, water-based inks, enviro-friendly inks and introduction of innovative product range need to be undertaken vigorously. Quality of the end product in line with international standard also needs special attention.

Further, though ink industry has been on a trajectory growth but the Indian ink industry is reeling under the adverse impact of substantial investment to boost the research & development activity as well as high raw material costs. These factors have significant impact on the margins and profitability of the industry and your Company is no exception to it. Thus, though there has been improvement in the turnover but the profitability has not improved proportionately.

Printing ink industry has different products, but your Company has confined itself to the production and marketing of flexographic inks primarily used by flexible packaging industry. The demand for flexographic inks largely depends on the market scenario of



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flexible packaging industry. Of late there has been, tremendous improvements in the demand for flexible packaging materials due to change in customer preference and requirements for packed products. This has revolutionized the packaging industry as a whole and flexible packaging industry in particular.

The Company has produced indigenously the new generation cost effective polyether base solventless adhesive system for flexipack, new ink system for PVC profile and special coating for producing matt effect in laminates. These products are now well established in the market against competitions.

During the year under review, the Inks and adhesive business of the Company has been able to improve its performance as compared to the previous financial year. The sales volume at 8191 metric tones for the year ended March, 2006 was higher by approximately 36.58% as compared to 5997 metric tones of the previous financial year. The sales in terms of value for the year ended March, 2006 was Rs.11149.24 lacs as against Rs.7941.26 lacs of the previous year.

B) Opportunities & Threats

Demand and market for flexographic inks, one of the basic raw materials of flexible packaging products is highly dependent on the demand and market of flexible packaging industry. The flexible packaging industry is going through one of its most exciting phase and it is expected that the growth will continue in the future as well. With its portfolio of quality products and continuous developments/upgradation of technologies used, the Company expects to grow its domestic market share and shall explore export opportunities for its products.

With most of global players now operating in Indian market competition will remain tough and margins are likely to remain under pressure.

Further, frequent price variations of certain inputs may cause drop in margins.

Printing Ink contains certain toxic ingredients, which are to be eliminated to control pollution. The use of enviro-friendly inks reduces and controls pollution to a great extent. Concern and demand for enviro-friendly inks is on a rise in India and research efforts in India, on this aspect, have just been initiated.

FUTURE OUTLOOK

Both the major products of the Company that is industrial inks and polyester chips are being used by the flexible packaging industry as their basic raw materials.

In view of the peculiar market conditions of the industry, the Company has been very cautious and adopting selective approach in the development and promotion of its sales of these products in the outside market and accordingly largely concentrating to supply these products to Flex Industries Limited an Associate Company. However, the Company in future expects the growth in sales of these products in the outside market.

Though the Company has state-of-art manufacturing facilities to produce film grade chips and other grade chips, it could not successfully adopt itself to the current market situations and the finished products being sold in the domestic market as well as international market also are not fetching any good returns to the Company as the market and price have become quite competitive.

In order to overcome the problem faced by the Company and optimization of production resources utilization resulting into achievement of better cost effectiveness and future growth of the Company, the Board of Directors of Flex Industries Limited and the Company have approved the Company's proposal to merge with Flex Industries Limited, subject to such approvals as may be necessary at their meeting held on May 20, 2006.

INTERNAL CONTROL & SYSTEMS

The Company has an adequate system of internal control implemented by the Management towards achieving efficiency in operations, optimum utilization of resources and effective monitoring thereof and compliance with applicable laws.

The system comprises a well-defined organization structure, pre identified authority levels and documented policy guidelines and manual for delegation of authority.

The Internal Auditors undertake extensive programmes of both pre and post audit checks and reviews and also carries out regular follow-up on observations made by the Auditors.

The Audit Committee of your Board meets at regular intervals to review the adequacy and effectiveness of the internal control systems and policies and to review the reports and recommendations of the Internal Auditors.

FINANCIAL PERFORMANCE & ANALYSIS

(Rs. in lacs)

Particulars	2005-2006	2004-2005
Sales & Job Work (Net)	40708.64	46761.94
Other Income	756.61	240.54
Profit/(Loss) before interest, depreciation & taxation (PBITD)	2736.94	3157.90
Interest & Financial Charges	1391.03	1378.10
Depreciation	1065.74	1027.02
Profit/(Loss) before tax	280.17	752.78
Provision for Taxation	36.96	358.61
Profit/(Loss) after tax	274.43	394.17

HUMAN RESOURCES DEVELOPMENT

The Company's human resources philosophy is to establish and build a strong performance and competency driven culture with greater sense of accountability and responsibility. The Company continues to place emphasis on measures to improve employee skills and productivity and towards this end has taken pragmatic steps through involvement and development of employees as well as installing effective systems for improving the productivity, quality and accountability at all functional levels.

The industrial relations scenario remained harmonious throughout the year. As on 31.03.2006 the Company has 281 numbers of permanent employees.

CAUTIONARY STATEMENT

Statements in this report on Management Discussion & Analysis describing the Company's objectives, projections, expectations or predictions may be a forward looking statement within the meaning of applicable security laws or regulations. These statements are based on certain assumptions and expectation of future events. Actual results could however differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global as well as domestic demand-supply conditions, raw material cost & availability, changes in Government regulations and tax structure, economic development within India and worldwide and other relevant factors.