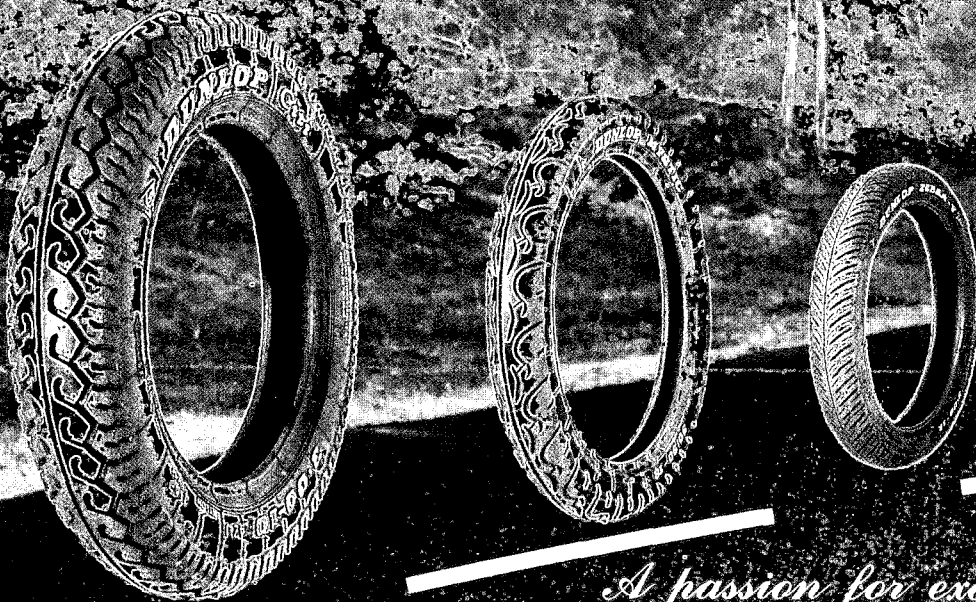


31st Annual Report 2006-07



FALCON TYRES LTD



A passion for excellence

Annual Report 2006 - 2007

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FALCON TYRES LIMITED

BOARD OF DIRECTORS

Mr. Pawan Kumar Ruia, Chairman
Mr. A. Sadasivam, Managing Director
Mr. Tarun Gandhi
Mr. Ambuj Kumar Jain
Mr. S. Badrinathan

COMPANY SECRETARY

Mr. S. Badrinarayanan

REGISTERED OFFICE

Gold Towers,
50, Residency Road
Bangalore - 560 025

FACTORY

Metagalli, K R S Road
Mysore - 570 016

BANKERS

1. Syndicate Bank
2. Punjab National Bank
3. State Bank of India

AUDITORS

M/s. Lodha & Co.,
14, Government Place (East)
Calcutta - 700 001

A Member desirous of getting any information on the Accounts of the Company, is requested to forward his/her queries to the Company Secretary at least ten days prior to the Meeting for enabling the Management to keep the information ready

*Annual Report 2006 - 2007***FIVE YEAR SUMMARY**

(Rs. in lakhs)

| PARTICULARS | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 |
|--|-----------|-----------|-----------|-----------|-----------|
| SHARE CAPITAL | 568.09 | 568.09 | 568.09 | 568.09 | 568.09 |
| RESERVES & SURPLUS | 1960.55 | 2025.91 | 2054.05 | 2254.67 | 2451.59 |
| NET WORTH (Including Revaluation Reserve) | 2798.64 | 2854.31 | 2872.56 | 3063.50 | 11931.73 |
| TOTAL CAPITAL EMPLOYED | 3625.06 | 3799.61 | 5273.91 | 5658.57 | 26509.78 |
| GROSS FIXED ASSETS * | 4896.71 | 5090.90 | 5211.42 | 5404.74 | 7157.57 |
| NET FIXED ASSETS * | 2620.84 | 2501.84 | 2477.13 | 2413.83 | 3880.19 |
| TURNOVER | 18246.99 | 18042.45 | 21985.81 | 25563.42 | 32178.63 |
| OTHER INCOME | 103.13 | 168.61 | 163.46 | 227.02 | 350.85 |
| PRODUCTION (NOS): | | | | | |
| TYRES | 4722334 | 4309110 | 5112104 | 5421409 | 6248879 |
| TUBES (includes Job work) | 3869838 | 4261847 | 6090750 | 6829701 | 8116982 |
| PROFIT BEFORE INTEREST & DEPRECIATION | 1429.30 | 614.31 | 540.11 | 958.67 | 1251.46 |
| PROFIT BEFORE TAX | 1086.78 | 258.40 | 156.42 | 512.42 | 591.21 |
| PROFIT AFTER TAX | 519.72 | 161.49 | 92.37 | 362.56 | 396.31 |
| EARNINGS PER SHARE (Rs.) | 8.71 | 2.84 | 1.63 | 6.38 | 6.98 |
| DIVIDEND AMOUNT | 96.58 | 85.21 | 56.81 | 142.02 | 170.43 |
| RATE OF DIVIDEND | 17% | 15% | 10% | 25% | 30% |

* Fixed Assets exclusive of Revaluation Addition (Gross & Net)



NOTICE TO MEMBERS

Notice is hereby given that the 31st Annual General Meeting of the Company will be held at Woodlands Hotel Pvt. Ltd., No: 5 Rajaram Mohan Roy Road, Bangalore 560 025 on Friday, the 28th September 2007, at 11.30 a.m. to transact the following business:

ORDINARY BUSINESS:

- 1) To receive, consider and adopt the audited Balance Sheet of the Company as at 31st March 2007 and the Profit and Loss Account for the period ended on the said date, along with the Report of Directors and Auditors thereon.
- 2) To declare Dividend.
- 3) To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration. M/s. Lodha & Co., Chartered Accountants, Kolkata, retire and are eligible for re-appointment.

SPECIAL BUSINESS:

TO BE PASSED AS SPECIAL RESOLUTIONS

- 4) To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to provisions of Sec. 198, 269, 309 and 310 read with Sec. B of Part II of Sch. XIII as amended and other applicable provisions of the Companies Act, 1956, subject to the approval of the Central Government and other applicable provisions of the Articles of Association of the Company, Mr. Pawan Kumar Ruia be and is hereby appointed as Executive Chairman for a period of 3 years effective from 1st April 2007" on the terms and conditions as stated in the explanatory statement annexed to this Notice".

Resolved Further that Mr. Pawan Kumar Ruia, in his capacity as the Executive Chairman, be paid remuneration as may be fixed by the Board, from time to time, within the limits approved by the members.

- 5) To consider and, if thought fit, to pass with or without modification, the following resolution as a Special Resolution:-

"RESOLVED THAT pursuant to provisions of Sec. 198, 269, 309 and 310 read with Sec. B of Part II of Sch. XIII as amended and other applicable provisions of the Companies Act, 1956 and pursuant to any other statutory regulations, subject to the approval of the Central Government, Shareholders approval be and is hereby accorded to increase / enhancement of the payment of Remuneration to Mr. A. Sadasivam, Managing Director of the Company w.e.f. 1st April 2007, on the terms and conditions as set out in the explanatory statement annexed to the notice and form part of this notice.

Resolved Further that Mr. A. Sadasivam, in his capacity as the Managing Director, be paid remuneration as may be fixed by the Board, from time to time, within the limits approved by the members.

By order of the Board

Kolkata
27th June 2007

S. Badrinarayanan
Vice President Finance
& Company Secretary

NOTES:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint a proxy to attend and vote and poll instead of himself and such proxy need not be a Member of the Company. Proxies, in order to be effective, must be received by the Company at the Registered Office not less than 48 hours before the Meeting.
2. The Register of Members and the Share Transfer Register will remain closed from 18.09.2007 to 28.09.2007 (both days inclusive).

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3. Members / Proxies are requested to bring their copies of the Attendance Slip duly completed along with Annual Report and the Admission slip to the Meeting. Annual Reports will not be distributed at the Meeting.
4. Members are requested to furnish bank details, change of address, if any to the Company's Registrars and share transfer Agents Alpha Systems Pvt. Ltd., Bangalore, so as to reach them latest by 10th September 2007, in order to take note of the same. In respect of members holding shares in electronic mode, the details as would be furnished by the depositories as at the close of the aforesaid date will be considered by the Company / Company's Registrars and share transfer Agents.
5. The information required to be provided under the Listing agreement entered into with various Stock Exchanges regarding Directors who are proposed to be appointed / reappointed and the relative Explanatory statement pursuant to section 173(2) of the Companies Act, 1956, in respect of the business items under 4 and 5, setout above are annexed hereto.
6. All documents referred to in the accompanying notice and the Explanatory statement are open for inspection at the Registered office of the Company on all working days, except Saturdays, between 11.00 a.m and 1.00 p.m, upto the date of the Annual General meeting.
7. Pursuant to Section 205A(5) of the companies Act, 1956, the unpaid dividends that are due for transfer to the Investor Education and Protection Fund are as follows and members who have not encashed their dividend warrants pertaining to the aforesaid years should approach the Company/ Company's Registrars and share transfer Agents for obtaining payments thereof:

| Dividend For the year ended | Date of declaration | Due for transfer on |
|-----------------------------|---------------------|---------------------|
| 31.03.2000 | 22.09.2000 | 04.11.2007 |

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ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SEC 173 (2) OF THE COMPANIES ACT, 1956

ITEM NO. 4

APPOINTMENT OF Mr. PAWAN KUMAR RUIA AS EXECUTIVE CHAIRMAN (WHOLE TIME DIRECTOR)

As members are aware, Mr. Pawan Kumar Ruia was appointed as Additional Director of the company at the Board meeting held on 31st January 2006, and was elected as director at the General Meeting held on 31st July 2006. Mr. Pawan Kumar Ruia, is the Chairman of the Board of Directors of the Company, effective from 31st January 2006.

At the Board Meeting held on 27th June 2007, the Board of Directors have appointed Mr. Pawan Kumar Ruia as Executive Chairman (Whole time Director) of the Company for a period of three years with effect from 1st April 2007, on the terms and conditions as set out in the agreement entered into between the Company and Mr. Pawan Kumar Ruia, subject to approval of the members in the annual general meeting.

Mr. Pawan Kumar Ruia, is a Bachelor of Commerce, Associate member of The Institute of Costs and Works Accountants of India & a Fellow member of the Institute of Chartered Accountants of India. He is a Graduate of Law. Further he has secured AASM and MIIA (USA) with more than 22 years of experience in running business and industries. Mr. Pawan Kumar Ruia has the necessary professional knowledge and expertise in his area of activity. Considering the responsibilities of the said appointee and the level of emoluments in the Tyre Industry, the Board of Directors have approved the remuneration package payable to the said Executive Chairman, which was recommended by the Remuneration Committee in its meeting held on 26th June 2007, and the other terms and conditions of the appointment of Mr. Pawan Kumar Ruia as Executive Chairman of the Company which are briefly set out as under:-

1. Salary and Allowances:

- Basic Salary of Rs. 10,00,000/- (Rupees Ten Lakhs only) per month.
- House Rent Allowance of Rs. 3,00,000/- (Rupees Three Lakhs only) per month.
- Ex-gratia equivalent to one month's salary.
- Leave Travel Allowance equivalent to one month's salary.

2. Perquisites:

In addition to the salary, Mr. Pawan Kumar Ruia shall also be entitled for monthly reimbursement of expenses at actuals subject to maximum limits specified below:

- | | |
|---|--------------|
| a) Car Maintenance and Driver | Rs. 50,000/- |
| b) Mobile/Telephone expenses | Rs. 40,000/- |
| c) Business Entertainment Expenses | Rs. 30,000/- |
| d) Executive Assistant's Salary and Expenditure | Rs. 30,000/- |

3. Leave

He shall be entitled to 28 days paid leave in a year.

4. Retirement Benefits

a) Provident Fund / Superannuation Fund

He shall be a member of the Company's Provident Fund and Superannuation Fund as per the Company's policy. The Company shall contribute to the funds as per the policy.

b) Gratuity

He shall be entitled to gratuity in accordance with the Company's staff Gratuity Fund rules, as applicable.

5. Mediclaim policy including Spouse and dependants as per rules of the Company.

Annual Report 2006 - 2007**6. Notice period**

His appointment may be determined by either party (i.e., either by the Company or the Executive Chairman), giving to the other three-month's notice in writing.

7. Powers

The Executive Chairman (Whole time Director) shall carry out such functions, exercise such powers and perform such duties as the Board of Directors of the Company (hereinafter called "The Board") shall from time to time determine and entrust to him. Subject to the superintendence, control and direction of the Board, the Executive Chairman (Whole time Director) shall have the general control and will be responsible for the manufacturing facilities of the Company with powers to enter into contracts on behalf of the Company in the ordinary course of business and to do and perform all other acts and things which in the ordinary course of such business he may consider necessary or proper in the best interests of the Company.

During his employment, the Executive Chairman shall devote his whole time and attention to the business of the Company and shall use his best endeavours to promote the Company's interest and welfare.

The appointment of Executive Chairman and payment of remuneration shall be subject to approval of Members at the ensuing General Meeting as well as subject to approval of Central Government pursuant to the provisions of Sec. 269 of the Companies Act, 1956. In the event of any modification of the terms in the remuneration as may be suggested by the Central Government and agreed to by the Company / the Executive Chairman, then the remuneration so modified shall become payable to the Executive Chairman in terms of the approval as may be granted by the Central Government.

In the event of loss or inadequacy of profits in any Financial year during the period of Mr. Pawan Kumar Ruia's appointment, he will be paid or provided the salary, the allowances and the perquisites as set out in the foregoing notwithstanding the fact that such remuneration is in excess of limits set out in Sec. 198 and Sec. 309 of the Companies Act, 1956 or in Sec. II of part II of Sch. XIII to Companies Act, 1956 and or in Sec. 198 and Sec. 309 of the Companies Act, 1956 and subject to the approval from Central Government, as may be applicable.

The Company will be submitting an application in this regard to the Central Government seeking its approval for the payment of remuneration as proposed by the Board of Directors. As regards, approval of shareholders, the entire resolution will be placed before the members at the General Meeting of the company.

None of the Directors of the Company, except Mr. Pawan Kumar Ruia, is interested in the said Contract.

Clause (B) of amended Sch. XIII of the Companies Act, 1956 provides that the remuneration of managerial personnel can be fixed based on the effective capital of the Company which in the present case falls between Rs. 50 crores and Rs. 100 crores and the monthly remuneration entitlement is Rs. 3,50,000/- per month inclusive of all perquisites, excluding contributions and retiral benefits. Further the limit prescribed under the said Clause shall apply if:

- i) payment of remuneration is approved by a resolution passed by the Remuneration Committee;
- ii) the company has not made any default in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of thirty days in the preceding financial year before the date of appointment of such managerial person.
- iii) a special resolution has been passed at the general meeting of the company for payment of remuneration for a period not exceeding three years
- iv) a statement along with a notice calling the general meeting referred to in clause (iii) is given to the shareholders containing information as mentioned in Sch. XIII.



Accordingly the company is furnishing the information as under:

The other disclosures as required are furnished as under:-

I. General Information:

Nature of industry : To manufacture, vulcanise, retread, re-pair, develop, improve, sell, export, import or otherwise deal in all tyres and tubes of every description for all types of vehicles.

Date or expected date of commencement of commercial production : Commencement of Production in 1975 and Profitable Running Company for the last 30 years.

In case of new companies, expected date of commencement of activities as per project approved by financial institutions appearing in the prospectus : Not Applicable

Financial performance based on given indicators : (Rs. In lakhs)

| Year | Turnover | PBT | PAT |
|---------|----------|--------|--------|
| 2005-06 | 25563.00 | 512.42 | 362.56 |
| 2006-07 | 32178.63 | 591.21 | 396.31 |

Export performance and net foreign exchange collaborations : Past trend is very encouraging. The management is also planning entry into new market of other international zones, though the competition is very severe.

Foreign investments or collaborators, if any : Technical Collaboration Agreement entered with Sumitomo Rubber Industries, Japan.

II. Information about the appointee:

Background details : Mr. Pawan Kumar Ruia is a Bachelor of Commerce, Associate Member of the Institute of Costs & Works Accountants of India, Fellow Member of The Institute of Chartered Accountants of India, Graduate of Law. Further he has secured AASM & MIIA (USA) with more than 22 years of experience in running business & industries. He has turned around many sick companies in the past, despite severe competition.

Recognition or awards : Recipient of many industrial & social service awards instituted by Industry Apex Bodies, Central & State Governments.

Job profile and his suitability : Expanding the market in the International Zone, Corporate Restructuring, developing human resources, merger and acquisition, arranging International funds for the company at competitive rate of interest. As Mr. Pawan Kumar Ruia was successfully handling the above functions for the past several years, the Board felt him suitable for appointment as Executive Chairman (Whole time Director) to strengthen the Company.

Remuneration proposed : Rs. 194 lakhs p.a., for the period of 3 years from April 2007, with annual increment as recommended by the Remuneration Committee and approved by the Board. The details of the remuneration are as under:

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Salary & Allowances - Rs. 176 Lakhs p.a.
 Others Perquisites - Rs. 18 Lakhs p.a.
 (Contributions to Provident Fund, Superannuation, Gratuity Fund and Medclaim premium excluded)

Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person (in case of expatriates the relevant details would be w.r.t. the country of his origin) : The proposed remuneration is in line with other competitive industries. The proposed remuneration is also in line with the competitive market trend and strength of the managerial person.

Pecuniary relationship directly or indirectly with the Company, or relationship with the managerial personnel, if any. : The Ultimate Holding Company, M/s. Wealth Sea Pte. Ltd. is controlled by Mr. Pawan Kumar Ruia.

III. Other information:

Reasons of loss or inadequate profits : Severe competition and excess supply over demand situation, resulting in marginal drop in estimated profitability for the financial year 2006-07. Also increase in basic raw material prices like Natural Rubber, Butyl etc., had huge impact on the cost of production.

Steps taken or proposed to be taken for improvement : The Company is making all out efforts to reduce the material cost by importing materials from various countries and also to increase the sales realisation prices. Efforts are being taken to increase its share of business in all segments like OE, Replacement and Export. Various cost control measures are also being introduced to reduce the cost of production.

Increase in productivity and profits in measurable terms : The installed production capacity will be achieved at the year end and the benefit will start accruing from financial year 2008-09.

The remuneration proposed above has also been approved by the remuneration committee as prescribed. The company therefore proposed to pay the remuneration amounting to Rs. 194 lakhs per annum to Mr. Pawan Kumar Ruia for the period i.e. from 01.04.2007 to 31.03.2010 as stated above subject to the approval of the Central Government and shareholders approval as required by the applicable provisions of the Companies Act 1956 by way of a special resolution.

Hence this resolution is placed before the members for their approval.

None of the Directors except Mr. Pawan Kumar Ruia is deemed to be directly or indirectly concerned or interested in the special resolution.

The Board recommends approval of the appointment of Mr. Pawan Kumar Ruia, as the Executive Chairman [Whole time Director] of the Company and the payment of remuneration as mentioned herein above. The agreement between the Company and Mr. Pawan Kumar Ruia will be open for inspection by the members as explained above.

Mr. Pawan Kumar Ruia, being the appointee, is interested in the proposed resolution.