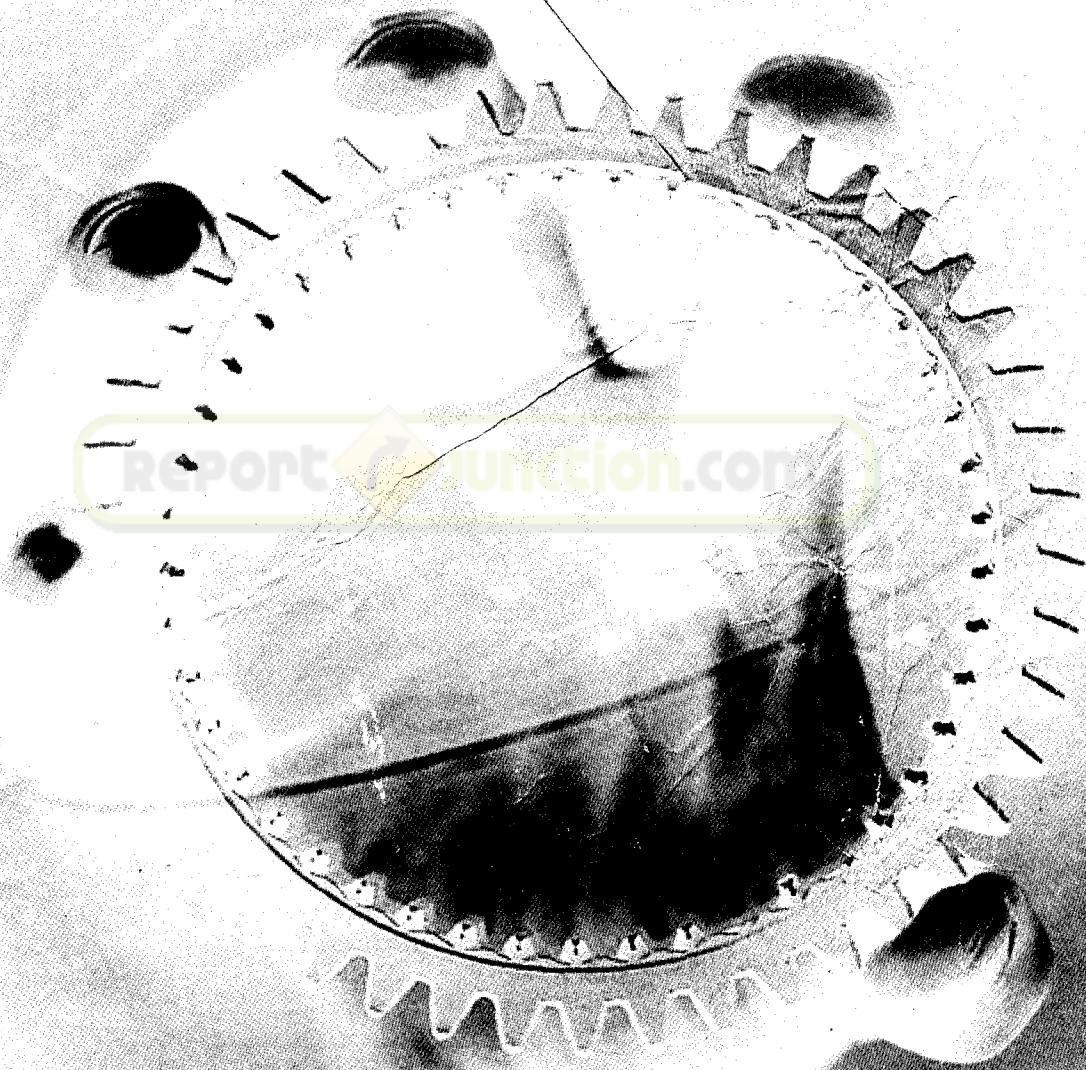


# 21st ANNUAL REPORT 2005 - 2006



**FLEX ENGINEERING LIMITED**



# **FLEX ENGINEERING LIMITED**

## **TWENTY FIRST ANNUAL REPORT**

**2005-2006**

### **BOARD OF DIRECTORS**

ASHOK CHATURVEDI  
*Chairman*  
GYANENDRA NATH GUPTA  
PREMJIT SINGH  
SANDEEP GUPTA  
*Nominee - IFCI*  
R.P. AGRAWAL  
R.K. SHARMA  
AJAY TANDON  
R.K. JAIN  
PRADEEP TYLE

### **REGISTERED OFFICE**

110, First Floor, Bhanot Corner,  
Pamposh Enclave, Greater Kailash Part - I,  
New Delhi-110 048  
Phone Nos. : 26440917, 26440925  
Fax No. : 26216922  
e-mail : flexsec@vsnl.net

### **CORPORATE OFFICE**

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

### **CHIEF EXECUTIVE & MANAGER**

VIPIN MITAL

### **OFFICES**

A-2, Sector-60,  
NOIDA - 201 301 (U.P.)

### **COMPANY SECRETARY**

PRABHAT NANDA

### **AUDITORS**

VIJAY SEHGAL & CO.  
Delhi  
Statutory Auditors

JAIN SINGHAL & ASSOCIATES  
New Delhi  
Internal Auditors

### **BANKERS**

STATE BANK OF TRAVANCORE  
BANK OF BARODA  
CORPORATION BANK

118, 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,  
Koramangla,  
Bangalore-560 095.

### **WORKS**

A-2, Sector-60  
NOIDA-201 301 (U.P.)

**FLEX ENGINEERING LIMITED****NOTICE**

Notice is hereby given that the 21<sup>st</sup> Annual General Meeting of the Members of Flex Engineering Limited will be held at 10.00 A.M. on Wednesday, the 13<sup>th</sup> September, 2006 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 March 31, 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. G.N.Gupta, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Ajay Tandon, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Pradeep Tyle, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory Auditors of the Company to hold office from the conclusion of ensuing Annual General 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**

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

“RESOLVED THAT in accordance with the provisions of Section 198, 269, 309, 316, 386, 387 and subject to Schedule XIII and other applicable provisions of the Companies Act, 1956, if any (including any statutory modification or re-enactment thereof) and subject to all such sanctions, approvals as may be necessary, the consent of the Members be and is hereby accorded to the re-appointment of Mr. Vipin Mital, Chief Executive as ‘Manager’ under the Companies Act, 1956 for a further period of three years effective from October 1, 2006 on the terms and conditions including remuneration as set out in the Explanatory Statement annexed to the Notice which shall be deemed to form part hereof.

RESOLVED FURTHER THAT the Board of Directors (hereinafter referred to as “Board” which term shall be deemed to include any Committee of the Board constituted to exercise its power including powers conferred by this resolution) be and is hereby authorized to vary, alter or revise the terms and conditions of the appointment including remuneration of the said Manager within the permissible limits under the Companies Act, 1956 from time to time or any statutory modification thereof and to settle any question or difficulties in connection therewith or incidental thereto.

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this Resolution.”

By Order of the Board

Place : NOIDA  
Dated : 27th July, 2006

**PRABHAT NANDA**  
Company Secretary

**Regd. Office :**  
110, First Floor  
Bhanot Corner, Pamposh Enclave  
Greater Kailash - I  
New Delhi – 110048

**NOTES:**

1. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special business to be transacted at the meeting 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 representatives are requested to send a duly certified copy of the Board Resolution authorizing their representative(s) to attend and vote at the Annual General Meeting.
4. The Register of Members and Share Transfer Books of the Company will remain closed from 06.09.2006 to 13.09.2006 (both days inclusive).
5. Members holding shares in physical form are requested to notify change in address, if any, to the Company's Registrar and Share Transfer Agent (RTA), Beetal Financial & Computer Services Pvt. Ltd., Beetal House, 3<sup>rd</sup> 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 case of joint holders, if more than one member intends to attend the meeting, they must obtain additional admission slips on request from the Registered Office of the Company. In such circumstances, only such joint holder who is higher in the order of names will be entitled to vote.
7. Members who are holding shares in identical orders of name 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 at least one week before the date of the meeting.
9. Members/proxies should bring the Attendance Slips duly filled for attending the Annual General Meeting along with their copy of the Annual Report. No extra Attendance Slip and/or Annual Report will be provided at the venue of the Annual General Meeting.
10. Members/Proxies 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. 26<sup>th</sup> February, 2001. The Company has already joined the Depository system and the ISIN for the shares of the Company is INE 929B01010. Members who desire to have their holding of shares dematerialized are requested to approach the Company through a Depository Participant.
12. The Company has paid Annual Listing Fees for the year 2006-07 to the following Stock Exchanges viz. Bombay Stock Exchange Limited, Mumbai and National Stock Exchange of India Limited, Mumbai.



## FLEX ENGINEERING LIMITED

13. Consequent upon the introduction of Section 109A of the Companies Act, 1956 Shareholders are entitled to make nomination in respect of shares held 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 Registrar and Transfer Agent, Beetal Financial & Computer Services Pvt. Ltd.
14. Consequent upon amendment to Section 205A of the Companies Act, 1956 and introduction of Section 205C by the Companies (Amendment) Act, 1999, the dividends for the financial year ended 30<sup>th</sup> June, 1995 and 30<sup>th</sup> June, 1996 which remain unclaimed/unpaid for a period of seven years have been transferred to the Investor Education and Protection Fund established by the Central Government pursuant to Section 205C of the Companies Act, 1956 on 25.2.2003 and 19.02.2004 respectively.
15. All material documents, resolutions passed by the Board of Directors and Remuneration Committee relating to re-appointment and payment of remuneration to Mr. Vipin Mital and Articles of Association of the Company etc. are open for inspection to the Members till conclusion of the Annual General Meeting at the Registered Office of the Company.

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

#### ITEM NO. 6

Mr. Vipin Mital, Chief Executive of the Company was re-appointed as the 'Manager' of the Company in terms of the provisions of the Companies Act, 1956 w.e.f. 01.10.2003 for a period of three years on the terms and conditions as to remuneration etc. as approved by the Board of Directors and by the Members at the 18<sup>th</sup> Annual General Meeting held on 11.09.2003. His tenure in the office of 'Manager' is due to expire on 30.09.2006.

Considering his experience and involvement in the affairs of the Company the Remuneration Committee and the Board of Directors at their meeting held on 27<sup>th</sup> July, 2006 thought it fit and approved the proposal of the Company subject to the approval of the Members of the Company to re-appoint Mr. Vipin Mital as the 'Manager' of the Company w.e.f. 01.10.2006 for a further period of three years on the revised terms and conditions as to remuneration etc. as detailed hereunder:

The remuneration of Mr. Vipin Mital by way of salary, bonus, perquisites and/or other allowances/benefits shall not exceed Rs.3.50 lacs per month subject to a maximum of 5% of the net profit of the Company.

However, his total remuneration including remuneration from any other Company, if any, shall not exceed the higher maximum limit admissible under the Companies Act, 1956 and Schedule XIII, for all the Managerial Personnel as reduced by the remuneration paid to other Managerial Personnel of the respective companies, without the approval of the Central Government.

For the purpose of calculating the above ceiling, the perquisites shall be evaluated as per the Income Tax Rules, wherever applicable.

The following perquisites shall not be included for calculating the above limits of the remuneration:

- (a) Contribution to Provident Fund, Superannuation Fund or Annuity Fund made by the Company to the extent these are singly or put together are not taxable under the Income Tax Act.

(b) Payment of Gratuity as per the policy of the Company.

(c) Encashment of leave at the end of the tenure.

Provision of car for use on the Company's business and telephone at residence and mobile phone would not be considered as perquisites. Personal long distance calls on telephone/mobile phone and use of car for private purpose would be billed to the Manager.

The aforesaid appointment shall be subject to determination by either party by not less than three months notice in writing given at any time to the other party.

Subject to the above terms and conditions, the Chairman and/or the Committee of Directors shall determine the exact quantum of remuneration and nature of perquisites and other allowances and vary/alter the same from time to time subject to the aforesaid limits.

Mr. Vipin Mital subject to the supervision, control and directions of the Board shall have the management of substantially the whole of the affairs of the Company and shall exercise such other powers as are delegated by the Board/Committee of Directors to him from time to time.

The brief profile of the Company as well as Mr. Vipin Mital as required under the revised Schedule- XIII are given hereunder:

The Company is engaged, *inter-alia*, in the development and manufacture of Automatic High Speed Electrically controlled Form Filling and Sealing machines, Printing, Laminating and Slitting machines and a wide range of other packaging machines and other related engineering activities.

The Company incorporated in 1984 has an excellent growth record since its inception barring the last couple of years. Its turnover jumped from Rs 377.22 lacs in 1990 to Rs1594.16 lacs in 1993 and to Rs 11805.87 lacs in 1996. The net profit increased from Rs.104.22 lacs in 1990 to Rs.505.44 lacs in 1993 and to Rs 2358.12 lacs in 1996. However during the last couple of years due to depressed economy and subdued market condition more particularly in the capital goods industry the Company could not sustain its earlier growth and its performance was severely impacted. However, due to sustained efforts by the Management to improve the productivity and sales volume by initiating various corrective measures and successful execution of various orders received from Iraq, the Company was able to achieve a turnover of Rs.16186.65 lacs and net profit of Rs.1586.41 lacs during the year ended March, 2004.

The Company during the financial year 2005-06 achieved a turnover of Rs.4184.55 lacs including other income of Rs.245.76 lacs as compared to Rs.5476.65 lacs including other income of Rs.325.41 lacs of the previous financial year ended 31.3.2005. The Net Profit for the year ended March, 2006 was Rs. 183.68 lacs as against Net Profit of Rs.617.19 lacs of the previous financial year ended March, 2005.

The Company not only supplies its products in the domestic market, but also has its presence in the international market, thereby earns valuable foreign exchange.

The Company has already liquidated its investments in the equity participation of Kazpack Limited, a joint venture company at Kazakhstan and at present does not have any overseas joint venture or wholly owned subsidiary.

Mr. Vipin Mital is also the Manager under the Companies Act, 1956 of Flex Securities Limited, the wholly-owned subsidiary of



**FLEX ENGINEERING LIMITED**

Flex Engineering Limited and is not drawing any salary from the said company.

Mr. Vipin Mital is a graduate in Chemical Engineering from the Indian Institute of Technology, New Delhi and has also done his Post Graduation in Business Management from the Indian Institute of Management, Ahmedabad. He got varied experience of more than 33 years with leading companies, specifically in the area of Management Consultancy, Project Planning & Execution, General Management and Exports. He has been associated with Flex Group of Companies since 1990 in various senior positions. Currently, he is the Chief Executive of Flex Engineering Limited. With his back-ground and experience, his re-appointment as 'Manager' under the Companies Act, 1956 will be beneficial and in the interest of the Company.

The Board of Directors recommends his re-appointment as 'Manager' under the Companies Act, 1956 for the approval of the Members.

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

By Order of the Board

**PRABHAT NANDA**  
Company Secretary

Place : NOIDA

Dated : 27th 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	Mr. G. N. Gupta	Mr. Ajay Tandon	Mr. Pradeep Tyle
Date of Birth	23.07.1931	17.10.1953	03.10.1961
Date of Appointment	27.12.1993	29.07.2003	26.12.1995
Experience in specific Functional areas	Mr. G.N.Gupta is a retired Indian Revenue Services Officer. He has vast and varied experience and has held several important positions in the Income Tax Department during his illustrious carrier with the Central Government and retired as Chairman of Central Board of Direct Tax in 1989. Currently, he is acting as a Consultant on income tax matters.	Mr. Ajay Tandon is a mechanical engineer and has more than 30 years of rich & rewarding experience in the field of production and marketing. He has held several prestigious assignments in companies of repute such as Philips India Limited and Onida. He is associated with the Flex Group of companies for the last 10 years.	Mr. Pradeep Tyle is a chemical engineer having rich experience in the field of packaging and polymer business. Associated with the Flex Group of companies almost since inception and as such quite familiar with the affairs of the Group.
Qualification	M.Sc (Math), L.L.M.	B.E. (Mechanical)	B.E. (Hons) (Chem.), PGDBM
Directorship in other Public Limited companies	- Flex Foods Limited - Manoj Housing Finance Company Limited - Yash Papers Limited - Alpha Drug India Limited - Asian Fertilisers Limited	- Ultimate Flexipack Limited - Abilities India Pistons & Rings Limited - First Middle East FZCO	- FCL Technologies & Products Limited - Flex America Inc. - Flex Middle East FZE
Member/Chairman of Committee of the Board Of the public limited companies on which he is Director	<b>Audit Committee</b> - Flex Engineering Limited (Chairman) - Yash Papers Limited (Chairman) - Alpha Drug India Limited (Chairman) - Flex Foods Limited  <b>Shareholders/Investors Grievance Committee</b> Nil	<b>Audit Committee</b> Nil  <b>Shareholders/Investors Grievance Committee</b> Nil	<b>Audit Committee</b> - FCL Technologies & Products Limited  <b>Shareholders/Investors Grievance Committee</b> - Flex Engineering 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 Directors	No. of Shares	Other Convertible Instruments
1	Mr. Ashok Chaturvedi	127710	Nil
2	Mr. G.N. Gupta	Nil	Nil
3	Mr. Premjit Singh	Nil	Nil
4	Mr. Sandeep Gupta (Nominee IFCI)	Nil	Nil
5	Mr. R.P. Agrawal	Nil	Nil
6	Mr. R.K. Sharma	Nil	Nil
7	Mr. Ajay Tandon	500	Nil
8	Mr. R.K. Jain	Nil	Nil
9	Mr. Pradeep Tyle	2850	Nil



## FLEX ENGINEERING LIMITED

### DIRECTORS' REPORT

To the Members,

Your Directors have pleasure in presenting the Twenty First Annual Report together with the Audited Accounts of the Company for the financial year ended 31<sup>st</sup> March, 2006.

#### Financial Results

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

	(Rs. in lacs)	
	Year ended 31.03.2006	Year ended 31.03.2005
Sales, Job Work & Service Charges	3938.79	5151.24
Other Income	245.76	325.41
<b>Profit before Interest, Financial Charges, Depreciation &amp; Taxation</b>	<b>576.28</b>	<b>1096.73</b>
Less:		
i) Interest & Financial Charges	94.49	98.92
ii) Depreciation	213.24	206.03
<b>Profit before tax</b>	<b>268.55</b>	<b>791.78</b>
Less:		
i. Provision for income tax	139.43	171.44
ii. Provision for Fringe benefit tax	17.11	—
iii. Provision for wealth tax	1.69	1.92
iv. Provision for deferred tax charge	—	1.54
v. Short provision for income tax for earlier year	15.00	—
Add:		
- Provision for deferred tax assets	88.36	—
- Excess provision for Income Tax for earlier year	—	0.31
<b>Net Profit</b>	<b>183.68</b>	<b>617.19</b>

#### Review of Operations

During the year under review, the performance of the core activities of the Company i.e. manufacturing and supply of packaging, printing and allied machines came under severe pressure due to intense competition from the unorganized sector, hardening of prices in the export market and lack of demand for converting machines.

Innovation and introduction of machines having unique features and facilities have been an ongoing process in the Company. Though the Company develops and manufactures packaging machines of different design and utility according to the market demand and customers' requirements, but tough domestic market conditions have forced the Company to sell its superior quality products at low prices resulting in lower margins and reduced net value addition as well as lower turnover.

The activities of the Company with regard to acceptance and execution of contracting job in the oil & natural gas sector could not garner any significant orders from the overseas market mainly due to disturbing trend in the middle-east countries including Iraq.

With the situation in Iraq showing no sign of improvement, the Company as a strategy has shifted its focus to the domestic oil & natural gas sector and is working closely with some established and renowned organization. The efforts of the Company are positive and encouraging.

Absence of any significant contribution from its other activities including general contracting job, higher overheads had an adverse impact on the over all turnover and profitability of the Company.

During the year under review, the Company achieved a turnover of Rs.4184.55 lacs including other income of Rs.245.76 lacs as compared to Rs.5476.65 lacs including Rs.325.41 lacs of the previous financial year ended 31.3.2005. The Net Profit for the year ended March, 2006 was Rs. 183.68 lacs as against Net Profit of Rs.617.19 lacs of the previous financial year ended March, 2005.

The Board on a careful consideration of the over all situation is not in a position to recommend any dividend for the financial year under review.

The operational performance of the Company has been comprehensively covered in the Management Discussion and Analysis Report and the same is deemed to be a part of this 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 (post amalgamation of Flex Securities Limited with the Company) into Flex Industries Limited (FIL), FIL shall issue and allot to the shareholders of the Company, 2(two) equity shares 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 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.

The Hon'ble High Court of Delhi has convened the meetings of the Shareholders and Creditors on 10<sup>th</sup> August, 2006 for their approval.

#### Subsidiary Company

The Annual Accounts for the financial year ended March, 2006 along with reports of Auditors and Directors of Flex Securities Limited, the Wholly Owned Subsidiary of your Company are attached together with the statement under Section 212 of the Companies Act, 1956.



## **FLEX ENGINEERING LIMITED**

### **Consolidated Financial Statement**

In accordance with Accounting Standard 21 - Consolidated Financial Statements read with Accounting Standard 23 - on accounting for investments in Associates, your Directors have pleasure in attaching the Consolidated Financial Statement, which form part of this Annual Report & Accounts. The Consolidated Financial Statement has been prepared on the basis of financial statements received from the Subsidiary & Associate company, as approved by their respective Board of Directors.

### **Fixed Deposit**

During the year under review the Company has not accepted or renewed any fixed deposit. As at 31<sup>st</sup> March, 2006 your Company had outstanding fixed deposit of Rs.0.18 lacs having matured for repayment and the same has not been claimed by the concerned depositors despite necessary intimations. There has been no delay in making repayment of fixed deposits on maturity on fulfillment of the terms and conditions of your Company's scheme.

### **Directors**

With effect from April 4, 2006 Mr. Sandeep Gupta has been nominated by IFCI Limited on the Board of the Company in place of Mr. B.N. Nayak.

Your Directors while, welcoming Mr. Sandeep Gupta also take this opportunity to place on record their sincere appreciation for the valuable services rendered by Mr. B.N. Nayak during his tenure as Director on the Board.

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Mr.G.N. Gupta, Mr. Ajay Tandon and Mr. Pradeep Tyle, Directors of the Company retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Brief resume of the Directors seeking re-appointment at this Annual General Meeting, nature of their expertise in specific functional areas and the name of the public limited companies in which they hold the office of Director and the Chairmanship/Membership of the Committees of the Board and their 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 21<sup>st</sup> Annual General Meeting elsewhere in the Annual Report.

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.

### **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<sup>th</sup> October, 2004 and 29<sup>th</sup> March, 2005 has revised the existing Clause 49 and has mandated listed companies to comply with revised Clause 49 by 31<sup>st</sup> December, 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.

### **Directors' Responsibility Statement**

On the basis of the compliance certificates received from the executives of the Company, subject to the disclosure 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 31<sup>st</sup> March, 2006, the applicable accounting standards have been followed and that there have been no material departures.
2. That the Directors have selected such accounting policies and applied them consistently and made judgment 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 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, Statutory Auditors of the Company, retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment. Your Company has also received a certificate from M/s. Vijay Sehgal & Co., Chartered Accountants to the effect that the appointment, if made, would be within the limits as prescribed under Section 224(1B) of the Companies Act, 1956.

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

### **Particulars of Employees**

Particulars of employees as required u/s 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 is 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 for the devoted services of all employees of the Company.

### **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, Financial Institutions, Banks and Customers during the year under review. The Board also wishes to place on record their deep appreciation for the continued support of the Shareholders of the Company.

For and on behalf of the Board

Place : NOIDA  
Dated : 27th July, 2006

**ASHOK CHATURVEDI**  
Chairman

**FLEX ENGINEERING LIMITED****ANNEXURE 'A' TO DIRECTORS' REPORT**

Information as per Section 217(2A) (B)(1) read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report.

**A. EMPLOYED FOR THE FULL YEAR**

Sl. No.	Name	Age	Designation	Remuneration (Rs.)	Qualifications	Experience (Yrs.)	Date of Appointment	Last Employment (Position held)
01.	Mr. Vipin Mital	61	Chief Executive	2468000	B.Sc., B.Tech., M.B.A.	38	01.10.1996	Flex Industries Ltd. (Vice President)

1. Remuneration includes Salary, Bonus, contribution to Provident Fund and all other perquisites taxable or non-taxable.
2. Appointment is contractual in accordance with the terms & conditions of his appointment.
3. Information about qualification and last employment is based on particulars furnished by the said employee.
4. None of the Directors of the Company is related to Mr. Vipin Mital
5. Mr. Vipin Mital does not hold either by himself or along with his spouse and dependent children 2% or more equity shares of the Company.

**ANNEXURE 'B' TO 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****i) Energy Conservation Measures Taken**

The Company emphasizes optimization of energy consumption in every possible area in its unit. Various avenues are explored at periodic intervals and after careful analysis and planning, measures are initiated to minimize the consumption of energy through the optimal utilization of energy consuming equipments. During the year under review the following measures were initiated/adopted for conservation and optimum utilization of energy:

- a) Preventive maintenance for machines to reduce frictional losses and thereby improving efficiency.
- b) Creating awareness amongst stall workers/staff members to make maximum use of natural light and sensible use electrical appliances like fans, air conditioners etc.
- c) Reviewing on a periodic basis all the measures initiated/adopted for conservation of energy.
- d) Reducing wastage of water by using better methods of distribution and use.
- e) Frequent cleaning of all lighting equipment like bulbs, tubes etc. Use of more efficient lighting equipment.
- f) Reducing wastage/spillage of fuel like diesel.

**ii) Energy Conservation Measures Taken**

The adoption of energy conservation measures have resulted in considerable savings and increased level of awareness amongst the employees. Because of all the above measures, the Company has one of the lowest energy consumption costs in similar type of activity/industry.

**2 Technology Absorption**

The following efforts were made in technology absorption:

**Research & Development (R & D)****a) Specific areas in which R&D carried out by the Company**

It has been the endeavor of the Company to respond to the needs of its customers both in the domestic and international market, with concurrent commitment to improve quality and productivity. To meet these needs, your Company has successfully undertaken various projects and introduced / developed following new products:

- Multitrack machine with die punch for spared pouches in string
- 3 side Guesset Pack machine with Zip and slider.
- 1 metre wide web multitrack machine
- Mini band sealer
- Special filling system on PFS machine
- Two up registered side gusseted pack producing machine

**b) Benefits derived as a result of the above R&D**

Product improvements, process development, import substitution,

standardization of quality control, development of new market, adoption to meet export requirements, quality up gradation and cost reduction

**c) Future plan of action**

Steps are continuously being taken for innovation and renovation of products including new product development and enhancement of product quality/profile, to offer better products at relatively affordable prices/process to customers.

**d) Expenditure on R&D**

During the year under review, the Company spent Rs.12.52 lacs on research & development. This is equivalent to 0.30 % of the total turnover.

**Technology absorption, adaptation and innovation****a) Efforts, in brief, made towards technology absorption, adoption and innovation.**

The Company as a matter of policy exposes its technical staff to latest technological developments by encouraging them to participate in domestic as well as global technical seminars and expositions; this helps them to further improve their knowledge and skills, which in turn results in better quality products and increased productivity.

**b) Benefits derived as a result of the above efforts.**

Product innovation and renovation, improvement in yield, product quality, input substitution, cost effectiveness and energy conservation are the major benefits.

**c) Imported Technology**

The Company has not imported any technology during the last three years.

**3 Foreign Exchange Earnings and Outgo**

Initiatives taken to increase exports, developments of new export markets and service and export plans.

During the period under review, the company has earned the following foreign exchange:

(Rs. in lacs)

i)	Earnings in Foreign Exchange	
a	FOB Value of Exports	613.69
b	Service Charges received	9.70
	Total	<b>623.39</b>
ii)	Expenditure in Foreign Currency	
a	Raw Materials	171.02
b	Spares	4.36
c	Traveling Expenses	21.55
d	Bank Charges	1.19
e	Exhibition & Display	4.20
f	Warranty	0.12
g	Commission on Sales	30.03
	Total	<b>232.47</b>

For and on behalf of the Board

Place : NOIDA  
Dated : 27th July, 2006

**ASHOK CHATURVEDI**  
Chairman



## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Industry Structure & Developments

The Indian Capital Goods Industry has to play key role in achieving the Industrial growth rate. The development of a strong and vibrant engineering and capital goods sector in India has been at the core of industrial growth strategy. Today, India has a strong engineering and capital goods base and supplies the most sophisticated and state-of-the-art machinery and equipment to the various sectors of the economy. The industry registered a growth of around 15.7 % in April-December 2005 as compared to 13.8 % in the corresponding period of the previous year. Growth rate of GDP at 8.1% for the year 2005-06, pick up in infrastructure spending (highway development and construction and modernization of airports) and power sector reforms (with the government clearing the blueprint to add 100,000 MW of electricity generation capacity by 2012) are expected to result in healthy growth of the capital goods industry.

The profit margins in the industry are by and large, driven by access to technology and global markets, the ability to identify niche areas, efficient inventory and debt management, good after-sales services, ability to offer solutions rather than products and product innovation and range.

The capital goods industry that includes a host of industrial/electrical/electronic plants, machineries, spares, stores etc. depends on various inputs like base metals like steel, aluminium, copper, zinc, etc which in turn have some mineral base such as iron ore, bauxite, coal/lignite, limestone and bauxite. Till recently, these base metals and minerals did not have global perspective in terms of export/import. But the picture has changed dramatically in last three-four years with escalating globalization. Now, the base metals and minerals are increasingly globally traded, enjoying exponential growth in global demand and price realizations.

The Indian Capital Goods sector at present is concentrated in terms of output shares. In most product groups, there are a few companies at the top of the pyramid, generally large Public Sector Enterprises (PSEs), followed by a middle layer of companies comprising large private companies and Multi-National Companies (MNCs) operating in India and a large number of small units at the bottom. Although the last decade has seen the decline in PSE's market share, the dominance of PSEs is partly maintained through preferential policies like purchase preference. This results in sub-optimal market functioning, leading to less innovation and thereby low competitiveness.

### Business Review

The core activity of the Company primarily is manufacturing of packaging, printing and allied machines & structure and fabrication job. In addition to the above it undertakes other contracting and infrastructure job.

The Company was initially conceived and set up to supply machines to group companies, but over a period of time, with quality products and aggressive marketing strategy, the Company has been able to develop its own market outside the Group and currently over 40%

of its turnover comes from outside sales. Innovations and introductions of machines through its in-house R&D facilities, having unique features and facilities for packing products of different varieties to tap the outside market is an ongoing process in the Company. It enables the Company to manufacture both tailor made machines as well as machines of specific design to suit the need and requirements of various customers both in India and abroad in its state-of-the-art manufacturing facilities at NOIDA, Uttar Pradesh.

The Company has good expertise in the manufacturing of converting machines, however, the demand for such machines in the domestic market is not quite encouraging, as large converters prefer sophisticated European machines.

The shrinking margins in the packaging machines business and lack of demand for converting machines have restricted the growth of the Company and despite the best efforts of the Management it has not been able to post a decent annual growth.

Postponement of execution of certain confirmed orders from the customers, increased overhead costs has also an adverse impact on the overall working of the Company.

The Company's efforts to neutralize the adverse market condition of packaging and converting machines and improve the bottom line by garnering project services business in the oil & natural gas sectors also have not yielded any positive results so far. However, Company is confident to achieve positive results in future.

The Company ended the financial year 2005-06 with a turnover of Rs.4184.55 lacs including other income of Rs. 245.76 lacs as compared to Rs.5476.65 lacs including other income of Rs. 325.41 lacs of the previous financial year ended 31.3.2005. The Net Profit for the year ended 31<sup>st</sup> March, 2006 was Rs. 183.68 lacs as against Net Profit of Rs.617.19 lacs of the previous financial year ended 31<sup>st</sup> March, 2005.

### Opportunities and Threats

The demand and growth for capital goods industry is derived from investment, particularly in the infrastructure sector. International competitors are coming into India with cheap suppliers credit for financing of projects and equipment, which is not available to Indian companies. At the same time, Indian companies are facing competition in overseas projects because of attractive financing packages, which are available to international competitors

With better quality and scheduled delivery of machines at a competitive price, the Company has been successful in developing a permanent clientele for itself, who are sourcing all their requirements with regard to converting and packaging machines only from your Company.

The main selling point for this market in future would be, installation of high speed and energy efficient equipment. Due to the likely increase in competition in this industry, the pricing of the packaging machine, quality and efficiency of after sales service, which your Company is capable of, would determine the future performance of the Company.

The main challenge, which this industry is likely to face, is the growing globalization of manufacturing processes and the competition from low cost markets. Increased competition is likely to lead to downward pressure on profit margins.

The Company is also focusing on Oil & Gas projects in the domestic market and the potential markets in the Middle East and North



## FLEX ENGINEERING LIMITED

Africa. This segment has tremendous business opportunities, but disturbing scenario in the Middle East countries more particularly in Iraq has made it quite difficult for the Company to make further inroads in these areas. The Company is also closely working with overseas parties to garner business in the domestic oil & natural gas market, which predominately is controlled by the Government. Thus, the success of all the efforts depends heavily on the policies and outlook of the Government and Government controlled Public Sector Undertakings.

### Future Outlook

Though the Company has the infrastructure and competence to manufacture and supply quality and innovatively designed packaging machines to its customers in India and Abroad, yet it could not fully realize the advantage due to the adverse conditions in the market. Further, the market for packaging machines has become product specific and your Company has been seriously working on the development of new machines to expand its product profile to build on suit basis. The international market for packaging machines have the potential for the developing countries due to supply of high speed and high tech machines at competitive prices. China, over the years has also become a major player in the international packaging machines market due to aggressive pricing of products.

In order to achieve better synergies, the Board of Directors of your Company and Flex Industries Limited at their meetings held on May 20, 2006 have approved the Company's proposal to merge with Flex Industries Limited, subject to such approvals as may be necessary. The merger will result in pooling of resources and strength of all the companies and merged entity will emerge as a single entity providing end to end solutions in packaging industry.

### Internal Controls & Systems

The Company has adequate internal control through documented Policy & Procedures to be followed by the executives at various levels in the organization. While operating managers ensure compliance within their areas, Internal Auditors carry out extensive checking and testing and report on non-compliance/weakness, if any, through Internal Audit Reports of the respective areas. These reports alongwith reports on compliance made thereafter are reviewed by the Audit Committee of the Board.

The Audit Committee of the Board comprises of five non-executive Directors. The Committee regularly reviews and discuss with the Auditors and the Management regarding issues raised in the Audit Reports and all financial matters. It reinforces the impact of internal controls in the Company.

### Financial Performance & Analysis

Highlights		(Rs. in lacs)
Particulars	2005-2006	2004-2005
Sales, Job Work & Service Charges (Net)	3938.79	5151.24
Other Income	245.76	325.41
Profit before Interest, Depreciation & Taxation	576.28	1096.73
Interest & Financial Charges	94.49	98.92
Depreciation	213.24	206.03
Profit before tax	268.55	791.78
Profit after tax	198.68	616.88

### Human Resource Development/Industrial Relations

The Company's Human resources philosophy is to establish and build a strong performance and competence driven culture with a greater sense of accountability and responsibility. The Company has taken pragmatic steps for strengthening organizational competence through involvement and development of employees as well as installing effective systems for improving the productivity, quality and accountability at all levels through continuous training and upgradation of technical and management skills.

As on 31<sup>st</sup> March, 2006 the Company had a staff strength of 408 permanent employees. The industrial relations scenario remained peaceful and harmonious.

### Cautionary Statement

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" and progressive within the meaning of applicable Securities Laws and Regulations. Forward-looking statements are based on assumptions and expectations of future events. The Company cannot guarantee these assumptions and expectations are accurate or will be realized. The Company assumes no responsibility to publicly amend, modify or revise forward-looking statements on the basis of any subsequent developments, information or events. Actual results may differ materially from those expressed in the statements depending upon economic conditions, Government policies and other incidental factors.