

MD	✓		BKC	✓
CS	✓		DPY	NA
RO	✓		DIV	NA
TRA	NA	NA	AC	✓
AGM	✓	NA	SHI	✓
YE	✓			✓

Schlafhorst 

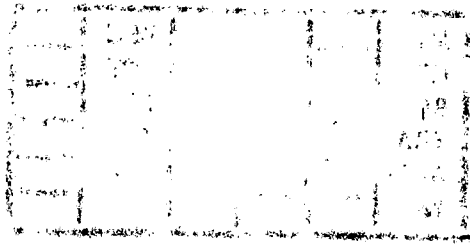
Engineering (India)

A Saurer Group Company



SCHLAFHORST ENGINEERING (INDIA) LIMITED

17TH REPORT & ACCOUNTS - 1ST JANUARY 1998 TO 31ST DECEMBER 1998



IMPORTANT NOTICE

Members/Shareholders/CCP holders are requested to lodge their Equity / CCP Share certificates for transfer with the Company at its Registered Office at Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat, Tel. No. (0265) 646 040, 646 332, Fax No. 646 471, as Mafatlal Consultancy Services (India) Limited, ceased to be the Company's Registrar & Share Transfer Agents.

BOARD OF DIRECTORS

Mr. J. Steiger	- Chairman
Mr. AK Bhagwati	
Mr. F. Hiltmann	
Mr. SC Bhatia	- (ICICI Nominee) Upto 23.10.1998
Mr. HF Kroll	- Jt. Managing Director
Mr. CBK Pillai	- Jt. Managing Director

COMPANY SECRETARY

Mr. CBK Pillai

BANKERS

State Bank of India
Dena Bank

AUDITORS

Price Waterhouse

REGISTERED OFFICE & VADODARA WORKS

Vishwamitri Road
Near Lalbaug
Vadodara - 390 001, Gujarat State
Telephone No. (0265) 646040
Fax No. (0265) 646471

SEB
17/5/99

HALOL WORKS

Chandrapura Village, Tal. Halol
Dist. Panchmahal, Gujarat State
Telephone No. (02676) 21870
Fax No. (02676) 20887

MUMBAI OFFICE

Jyoti Studios Compound, 1st Floor
KBA Irani Bridge (Kennedy Bridge)
Bombay - 400 007
Telephone No. (022) 3824134/3824079
Fax No. (022) 3822536

SCHLAFHORST ENGINEERING (INDIA) LIMITED

								Rs. in lacs			
Sr.		1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	01.04.95 to 31.12.95	01.01.96 to 31.12.96	01.01.97 to 31.12.97	01.01.98 to 31.12.98
NO.	PARTICULAR										
PROFIT AND LOSS ACCOUNT											
1.	Sales & other Income	6335.47	8074.00	7471.71	6603.57	5914.46	4845.88	4151.48	5482.41	3913.91	1425.84
2.	Materials	4124.87	5419.17	5115.61	4080.59	4402.33	3844.71	2319.24	3251.75	2451.79	431.58
3.	Personnel Expenses	312.26	390.00	442.71	476.54	491.73	481.69	455.96	479.83	459.76	361.71
4.	Excise Duty	159.20	277.44	309.10	283.56	331.28	298.12	236.72	315.55	263.36	75.96
5.	Other Expenses	1120.14	1320.34	1229.55	997.30	745.76	746.94	804.07	740.36	577.50	626.95
6.	Profit/(loss) before Depreciation Interest & Tax	634.44	707.19	675.01	810.76	105.74	(68.76)	(321.33)	345.48	126.10	(70.36)*
7.	Depreciation	65.55	79.01	98.30	127.50	165.07	176.14	152.93	179.24	173.25	146.05
8.	Interest	286.27	338.43	301.75	480.32	470.08	372.00	373.13	479.62	265.24	248.72
9.	Profit/(loss) before Tax	282.62	289.75	274.96	202.94	(529.41)	(616.90)	(848.39)	(313.38)	(312.39)	(465.13)
10.	Taxation	46.00	70.00	73.00	35.00	2.50	0.65	0.45	0.60	0.45	0.40
11.	Profit/(loss) after Tax	236.62	219.75	201.96	167.94	(531.91)	(617.50)	(848.84)	(313.98)	(312.84)	(465.53)
12.	Dividend	-	-	87.61	81.72	-	-	-	-	-	-
13.	Earning per Share (annualised)	4.50	3.76	3.46	2.45	(6.92)	(4.78)	(6.56)	(1.62)	(1.61)	(2.40)
BALANCE SHEET											
Sources of Fund											
14.	Capital	525.70	584.10	584.10	829.41	1293.01	1293.01	1293.01	1939.52	1939.52	1939.52
15.	Reserve & Surplus	187.94	407.69	522.04	976.24	444.33	(336.11)	(1184.95)	(1484.89)	(1797.73)	(2263.26)
16.	Net Worth (14+15)	713.64	991.79	1106.14	1805.65	1737.34	956.90	108.06	454.63	141.79	(323.74)
17.	Borrowings										
a.	Long Term	624.90	613.64	852.78	1424.34	1394.11	1331.14	1159.48	794.05	777.29	969.90
b.	Short Term	42.01	220.78	25.84	617.04	410.54	551.30	1804.60	1211.37	1354.56	1603.68
18.	Total (16+17)	1380.55	1826.21	1984.76	3847.03	3541.99	2839.34	3072.14	2460.05	2273.64	2249.84
Uses of Fund											
19.	Fixed Assets										
a.	Gross Fixed Assets	1092.45	1329.01	1722.18	2449.51	2552.97	2774.95	2768.70	2735.52	2581.35	2569.33
b.	Less : Depreciation	302.72	381.41	478.76	598.59	716.19	873.52	968.76	1136.76	1246.04	1386.64
c.	Net Fixed Assets	789.71	947.60	1243.42	1850.92	1836.78	1901.43	1799.94	1598.76	1335.31	1182.69
20.	Investments	17.85	17.85	17.84	17.76	82.16	135.45	137.04	132.79	87.04	71.04
21.	Net Working Capital										
a.	Inventories	1319.21	1852.82	1677.45	3021.93	1707.03	2680.02	2316.01	1606.04	849.75	696.99
b.	Debtors	695.18	322.98	415.74	950.57	521.39	318.02	226.40	420.85	359.47	189.89
c.	Other Current Assets	727.81	1026.64	3854.59	934.18	805.36	1040.98	770.35	663.39	714.89	626.93
	Total Current Assets	2742.20	3202.44	5947.78	4906.68	3033.78	4039.02	3312.76	2690.28	1924.11	1513.81
d.	Less : Current Liab- ilities and Provision	2169.21	2341.68	5224.28	2928.33	1410.73	3236.56	2177.60	1961.78	1183.19	620.82
e.	Net Working Capital	572.99	860.76	723.50	1978.35	1623.05	802.46	1135.16	728.50	740.92	892.99
22.	Miscellaneous Expenditure	-	-	-	-	-	-	-	-	110.37	103.12
23.	Total (19 to 22)	1380.55	1826.21	1984.76	3847.03	3541.99	2839.34	3072.14	2460.05	2273.64	2249.84
24.	Debt/Equity Ratio	0.88	0.62	0.77	0.79	0.80	1.39	10.72	1.75	5.48	1.64
25.	Book Value per Share	13.58	16.98	18.94	21.77	13.44	7.40	0.80	2.34	0.73	-1.67

* Includes foreign Exchange loss of Rs. 214 lacs.

NOTICE

Notice is hereby given that the SEVENTEENTH ANNUAL GENERAL MEETING of the members* of SCHLAFHORST ENGINEERING (INDIA) LIMITED will be held at the Registered Office of the Company, Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat, on Tuesday, the 29th June 1999 at 2.00 p.m. to transact the following business :

ORDINARY BUSINESS

1. To consider and adopt the audited Profit & Loss Account of the Company for the year ended 31st December 1998 and the Balance Sheet as at that date together with the reports of the Directors and Auditors.
2. To appoint a Director in place of Mr. HF Kroll, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr.CBK Pillai, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board of Directors
SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI
JT. MANAGING DIRECTOR

Registered Office :
Vishwamitri Road, Near Lalbaug
Vadodara - 390 001
Gujarat

Place : Mumbai

Date : 14th May, 1999

* 64,65,065 - 9% Cumulative Convertible Preference Shareholders are entitled to attend the meeting and Vote in person or by proxy.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
2. An instrument appointing a proxy should be deposited at the Registered Office of the Company not less than forty eight hours before the commencement of the meeting.
3. Members are requested to intimate the change of address, if any, immediately to Share Dept.,

Schlafhorst Engineering (India) Ltd., Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, quoting their Folio Number(s).

4. Shareholders seeking information on accounts published herein are kindly requested to furnish their queries to the Company atleast TEN days before the date of the meeting addressed to the Secretary, Schlafhorst Engineering (India) Ltd., Vishwamitri Road, Near Lalbaug, Vadodara - 390 001.
5. In view of the high cost of paper and printing, the practice of handing out copies of the Annual Report at the Annual General Meeting has been discontinued. Shareholders are therefore requested to bring their copies of the Report to the Meeting.
6. The Share Transfer Deeds will be accepted by the Company at its Registered Office. In case the Share Certificates duly transferred are not received by the Members within one month from the date of lodgement and for resolving any investors' grievances, please write to the Secretariate (Investors' Grievances) at the Registered Office of the Company, Vishwamitri Road, Near Lalbaug, Vadodara 390 001, Telephone No. (0265) 646040, Fax No. (0265) 646471.
7. The unclaimed dividends for the Financial Years 1991-92 and 1992-93 declared by the Company on 20th August, 1992 and 21st September, 1993 were transferred to the General Revenue Account of the Central Government on 13th November, 1995 and 23rd October, 1996 respectively and any claim by any Shareholder to the money so transferred shall be preferred to the Central Government. Application for this purpose can be made to the Registrar of Companies, Gujarat, Ankur Char Rasta, Near Ankur Bus Stop, Opp. Rupal Park, Naranpura, Ahmedabad - 380 061.
8. The Register of Members and the Share Transfer Books of the Company will remain close from Monday, the 28th June 1999 to Tuesday, the 29th June, 1999 (both days inclusive).

By Order of the Board of Directors
SCHLAFHORST ENGINEERING (INDIA) LTD.

CBK PILLAI
JT. MANAGING DIRECTOR

Registered Office :
Vishwamitri Road, Near Lalbaug
Vadodara - 390 001
Gujarat

Place : Mumbai

Date : 14th May, 1999

DIRECTORS' REPORT

To,

The Shareholders,
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Seventeenth Annual Report & Audited Statement of Accounts for the year ended on 31st December, 1998.

1. FINANCIAL RESULTS

	Current Year Rupees (‘000)	Previous Year Rupees (‘000)
Sales income	107,306	354,171
Other income (including prior year income)	40,152	45,089
Profit before gain/(loss) on account of Foreign Exchange rate variation, Depreciation, Interest & Tax	14,365	7,226
Exchange rate Gain/(Loss)	(21,401)	5,384
Profit/(Loss) before Depreciation Interest and Taxation	(7,036)	12,610
Depreciation	14,605	17,325
Interest	24,872	26,524
Loss before Tax	46,513	31,239
Provision for Wealth tax	40	45
Loss after tax	46,553	31,284
Brought forward balance of previous year losses	242,104	210,820
Cumulative losses	288,657	242,104

2. PERFORMANCE

The income from sales for the year ended 31st December, 1998 was Rs. 107.3 Mio. compared to Rs. 354.1 Mio. for the previous year. The Company sold 2 Autoconers Model 238 and 53 Draw Frames as against the sales of 27 Autoconers and 84 Draw Frames in the previous year. The sale of spares declined by 25% from Rs. 81.8 Mio. to 61.2 Mio.

The events in 1998 were unprecedented both for the textile & textile engineering industries unleashed

by various external factors which affected demand and fresh investment climate.

As could be seen from the financial results, despite reduction in sales by almost 70%, the profit margin improved on account of various cost reduction measures implemented in various operating areas. With continuous vigilance and control over various expenses, the Company has been able to achieve an appreciable reduction in the interest cost in working capital fund also despite cash losses. The loss of Rs. 46.5 Mio. in 1998 includes Rs. 21.4 Mio. on account of exchange rate variations on foreign currency loans availed by the Company as against the gains in the previous year of Rs.5.4 Mio.

The accumulated losses of your Company as at 31st December, 1998 is Rs. 288.66 Mio (previous year Rs.242.10 Mio) as against its net worth of Rs.251.78 Mio. Section 3(1)(o) of the Sick Industrial Companies (Special Provisions) Act, 1985 provides that where a Company has, at the end of any financial year, accumulated losses equal to or exceeding its entire networth, it is a Sick Industrial Company. As this provision applies to your Company, the Board of Directors is required to make a reference to the Board for Industrial & Financial Reconstruction (BIFR) within 60 days from the date of Annual General Meeting at which the audited accounts of the Company are adopted for determination of the measures which shall be adopted with respect to the Company.

The Board regrets that despite its best efforts, it could not save the Company from being a Sick Industrial Company as various adverse factors operated against your Company. The demand for non-Autoleveller Draw Frames continued to decline. The liberal licencing policies permitting import of second hand machineries resulted into under utilisation of capacities created with high interest bearing borrowed funds. Because of high cost of production including personnel, administrative and interest costs, Autoconer and Speed Frames could not be produced economically for sale at market dictated prices.

To overcome these set backs, several measures were taken. Your Company started doing job work to utilise capacities to the extent possible. As personnel and interest costs reductions are essential prerequisites for the survival of the Company, Voluntary Retirement Scheme (VRS) was offered to the employees of Vadodara Undertaking with idea of : (i) rehabilitating the employees, (ii)

closing down the Vadodara Undertaking after transferring the manufacturing facilities to Halol to consolidate all manufacturing activities under one roof and save all avoidable costs and (iii) selling the Vadodara properties to payoff all Institutional loans to save interest cost.

Despite repeated offers of VRS to the employees, only 108 employees opted for it. But, the target group of employees of Vadodara Undertaking, whose cessation of employment for the purpose of closing down the undertaking and selling it, did not avail the scheme. Therefore, an application for closure of Vadodara Undertaking was made to the Labour Commissioner in Aug 97 but it was rejected in December 97. A reference was made in January 98 to the Industrial Tribunal which was supposed to determine it in one month, is still pending there.

Thus, the efforts to restructure the Company's operations to save and develop it was frustrated by the lack of support from the labour and labour court. Had these supports been extended before the year end, it could have been possible to persuade the collaborators to subscribe to the Preference Shares and waive a part of their loan to keep the networth positive and to avoid the Company being a Sick Industrial Company. You are aware that the Company's collaborators have, in addition to the Equity capital and Convertible Preference Shares, so far lent to the Company DM 6.06 Mio (Rs.153 Mio.as shown in Schedule 4 to the accounts) of which Rs.39 Mio is overdue since 1994, and Rs.36 Mio is overdue since December 98. This is in addition to the waiver of technical know how fee and royalty aggregating to Rs.13.21 Mio.

3. DEVELOPMENT DURING THE CURRENT YEAR

In April, 1999, the employees of Vadodara Undertaking subscribed to the Voluntary Retirement Scheme of the Company. It was agreed that the dues under the Scheme and all other dues could be paid out of the sale proceeds of the Vadodara Undertaking as no financial support could be obtained from the Financial Institutions whose dues are in arrears (as stated in notes to the accounts in Schedule 18 of the annual report of the year 1998). Few employees have been transferred to Halol. The major manufacturing activities have already been transferred to Halol. The machineries will also be shortly shifted to Halol. A few employees of Halol Undertaking were also relieved under VRS on the same terms

as above. From 1st May 1999, there is no employee on the role of the Vadodara Undertaking. An application has been made to the appropriate authorities for a zone change of the Vadodara properties from industrial to commercial/residential. When the approval is received, efforts will be made to sell the properties as quickly as possible and payoff institutional dues and the dues of the employees relieved under the VRS.

4. FUTURE OUTLOOK

The Company is developing an Autoleveller for its Draw Frames as the market trend is towards Autoleveller Draw Frames. Efforts to enhance the job work to utilise spare capacities would be continued. The Company would also undertake reconditioning of old Draw Frames at customers' end. Discussions will be continued with the Financial Institutions to lent us support for the revival. Follow up is being done with the authorities for the zone clearance certificate. The gain arising out of the sale of Vadodara properties will substantially reduce the accumulated losses and the Company would be out of the BIFR. The VRS has helped to reduce the personnel cost. Interest cost would reduce once Institutional dues are repaid out of Sales proceeds of Vadodara properties. All these will arrest further losses and erosion of assets. Discussions are being held to persuade the Company's Collaborators to introduce new product so as to bring the Company back to the profit track within the next few years.

5. DIVIDEND

In view of the net loss during the year under review, your Directors do not recommend any Dividend.

6. SUBSIDIARY COMPANY

In compliance with the provisions of Section 212 of the Companies Act 1956, the audited Statement of Accounts for the year ended 31st December, 1998 and the Directors' Report of the subsidiary Company - Gujarat Textronics Ltd. are annexed hereto.

7. PERSONNEL

- a. Industrial relations at the Company's factories at Halol and Vadodara have been satisfactory.
- b. Particulars of Employees.

The particulars of employees as required under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of

the Directors' Report for the period under review are annexed hereto.

8. DIRECTORS

Mr.HF Kroll & Mr.CBK Pillai retire as Directors at this Annual General Meeting and are eligible for re-appointment.

Mr. SC Bhatia, Director - ICICI Nominee, resigned from the Board with effect from 23.10.1998. Your Directors place on record their appreciation of the valuable services rendered by Mr. SC Bhatia during his tenure as Director of the Company.

9. DISCLOSURE OF INFORMATION ON ENERGY & TECHNOLOGY ABSORPTION

A) Conservation of Energy

The Company continues to take all possible steps to conserve energy. These include various measures like the use of modern electric fittings/equipments which consume less energy over the conventional ones. Frequent checks are being made in all departments to ensure that electricity is used only where and when absolutely necessary.

B) Technology absorption

Form B annexed hereto gives in detail the efforts made in the field of technology absorption by the Company.

C) Foreign Exchange earnings and outgo:

The total foreign exchange earned by the Company during the year under review from exports and other activities amounted to Rs.1.4 Mio. The total foreign exchange used for imports and on account of various remittances amounted to Rs.16.8 Mio.

10. AUDITORS

The tenure of Price Waterhouse, as Auditors of the Company expires at the conclusion of the 17th Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

11. BOARD'S EXPLANATION ON THE AUDITORS' REMARKS

- A. Accounts being prepared on going concern basis. Detailed comments are given in note 4 in Schedule 18 to the accounts.
- B. Non-provision for diminution in the value of investment in, and advance given to, subsidiary Company.

Investment in the subsidiary (Gujarat Textronics Ltd.) was a trade investment to make it a captive unit for supplying electronic goods to your Company. No provision for diminution in the

value of investment in, and advances given to, it was made as your Company has not been making any profit. GTL is making efforts to improve its performance by undertaking jobwork, services and supply of machines. As a first step, it has already reduced the personnel strength to save personnel cost.

C. Non-provision of the value of inventories.

The Company is making efforts to dispose of the non-moving inventories. Autoconer components would be sold as spares wherever it is possible and the remaining will be disposed off as scraps or written down at an appropriate time in case it can not be sold as spares in the near future. It is now too early to treat these as totally non-moving.

D. Reconciliation of accounts relating to Schlafhort Marketing Co. Ltd. (SMCL)

SMCL is the selling agent of the Company and has been raising debit notes for various services rendered to the Company. There have been certain differences in the balances in the books of both the companies which are being reconciled.

E. Provisions written back.

The provisions made were based on certain assumption. These were written back, as they are no longer required in the opinion of the Company.

12. Y2K COMPLIANT

The Company's Computer Systems have been made Y2K compliant.

13. INSURANCE

All the properties of the Company are adequately insured against various perils.

14. ACKNOWLEDGEMENT

The Directors wish to place on record their appreciation of the whole-hearted support given by the Company's bankers and financial institutions, valuable customers and suppliers. The Directors also wish to express their appreciation of the co-operation received from the Shareholders and the employees at all levels.

For and on behalf of the Board

JOSEF STEIGER
Chairman

Place : Mumbai
Date : 14th May 1999

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st December, 1998.

Sr. No.	Name and Date of Commencement of Employment	Designation Nature of Duties	Qualification & Experience (including experience in previous concerns, if any)	Remuneration received during the year (Rupees)	Age	Last employment held Name of Employer, Post held & period
Names of Employees who were employed throughout/part* of the financial year under review and were in receipt of remuneration for the financial year in the aggregate of not less than Rs. 3,00,000/- Per annum/Rs. 25,000/- Per month as the case may be.						
1.	Mr. M. Bruweleit * 15-05-1993	Jt. Managing Director	Dipl. Engineer 30 Years	644238	55	Bikoma GmbH Mayen Technical Manager 5 Years
2.	Mr. Y. M. Bakshi * 02-01-1986	Dy. General Manager (Finance & Accounts)	B.Com (Hons) A.C.A. 25 Years	142835	50	Jyoti Marketing & Project Ltd. Commercial Manager. 2.1/2 Years
3.	Mr. H. F. Kroll * 01-07-1995	Jt. Managing Director	Dipl. Engineer 44 Years	263700	68	Motor Industries Co. Ltd. Bangalore Technical Director 6 Years
4.	Mr. CBK Pillai 09-02-1995	Jt. Managing Director	B.A. LLb, A.C.S. 28 Years	280535	48	Eimco Elecon (I) Ltd. Company Secretary 4 Years
5.	Mr. V. V. Phadnis * 27-07-1987	Dy. General Manager (Purchase)	B.E.M.B.A. 22 Years	130063	48	Antifriction Bearing Corp- Ltd. Material Manager
6.	Mr. A. P. Shah * 19-10-1983	Dy. General Manager (Costing)	B.S.C. AICWA DBW. 19 Years	348722	43	Voltamp Transformer Pvt. Ltd. Cost Accountant 3 Years

* Employed for part of the year

Notes :

1. Remuneration as above includes Salary, Company's Contribution to Provident Fund and Superannuation Scheme, Leave Encashment, Leave Travel Assitance, Medical Expense Reimbursement, other Allowance, Bonus/Exgratia, Personal Accident Insurance Premium, Car, Company's Furniture, Equipments, Gas, Electricity and Gratuity-where applicable.
2. None of the employees is relative of any Director of the Company.

FORM - B

Disclosure of particulars with respect to absorption :

A. RESEARCH & DEVELOPMENT

- | | | |
|--|---|--|
| 1. Specific areas in which R&D Carried out by the Company | : | The Company is in the process of developing an Autoleveller for the Draw Frames being manufactured by the Company. |
| 2. Benefits derived as a result of the above R&D | : | Will increase sale of Draw Frames as the market increasingly prefers Autoleveller Draw Frames. |
| 3. Future Plan of action | : | As mentioned in Para (1) above |
| 4. Expenditure on R & D | | |
| (a) Capital | | |
| (b) Recurring | | |
| (c) Total | | |
| (d) Total R & D expenditure as a percentage of total turn over | | The estimated capital & revenue expenditure is Rs. 20 Lacs. |

B. TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION

- | | | |
|--|---|---|
| 1. Efforts in brief, made towards technology absorption, adaption & innovation | : | The Company could absorb the technology imported in 1990-91 for the manufacture of Autoconers with the active support of its Collaborators & training imparted by their technical experts |
| 2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import. | : | The Company could produce Autoconer Machines with substantial indigenisation. However high cost of production on account of high personnel, administrative and interest costs dampened the sales. |
| 3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished: | : | N. A. |

AUDITORS' REPORT

TO THE MEMBERS OF SCHLAFHORST ENGINEERING (INDIA) LIMITED

1. We report that we have audited the Balance Sheet of **Schlafhorst Engineering (India) Limited** as at 31st December, 1998 and the relative Profit and Loss Account for the year ended on that date, both of which we have signed under reference to this report.
2. In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet and Profit and Loss Account, together with the notes thereon and attached thereto, give in the prescribed manner the information required by the Companies Act, 1956 and also give respectively subject to paragraphs 2.1 to 2.6 below and the related notes on accounts referred to therein with consequential effects on the Company's loss for the year and relevant items on the Balance Sheet, a true and fair view of the state of the Company's affairs as at 31 st December, 1998 and its loss for the year ended on that date.
 - 2.1 Note 4 - Schedule 18 regarding accounts being prepared on a going concern basis.
 - 2.2 Note 5 - Schedule 18 regarding non-provision of diminution in the value of investment in the Subsidiary Company - Gujarat Textronics Limited aggregating Rs.7,104 ('000).
 - 2.3 Note 9 - Schedule 18 regarding non-provision of the value of inventories Rs.18,595 ('000).
 - 2.4 Note 10 - Schedule 18 regarding non provision for advances given to Gujarat Textronics Limited amounting to Rs. 13,167 ('000) which are doubtful of recovery.
 - 2.5 Note 11 - Schedule 18 regarding amounts payable aggregating to Rs. 8,306('000) to Schlafhorst Marketing Company Limited which is subject to reconciliation.
 - 2.6 Note 26 - Schedule 18 regarding the provision written back of Rs.2,461 ('000).
3. In our opinion and to the best of our information, the Balance Sheet and the Profit and Loss Account comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956.
4. We draw attention to Schedule 18, Note 25 in the accounts. It may be noted in this connection that our audit is not intended, designed nor performed to provide and accordingly does not provide any assurance that the Company's internal systems or those of its external dependencies are/ or will be Year 2000 compliant and we are, therefore, unable to comment on the Management's opinion in this regard.
5. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for our audit. In our opinion, proper books of account have been kept as required by law so far as appears from our examination of the books and the above mentioned accounts are in agreement therewith.
6. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, dated 7th September, 1988 and issued by the Gental Government and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we further report that:
 - (i) (a) The Company has generally maintained proper records to show full particulars, including quantitative details and situation of its fixed assets.
 - (b) The fixed assets of the Company have been physically verified by the Management and no material discrepancies have been noticed.
 - (ii) The fixed assets of the Company have not been revalued during the year.
 - (iii) The stocks of finished goods, stores and spare parts and raw materials and work-in-progress of the Company have been physically verified by the Management during the year.
 - (iv) In our opinion, the procedures of physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.
 - (v) The discrepancies between the physical stock and the book stock have been properly dealt with.
 - (vi) In our opinion, the valuation of stocks of finished goods, stores and spare parts and raw materials and work-in-progress has been fair and proper in accordance with the normally accepted accounting principles except as indicated in the Note 22 Schedule 18 regarding method of valuation of finished goods manufactured and not cleared from excise bonded warehouse at the year end and is on the same basis as in the previous year.
 - (vii) In our opinion the rates of interest and the terms and conditions of loans and deposits taken by the Company during the year from Companies, firms and other parties listed in the register maintained under Section 301 of the Compncies Act, 1956 and/or companies