

Schlafhorst

Engineering (India)

A Saurer Group Company



SCHLAFHORST ENGINEERING (INDIA) LIMITED

18TH ANNUAL REPORT & ACCOUNTS - 1ST JANUARY 1999 TO 31ST DECEMBER 1999

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.

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BOARD OF DIRECTORS

Mr. J. Steiger	- Chairman
Mr. AK Bhagwati	
Mr. F. Hiltmann	
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

Vishwamitri Road
Near Lalbaug
Vadodara - 390 001, Gujarat State
Telephone No. (0265) 646040
Fax No. : (0265) 646471
E-mail : seil@satyam.net.in

WORKS

Chandrapura Village, Tal. Halol
Dist. Panchmahal, Gujarat State
Telephone No. (02676) 21870
Fax No. (02676) 20887
E-mail : seil@gnahd-schlafhorst.globalnet.ems.vsnl.net.in
seilhalol@satyam.net.in

NOTICE

Notice is hereby given that the EIGHTEENTH 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 Friday, the 30th June 2000 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 1999 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. A.K. Bhagwati, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Mr. Fredy Hiltmann, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint the Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said act and subject to such approvals as may be necessary or required, the Company hereby approves the reappointment of and terms of remuneration (including minimum remuneration) payable to Mr. CBK Pillai as Joint Managing Director of the Company for the period beginning 1st January, 2000 and ending on 31st December, 2001 on the terms & conditions as set out in the letter of appointment/agreement submitted to this meeting and initialed by the Chairman for the purpose of identification which letter of appointment/agreement is hereby specifically sanctioned with a liberty to the Board of Directors to alter and vary the terms and conditions of the said reappointment including the

terms of remuneration during the currency of the agreement as may be agreed to between the Board of Directors and Mr. Pillai."

Where the reappointment and/or remuneration require the approval of any authority under any law, such approval shall be obtained within such time as may be prescribed and the Board of Directors be and is hereby authorized to do such things as may be required to give effect to this resolution.

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 : 19th April, 2000

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

NOTES :

1. The document and/or letter referred to in the Resolutions and in the Explanatory Statement annexed hereto are open for inspection of the Members at the Registered Office of the Company during business hours on any working day except Sunday being the weekly off.
2. 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.
3. 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.
4. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, is annexed hereto.

SCHLAFHORST ENGINEERING (INDIA) LIMITED

5. 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).
6. Shareholders seeking information on accounts published herein are kindly requested to furnish their queries to the Company at least TEN days before the date of the meeting addressed to the Secretary, Schlafhorst Engineering (India) Ltd., Vishwamitri Road, Near Lalbaug, Vadodara - 390 001.
7. 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.
8. The Share Transfer Deeds should be sent to 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 at Vishwamitri Road, Near Lalbaug, Vadodara 390 001, Telephone No. (0265) 646040, Fax No. (0265) 646471.
9. 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.
10. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, the 26th June 2000 to Friday, the 30th June, 2000 (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 : 19th April, 2000

EXPLANATORY STATEMENT

The following Explanatory Statement sets out all material facts relating to Item No. 5 in the accompanying Notice of the Annual General Meeting to be held on Friday, the 30th June, 2000 at the Registered Office of the Company at Vishwamitri Road, Near Lalbaug, Vadodara - 390001, Gujarat.

- A. The Board of Directors of the Company by a Resolution passed on 27th December 1999, has re-appointed Mr. CBK Pillai as Joint Managing Director of the Company for the period beginning 1st January, 2000 and ending on 31st December, 2001 subject to the approval of the Members in the General Meeting.
- B. Mr. Pillai, aged more than 49 years, has been in the Company as Company Secretary from February 1995 and as Jt. Managing Director from 1.6.1998 and is a Chartered Secretary by profession with more than 28 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc.
- C. The terms & conditions of his appointment are as under :

Terms of Remuneration:

- a. Salary : Rs. 2,20,000/- per annum including Children's educational allowance of Rs. 1200/- or as may be altered from time to time and all other allowances.
- b. Perquisites
 - i. Housing
Rent-free furnished residential accommodation, the monetary value of which will be evaluated as per the Income tax Rules 1962, or in case the appointee is occupying premises of his own, then reimbursement of a sum which shall be calculated as fair and reasonable rental of such premises in addition to repair or maintenance charges or if he is occupying rented premises, then reimbursement of the actual rent, taxes, repairs maintenance etc. paid by him in respect of the said premises as and by way of Special Allowance with the intention in either case that he will be entitled to all amenities such as gas, electricity, water, air-conditioners, geysers and refrigerators, furnitures and in case he is using own furniture, air- conditioners, geysers and

refrigerators then he will be paid a fair and reasonable sum, as and by way of rent, for the user thereof at the cost of the Company. The monetary value may be evaluated as per the Income-tax Rules, 1962.

The above is subject to the following :

- The expenditure incurred by the Company in hiring an unfurnished accommodation for him will be subject to the ceiling of 50% of salary over and above 10% payable by him.
 - The expenditure incurred by the Company on gas, electricity, water and furnishing will be evaluated as per the Income-tax Rules, 1962. This will, however, be subject to a ceiling of 10% of the salary paid to him.
- ii. Medical benefits for self and family:
Reimbursement of expenses actually incurred, the total cost of which to the Company shall not exceed one month's salary per annum.
 - iii. Leave Travel Concession:
For self and family once in a year in accordance with the rules of the Company.
Explanation : Family means spouse, dependent children and dependent parents.
 - iv. Personal Accident Insurance:

Personal Accident Insurance and/or differed annuity on the life of the appointee may be taken by the Company for an amount, the premium of which shall not exceed Rs.4,000/- p.m. In the case of differed annuity, no interest shall accrue to him, until the date of retirement or death.

OTHER BENEFITS/AMENITIES

- v. Provident Fund, Superannuation Fund:
Company's contribution to Provident* Fund and Superannuation Fund to the extent these either singly or put together are not taxable under the Income-Tax Act.
- vi. Gratuity:
Not exceeding half a month's salary for each completed year of service or part thereof of 6 months or more.

vii. Car:

Provision of a Car for official use, the perquisites value of which shall be computed in accordance with Income-Tax Rules 1962. Personal use of Car for private purpose shall be billed by the Company. Where personal driver is engaged, an amount not exceeding Rs.5,000/- per month shall be reimbursed.

viii. Club Fees

Fees of Clubs subject to a maximum of two clubs. No admission and life membership fees will be paid by the Company.

The aggregate value of all the perquisites & other benefits/amenities referred to in b(i) to (viii) shall not exceed Rs. 5,80,000/- in a year.

ix. Telephone:

Provision of telephone at residence. Personal long distance calls shall be billed by the Company to him.

x. Leave:

Leave on full pay and allowances as per the rules of the Company. Earned leave shall be at the rate of 1 month for every 11 months of service. Earned leave can be encashed at the end of the tenure at the rate of salary and perks stated above.

D. No sitting fees shall be paid for attending the meetings of the Board of Directors or Committee thereof of the Company.

E. In the absence or inadequacy of profits in any year, he shall be paid the remuneration set-out above as minimum remuneration.

The other terms and conditions of his appointment are as under :

F. As a Joint Managing Director, he shall be responsible for the overall management of the Company subject to the control, superintendence and direction of the Board of Directors and shall perform such specific functions and duties as are entrusted to him from time to time by the Chairman or the Board of Directors of the Company. Subject to the provisions of the Companies Act and/or Memorandum and Articles of Association of the Company and/or any regulations made by the Company in General Meeting and/or by the Board of Directors at a Meeting of the Board, he shall be eligible to exercise substantial power of Management.

G. He shall continue to perform the duties of the Company Secretary under the Companies Act, 1956.

H. So long as he functions as Joint Managing Director of the Company, he shall not become interested or otherwise concerned directly or through his wife and/or minor children in any selling agency of the Company in future without the prior approval of the Central Government or engage in any activity detrimental to the interest of or competing with the business of the Company.

I. He shall also be entitled to the reimbursement of expenses actually and properly incurred by him for the business of the Company, subject to such reasonable ceilings for such expenses as may be fixed by the Board of Directors or the Chairman of the Company.

J. He shall be liable to retire by rotation of Directors.

K. Either Party shall be at liberty to terminate the service by giving not less than 6 months notice in writing in advance.

L. The terms & conditions of the appointment are subject to the applicable provisions of the Companies Act, 1956.

M. His Head Quarters are fixed at Vadodara / Halol.

N. Mr. CBK Pillai may be regarded as concerned or interested in the Resolution. None of the other Directors of the Company is concerned or interested in the above Resolution.

O. The above may be treated as an abstract as required under Section 302 of the Companies Act, 1956. A copy of the letter of appointment/ agreement referred to in the resolution is open for inspection of Members between 2 p.m. to 4 p.m. on any working day at the Registered Office of the Company, except Sunday being weekly off.

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 : 19th April, 2000

DIRECTORS' REPORT

To,

The Shareholders,
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Eighteenth Annual Report & Audited Statement of Accounts for the year ended on 31st December, 1999.

1. FINANCIAL RESULTS

	Current Year Rupees (‘000)	Previous Year Rupees (‘000)
Sales income	50,367	107,306
Other income (including prior year income)	36,668	40,152
Loss before Depreciation Interest and Taxation	(3,492)	(7,036)
Depreciation	12,056	14,605
Interest	26,247	24,872
Loss before Tax	41,795	46,513
Provision for Wealth tax	38	40
Loss after tax	41,833	46,553
Brought forward balance of previous year losses	288,657	242,104
Cumulative losses	330,490	288,657

2. PERFORMANCE

Income from sale of products and parts for the year was down to Rs.50.03 Mio. compared to Rs.107.31 Mio. for the previous year. The other income includes Rs.19.39 Mio. from exchange gain written back on account of reduction in foreign exchange loan liabilities on Foreign Currency Loans computed in accordance with the standard accounting policies. During the year, Rs.4.77 Mio. was charged to Profit & Loss Account towards Gratuity to 218 employees retired under VRS implemented in April 1999. As the VRS amount and other dues were agreed to be paid out of sale proceeds of Vadodara property, the Company had to incur an interest expenses on the entire amount @ 12.5% which amounted to Rs.3.89 Mio. The VRS amount would be amortized over five years. One-fifth (Rs.6.63 Mio.) of

Rs.33.16 Mio. of the VRS amount of the year 1999 has been charged to the Profit & Loss Account during the year in addition to Rs. 3.27 Mio. for the previous years.

Drastic reduction in the consumption of textiles during the year has severely affected the Spinning Machinery Sector. Besides, many of the cash crunch Textile Mills were opting for Second-hand Machineries which affected the sale of Draw Frames manufactured by your Company. The down turn in the Spinning Sector has also affected the sale of Spare Parts, besides competition from local producers of parts being sold at dumping prices.

3. OUTLOOK FOR THE CURRENT YEAR & ONWARDS

The cost reduction achieved by the Company in all its operational areas will help the Company in its recovery, provided a profitable product is introduced. A new product to ensure recovery is possible only if :-

- high interest burden is overcome.
- Vadodara Urban Development Authority (VUDA)/Gujarat Government gives permission for change in land use to the Company's Vadodara Properties.

- Reduction of high interest burden:

The Financial Institutions have been charging incredibly high interest of 26 % on the Foreign Currency Loans when it should not have, at the most, charged more than 9%. UTI, ICICI & LIC Mutual Fund have been charging around 20 % on the Term Loans and Debentures of the aggregate value of Rs.54 Mio. Unless these outstandings are repaid, the interest burden will continue to pull down the Company. On the amount of Rs.49 Mio., due to the Employees who have retired under the Voluntary Retirement Scheme, the Company has been paying 12.5% interest. These dues also need to be paid to reduce the interest burden of the Company.

- Permission for change in land use:

Vadodara Factory is virtually closed from 01.05.1999 after implementing VRS and transferring the remaining employees to Halol. The outstanding dues to the Financial Institutions and the Employees' dues can be paid only if the Vadodara property is sold after getting permission for change in land use from Industrial to Residential from VUDA / Gujarat

Government. Against an application made in February 1999, followed by meetings with the VUDA's Chairman and the Chief Executive Officer, close written follow up almost every month and written representations made twice by all the Workmen to VUDA & the Gujarat Government, VUDA slapped on the Company with a letter of rejection on 10th March, 2000 without giving an opportunity of hearing us and without indicating any reason for the rejection. It is quite surprising to observe that VUDA / the Gujarat Government appears to expect the closed Factory to operate in the midst of residential area. The Company has repeatedly submitted to VUDA and the Gujarat Government that all the operations of the Company can be efficiently and cost effectively carried out in its bigger Plant in Halol where the Company has modern Manufacturing Plant with 17,000 sq. meter of built up space on 90,000 sq. meter of land. The Company has made a fresh representation to the VUDA and the Gujarat Government to consider the Company's proposal for the Zone change of the Vadodara property and it is hoped that good sense will prevail upon them to give quick approval.

With the reduced cost structure, it is possible for the Company to be brought back to the profit track with a new product which the Collaborators are willing to support if the Gujarat Government / VUDA within a reasonable time gives approval for Zone change to enable the Company to sell its Vadodara property to repay the institutional liabilities as shown in Schedule 3 of the Balance Sheet and employees' dues of Rs.50 Mio. under the VRS.

4. REFERENCE TO BIFR:

The accumulated losses of the Company as at 31st December, 1999 rose to Rs.330.5 Mio. as against Rs.288.6 Mio. at the year end 1998. On a reference made by the Company on 30th July, 1999 to the Board for Industrial and Financial Reconstruction (BIFR) under the provisions of Section 15 (I) of Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the BIFR, declared the Company as a Sick Industrial Company at the hearing held on 24th March, 2000 and ICICI has been appointed as Operating Agency. The Company proposes to submit a revival plan shortly assuming that the Company shall have the approval of the Gujarat Government for the change in land use of the Vadodara property. ICICI had in July 1999 moved to the Debt Recovery Tribunal to

recover its dues. The Company has submitted to the Tribunal that as BIFR is ceased of the matter, DRT has no jurisdiction to pursue with ICICI's application.

5. PERFORMANCE OF THE CURRENT YEAR:

Income during the first quarter has been Rs.12.47 Mio. After providing for depreciation, interest and amortization of 20 % of the amount under VRS, the Company has reported a loss of Rs.12.83 Mio. for the period. Efforts to improve the overall performance is continuing and the Company has reason to succeed with the supports expected above.

6. DIVIDEND

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

7. 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, 1999 and the Directors' Report of the subsidiary company Gujarat Textronics Ltd, are annexed hereto.

8. PERSONNEL

- a. Industrial relations at the Company's factories at Halol & 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 (Annexure A).

9. DIRECTORS

Mr. AK Bhagwati & Mr. Fredy Hiltmann retire as Directors at this Annual General Meeting and are eligible for re-appointment.

10. 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 it is absolutely necessary.

B) Technology absorption

Form B annexed hereto (Annexure B) 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.0.03 Mio. The total foreign exchange used for imports and on account of various remittances amounted to Rs.12.8 Mio.

11. AUDITORS

The tenure of Price Waterhouse, as Auditors of the Company expires at the conclusion of the 18th Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

12. 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 of 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. No provision for advances to GTL:

No provision has been made for advances paid to the Subsidiary Company as efforts are being made to enhance the sales of GTL to liquidate the advances. In fact, during 1999, SEIL could recover Rs. 1.96 Mio. from GTL and the Company hopes to recover the remaining amount over a period of time.

E. Reconciliation of accounts relating to Schlafhorst 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.

F. Debtors :

Reminders are being sent to all debtors to settle the dues. Efforts are continuing.

G. Provisions written back.

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

13. Y2K COMPLIANT

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

14. INSURANCE

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

15. 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 : 19th April, 2000