

# **Schlafhorst | Saurer Group**

**SCHLAFHORST ENGINEERING (INDIA) LIMITED**

**20TH ANNUAL REPORT & ACCOUNTS-1ST JANUARY 2001 TO 31ST DECEMBER 2001**

## **SCHLAFHORST ENGINEERING (INDIA) LIMITED**

### **BOARD OF DIRECTORS**

Mr. Josef Steiger	- Chairman
Mr. Martin Börger	- Director
Mr. CBK Pillai	- Managing Director

### **COMPANY SECRETARY**

Mr. CBK Pillai

### **BANKERS**

State Bank of India  
Dena Bank

### **AUDITORS**

Shah & Shah Associates

### **REGISTERED OFFICE**

Vishwamitri Road  
Near Lalbaug  
Vadodara - 390 001, Gujarat State  
Telephone No. (0265) 646040  
Fax No. (0265) 638371  
Internet : [www.schlafhorstengg.com](http://www.schlafhorstengg.com)  
E-mail : [seil@satyam.net.in](mailto:seil@satyam.net.in)

### **WORKS**

Chandrapura Village, Tal. Halol  
Dist. Panchmahal, Gujarat State  
Telephone No. (02676) 21870  
Fax No. (02676) 20887  
Internet : [www.schlafhorstengg.com](http://www.schlafhorstengg.com)  
E-mail : [seilhalol@satyam.net.in](mailto:seilhalol@satyam.net.in)

### **IMPORTANT NOTICE**

1. Members / Shareholders / CCPS holders are requested to lodge their Equity / CCP Share certificates for transfer with the Company at its Registered Office.
2. Conversion of 9% - Cumulative Convertible Preference Shares (CCP)  
The Company has issued 6,465,065 - 9% CCP Shares of Rs. 10/- each for cash at par (fully paid) on the basis of Rights issue on 19th September 1996. Each CCP is liable to be converted into one equity share of Rs.10/- each on 18th September 2002. The CCP issued to you will be treated as Equity Share Certificate from 18th September, 2002.
3. With effect from 9th October 2000, the Company had admitted its Equity Shares to be dealt in dematerialized format and a tripartite agreement was signed between the Company, The Central Depository Services (India) Ltd., & Sharepro Services for providing electronic connectivity.

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- \* 64,65,065 - 9% CUMULATIVE CONVERTIBLE PREFERENCE SHAREHOLDERS ARE ENTITLED TO ATTEND THE MEETING AND VOTE IN PERSON OR BY PROXY.

**NOTES:**

1. The documents and/or letters 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.
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) 638371.
9. The unclaimed dividends for the Financial Year 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 Thursday, the 20th June, 2002 to Saturday, the 22nd June, 2002 (both days inclusive).

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

CBK PILLAI  
MANAGING DIRECTOR

**Registered Office**

Vishwamitri Road, Near Lalbaug  
Vadodara - 390 001, Gujarat  
Place : Mumbai  
Date : 12th April, 2002

**EXPLANATORY STATEMENT**

The following Explanatory Statements set out all material facts relating to item No. 4, 5 & 6 in the accompanying Notice of the Annual General Meeting to be held on Thursday, the 27th June, 2002 at the Registered Office of the Company at Vishwamitri Road, Near Lalbaug, Vadodara - 390 001, Gujarat.

**Item No. 4**

Section 274 of the Companies Act, 1956, inter alia provides that a person shall not be capable of being appointed as a Director of a Public Limited Company if such person is already a director of a Company which has failed to redeem its debentures etc. on due date for one year or more. Your Company has made default in redeeming its privately placed debentures and therefore despite efforts it is unable to obtain the service of independent Directors for joining the Company for fear of incurring disqualification. The existing Article provide that there should be minimum six and maximum eighteen Directors. In view of the aforesaid reason is desirable to alter the Articles of Association of the Company to provide for minimum three Directors till the time the affairs of the company have been brought to a healthy footing which can attract professional Directors.

None of the Directors of the Company are concerned or interested in the said resolution.

**Item No. 5**

- A. The Board of Directors of the Company by Resolution passed on 29th November, 2001 has re-appointed Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January 2002 and ending on 31st December, 2004 subject to the approval of the Members in the General Meeting.

**NOTICE**

Notice is hereby given that the TWENTIETH 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 Thursday, the 27th June 2002 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 2001 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. Martin Börger, who retires by rotation and being eligible offers himself for re-appointment.
3. 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**

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

"RESOLVED THAT pursuant to Section 31 and other applicable provisions of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered in the following manner:

Substitute the existing Article 133 of the Articles of Association of the Company with the following Article:

133. Unless and until otherwise determined by a Resolution of the Members in the General Meeting, the number of the Directors (excluding debenture, alternate and corporation Directors) shall not be less than three or more than eighteen subject to the provisions of Section 252 of the Companies Act, 1956."

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 payable to Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2002 and ending on 31st December, 2004 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."

6. 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 293 (1) (a) and other applicable provisions of the Companies Act, 1956 and subject to the approval of the Financial Institutions / Banks and such other approvals or consents as may be necessary or required, the Board of Directors of the Company be and is hereby authorized to sell, lease or otherwise dispose off the whole of the Company's idle properties including plant and machinery and other movables as are not required for the purpose of carrying out the current operation of the Company for manufacturing and supplying Draw Frames to any person or persons in part/s or whole at such price/s and on such terms and conditions as the Board of Directors in its absolute discretion may determine in the best interest of the Company. The Board of Directors be and is hereby further authorized to deal, negotiate, sign, seal and deliver such instruments, documents, assignments, contracts, deeds, conveyances or any other instrument that may be considered necessary, usual or proper for the sale, lease or otherwise dispose off the whole of the Company's idle assets including plant and machinery and other movables and to execute the sale deed and/or other documents/instruments, admit execution and to do all such acts and things as may be required in this connection for passing the title of the said assets to the purchaser and/or purchasers, which the Board of Directors may consider beneficial and convenient for the Company".

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

CBK PILLAI  
MANAGING DIRECTOR

**Registered Office:**

Vishwamitri Road, Near Lalbaug  
Vadodara - 390 001, Gujarat  
Place : Mumbai  
Date : 12th April, 2002

- B. Mr. Pillai, aged more than 51 years, has been in the Company as Company Secretary from February 1995 and as Jt. Managing Director / Managing Director from 1.6.1998 and is a Chartered Secretary by profession with more than 31 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 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 he will be entitled to all amenities such as gas, electricity, water, air-conditioners, geysers and refrigerators, and in case he is using own furniture, air-conditioners, geysers and refrigerators then he will be paid 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. 10,000/- 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 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 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 a ceiling of Rs.30,000/- per annum against bills to be produced.
- 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 mentioned here are subjected to the approval of the Members at the General Meeting and the provisions of the Companies Act, 1956.
- M. His Head Quarters are fixed at Vadodara.
- 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.

Item No. 6

By a Resolution of the Members passed at their meeting held on 23rd April 1998, it was resolved

to sell or dispose off the whole of the Vadodara undertaking including the Plant & Machineries and other movables installed therein so as to repay the loans to the Financial Institutions, compensation to the Workmen terminated under Voluntary Retirement Scheme and to meet other liabilities. The Company has certain idle machineries and equipments in Halol Plant, which were purchased for the purpose of manufacturing Autoconer. Most of these assets (machinery equipments, assembly fixtures, testing machineries, etc.) cannot be used for any other purpose and can be disposed off at whatever prices the Company may perhaps be able to get. The Company may not be able to realize even the book value on sale, but it will reduce the depreciation provision and reflect the actual worth of the Company in its Balance Sheet. The Resolution passed on 23rd April 1998 could not yet be implemented in view of the fact that the Company in the meanwhile became sick and was registered under BIFR, which has put restrictions for disposal of any assets of the Company. The company has already made a one-time settlement offer to the Financial Institutions to be financed by a loan from the Promoters of the Company. This loan and other liabilities including the liabilities to the Workmen can only be paid out of the proceeds of the sale of the whole of Vadodara undertaking and other idle assets in Halol Factory. The Company will, however, retain those machineries/equipments, which are necessary and economical for manufacturing Draw Frame components and other job work at Halol Factory. The approval of the Members is required to dispose off such idle assets, the proceeds of which will be utilized to pay off the liabilities of the Company. In the event of introduction of any new product, new machineries will have to be purchased and the existing obsolete, old and high power consumption machineries will not be of any use to the Company.

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

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

CBK PILLAI  
MANAGING DIRECTOR

Registered Office:

Vishwamitri Road, Near Lalbaug  
Vadodara - 390 001, Gujarat

Place : Mumbai

Date : 12th April, 2002



**DIRECTORS' REPORT**

To,

The Shareholders,  
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twentieth Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2001.

**1. FINANCIAL RESULTS**

	Current Year Rupees ( '000)	Previous Year Rupees ( '000)
Income from sale of product and Parts	34,632	55,326
Job work	11,210	13,073
Other income including provisions written back/ exchange gain	22,427	12,575
Profit/(Loss) before Depreciation		
Interest and Taxation	5,712	1,303
Depreciation	9,360	11,277
Interest	25,826	27,420
Loss before Tax	29,474	37,394
Provision for Wealth tax	37	37
Loss after tax	29,511	37,431
Brought forward balance of previous year losses	367,921	330,490
Cumulative losses	<u>397,432</u>	<u>367,921</u>

**2. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:**

The Operating Income for the year under review by way of sale of Draw Frames, Parts, Job Work, sale of Scraps and other sundry receipts was down to Rs.47.9 Mio., compared to previous year income of similar nature of Rs.70.7 Mio. The other income includes exchange gain (as a result of variation in the foreign exchange rate recognized in the books for providing for foreign currency loan liabilities as per the standard accounting policies) of Rs.2.6 Mio. (previous year loss of Rs.0.04 Mio.) and write back of various provisions and liabilities of Rs.17.7 Mio. (previous year write back of Rs.10.2 Mio.), which are no longer considered necessary.

While depreciation provision is down to Rs.9.4 Mio. (previous year Rs.11.3 Mio.) the amortization against Voluntary Retirement Scheme is up to Rs.10.8 Mio. (previous year Rs.9.9 Mio.) as a result of acceptance of VRS by 32 more employees in January 2001.

Despite reduction in sales/income on account of unprecedented slow down in the domestic and global economy, the loss is down to Rs.29.5 Mio. as against previous year's loss of Rs.37.4 Mio. even

after payment of interest of Rs.6.7 Mio. to the employees retired under VRS (previous year payment Rs.5.8 Mio.).

This positive result in the back drop of dropping income has been possible on account of better cash management and strict cost control.

Besides reduction in personnel cost. (Rs.16.6 Mio. as against the previous year of Rs.18.1 Mio.), administrative and other manufacturing cost was brought down to Rs.12.5 Mio. from Rs.15.6 Mio. in the previous year.

Interest on cash credit has been consistently brought down. While interest burden on working capital was Rs.4.5 Mio., 3.3 Mio. & 2.4 Mio. in 1998, 1999 & 2000, it is brought down to Rs.0.9 Mio. in 2001. The previous year 2000 generated a cash surplus of Rs.7.8 Mio. from the operations alone, but the working capital loan was repaid to the extent of Rs.9.3 Mio. bringing it down to Rs.6.2 Mio. as at 31st December 2000 (after providing for full year interest to the extent of Rs.2.4 Mio.). from Rs.15.5 Mio. as at 31st December 1999. At the year end 2001 it rose to Rs.10.2 Mio. on account of extremely poor cash flow in the last quarter of the year.

**3. PERFORMANCE OF THE CURRENT YEAR:**

Income during the first quarter has been Rs.9.06 Mio. After providing for depreciation, interest and amortization of 20% of the amount under VRS, the Company has reported a loss of Rs.11.07 Mio for the period. Efforts to improve the overall performance are continuing.

**4. DIVIDEND**

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

**5. 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, 2001 and the directors' Report of the subsidiary Company Gujarat Textronics Ltd, are annexed hereto.

**6. Management discussion and analysis report:****(a) Industry structure and development**

SEIL is an Indo-German joint venture. Textile machineries, comprising of Autoconers and Draw Frames have been the main products of the Company. For reasons stated herein after, Autoconer production was discontinued in 1998. The only product now the Company produces is High Speed Draw Frames. Before the economic liberalization of the early Nineties, SEIL enjoyed a virtual monopoly for Autoconers in the Indian market. Its High Speed Draw Frames (Zinser, Germany design) is very popular and well accepted in the market. The Company registered large turnover during 1989-1993 period and made handsome profits. It had substantial exports during the period.

The growth rate in sales during 1988-1991 had prompted the Company to embark upon a large-scale modernization cum expansion project in 1991,



raising high cost debts aggregating to Rs.130 Mio from Financial Institutions led by ICICI.

However, with the disintegration of USSR, the Company lost its well-established export market. The post liberalization environment in India witnessed the entry of global players with their superior products with low prices. The liberal import of second hand machineries and high interest and personnel cost, adverse exchange rate fluctuations affecting the landed cost of raw materials also added to the woes of the Company. Due to the subsequent adverse conditions and prolonged recession in the Textile Industry, the Company could not take any advantage of the expansion project. In the absence of generation of sufficient operating surplus, the exorbitantly high interest bearing (ranging from 15 to 26%) debt service obligations drained out the liquidity of the Company. Autoconer sales dwindled and its production was stopped by December, 1997.

The Company continued to promptly service its debt obligations till March 1998, largely through liquidation of current assets built up during earlier years. Though the Autoconer production was stopped, the Company continued to produce Draw Frames and cater to the replacement segment of the market by supplying spare parts and components. Thus it generated enough funds to meet its day-to-day expenses and other current liabilities.

(b) Opportunities and Threats

The fortunes of the textile machinery industry are determined by the fortunes of the user industry - the textile industry. The textile industry constitute almost 20% of India's industrial production, 7% of GDP, more than 1/3 of total exports and the largest employer after agriculture. India is the largest exporter of cotton yarn, largest producer of cotton and 5th largest producer of synthetic fibers. However a sizable portion of the industry is equipped with obsolete machinery. Modernization of its machinery involving large amount of capital is crucial in many mills to make it competitive both in domestic and export market. The Government of India has constituted a Technology Upgradation Fund for the purpose of modernization of the mills and this gives enormous opportunity to the textile machinery industry to grow with the right technology. Your company however, does not have complete range of products and even its single product Non autoleveller Draw Frame is not entitled to the concessional finance under TUFs. The sale of Draw Frame has been taking a downward trend from 19 in 2000 to 10 in 2001.

(c) Segment wise performance.

The income from Draw Frame for the year under review was lower to Rs.6 Mio. compared to Rs.11.5 Mil in the previous year. Income from sales of spare parts was also down to Rs.28.6 Mil compared to Rs. 43.7 Mio. in the previous year. Prolonged recession in the textile industry resulting into postponement of new investment & lower capacity utilization in the mill besides competition from imported and locally made low cost parts are the major reasons which can be attributable to this downturn.

(d) Material development in Human Resources:

With the discontinuation of autoconer production, a major portion of the employees became excess. In the context of losing market and falling volumes, the excess workforce also contributed to the losses. The efforts of the Company to rationalise the manpower met with stiff resistance. But, in 1998/99, the Company evolved an acceptable VRS scheme and the employees strength was reduced from 534 in 1997 to 176 in April, 1999. 32 employees resigned since 1997, and 108 of them accepted the VRS in 1997 and an additional 218 persons in 1999. The Company treated the VRS amounts as 12.5% interest bearing deposits. Interest is payable on 15th of every month and the principal amount is payable out of the sale proceeds of Vadodara property. If interest is not paid consecutively for three months, all of them shall be deemed to be employees of the Company with the continuity of service. As the revival scheme submitted to ICICI got delayed and Gujarat Government did not respond to the company's request for zone change of Vadodara property, there has been further reduction of employees strength in 2001 by 32 and in January 2002 by 49. The total amount to be paid under the VRS is Rs.62.2.Mio. which has a charge over the Vadodara property. The present strength of personnel employed by the Company is 140 comprising of 89 direct employees and the remaining contract personnel. The industrial relations at the Company's factories have been cordial and satisfactory.

The Company closed down its operations at the Vadodara plant on 1st May, 1999. However, the Machineries installed have not yet been shifted to Halol pending disposal of Vadodara property. These facilities in Vadodara Factory are being used to do job work and making parts for Draw Frames and Autoconer Spares. The income thus being generated helps the Company to keep floating.

(e) Outlook, risk and concerns:

With the single product - the Draw Frame - which has demand only from the replacement market and with the income from the sale of textile machinery parts, most of which are imported, the prospect of your Company is far from bright. There are large number of secondhand Draw Frames in circulation and the Spinning Mills have excess capacity though, most of these are outdated. Under the Technology Upgradation Scheme, only Draw Frame with autoleveller is permitted for concessional financing. To overcome the problem, your collaborators agreed to consider a new product provided the Financial Institutions grant certain relief and concessions sought by the company in its revival package submitted to them and the Government of Gujarat gives permission for change in the land use of the Company's Vadodara property.

Out of the total loans/debentures of Rs.1305 lacs disbursed by the Financial Institutions in 1992/93, the Company has already repaid Rs.1717 lacs (which includes interest) up to March 1998 without any default and without questioning the high and excess interest charged on foreign currency and term loans. Under the loan agreements, the institutions were supposed to charge a min. of 23% and max. of 26% interest on foreign currency loans.

However, the institutions were collecting the interest at the maximum rate of 26% right from the beginning without any justification, despite the fact that the interest rates were subsequently lowering. The institutions need to understand that it would be difficult for any business to survive at this rate of interest burden ranging from 15/20% for rupee term loans, 19/20% for debentures and 26% for foreign currency loans.

Assuming that the Institutions will support the Company and the Government of Gujarat would grant to the Vadodara property zone change from industrial to commercial/residential, a revival proposal was submitted to ICICI in July, 2000 to enable them to finally prepare a rehabilitation scheme and submitting it to BIFR. The Government of Gujarat, despite 40 letters to it by the Company since February 1999, 16 petitions from the Workmen (whose VRS dues are to be recovered out of the sale proceeds of Vadodara Property) and personal meetings with the Employment Minister, the Industries Minister, the Urban Development Minister and Vadodara Urban Development Authorities, has not yet given the zone clearance.

In a joint meeting of Financial Institutions and Banks held in March 2002, the company proposed to the Institutions an one time settlement of their dues. A revised scheme is under preparation to be submitted in April, 2002 to ICICI. BIFR has already issued notice to the Operating Agency and the Company to submit a final report. The future of the Company, therefore, depends on the final decision of the Institutions and the BIFR.

(f) Internal control systems and their adequacy:

The Company has adequate internal control systems commensurate with its size. A firm of Chartered Accountants has been appointed as Internal Auditors of the Company, who submits its quarterly reports to the Board of Directors, which are also discussed in the Audit Committee Meeting. Elaborate monthly Management Information System reports are prepared and submitted to the Board for its review. These are also discussed by the Audit Committee.

7. 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 are as under:

Sr. No.	Name & 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
1.	Mr. CBK Pillai 09-02-1995	Managing Director overall Management	B.A., LLB A.C.S. 31 years	Rs. 3,68,078/-	51	Eimco Elecon (India) Ltd. Company Secretary 4 years

Names of Employees, who were employed through out 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.

Notes:

1. Remuneration as above includes Salary, Company's contribution to Provident Fund and Superannuation Scheme, Leave Encashment, Leave Travel Assistance, Medical Expense Reimbursement, other Allowance, Bonus/Exgratia, Personal Accident Insurance Premium, Company's Furniture, Equipments, Gas, Electricity and Gratuity - where applicable and Retirement benefit.

2. None of the employees is relative of any Director of the Company.

8. DIRECTORS

Mr. Martine Börger retires at the ensuing Annual General Meeting and he is eligible for re-appointment.

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/equipment, 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

C) RESEARCH & DEVELOPMENT

1. Specify 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. It is expected to be put on trial by September 2002.
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 : No special facility has been created for the above project as existing facilities are adequate.
  - (b) Revenue : Rs.6,11,891/-
  - (c) Total : Rs.6,11,891/-
  - (d) Total R&D expenditure as a percentage of total turn over : 1.77 %