

Schlathorst | Saurer Group

Report  junction.com

SCHLATHORST ENGINEERING (INDIA) LIMITED

FIRST ANNUAL REPORT & ACCOUNTS 1ST JANUARY 2002 TO 31ST DECEMBER 2002

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

AUDITORS

Shah & Shah Associates

REGISTERED OFFICE

Vishwamitri Road
Near Lalbaug
Vadodara - 390 001, Gujarat State
Telephone No. (0265) 2646040
Fax No. (0265) 2638371
Internet : www.schlafhorstengg.com
E-mail : seil@satyam.net.in

WORKS

Chandrapura Village, Tal. Halol
Dist. Panchmahal, Gujarat State
Telephone No. (02676) 221870
Fax No. (02676) 220887
Internet : www.schlafhorstengg.com
E-mail : seilhalol@satyam.net.in

Report  junction.com

IMPORTANT NOTICE

1. Members / Shareholders are requested to lodge their Equity Share certificates for transfer with the Company at its Registered Office.
2. Conversion of 9% - Cumulative Convertible Preference Shares (CCP)
The Company had issued 6,465,065 - 9% CCP Shares of Rs. 10/- each for cash at par (fully paid) on the basis of Rights issue on 18th September 1996. Each CCP was liable to be converted into one equity share of Rs.10/- each on 18th September 2002 and accordingly the CCP issued to you has been treated as Equity Share Certificate from 18th September 2002.
3. With effect from 9th October 2000, the Company got 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.

NOTICE

Notice is hereby given that the TWENTY FIRST 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 27th June 2003 at 2.30 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 2002 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. CBK Pillai, 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.

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 : 16th April, 2003

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 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.
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 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) 2646040, Fax No. (0265) 2638371.
7. 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.
8. The Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, the 19th June, 2003 to Saturday, the 21st June, 2003 (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 : 16th April, 2003

DIRECTORS' REPORT

To,

The Shareholders,
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twenty first Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2002.

1. FINANCIAL RESULTS

	Current Year Rupees ('000)	Previous Year Rupees ('000)
Income from sale of product and Parts	42,601	34,632
Job work	7,990	10,405
Income from interest, sale of scrap & Sundry receipts	2,859	2,987
Loss before Depreciation, Interest, Taxation & Extra Ordinary items	2,077	14,664
Extraordinary items:		
Provisions written back	1,178	17,707
Exchange gain/(Loss)	(27,599)	2,669
Profit/(Loss) before Depreciation Interest and Taxation	(30,854)	5,712
Depreciation	8,423	9,360
Interest	28,046	25,826
Loss before Tax	67,323	29,474
Provision for Wealth tax	44	37
Loss after tax	67,367	29,511
Brought forward balance of previous year losses	397,432	367,921
Cumulative losses	<u>464,799</u>	<u>397,432</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, Scraps & surplus capacity (Job Work) and other sundry receipts was up to Rs.53.45 Mio. compared to previous year income of similar nature of Rs.48.03 Mio. The other income includes provisions no longer required of Rs.1.18 Mio. as against the previous year of Rs.17.71 Mio. While there was an 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. in the previous year, your company had to book a loss of Rs.27.6. Mio. for the year under review.

While depreciation provision is down to Rs.8.4 Mio. (previous year Rs.9.4 Mio.), the amortization against Voluntary Retirement Scheme is down to Rs.9.8 Mio. from the previous year of Rs.10.8 Mio.

Besides reduction in personnel cost of Rs.12.8 Mio as against the previous year of Rs.16.6 Mio, administrative and other manufacturing costs were also brought down to Rs.10.05 Mio. from Rs.12.6 Mio. in the previous year.

Interest on cash credit has been consistently brought down. All outstanding dues to State Bank of India have been paid off completely in August 2002 and the cash credit account closed by them. Since then, the company has been financing its operations from day to day cash generation. Since 1998, the company has paid back to State Bank of India Rs.26.7 Mio. plus interest on reducing balances. The high interest provision of Rs.28 Mio. as against the previous year's of Rs.25.8 Mio. was on account of increase in the principal amount of foreign currency loans as a result of exchange variation and also increase in the interest obligation as a result of additional 53 employees having retired under voluntary retirement scheme in 2002. The whole of the VRS amount of Rs.6.4 crores to 304 employees so far retired under VRS remains unpaid and is subject to payment of interest @ 12.5%.

3. PERFORMANCE OF THE CURRENT YEAR:

Income during the first quarter has been Rs.14.22 Mio. (previous year Rs.10.89 Mio). After providing for depreciation, interest and amortization of 20% of the amount under VRS, the Company has reported a loss of Rs.8.1 Mio. (previous year Rs.11.07 Mio) for the period. Efforts to improve the overall performance do continue.

4. DIVIDEND

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

5. CONSOLIDATED BALANCE SHEET:

In compliance with the Stock Exchange directions, the Company has prepared a consolidated account of the Company and its subsidiary, Gujarat Textronics Ltd., which is also attached hereto.

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, 2002 and the Directors' Report of the subsidiary Company Gujarat Textronics Ltd, are annexed hereto.

7. 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 1997. 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 1989-93 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 discontinued 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 discontinued, 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 makes tremendous contribution to the Indian economy. 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 14 in 2002.

(c) Segment wise performance.

The operations of the Company are in single segment of Textile Machinery. The income from Draw Frame for the year under review was up to Rs.9 Mio. compared to 6 Mio. in the previous year. Income from sales of spare parts was also up to Rs.33.6 Mio. compared to Rs. 28.6 Mio. in the previous year.

(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. In 1998/99, the Company evolved an acceptable VRS scheme and the employees strength was reduced from 534 in 1997 to 86 in December 2002, including 53 employees in the year under review. The Company has treated the VRS amounts of Rs. 64 Mio. 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. The amount payable under the VRS has a charge over the Vadodara property. The present strength of personnel employed by the company is 124 comprising of 86 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 give 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 42 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 a one-time settlement of their dues. A revised scheme was 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.

8. 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:

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
Mr. CBK Pillai 09-02-1995	Managing Director overall Management	B.A., LLB, A.C.S. 32 years	Rs. 3,97,966/-	52	Eimco Elecon (India) Ltd. Company Secretary 4 years

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.

9. DIRECTORS

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

10. DISCLOSURE OF INFORMATION ON ENERGY CONSERVATION & 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

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 under trial run to ascertain its Intended capability.
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.5,37,920/-
 - (c) Total : Rs.5,37,920/-
 - (d) Total R&D expenditure as a percentage of total turn over : 1.06 %

TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION

1. Efforts in brief, made towards: technology adaption, absorption, & 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 indigenization. However, high cost of production on account of high personnel, administrative and interest costs dampened the sales leading to its discontinuance.
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.

- 10 A 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. Nil. The total foreign exchange used for imports and on account of various remittances amounted to Rs.8.991Mio.

11. AUDITORS

The tenure of Shah & Shah Associates as Auditors of the Company expires at the conclusion of the 21st Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

12. BOARD'S EXPLANATION ON THE AUDITORS' REMARKS

The explanation of the Board on the Auditors' remarks appearing in clause v(i) to v(vii) of the Auditors' Report are as under:

- v(i) Note 3 of Schedule 19 to the accounts. A turn around of the Company is possible with the introduction of a new product agreed to be considered by the Collaborators of the Company subject to the Government of Gujarat permitting change in the land use of the Company's Vadodara property and the Financial Institutions granting the relief and concession sought by the company. The gains arising out of the sale of the company's Vadodara property and the concessions from the Financial Institutions & Collaborators will substantially wipe out the Company's cash losses.
- v(ii) Note 4 and Note 10 of Schedule 19. The investment & in the subsidiary (Gujarat Textronics Limited) was a trade investment to make it a captive unit for supplying electronic goods to your Company. No provisions 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 job work, services and supply of spares. As a first step, it has already reduced the personnel strength to save personnel cost. As regards advances given to GTL, it is repaying out of its cash generation and will continue to do so. In view of the reduction in the cost of operations and the ongoing efforts to enhance the performance, your Company expects that GTL would, over a period of time, repay its loan liabilities to the Company.
- v(iii) Note 8 of Schedule 19: The Company is making efforts to dispose off 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 these cannot be sold as spares in the near future. It is now too early to treat these as totally non-moving.
- v(v) Note 22 of Schedule 19 The idleness of plant and machinery is as a result of lack of demands for the Company's products. It is precisely for this reason that the Board felt it necessary to introduce a new product as stated above. The introduction of new product also envisages additional machinery. The surplus existing machinery will be disposed off after obtaining approval from BIFR and effect thereof would be given in the accounts thereafter.

v(vi) Note 23 & 24 With regard to the recovery of & outstanding debts, constant reminders have been and v(vii) are being sent to all the parties. The Company has also been reminding the parties for confirmation of the balances. The books of accounts of the Company have been kept as per the invoices raised by the Company and appears to be correctly reflected. In cases, where the company has felt the debts as doubtful, provisions have already been made.

In case of any other remarks in the Auditors' Report, wherever they appear, adequate clarifications are provided in the notes on Schedule 19 to the accounts.

13. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217 (2AA) of the Companies Act, 1956, your Directors confirm that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures. The Directors have selected appropriate accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st December, 2002 and of the loss of the Company for the financial year January 1, 2002 to December 31, 2002. Proper and sufficient care has been taken 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. The annual accounts have been prepared on a going concern basis.

14. CORPORATE GOVERNANCE:

Transparency, accountability and full disclosure in compliance with the law are the governing factors at SEIL, which is committed to enhance the shareholders' value in the long term as its ultimate objective, while contributing to the welfare of the employees, state revenue and public interest.

Board Meetings:

Four meetings of the Board of Directors were held during 2002 on 29th January 2002, 12th April 2002, 18th July 2002 and 29th October 2002. Sufficient notice was given to all the directors before the board meeting and an agenda setting out all the details of the subject matter was circulated to all the directors with the notice convening the meeting.

COMPOSITION OF BOARD:

Name of the Director	Category	Attendance of Board Meetings during 2002	Attendance of last AGM	Other Director Ship	Chairman	Remuneration
Mr. Josef Steiger	*NED Chairman	4	Yes	4	1	NIL
Mr. Martin Börger	*NED	NIL	No	NIL	NIL	NIL
Mr. CBK Pillai	Managing Director	4	Yes	1	NIL	3,97,966/-

* NEDs (Non Executive Directors) are persons nominated by the majority shareholder - Reiners Verwalltungs GmbH, Germany and are employees of its group companies. Except as above, they do not have any other material pecuniary relationship or transaction with the company.

None of the Directors is related to any other Director. In view of its sick status, the company is not able to obtain services of any other additional independent directors on the Board for fear of their getting themselves disqualified as the Company has made default in payment of interest on, and repayment of, Debentures issued to the Financial Institutions. Remuneration to Managing Director includes Basic Salary, Housing & other allowances, Company's contribution to Provident Fund, Superannuation & Gratuity Fund and medical expenses, but does not include use of Car for official purpose/ attending to the Official duties. The remuneration is fixed and no performance linked incentive is payable. Except the Managing Director, no other Directors receive any pecuniary benefit from the Company. The Managing Director is under a service contract for a period of three years commencing 1st January 2002 to 31st December 2004. His service is terminable by giving 6 months notice. There are no severance fees except as provided in Section 318 of the Companies Act, 1956. The Company has not introduced any stock option.

Mr Steiger (who is a non executive director and Chairman of the Board and the Company) is not paid either any remuneration or any other expenses of whatsoever nature including traveling expenses to attend board meetings or general meetings. The Company has not maintained any Office for him in India at the expenses of the company. He is a member and chairman of Audit committee and is also chairman of Shareholders' committee.

RE-APPOINTMENT OF DIRECTORS:

Mr. CBK Pillai, aged 52 years has been in the Company as a Company Secretary from February 1995 till he was appointed as Jt. Managing Director from June 1998. A Chartered Secretary by profession and a Graduate in Law; he has more than 32 years experience in various fields including Corporate Management, Legal affairs, Finance, etc. He has been responsible for the restructuring operations of the company for its survival and is currently engaged in the preparation of a revival scheme and is therefore reappointed as Managing Director for a further period of 3 years from January 2002. He is a member cum Secretary of the Audit Committee.

AUDIT COMMITTEE:

The Company has constituted an Audit Committee on 30th January 2001. The members of the committee are (i) Mr. Josef Steiger (Non Executive Director & Chairman), (ii) Mr Martin Börger (Non Executive Director) & (iii) Mr. CBK Pillai (Managing Director).

The Audit Committee is vested with the power to examine all the aspects of the Company's business, approve capital expenditure and utilization of credit facilities, suggesting remedial measures on issues that can be raised in the Internal Auditors' Report, Statutory Auditors' Report and other Management reports being generated from time to time, review of quarterly performance, cost reduction measures, compliance with statutory regulations, interaction with the Statutory Auditors and officers of the Company and other matters specified in Clause 49 of Listing Agreement and Section 292A of the Companies Act, 1956. The Audit Committee had its meetings on 29th January, 27th June, 18th July and 29th October in the year 2002. All these meetings were attended by Mr Josef Steiger, the Chairman and Mr CBK Pillai, the Managing Director of the Company.

SHAREHOLDERS'/INVESTORS' COMMITTEE:

Way back in 1995, the Company had delegated the power to the Company Secretary to ensure quick transfer of shares and attending to investors' grievances. Mr. CBK Pillai has been appointed as the Compliance Officer overseeing the investors' grievances. All transfers, where the transfer deeds are received duly executed are effected on a weekly basis. This work is being satisfactorily done and there has not been any pending complaint or transfers to be effected as on date. On 29th January, 2002 a Shareholders'/Investors' Grievance Committee headed by the Chairman of the company was formed to review the status of investors' grievances and redressal mechanism and to suggest measures to improve the level of investor services.

COMPENSATION AND REMUNERATION COMMITTEE:

As the Company has no intention to pay any remuneration to any of the Directors other than Managing Director no need was felt to constitute a Compensation and Remuneration Committee of Directors. The remuneration to the Managing Director is with the approval of the Board of Directors and is further with the approval of Shareholders of the Company in the General meeting. The package of remuneration was set out in the explanatory statement to the notice sent to the shareholders convening general meeting.

GENERAL BODY MEETING:

The previous 3 General Body Meetings were held as under :

Annual General Meeting	Day, Date & Time	Venue
18th Annual General Meeting	Friday, 30.06.2000 at 2.00 p.m.	Registered Office of the Company at Vishwamitri Road, Lalbaug, Vadodara
19th Annual General Meeting	Thursday, 28.06.2001 at 2.00 p.m.	Registered Office
20th Annual General Meeting	Thursday, 27.06.2002 at 2.00 p.m.	Registered Office

DISCLOSURES:

The Company or its subsidiary - Gujafat Textronics Ltd - has not entered into any contract or transaction of material nature that may have a potential conflict with the interest of the company or its subsidiary with any of the directors or their relatives or promoters during the year. There were no penalties or strictures imposed on the company by the Stock Exchanges or SEBI or any other statutory authority on any matter related to Capital Markets during the last 3 years.

Quarterly Results of 2002:

The Quarterly results of 2002 are published as under :

	Date of Publication
First Quarter	17.04.2002
Second Quarter	19.07.2002
Third Quarter	31.10.2002
Fourth Quarter	17.01.2003

MEANS OF COMMUNICATION:

The quarterly results and half yearly results of the Company are sent to the Stock Exchanges immediately after they are approved by the Board. The Stock Exchange should be in a position to put it on its website. The quarterly results are also published in Loksatta/Jansatta in vernacular language and in Indian Express/

Business Standard in English language within 48 hours of the approval by the Board.

GENERAL SHAREHOLDERS INFORMATION

The 21st Annual General Meeting will be held on Friday, the 27th June 2003 at 2.30 p.m. at the Registered Office at Vishwamitri Road, Near Lalbaug, Vadodara - 390001. All communications should be addressed to the Registered Office. The Company follows calendar year (January-December) as its financial year. The Register of members and the share transfer books of the company will remain closed from Thursday, the 19th June, 2003 to Saturday, the 21st June, 2003 (both days inclusive). In view of the net loss during the year under review, no dividend has been recommended either on equity or on cumulative convertible preference shares. The Company's Equity Shares are listed on Vadodara Stock Exchange (Regional Stock Exchange), The Stock Exchange, Mumbai and The Stock Exchange, Ahmedabad. The Company has been paying Listing Fees regularly to all the Stock Exchanges except The Stock Exchange, Ahmedabad, since 1998-99 where there is virtually no dealing in the Equity Shares. The stock code allotted is 710020. The Company had 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 Sept 1996. Each CCP was converted into one equity share of Rs. 10 each on 18th Sept 2002. The company issued Equity share certificate at the time of allotment of CCP. On conversion the present equity capital strength had increased from 12930131 equity shares of Rs.10 each fully paid up to 19395196 Equity Shares of Rs. 10 each from 18.09.2002. The Company has not issued any GDRs/ADRs/Warrants. The Company's plants are located in Baroda at the premises at its Registered Office and the second one in Chandrapura Village, Halol, Panchmahal Dist. - both in Gujarat. The Company has obtained a resolution to sell the Vadodara property from the Shareholders at the meeting held on 23rd April, 1998 and to dispose of surplus Plant & Machinery and other Assets at their meeting on 27.06.2002.

Market Price Data:

The High & Low market prices of the shares at The Stock Exchange, Mumbai are as under:

Month	Sensx			
	Highest	Lowest	Highest	Lowest
January 2002	-	-	3437.78	3298.79
February 2002	1.45	1.45	3712.74	3311.73
March 2002	1.50	1.50	3690.27	3466.29
April 2002	-	-	3512.55	3301.21
May 2002	-	-	3462.01	3114.05
June 2002	3.00	1.45	3362.42	3161.09
July 2002	4.25	2.25	3357.66	2990.91
August 2002	2.40	2.00	3119.18	2950.09
September 2002	-	-	3187.26	2991.36
October 2002	-	-	3009.76	2834.41
November 2002	-	-	3228.82	2948.04
December 2002	-	-	3398.00	3207.36

Share Transfer Agents:

The Company is doing all the share transfer work since 15th April 1999. All the share transfer deeds are processed quickly and share certificates are posted within 7 to 10 days from the date of receipt on an average. Incomplete share transfer deeds are returned to the transferees with a request to return after rectifying the deficiencies pointed out.

With effect from 9th October 2000, the Company's Equity Shares are admitted in Dematerialized Form through the Central Depository Services (India) Ltd. (CDSL). The Sharepro Services has provided the Company necessary connectivity for the purpose. So far 3.30% of Equity Shares is held in Dematerialized Form with CDSL.

Distribution of Shareholding:

Equity Shares:

Sr. No.	No. of Equity Share held	No. of Share holders	No. of Shares	Percentage of Share holding
i)	Up to 5000	22663	2499598	12.89
ii)	5000 - 10000	913	739344	3.81
iii)	10001 - 20000	352	547963	2.83
iv)	20001 - 30000	126	323884	1.67
v)	30001 - 40000	44	158575	0.82
vi)	40001 - 50000	61	295055	1.52
vii)	50001 - 100000	66	472258	2.43
viii)	100001 & above	73	14358519	74.03
		24298	19395196	100.00

Shareholding Pattern:

Equity Shares:

	No. of Shares	Percentage
i) Foreign Collaborators	10431019	53.78
ii) Foreign Institutional Investors	32150	00.17
iii) Mutual Funds	147070	00.76
iv) Financial Institutions	60000	00.31
v) Resident Body Corporates	2166244	11.17
vi) Non Resident Body Corporate	584000	03.01
vii) Non Resident Individuals	68391	00.35
viii) Public	5906322	30.45
	19395196	100.00

15. INSURANCE

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

16. 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

Place: Mumbai
Date : 16th April, 2003

JOSEF STEIGER
CHAIRMAN

AUDITORS' CERTIFICATE ON CLAUSE 49 COMPLIANCE

The Board of Directors
Schlafhorst Engineering (India) Ltd.

We have reviewed the records concerning the Company's compliance of conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement entered into, by the Company, with the Stock Exchanges of India, for the financial year ended 31st December 2002.

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

Based on such a review, in our opinion, the Company has complied with conditions of Corporate Governance, as stipulated in Clause 49 of the said Listing Agreement.

We further state that, such compliance is neither an assurance as to the future viability of the Company, nor as to the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For SHAH & SHAH ASSOCIATES.
Chartered Accountants.

Place : Mumbai
Dated : 16.04.2003

PARTNER.
(MUKESH B. BANKER)