

# Schlafhorst | Saurer Group



## SCHLAFHORST ENGINEERING (INDIA) LIMITED

22ND ANNUAL REPORT & ACCOUNTS-1ST JANUARY 2003 TO 31ST DECEMBER 2003

**BOARD OF DIRECTORS**

Mr. Josef Steiger	- Chairman
Mr. Martin Börger	- Director (upto 11th March 2004)
Mr. A.K. Bhagwati	- Director (from 11th March 2004)
Mr. Sanjay Asher	- Director (from 11th March 2004)
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  
E-mail : seil@satyam.net.in

**WORKS**

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

**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 SECOND 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 6th May 2004 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 2003 and the Balance Sheet as at that date together with the reports of the Directors and Auditors.
2. 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**

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

"RESOLVED THAT Mr. A.K. Bhagwati, who was appointed under section 262 of the Companies Act, 1956 as Director in the Casual Vacancy of Mr. Martin Börger and whose term of Office expires at this Annual General Meeting and in respect of whom the Company had received a notice from a Member under section 257 of the Companies Act 1956 proposing his candidature, be and is hereby appointed as Director of the Company."

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

"RESOLVED THAT Mr. Sanjay Asher who was appointed under section 260 of the Companies Act, 1956, as Additional Director of the Company and whose term of Office expires at this Annual General Meeting and in respect of whom the Company had received a notice from a Member under section 257 of the Companies Act 1956 proposing his candidature, be and is hereby appointed as Director of the Company."

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

"RESOLVED THAT subject to the confirmation of the High Court of Gujarat / National Company Law Tribunal and / or any specified authority, if such confirmation is required or stipulated by the Board for Industrial & Financial Reconstruction (BIFR), the issued and paid up Equity Share Capital of the Company be and is hereby reduced from Rs. 19,39,51,960/- divided

into 1,93,95,196 Equity Shares of Rs.10/- each to Rs.5,81,85,588/- divided into 1,93,95,196 Equity Shares of Rs.3/- each fully paid up and that such reduction be effected by canceling Rs.7/- per Equity Shares on each and every one of the 1,93,95,196 issued and paid up Equity Shares of Rs.10/- each.

RESOLVED FURTHER THAT the Clause V of the Memorandum of Association and Article 3 of the Articles of Association be altered accordingly.

RESOLVED FURTHER THAT for the purpose of giving effect to the above, the Directors of the Company be and are hereby authorized to give such directions as they may think fit and proper including directions for settling any question or difficulties that may arise and to do all acts, deeds, matters and things of whatsoever nature as the Directors in their absolute discretion consider expedient and proper."

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

"RESOLVED THAT the existing Clause V of Memorandum of Association be and the same is hereby altered by substituting therefor the following article:

"V. The Authorized Share Capital of the Company is Rs.34,00,00,000/- (Rupees Thirty four Crores only) divided into 6,00,00,000 (Six Crores only) Equity Shares of Rs.3/- (Rupees Three only) each, 1,20,00,000/- (one crore twenty lacs only) Cumulative Convertible Preference Shares of Rs.10/- (Rupees Ten only) each (carrying such rights as to dividend and liable to be converted into Equity Shares on such terms as may be decided by the Board of Directors) and 40,00,000 (Forty lacs only) Redeemable Preference Shares of Rs.10/- (Rupees Ten only) each, with power to increase or reduce such capital from time to time in accordance with the regulations of the Company and the legislative provisions for the time being in force in this behalf with power to divide the shares in the capital for the time being whether original or increased into several classes and attach thereto any preferential, deferred, special or qualified rights, privileges and conditions, as may be determined by or in accordance with the Articles of Association of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the Company."

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

"RESOLVED THAT the existing article 3 (a) of the Articles of Association be and the same is hereby altered by substituting therefor the following article:

"3 (a) The Authorized Share Capital of the Company is

Rs.34,00,00,000/- (Rupees Thirty four Crores only) divided into 6,00,00,000 (Six Crores only) Equity Shares of Rs.3/- (Rupees three only) each, 1,20,00,000/- (one crore twenty lacs only) Cumulative Convertible Preference Shares of Rs.10/- (Rupees Ten only) each (carrying such rights as to dividend and liable to be converted into Equity Shares on such terms as may be decided by the Board of Directors) and 40,00,000 (Forty lacs only) Redeemable Preference Shares of Rs.10/- (Rupees Ten only) each, with power to increase or reduce such capital from time to time in accordance with the regulations of the Company and the legislative provisions for the time being in force in this behalf with power to divide the shares in the capital for the time being whether original or increased into several classes and attach thereto any preferential, deferred, special or qualified rights, privileges and conditions."

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

"RESOLVED THAT the Equity Shares of the Company be de-listed from the Vadodara Stock Exchange Ltd. & Ahmedabad Stock Exchange in accordance with the provisions of the guide lines issued by SEBI from time to time.

FURTHER RESOLVED THAT the Board of Directors of the Company be and are hereby authorized to agree to such terms & conditions which they may consider appropriate and to do all such acts, deeds, matters & things as may in their absolute discretion deem necessary, proper or desirable and settle any question, difficulty or doubt that may arise in regard to de-listing of equity shares from Vadodara Stock Exchange Ltd. & Ahmedabad Stock Exchange.

RESOLVED FURTHER THAT the authority be and is hereby also given to the Board of Directors if in its absolute discretion, it thinks fit so, in the interest of the Shareholders generally of the Company, to de-list the Company's Equity Shares from The Stock Exchange, Mumbai, and get the Shares listed in National Stock Exchange Ltd."

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: 11th March, 2004

#### 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, ROC Bhavan, Opp. Rupal Park, Naranpura, Ahmedabad 380 013.
8. The Register of Members and the Share Transfer Books of the Company will remain closed from Monday, the 3rd May, 2004 to Wednesday, the 5th May, 2004 (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: 11th March, 2004

**EXPLANATORY STATEMENT:**

The following Explanatory Statement sets out all material facts relating to Item Nos. 3 to 8 in the accompanying Notice of the Annual General Meeting to be held on Thursday, the 6th May 2004 at the Registered Office of the Company at Vadodara.

**Item No. 3**

On 11th March 2004, Mr. A.K. Bhagwati was appointed as Independent Director in the Casual Vacancy of Mr. Martin Börger, who resigned. Mr. Martin Börger would have retired at the ensuing Annual General Meeting had he continued as Director. Mr. A.K. Bhagwati will retire at the ensuing Annual General Meeting. The Company has received a notice under section 257 of the Companies Act, 1956, from a Member of the Company signifying his intention to propose Mr. A.K. Bhagwati as a Director of the Company at the ensuing Annual General Meeting.

Born in 1932, Mr. Bhagwati is BE (Mech. & Elect.) from Pune University (1953) and has wide experience in promoting and managing several business enterprises and is currently the head of ATE Group of enterprises. He is also the Chairman & the Director of several other companies.

Except Mr. A.K. Bhagwati, none of the other Directors is in any way concerned or interested in the above resolution.

**Item No. 4**

Mr. Sanjay Asher was appointed as Additional Director (Independent) on 11th March 2004 and holds Office only up to the date of this Annual General Meeting. The Company has received a notices from a Member of the Company as required under section 257 of the Companies Act, 1956 signifying his intention to propose Mr. Sanjay Asher as Director of the Company at the ensuing Annual General Meeting.

Mr. Asher is a legal practioner with wide experience and is Director of some Companies.

Except Mr. Sanjay Asher none of the other Directors is in any way concerned or interested in the above resolution.

**Item No. 5**

The accumulated losses of the Company after giving effect to the debt and interest remissions by the Secured Creditors and the Collaborators is Rs.35.05 crores as on 31st December 2003. It would be impossible to bring the net worth of the Company positive within a reasonable time with the existing operations. There is no immediate plan to induct any new product. If the Company is liquidated, the realization from the assets as and when it happens, would not be sufficient enough to liquidate all the liabilities of the Company. In order to save the Company and protect the interest of the Creditors, the employees and the Shareholders, the only alternative is to reduce at least a part of the issued and paid up capital un-represented by any available assets to bring the net worth positive and to take the Company out of BIFR. This will give freedom to the Company to charter its future course of action in the interest of all the stake-holders.

The reduction is proposed to be attained by writing off and canceling Rs.7/- from each and every one of the 19395196 Equity Shares of the Company by reducing the face value of each of the issued and paid up equity shares from Rs.10/- each to Rs.3/- each. The reduction will take effect only if BIFR approves the Scheme. According to the Company, confirmation of the High Court / National Company Law Tribunal is not required if BIFR approves the Scheme with the reduction.

The Company will not issue any new Share certificates. The existing share certificates will be retained by the Shareholders and a Sticker indicating the reduced amount from Rs.10/- to Rs.3/- would be issued to all the Shareholders to enable them to paste it on the share certificates held by them. The Stickers will be sent to all the Members, whose name appear on the Register of Members of the Company on the date on which the reduction of capital become effective on the date on which the BIFR approves the scheme or as the Directors may determine.

**Item Nos. 6 & 7**

The Resolution Nos. 7 & 8 are consequential in nature. After the reduction, the face value of the authorized, issued and paid up equity capital will be Rs.3/- per share instead of Rs.10/- per share.

**Item No. 8**

The Company's Equity Shares are currently listed in Vadodara Stock Exchange Ltd. (Regional Stock Exchange), The Stock Exchange, Ahmedabad & The Stock Exchange, Mumbai. There is practically no or only negligible dealing in Vadodara Stock Exchange Ltd. & The Stock Exchange, Ahmedabad. In order to save cost of operations, it has been proposed that the Equity Shares bearing Distinctive Nos 1 to 19395196 of the Company be de-listed from Vadodara Stock Exchange Ltd. & The Stock Exchange, Ahmedabad. The authority is also sought to be obtained from the Shareholders to de-list the shares from The Stock Exchange, Mumbai and get the shares listed in National Stock Exchange Ltd. at appropriate time if this is in the interest of the Shareholders.

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 : 11th March, 2004

**DIRECTORS' REPORT**

To,

The Shareholders,

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twenty second Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2003.

**1. FINANCIAL RESULTS**

	Current Year Rupees (‘000)	Previous Year Rupees (‘000)
Income from sale of product and Parts	37,369	42,601
Job work	18,894	7,990
Income from interest, sale of scrap & Sundry receipts	4,356	2,859
Loss before Depreciation, Interest, Taxation & extra Ordinary items	478	4,433
Extraordinary items:		
Provision written back including Debt/interest remission	177,644	1,178
Obsolete assets Written Off	(8,378)	-
Exchange gain/(Loss)	(17,780)	(27,599)
Profit/(Loss) before Depreciation, Interest and Taxation	151,008	(30,854)
Depreciation	8,228	8,423
Interest	28,401	28,046
Profit/(Loss) before Tax	114,379	(67,323)
Provision for Wealth tax	37	44
Profit/(Loss) after tax	114,342	(67,367)
Brought forward balance of previous year losses	464,799	397,432
Cumulative losses	<u>350,457</u>	<u>464,799</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.60.62 Mio compared to previous year income of similar nature of Rs.53.45 Mio an increase of more than 13% over the previous year. The improvement in

the operating performance is on account of increase in the job work (Auxiliary and power converter panels for Indian Railways) to Rs.18.9 Mio compared to the previous year of Rs.8.0 Mio. The income from this business is expected to improve in future. As against the sale of 14 Draw Frames in the previous year, the Company could sell 16 Draw Frames in the year under review. Due to recession, the sale of Spare Parts did not pick up as expected. The Company has been making provisions for interest on secured loans availed from the Financial Institutions & Banks and on unsecured foreign currency loans from the Collaborators. The Company out of a secured loan from its Collaborators have repaid all the liabilities to the Financial Institutions & Banks by way of an One Time Settlement (OTS). The provision made in the Balance Sheet for liability to the Secured Creditors / Financial Institutions & Banks aggregating to Rs.89.3 Mio which is in excess of the OTS and which is no longer required is now written back and shown in Schedule 15 of the Balance Sheet under the head other income.

**3. ISSUE OF 168,895 - 9% NON CUMULATIVE REDEEMABLE PREFERENCE SHARES TO, & WAIVER OF LOANS AND INTEREST BY, THE COLLABORATORS:**

The Shareholders passed a Resolution on 20th June 1997 for issue of 9% Non Cumulative Redeemable Preference Shares to the Collaborators of the Company by conversion of their interest free loan of DM 1.55 Mio. The Government of India & Reserve Bank of India has approved on 20th January 1998 & 16th May 1998 respectively for issue of 168,895 - 9% Non Cumulative Redeemable Preference Shares of Rs.10/- each to the Collaborators by converting DM 0.85 Mio interest free loan out of DM 1.55 Mio. Loan. The Company has not yet issued the preference shares. The Shares will be issued at an appropriate time after the reduction of Equity Share Capital comes into effect. The remaining DM 0.70 Mio interest free loan has already been waived by the Collaborators. They also waived the outstanding interest of Rs.349 lacs accrued on other Foreign Currency Loans and also DM 1.04 Mio out of 1.44 Mio 7.5% interest bearing loan, aggregating to Rs.878 lacs. These waivers are shown in the profit & loss account of the year under review under the heading other income in Schedule 15.

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

Income during the first two months has been Rs.9.94 Mio (previous year Rs.8.48 Mio). After providing for depreciation, interest and amortization of 20% of the amount under VRS, the Company has reported a loss of Rs.0.28 Mio. (previous year Rs. 5.07 Mio.) for the period. Efforts to improve the overall performance do continue. The order Booking for the first quarter for Draw Frame has been Rs.15.8 Mio.



## 5. REVIVAL SCHEME

The Company was declared as sick by the Board for Industrial & Financial Reconstruction (BIFR) on 24th March 2000, which asked ICICI Bank Ltd. - the Operating Agency, to submit a rehabilitation scheme. A draft scheme put up by the Company to the Operating Agency on 4th July 2000, was not acceptable to the Secured Creditors / Financial Institutions / Banks as such.

In the meanwhile, the Company paid off all the outstanding loans to all the Secured Creditors / Financial Institutions / Banks by way of an One Time Settlement in December 2003 and got the properties released from all the charges. The OTS with the Secured Creditors / Financial Institutions / Banks was made possible by way of a loan of Rs.5,81,42,470/- obtained from the Collaborators on the security of the whole of property of the Company. The security will be created in favour of the Collaborators in terms of Resolution of the Shareholders dated 23rd April 1998. The charge to the Collaborators for this loan will be subject to the right of workmen retired under Voluntary Retirement Scheme to the extent of Rs.53.60 Mio.

The Company will dispose off all the surplus and obsolete equipments / machineries and Vadodara land and buildings in terms of the authority given by the Shareholders by their Resolution dated 23rd April 1998 and 27th June 2002. A large number of machineries installed in Vadodara will be shifted to Halol for the purpose of continuing the production of components required for Draw Frame. The surplus capacity in Halol released by the discontinuation of Autoconer is being used to produce job work. Company has been manufacturing Panels for Auxilliary & Power Converters required by Indian Railways on a job work basis since last few years and the business from this source is expected to go up in the coming years.

With the write back of interest and debt remissions by the Secured Creditors and the Collaborators, as shown in Sr. No. 2 & 3 above the accumulated losses of the Company has been reduced to Rs.350 Mio as on 31st December 2003. As it would not be possible to bring the net worth positive with the normal operations and the loss is un-represented by any available assets, it is necessary to reduce the Equity Share Capital from Rs.193.9 Mio to Rs.58.1 Mio to bring the net worth positive within a reasonable time. There will not be any reduction in the Reserves & Surplus of Rs.62.3 Mio. The reduction of Equity Share Capital by Rs.135.8 Mio will bring the accumulated losses of Rs.350 Mio down to Rs.214.2 Mio as against the reduced net worth (Reserves & Surplus) of Rs.120.5 Mio. The capital gains arising out of the sale of surplus assets and the Company's Vadodara Land, which it proposes to execute in the current year itself will reduce the accumulated losses to Rs.122.1 Mio as against the net worth of Rs.137.4 Mio. with the issue of Rs.16.9 Mio preference Share as mentioned earlier. If these materialize and also based on the projected financials, it is possible for the Company to

bring its net worth positive by end of the current year itself and accordingly the Company is proposing to make an application to BIFR for the de-registration of the Company as Sick Company. The realization from the Sale of properties will be utilized for payment of money amounting to of Rs.53.6 Mio due to the employees retired under VRS and also repayment of interest bearing loans to the Collaborators. This will reduce the interest burden of the Company. The projected financials with the existing line of operations, envisage the accumulated losses of the Company to be brought down to around Rs.70 Mio by end of 2011 as against the net worth of Rs.137.4 Mio.

## 6. DIVIDEND

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

## 7. 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.

## 8. 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, 2003 and the Directors' Report of the subsidiary Company Gujarat Textronics Ltd, are annexed hereto. The state of affairs of the Subsidiary as reviewed by the Board are stated in its Board Report attached hereto.

## 9. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

### (a) Industry structure and development

SEIL is an Indo-German joint venture. Textile Machineries, comprising of Autoconers, Speed Frames and Draw Frames have been the main products of the Company. Due to high cost of production, Speed Frame and Autoconer production was discontinued in 1996 & 1998 respectively. The only product now the Company produces is High Speed Draw Frames. The capacity released by the discontinuation of Autoconer & Speed Frame has been redeployed to carry out the job work.

### (b) Opportunities and Threats

The fortunes of the textile machinery industry are determined by the fortunes of the user industry - the textile industry. A sizable portion of the user 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 (TUF) 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 TUF. The sale of Draw Frame has been taking a downward trend from 19 in 2000 to 18 in 2003.

(c) Segment wise performance.

The operations of the Company are in a single segment of Textile Machinery. The income from Draw-Frame for the year under review was up to Rs.10 Mio compared to 9 Mio in the previous year. Income from sales of spare parts was Rs.27.3 Mio compared to Rs.33.5 Mio in the previous year. The poor performance of Spares Parts was due to recession in the Industry during the year under review.

(d) Material development in Human Resources:

There has not been any material development in the year under review than those reported last year.

(e) Outlook, risk and concerns:

i) 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. Under the Technology Upgradation Scheme, only Draw Frame with Autoleveller is permitted for concessional financing. The sale of Draw Frame has been taking a down ward trend. Its off take is expected to pick up this year.

ii) Since 1998, the Company resorted to a drastic cost reduction in all areas including Labour. The present employees strength other than Contract Labour is 83. All the outstanding loans to the Financial Institutions & Banks have been paid off. The Company does not avail any working capital from Banks. All its operations are from the internal accruals.

iii) A serious concern is non availability of a viable long term sustainable product. With the transfer of all important machineries from the Vadodara Factory to its Halol Factory, the Company will have a good set up of Fabrication & Machining under a single roof. With the sale of land and other surplus assets, the Company expects to pay off the remaining liability to the Employees retired under VRS and part of the Secured Loans from the Collaborators. All these will further save the cost of operations of the Company. Your Directors are now looking for measures to use its available capacity and facilities in the best interest of the Shareholders.

(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. Elaborate monthly Management Information System reports are prepared and submitted

to the Board for its review. These are also discussed by the Audit Committee.

## 10. 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. C.K. Pillai 09-02-1995	Managing Director overall Management	B.A., U.B. A.C.S. 33 years	Rs. 7,96,838	53	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.

## 11. DIRECTORS

Mr. A.K. Bhagwati has been appointed on 11th March 2004 as an Independent Director of the Company in the casual vacancy of Mr. Martin Börger, who resigned. The Directors put on record their appreciation of the meritorious services rendered by Mr. Börger to the Company during his tenure as a Director of the Company. The Board has appointed Mr. Sanjay Asher as an Independent Additional Director at its meeting held on 11th March 2004. Mr. A.K. Bhagwati & Mr. Sanjay Asher will retire at the ensuing Annual General Meeting. They are eligible for reappointment. The Board recommends that they be appointed as Directors.

## 12. DISCLOSURE OF INFORMATION ON ENERGY CONSERVATION & TECHNOLOGY ABSORPTION

### A) Conservation of Energy

The Company continues to take all possible steps to conserve energy.

### 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 : It is expected to 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.5,37,592/-
- (c) Total : Rs.5,37,592/-
- (d) Total R&D expenditure as a percentage of total turn over : 0.96 %

#### TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION

1. Efforts in brief, made towards technology absorption, adaption and 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.

#### 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.205 thousands. The total foreign exchange used for imports and on account of various remittances amounted to Rs.6.73 Mio.

#### 13. AUDITORS

The tenure of Shah & Shah Associates as Auditors of the Company expires at the conclusion of the 22nd Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

#### 14. BOARD'S EXPLANATION ON THE AUDITORS' REMARKS

The explanation of the Board on the Auditors' remarks appearing in the Auditors' Report are as under:

##### 1. Disqualification of Directors:

Mr. Josef Steiger and Mr. CBK Pillai have been the Directors of the Company since 1998 and Mr. Martin Börger since 2000. They are not disqualified from being appointed as Directors in the same Company as Section 274 (1) (g) refers to their appointment or re-appointment in any other Company.

The Company has already repaid the Debentures and there is no outstanding as on 31st December 2003.

##### 2. The note 3 of Schedule 19 to the accounts is self explanatory.

v(i) 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. 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(ii) Note 6 of Schedule 19. As the secured loan from the Collaborators is received by middle of December 2003. It was not considered necessary to provide interest for 15 days. The interest will be provided during the next year.

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(vi) Note 23 With regard to the recovery of outstanding debts, constant reminders have been and 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.
- v(vii)

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.

## 15. 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, 2003 and of the loss of the Company for the financial year January 1, 2003 to December 31, 2003. 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.

## 16. CORPORATE GOVERNANCE REPORT:

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:

Five meetings of the Board of Directors were held during 2003 on 14th January 2003, 16th April 2003, 27th June 2003, 19th July 2003 and 30th October 2003. 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 Meeting during 2003	Attendance of Last AGM	Remuneration (Rs. in lacs)	In other Companies		
					Director-Ship	Committee Member	Chairmanship of a Committee
Mr. Josef Steiger	*NED, Chairman, Non-Rotational, Promoter	5	Yes	NIL	3	-	-
Mr. Martin Börger	*NED, Rotational, Promoter	NIL	No	NIL	NIL	-	NIL
Mr. CBK Pillai	Managing Director, Rotational, Executive	5	Yes	7.97	1	-	NIL
**Mr. A.K. Bhagwati	Independent, Rotational	Appointed as Director on 11th March 2004			12	1	NIL
**Mr. Sanjay Asher	Independent, Rotational	Appointed as Additional Director on 11th March 2004			-	-	-

\* NEDs (Non Executive Directors) are persons nominated by the majority shareholder - Reiners Verwaltungen 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. The Chairman is a Non-rotational Director and is also Chairman of the Company's Subsidiary, Gujarat Textronics Limited. He is also the Chairman of the Shareholders' Grievance Committee and a Member of Audit Committee of the Company.

\*\*Mr. A.K. Bhagwati & Mr. Sanjay Asher are Independent Directors and Chairman & Member respectively of the Audit Committee from 11th March 2004

None of the Directors is related to any other Director. Remuneration to Managing Director includes Basic Salary, Housing & other allowances, Company's contribution to Provident Fund, Superannuation & Gratuity Fund and medical expenses. 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 of Audit committee and is also chairman of Shareholders' committee.

## AUDIT COMMITTEE:

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