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SCHLAFHORST ENGINEERING (INDIA) LIMITED

23rd ANNUAL REPORT & ACCOUNTS-1ST JANUARY 2004 TO 31ST DECEMBER 2004

SCHLAFHORST ENGINEERING (INDIA) LIMITED

BOARD OF DIRECTORS

Mr. Josef Steiger	- Chairman
Mr. A.K. Bhagwati	- Director (From 11 th March 2004)
Mr. Sanjay Asher	- Director (From 11 th March 2004)
Mr. C.U. Mai	- Director (From 28 th October 2004)
Mr. K.M. Thanawalla	- Director (From 28 th October 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 64,65,065 - 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 THIRD 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 21st April, 2005 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 2004 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.

SPECIAL BUSINESS

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

“RESOLVED THAT Mr. C.U. Mai 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 an Ordinary Resolution:

“RESOLVED THAT Mr. K.M. Thanawalla 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.”

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

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

“V The authorized Share Capital of the Company is Rs.34,00,00,000 (Rupees thirty four crores only) divided in to 2,00,00,000 (Two crores only) Equity Shares of Rs.10/- (Rupees Ten only) each and 1,40,00,000 (One crore fourty lacs only) Cumulative Redeemable 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) 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 2,00,00,000 (Two Crores only) Equity Shares of Rs.10/- (Rupees Ten only) each and 1,40,00,000 (one crore fourty lacs only) Cumulative Redeemable 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) 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 and to vary, modify or abrogate any such rights, privileges or conditions”.

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

"RESOLVED THAT the Registered Office of the Company situated at Vishwamitri Road, Near Lalbaug, Vadodara, Gujarat be shifted to the Company's Works at Chandrapura Village, Tal. Halol 389350, Dist. Panchmahals, Gujarat, with effect from 1st July, 2005 and the Board of Directors be and are hereby authorized to take such actions as are required to comply with the provisions of law as a result of this change in the situation of the Registered Office including maintenance of registers & returns as specified in Section 163 of the Companies Act, 1956."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII to the said act and subject to such approvals as may be necessary or required, the Company hereby approves the reappointment of and terms of remuneration (including minimum remuneration) payable to Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2005 and ending on 31st December, 2006 on the terms & conditions as set out in the letter of appointment/agreement submitted to this meeting and initiated by the Chairman for the purpose of identification which letter of appointment/agreement is hereby specifically sanctioned with a liberty to the Board of Directors to alter and vary the terms and conditions of the said reappointment including the terms of remuneration during the currency of the agreement as may be agreed to between the Board of Directors and Mr. Pillai.

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

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office:

Vishwamitri Road, Near Lalbaug,
Vadodara - 390 001, Gujarat

Place: Mumbai

Date: 25th January, 2005

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, upto 30th June, 2005 & to Chandrapura Village, Tal. Halol 389350, Dist. Panchmahals, Gujarat, from 1st July, 2005 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.
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 Monday, the 18th April 2005 to Wednesday, the 20th April, 2005 (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: 25th January, 2005

EXPLANATORY STATEMENT:

The following Explanatory Statement sets out all material facts relating to Item Nos. 4, 5, 6, 7, 8 & 9 in the accompanying Notice of the Annual General Meeting to be held on Thursday, the 21st April 2005 at 2.30 p.m. at the Registered Office of the Company at Vadodara.

Item No. 4 & 5

Mr. C.U. Mai & Mr. K.M. Thanawalla were appointed as Additional Directors on 28th October 2004 and holds office only up to the date of the Annual General Meeting. The Company has received notices from the Members of the Company as required u/s 257 of the Companies Act, 1956 proposing Mr. CU Mai & Mr. KM Thanawalla as Directors of the Company at the ensuing Annual General Meeting. Mr. CU Mai, aged around 39 years, is a Master of Business Administration and has held top positions as Managing Director and Finance Controller in other Foreign Companies. He is presently serving as Finance Controller in Zinser, Germany, and is also CFO (Vice Chairman Finance Team Leader) of its Indian Group Companies and has wide experience. He is the Director of some other companies. Mr. KM Thanawalla, aged 62 years, is a Chartered Secretary by profession and has wide managerial experience in the field of Textile Mills & Textile Machinery industries and is the Director of some other companies. He is also the Managing Director of Saurer India Pvt. Ltd. Both of them are nominees of the Collaborators.

Except Mr. CU Mai & Mr. KM Thanawalla, none of the other Directors is in any way concerned or interested in the above resolution.

Item No. 6 & 7

The total issued Equity Capital of the Company was Rs.12,93,01,310/- In September, 2002, 64,65,065 – 9% Cumulative Convertible Preference Shares of Rs. 10/- each aggregating to Rs. 6,46,50,650/- were compulsorily and automatically converted in to Equity Shares raising the total Equity Capital to Rs. 19,39,51,960/- When the Authorized Capital was last altered, the total Equity Capital was written as 18,00,00,000/-, which was incorrect and this was due to an oversight. This is now sought to be rectified by increasing the Authorized Equity Capital to Rs.20,00,00,000/-, which will reflect the correct position now prevailing. The Authorized Preference Share Capital will be Rs.14,00,00,000 as against the total issued Preference Shares of Rs.12,40,00,000/-. There will not be any legal implication for this as the stamp duty fee was already paid for the total Capital of Rs.34,00,00,000/-.

Memorandum & Articles of Association of the Company is open for inspection of the members between 2 pm to 4 pm on any working day except Sunday at the Registered office of the Company.

Item No. 8

With the shifting of the Company's operations from Vadodara to Halol, it is proposed to shift the Registered Office of the Company also. This will save cost as large space is required at huge cost in Baroda to store and maintain all the Shareholders Secretarial records of the Company. However, in order to attend the Investors' grievances and meet the Shareholders and for other follow up activities a small office will be maintained in Vadodara

at 38 Tower A, Ground Floor, Unad Deep Township, GIDC – Tarsali Ring Road, Tarsali, Vadodara – 390 010. Halol is well connected with all infrastructure and communication facilities.

Item No. 9

- A. The Board of Directors of the Company by a Resolution passed on 7th December 2004, has re-appointed Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2005 and ending on 31st December, 2006 subject to the approval of the Members in the General Meeting.
- B. Mr. Pillai, aged more than 54 years, has been in the Company as Company Secretary from February 1995 and as Managing Director from 1.6.1998 and besides being a Law graduate is a Chartered Secretary by profession with more than 34 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc.
- C. Considering his contribution in restructuring the company, the Board of Directors is of the view that his continued services are required for two more years for its successful completion.
- D. The terms and conditions of his appointment are as under:

Terms of Remuneration:**a. Salary:**

Rs. 4,98,000/- (Rupees Four lacs Ninety eight thousand only) per annum including Children's educational allowances as may be permissible under the income tax Act, 1961 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, refrigerators, domestic servants, gardener etc. 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 use thereof at the cost of the Company. The monetary value of the above 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, domestic servants, gardener etc 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/Medical insurance:

Personal Accident Insurance/medical 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.5,000/- (Rupees Five thousand only) p.m. In the case of differed annuity, no interest shall accrue to him, until the date of retirement or death, whichever is earlier.

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. 15,000/- (Rupees Fifteen thousand only) per month shall be reimbursed to him.

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) and Children's educational allowance not exceeding Rs.2,400/- p.a. & personal development allowance of Rs.36,000/- p.a. shall not exceed Rs.7,02,000/- (Rupees Seven lacs Two thousand only) 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.

xi. He shall be entitled to such performance allowance not exceeding Rs. 5,00,000/- per annum as may be determined by the Board of Directors.

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

F. 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 :

G. As 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 that 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.

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

I. 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.

J. 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/- (Rupees Thirty thousand only) p.a. against bills to be produced.

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

L. Either Party shall be at liberty to terminate the service by giving not less than 6 months notice in writing in advance and by complying with the provisions of Companies Act, 1956.

M. 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.

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

O. 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.

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

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office:

Vishwamitri Road, Near Lalbaug,
Vadodara - 390 001, Gujarat

Place: Mumbai

Date : 25th January, 2005

DIRECTORS' REPORT

To,
The Shareholders,
SCHLAFHORST ENGINEERING (INDIA) LIMITED
Your Directors submit their Twenty Third Annual Report
& Audited Statement of Accounts for the year ended on
31st December, 2004.

1. FINANCIAL RESULTS

	Current Year Rupees (‘000)	Previous Year Rupees (‘000)
Income from sale of product and Parts	49,473	34,932
Job work	21,211	16,576
Income from interest, sale of scrap & Sundry receipts	7,254	4,356
	<u>77,938</u>	<u>55,864</u>
Profit/(Loss) before Depreciation, Interest, Taxation & extra ordinary items	18,527	(478)
Extraordinary items:		
Provision written back including Debt/interest remission	-	177,644
Obsolete assets Written Off	-	(8,378)
Exchange gain/(Loss)	1,011	(17,780)
Profit/(Loss) before Depreciation, Interest and Taxation	19,538	151,008
Depreciation	6,277	8,228
Interest	10,166	28,401
Profit/(Loss) before Tax	3,095	114,379
Provision for Wealth tax	37	37
Profit/(Loss) after tax	3,058	114,342
Brought forward balance of previous year losses	350,457	464,799
Cumulative losses	<u>347,399</u>	<u>350,457</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.77.9 Mio compared to previous year income of similar nature of Rs.55.9 Mio an increase of around 40% over the previous year. The improvement in the operating performance is on account of increase in the job work to Rs.21 Mio from 16.6 Mio and the sale of Draw Frames to 37 Nos. from 16 Nos. in the

previous year. The income from job work is expected to improve in future. The sale of Spare Parts remained at the last year's level. There has been an increase of more than 60% in other income mainly on account of lease rent received from sub-letting of one of its Factory Sheds lying idle at Halol Factory. This overall improvement in the income level compared to that of previous year has resulted into a gross operating profit (before depreciation, interest & taxation) of Rs.18.5 Mio as against the loss of Rs. 0.5 Mio in the previous year. After providing for depreciation, interest & taxation the Company has attained a net profit of Rs.3.1 Mio. The previous year's profit figure of Rs.114 Mio was on account of write back of interest provisions on foreign currency loans and Institutional loans and waiver by them of certain loans aggregating to Rs.177.6 Mio. and write off of obsolete asset of Rs. 8.3 Mio. & provision of exchange loss of Rs. 17.7 Mio on foreign currency loans. The accumulated losses as at 31st December 2004 is Rs.347 Mio as against the share capital and reserves of Rs.380 Mio making the net worth of the Company positive by Rs.33 Mio.

3. ISSUE OF 1,24,00,000 4% CUMULATIVE REDEEMABLE PREFERENCE SHARES TO THE COLLABORATORS:

The Company has issued, on the authority of special resolution passed by the Shareholders at their Extraordinary General Meeting on 30th August 2004, 1,24,00,000 - 4% Cumulative Redeemable Preference Shares of the face value of Rs.10/- each aggregating to Rs. 124 mio. to the Collaborators of the Company - Saurer GmbH & Co. KG, redeemable any time after December, 2006 but before the expiry of 20 years from the date of allotment. The Preference Shares were allotted on 28th October, 2004. The Preference Shares were issued by converting the whole of the Secured Loan of Rs.5,81,42,000/- and an Unsecured Loan of Rs.6,58,58,000/- obtained from the Collaborators in the previous years. The balance Unsecured Loan payable to the Collaborators is Euro 1.01 Mio (Rs.6,02,93,000/-). The excess provision of Rs.10,11,000/- on account of exchange rate variation has been written back to the Profit & Loss A/c. As a condition of this conversion of loans in to preference shares, the Collaborators have sought a charge on all the fixed assets of the Company for which an application has already been made to the Government authorities. The Unsecured Loan is over due for repayment and an extension has been sought for a maximum period of 2 years. However, this loan is repayable any time on sale of Vadodara property. The purpose of the issue of the above Preference Shares was to make the Company's net worth positive. From the current and projected future operations of the Company, the Directors have come to a conclusion that it is not possible to make the net worth positive in the near future. An option for reduction of

capital was considered, which was subsequently dropped. It is also not possible to pay all the Unsecured Loans either from the operations of the Company or from the sale of Vadodara property. The Directors, therefore, prevailed upon the Collaborators to either waive these Unsecured Loans or to accept Preference Shares. As there was no other alternative, the Collaborators finally agreed to accept the proposal of the above issue of Preference Shares.

4. PERFORMANCE OF THE CURRENT YEAR:

Efforts to improve the overall performance and to meet the projected financials will continue. The total orders booked and pending execution as on 25th January, 2005 is Rs.13.2 Mio.

5. REVIVAL SCHEME

The Company was declared as sick by the Board for Industrial & Financial Reconstruction (BIFR) on 24th March 2000. BIFR directed 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 a 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.

After the aforesaid OTS, the Operating Agency on 20th September 2004 has submitted a draft rehabilitation scheme to the BIFR for its consideration. A brief summary of the projected financials of the Company for the period 2004 to 2011 is as under:

Rs.in Lakhs

Details	2004	2005	2006	Year 2007	2008	2009	2010	2011
Net Sales	580	580	610	610	610	610	610	610
Non-operational income								
Including sale of property	1110	42	42	42	42	42	42	42
Profit after tax	875	56	86	100	95	96	92	88
Equity Capital	1940	1940	1940	1940	1940	1940	1940	1940
4% Cumulative Redeemable Preference Shares	1241	1241	1241	1241	1241	1241	1241	1241
Reserve & Surplus	623	623	623	623	623	623	623	623
Total Shareholders fund	3804	3804	3804	3804	3804	3804	3804	3804
Accumulated losses	2687	2601	2494	2390	2292	2196	2104	2016
Net worth	1117	1203	1310	1414	1512	1608	1700	1788
Total liabilities	1497	1484	1518	1620	1717	1812	1904	1990
Net Block	380	328	277	226	175	126	79	32
Other Assets	1117	1156	1241	1394	1542	1686	1825	1958
Total Assets	1497	1484	1518	1620	1717	1812	1904	1990

The projected financials for 2004 have not been achieved, as the scheme was not approved before 31st December 2004. However, it is hoped that the scheme will be

approved early this year. After the scheme is approved, the Company will dispose off the Vadodara land, buildings, surplus and obsolete equipments / machineries. A large number of machineries, which can be used for producing Draw Frame components will be shifted to its Halol Factory.

The Company does not have any plan for introduction of any new product. The overriding consideration is to liquidate all the existing interest bearing liabilities of the Company including foreign currency loans and the liabilities to the employees, who retired under VRS as shown in Schedule 4 & 11 of the attached balance sheet. The Company has not received any commitment from the Collaborators to introduce any new product. It, therefore, proposes to continue and expand with the existing operations of Draw Frames, job work and supply of spare parts.

The accumulated losses as at 31st December 2004 is Rs.34.74 crores as against the share capital & reserves of Rs.38 crores. If the approval of the scheme and sale of Vadodara property takes place in 2005, the Directors feel that it may be possible to maintain the net worth of the Company as projected in the draft rehabilitation scheme.

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, 2004 and the Directors' Report of the subsidiary Company Gujarat Textronics Ltd, are annexed hereto.

9. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

(a) Industry structure and development

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 productions were 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 sizeable 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 16 in 2003. However, the sale of Draw Frame has increased to 37 in 2004. At present, the company does not have any plan to introduce any new product. Its overriding priority is to liquidate all interest bearing liabilities.

(c) Segment wise performance.

The operations of the Company are in a single segment of Textile Machinery – High Speed Draw Frame. The job work being done by the company and the spare parts being supplied to the Textile Machines sold by it have not been considered as separate product segments.

(d) Material development in Human Resources:

There has not been any material development in the year under review.

(e) Outlook, risk and concerns:

- i) With the single product – the Draw Frame – which has demand mainly 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. However, its off take is increased to 37 in the year under review. Due to paucity of funds and lack of R&D facilities the Company has not been able to make any material design improvement in the existing Draw Frame, which is an old design and facing increase in competition from latest design and Autoleveller Draw Frames.
- 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 financed 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 the Unsecured Loans obtained 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. CBK Pillai 09-02-1995	Managing Director Overall Management	B.A., LLB A.C.S. 34 years	Rs.6,64,362	54	Einco 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. CBK Pillai retire by rotation at the ensuing Annual General Meeting and is eligible for re-appointment. The Board recommends that he be reappointed as Director.

Mr. CBK Pillai has been instrumental in restructuring the operations of the Company including One Time Settlement with the Financial Institutions and the revival of the Company under the overall guidance of the Board of Directors and the Chairman of the

Company. His term came to end on 31st December, 2004. His services are required to implement the rehabilitation scheme and the Board after careful consideration recommends that he be re-appointed for a further period of 2 years from 1st January 2005. The resolution for his re-appointment with explanatory statement has been incorporated in the notice convening the Annual General Meeting.

Mr. C.U. Mai & Mr. K.M. Thanawalla have been appointed as Additional Directors on 28th October 2004. They are to be appointed by the Shareholders at the ensuing Annual General Meeting as Directors of the Company liable to retire by rotation. The Board recommends that they be appointed as Directors of the Company.

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 : R & D efforts to develop an Autoleveller Draw Frame were discontinued as it was found to be not cost effective.
2. Benefits derived as a result : Nil
3. Future Plan of action : Nil
4. Expenditure on R&D : Nil
 - (a) Capital :
 - (b) Revenue :
 - (c) Total :
 - (d) Total R&D expenditure as a percentage of total turn over : N A

TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION

1. Efforts in brief, made towards technology absorption, adoption & 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, : 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 : N.A.
(imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished.

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.118 thousands. The total foreign exchange used for imports and on account of various remittances amounted to Rs.10.15 Mio.

13. AUDITORS

The tenure of Shah & Shah Associates as Auditors of the Company expires at the conclusion of the 23rd 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. On going concern – 1(vi) (i) Note 3 of Schedule 19.
This has been clarified in Para 5 of this Report. The Company has made a profit in this year and expects to continue as projected in Para 5 of this Report.
2. Investment and advances to Gujarat Textronics – 1(vi) (ii & iv), Notes 4 & 9 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 adequate profit. The operations of GTL is being currently managed with some personnel deputed by your Company to carry out specific job work on chargeable basis, as GTL has no employees on its role. The operations of GTL and the Company's exposure to it by way of advances and investment would be reviewed in the current year and suitable steps will be taken to safe guard