



SCHLAFHORST ENGINEERING (INDIA) LIMITED

BOARD OF DIRECTORS

Mr. Josef Steiger	- Chairman (up to 19th April 2007)
Mr. A.K. Bhagwati	- Director
Mr. Sanjay Asher	- Director
Mr. C.U. Mai	- Director (up to 19th April 2007)
Mr. K.M. Thanawalla	- Director
Mr. P.K. Banerji	- Special Director appointed by BIFR (from 30.09.2005)
Dr. Dirk Burger	- Director (from 19th April 2007)
Mr. Bjoern Bajan	- Director (from 19th April 2007)
Dr. Uwe Krueger	- Director (from 19th April 2007)
Mr. CBK Pillai	- Managing Director

COMPANY SECRETARY

Mr. CBK Pillai

AUDITORS

Shah & Shah Associates

REGISTERED OFFICE & WORKS

Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, 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. 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 FIFTH ANNUAL GENERAL MEETING of the members of SCHLAFHORST ENGINEERING (INDIA) LIMITED will be held at the Registered Office of the Company, Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat, on Monday, the 4th June, 2007 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 2006 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. KM Thanawalla, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and if thought fit, to pass with or without modification, the following resolution as 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, 2007 and ending on 31st December, 2009 on the terms & conditions as set out in the letter of appointment/agreement submitted to this meeting and initialed by the Chairman for the purpose of identification which letter of appointment/agreement is hereby specifically sanctioned with a liberty to the Board of Directors to alter and vary the terms and conditions of the said reappointment including the terms of remuneration during the currency of the agreement as may be agreed to between the Board of Directors and Mr. Pillai.

Where the reappointment and/or remuneration require the approval of any authority under any law, such approval shall be obtained within such time as may be prescribed and the Board of Directors be and is

hereby authorized to do such things as may be required to give effect to this resolution."

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

"RESOLVED THAT Dr. Dirk Burger, 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 has 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 an Ordinary Resolution:

"RESOLVED THAT Mr. Bjoern Bajan 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 has 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."

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

"RESOLVED THAT Dr. Uwe Krueger 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 has 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."

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office:
Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, Gujarat.
Place: Mumbai
Date : 19th April, 2007

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., Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat, 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., Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat.
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 Register of Members and the Share Transfer Books of the Company will remain closed from Thursday, the 31st May, 2007 to Saturday, the 2nd June, 2007 (both days inclusive).

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office:
Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, Gujarat.
Place: Mumbai
Date : 19th April, 2007

EXPLANATORY STATEMENT

The following Explanatory Statements set out all material facts relating to Item Nos. 4 to 7 in the accompanying Notice of the Annual General Meeting to be held on Monday, the 4th June 2007 at the Registered Office of the Company at Halol.

Item No. 4

- A. The Board of Directors of the Company by a Resolution passed on 16th December 2006, has re-appointed Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2007 and ending on 31st December, 2009 subject to the approval of the Members in the General Meeting.
- B. Mr. Pillai, aged more than 56 years, has been in the Company as Company Secretary from February 1995 and as Managing Director from 1.6.1998 and is a Chartered Secretary by profession with more than 38 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 three more years for its successful completion/consolidation.
- D. The terms and conditions of his appointment are as under:

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

Rs. 12,00,000/- (Rupees Twelve lacs only) per annum including Children's educational allowances as may be permissible under the income tax Act, 1961 and all other allowances with an annual increment @ 5% of the salary as above.

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 user thereof at the cost of the Company. The monetary value may be evaluated as per the Income-tax Rules, 1962.

The above is subject to the following:

- The expenditure incurred by the Company in hiring an unfurnished accommodation, 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.
- House rent allowance payable to him shall be limited to 25% of the salary & allowances stated above.
- 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), Children's educational allowance not exceeding Rs.2,400/- p.a., personal development allowance of Rs.36,000/- p.a. and lease or hire rentals for any vehicle that may be hired or obtained on lease by you shall not exceed Rs.6,00,000/- (Rupees Six lacs 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.10,00,000 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 Friday being weekly off.

Item No. 5

On 19th April 2007, Dr. Dirk Burger was appointed as additional Director. 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 Dr. Burger as a Director of the Company at the ensuing Annual General Meeting.

Dr. Burger, 46, German citizen, is Managing Director (Geschäftsführer) of Saurer Verwaltungs GmbH, Germany (Saurer GmbH & Co. KG, Mönchengladbach, Germany). Starting January 1, 2007 he assumed management responsibilities as Chief Financial Officer of Oerlikon Saurer Textile. Dr. Burger was previously Chief Executive Officer of the Business Unit Twisting of Saurer Textile where he was in full responsibility of the Twisting business. Further more he is and was member of the Textile board (Textile Leadership Team) of Saurer/Oerlikon. Dr. Burger studied Business and Administration at the University of Cologne, Germany and began his career as auditor for Coopers & Lybrand. He later moved to Krupp Industrietechnik as Business Unit Controller. Starting from 1990 he has been for 10 years Managing Director of Monforts Textilmaschinen, Mönchengladbach/Germany. Dr. Burger brings in a wide range of management experience in textile machine business in Asia (project leader for Joint Ventures in China and in India). He would be a permanent Director not liable to retire by rotation.

Except Dr. Burger, none of the other Directors is in any way concerned or interested in the above resolution.

Item No. 6

Mr. Bjoern Bajan was appointed as Additional Director on 19th April 2007 and holds Office only up to the date of this Annual General Meeting. The Company has received a

notice from a Member of the Company as required under section 257 of the Companies Act, 1956, signifying his intention to propose Mr. Bjoern Bajan as Director of the Company at the ensuing Annual General Meeting.

Mr. Bajan, 47, Swiss citizen, is a member of the Oerlikon executive board. Starting February 1, 2007 he assumed management responsibilities as General Counsel. Mr. Bajan is an attorney specialized in business law, banking and stock exchange law as well as international legal practice. Mr. Bajan was previously a partner in the renowned Zurich law firm, Haymann & Baldi. He studied at the University of Zurich and Queen Mary College in London, and has been a practicing attorney since 1989. He is member of various boards of directors, including Pilatus Aircraft Ltd., Von Roll Inova AG and JM Juedische Medien AG. He is liable to retire by rotation.

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

Item No. 7

Dr. Uwe Krueger was appointed as Additional Director on 19th April 2007 and holds Office only up to the date of this Annual General Meeting. The Company has received a notice from a Member of the Company as required under section 257 of the Companies Act, 1956, signifying his intention to propose Dr. Krueger as Director of the Company at the ensuing Annual General Meeting.

Dr. Krueger, 42, German citizen, is a member of the Oerlikon executive board. Starting March 1, 2007 he assumed management responsibilities as Chief Operating Officer (COO). Dr. Krueger was previously Senior Vice President of the Turner Corp., Dallas, where he was primarily responsible for the international business and the company's strategic further development in the American market as well as M&A projects. Dr. Krueger studied Physics, Mathematics and Economic Science at the University of Frankfurt and began his career as a consultant at the consulting firm A.T. Kearney. He later moved to Hochtief, where he was head of Corporate Development and the Research and Development Department, among other positions held. Dr. Krueger also brings with him a wide range of management experience in Eastern Europe, including as CEO of Hochtief Central/Eastern Europe. He is liable to retire by rotation.

Except Dr. Krueger, none of the other Directors is in any way concerned or interested in the above resolution.

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

CBK PILLAI
MANAGING DIRECTOR

Registered Office:
Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, Gujarat.
Place: Mumbai
Date : 19th April, 2007

DIRECTORS' REPORT

To,
The Shareholders,
SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twenty Fifth Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2006.

1. FINANCIAL RESULTS

	Current Year Rupees ('000)	Previous Year Rupees ('000)
Net Income from manufacturing	84,941	59,943
Income from trading in spare parts	23,491	20,020
Other income	11,409	8,499
Total operating income	119,841	88,462
Depreciation	5,462	6,426
Interest	4,211	9,386
Profit/(Loss) before Tax & exceptional items	6,792	570
Provision for Wealth tax	57	37
Profit/(Loss) after tax and before exceptional items	6,735	533
Exceptional items:		
Exchange gain on foreign currency loans	-	5,877
Profit on Sale of Vadodara property	157,224	-
Loss on obsolete assets/ inventories/ investments written off	58,649	-
Plant shifting expenses	3,660	-
Profit/(Loss) after Tax and exceptional items	101,650	6,410
Brought forward balance of previous year losses	340,989	347,399
Cumulative losses	239,339	340,989
Net worth	140,944	39,294

2. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

- a) Manufacturing income consists of the sale of 63 nos. of Draw Frames of the aggregate value of Rs.55.42 mio as against 45 nos. of the aggregate value of Rs. 37.29 mio in the previous year and job work aggregating to Rs. 42.84 mio as against Rs. 30.24 mio in the

previous year. The income from the job work constitutes around 45% of the total manufacturing income. The nominal increase in income from sale of spare parts is mainly on account of increase in the price and in quantitative terms it will have negative growth in the coming years on account of phasing out of AC138 & AC238 Autoconers in the market. Other income includes rental income of Rs. 5.1 mio (Rs.1.3 mio in the previous year) from subletting part of the company's Factory premise surplus to its current requirement.

- b) In 2006, the company sold its Vadodara Plant (land and buildings) through an Asset Sale Committee as per guidelines specified in the revival scheme approved by the BIFR. Bids, invited through advertisement, were received by the Operating Agency, ICICI who brought them and opened in the presence of the members of the Asset Sale Committee consisting of the Special Director appointed by the BIFR, nominee of ICICI and the Managing Director of the company and the property was sold for Rs.165.2 mio to the highest bidder at the same meeting on the same day. The sale was approved by the BIFR and full payment was received. The money was applied for payment of outstanding loans, dues to the employees retired under the Voluntary retirement scheme, sales tax arrears, expenses for shifting the machineries and equipments from Vadodara Plant to Halol Plant, renovation of machinery in Halol Plant and the balance will be applied for redemption of preference shares at appropriate time.

- c) The company has fully paid off all long term liabilities of the company except redemption of preference shares issued in October, 2004 and repayable anytime after December, 2006 within 20 years from the date of issue. It has not made any default in payment of any of its statutory liabilities.

3. DIVIDEND

In view of the carried forward accumulated losses, your Directors do not recommend any Dividend for the year under review.

4. REVIVAL SCHEME

- a) The Company had submitted a Revival Scheme to the Board for Industrial & Financial Reconstruction (BIFR) in September 2004. The BIFR approved the Scheme in August 2005.
- b) The accumulated losses of the company were Rs.289 mio in 1998 which rose to Rs.527 mio

in 2003. By end 2006, the accumulated losses were brought down to Rs.239 mio which is less than what it was in 1998.

- c) The company has substantially implemented the revival scheme approved by BIFR. The net worth of the company has become positive by Rs.141 mio as at 31 December, 2006 and therefore, subject to the availability of remaining concessions especially under the provisions of the Income Tax Act, as contained in the approved scheme, the company has made an application to BIFR on 18th November, 2006 to deregister it from BIFR, whose order is awaited.
- d) The Company has identified certain obsolete inventories of the value of Rs.29.96 Mio (net of excise & realizable value) lying unsold since several years despite best efforts, certain old machineries & equipments of the value of Rs.4.24 Mio (net of realizable value) and it was considered in the best interest of the Company to write off these and to sell. These assets & inventories were sold in March 2007 by an Asset Sale Committee consisted of the Special Director, an independent chartered accountant and the CEO of the Company. The Company has also written off certain bad debts amounting to Rs.3.68 Mio. As the Company's Subsidiary - Gujarat Textronics Ltd. - has become defunct, it was considered necessary to write off the investment of Rs.7.10 Mio made by the Company in its equity shares and also an advance paid to it amounting to Rs.13.67 Mio.
- e) A brief summary of the financials projected in the approved BIFR Scheme for the period 2004 to 2011 and the actual is as under:

Rs.in Lakhs

Details	Projected in the scheme									Actuals		
	2004	2005	2006	2007	2008	2009	2010	2011		2004	2005	2006
Net Sales	580	580	610	610	610	610	610	610		707	800	1084
Non operational Income including sale of property	1110									82	144	1686
Profit after tax	875	56	86	100	95	96	92	88		31	64	1017
Equity Capital	1940	1940	1940	1940	1940	1940	1940	1940		1940	1940	1940
4% Cumulative Redeemable Preference Shares	1241	1241	1241	1241	1241	1241	1241	1241		1240	1240	1240
Reserve & Surplus	623	623	623	623	623	623	623	623		623	623	623
Total Shareholders fund	3804	3804	3804	3804	3804	3804	3804	3804		3804	3804	3804
Accumulated losses	2687	2601	2494	2390	2292	2196	2104	2016		3521	3431	2393
Net worth	1117	1203	1310	1414	1512	1608	1700	1788		282	372	1410
Total Liabilities	1497	1484	1518	1620	1717	1812	1904	1990		1822	1933	1764
Net Block	380	328	277	226	175	126	79	32		503	489	421
Other Assets	1117	1156	1241	1394	1542	1686	1825	1958		1319	1444	1343
Total Assets	1497	1484	1518	1620	1717	1812	1904	1990		1822	1933	1764

5. PERFORMANCE OF THE CURRENT YEAR:

Total income from sale of draw frames, job work, rental income and other receipts for the first quarter ended on 31st March, 2007 was Rs.38.81 Mio with a net profit of Rs.6.6 Mio. Efforts to improve the overall performance and to exceed the financials projected in the BIFR approved revival scheme will continue. The total orders booked and pending execution as on 31st March 2007 stood at Rs.50.37 Mio.

6) ISO 9001 : 2000

The Company has on 5th February 2007 obtained ISO 9001 : 2000 certificate for design, manufacturing, supply and servicing of High Speed Draw Frame Machines and manufacture and supply of spares for the same and manufacture and supply of boxes for auxiliary converters with spares.

7. SUBSIDIARY COMPANY

Gujarat Textronics Ltd (GTL) was a subsidiary of the company as a captive unit to produce electronic components for the Autoconers produced by the company. With the discontinuation of Autoconers in 1997, the operation of the subsidiary came to a standstill and in October, 2006 an application was made to the Registrar of Companies to remove its name as defunct company under section 560 of the Companies Act, 1956. The Registrar of the Companies has on 23rd March, 2007 published a notice that unless cause is shown to the contrary the name of the company will be struck off from the Register and the company will be dissolved. There are no asset and liabilities as on 30th Sept, 2006/31st December, 2006 and hence no consolidated accounts have been prepared. However, the audited accounts as at 30th Sept 06 have been annexed to this account for the information of the members. The investment made in GTL and advance given to it have been written off.

8. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

(a) Industry structure and development

The company is currently engaged in the manufacture of Draw Frame Textile Machinery, which is used as a spinning preparatory machine by the textile mills. The company has been manufacturing this product since 1984. The autoconer product introduced in that year was discontinued in 1997. Currently, it does not have any other product in its portfolio, except job work and sale of spare parts for autoconers and draw frame.

(b) Opportunities and Threats

The textile industry in India is showing sign of growth 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

which the customers prefer to choose from a single source and even its single product Draw Frame is Non Autoleveller. Mills increasingly prefer Autoleveller Draw Frame. At present, the company does not have any plan to introduce any new product.

c) OC Oerlikon Corporation

In January, 2007 Saurer AG, which owns your holding company - W. Reiners Verwaltungs GmbH, Germany (WRV), was taken over by the swiss based OC Oerlikon Corporation AG, Pfaffikon, Churerstrasses 120, 8808 Pfaffikon SZ (Community of Freienbach), Switzerland (Oerlikon). WRV holds 53.78% of the total issued and paid up equity share capital of your company. As a result of that, Oerlikon is required to make a public offer to the shareholders of your company to acquire from them a minimum 20% of the equity shares held by them. ICICI Securities Ltd, ICICI Centre, HT Parekh Marg, Churchgate, Mumbai, is the managers to the offer. On 9th February, 2007 Oerlikon has made a public announcement and you are advised to seek further information from ICICI Securities Ltd. in respect thereof if desired. The Board of Directors of your company does not have any information from Oerlikon as to their future plans with respect to your company.

d) Segment wise performance.

The operations of the company are in a single segment of Textile Machinery - High Speed Draw Frame. The job work and the sale of spare parts are not considered as separate product segments.

e) Material development in Human Resources:

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

f) Outlook, risk and concerns:

Since 1998 your company has been operating with a single product - the Draw Frame which has demand mainly from the replacement market, income from job work and the sale of textile machinery parts, most of which are imported. 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 increasing competition from latest design and Autoleveller Draw Frames. However, SEIL is in a position to supply the draw frame with PLC in place of PCB. A serious concern which the company still continues to face 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 has a good set up of Fabrication & Machining under a single roof. Your Directors are trying to use

these facilities in the best interest of the Shareholders. There has not been any commitment from the company's collaborators or the new owners - Oerlikon for introduction of any new product.

(g) 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 Audit Committee /the Board of Directors. Every month, a detailed Management report containing statistics on sales, income and expenses of the company is being submitted to the Audit Committee and the Board for their review.

9. 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. 38 years	Rs.17,00,000	57	Elmco Elecon (India) Ltd. Company Secretary 4 years

Notes:

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

10. DIRECTORS

1. Mr. CU Mai has resigned from the Board effective 19th April 2007 after the conclusion of the Board meeting held on that day. Mr. Mai has been a Director on the Board since 28th October 2004 and the Board puts on record its deep appreciation of the dedicated services rendered by Mr. Mai.
2. Mr. Josef Steiger has resigned from the Board effective 19th April 2007 after the conclusion of the Board meeting held on that day. Mr. Steiger has been on the Board of the Company since 1996 and also the Chairman of the Board and of the Company. Mr. Steiger has

successfully steered the Company during its difficult time & achieved its turn around. The Board puts on record its deep appreciation of the dedicated services rendered by Mr. Steiger.

3. Mr. CBK Pillai's term as Managing Director came to an end on 31st December 2006. He has successfully turned around the Company and for the purpose of consolidating the gains, the Board has re-appointed him for a further period of 3 years effective 1st January 2007 to 31st December 2009 as Managing Director on the terms & conditions as appearing in the notice convening the ensuing Annual General Meeting. The Board recommends you for his re-appointment.

4. Mr. KM Thanawalla retires by rotation at the ensuing Annual General Meeting and is eligible for re-appointment. The Board recommends that he be reappointed as Director.

Born on 24th December, 1942, Mr Thanawalla is a graduate in Commerce, Fellow of Institute of Chartered Secretaries & Administration, besides an associate of Textile Institute UK and British Institute of Management. He is presently the Managing Director of Saurer India P Ltd, Bombay and has held various senior positions since 1965.

5. Your Collaborators, W. Reiners Verwaltungs GmbH, has nominated Dr. Dirk Burger as permanent Director. Dr. Dirk's bio data is given in the explanatory statement attached to the notice convening the 25th Annual General Meeting. The Board recommends you for his appointment as a permanent Director.
6. Mr. Bjoern Bajan & Dr. Uwe Krueger, the nominees of your Collaborators, W. Reiners Verwaltungs GmbH, have been appointed as Additional Directors.

Their bio data are given in the explanatory statement attached to the notice convening the 25th Annual General Meeting. The Board recommends you for their appointment as Directors liable to retire by rotation.

11. 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 : NIL
2. Benefits derived as a result : NIL
3. Future Plan of action : NIL
4. Expenditure on R&D
 - (a) Capital : NIL
 - (b) Revenue : NIL
 - (c) Total : NIL
 - (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. : NIL
2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, : NIL
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. : NA

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.164 thousands. The total foreign exchange used for imports and on account of various remittances amounted to Rs.15031 thousands.

12. AUDITORS

The tenure of Shah & Shah Associates as Auditors of the Company expires at the conclusion of the 25th Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

13. INSURANCE

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

14. CEO / CFO CERTIFICATION:

This is to certify that -

- a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:
 - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.