

SCHLAFHORST ENGINEERING (INDIA) LIMITED

28TH ANNUAL REPORT & ACCOUNTS - 1ST JANUARY 2009 TO 31ST DECEMBER 2009

BOARD OF DIRECTORS

- Mr. Sanjay K. Asher - Chairman (from 28th October 2009)
Mr. Leen Osterloh - Director
Mr. K.M. Thanawalla - Director
Mr. CBK Pillai - Managing Director
Mr. Suraj L. Mehta - Chairman (Up to 27th October 2009)

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@sify.com

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 EIGHTH 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 Wednesday, the 23rd June, 2010 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 2009 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. Sanjay Asher, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint the Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS

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

"RESOLVED THAT pursuant to 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, 2010 and ending on 30th June, 2010 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 requires 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:
Chandrapura Village, Tal. Halol - 389 350
Dist. Panchmahals, Gujarat.
Place : Mumbai
Date : 30th April, 2010

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 Monday, the 21st June, 2010 to Tuesday, the 22nd June, 2010 (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 : 30th April, 2010

EXPLANATORY STATEMENT

The following Explanatory Statement sets out all material facts relating to Item No. 4 in the accompanying Notice of the Annual General Meeting to be held on Wednesday, the 23rd June, 2010 at the Registered Office of the Company at Halol.

Item No. 4- Reappointment of MD for 6 months January 2010 to June 2010.

- A. The Board of Directors of the Company by a Resolution passed on 16th December 2009, has re-appointed Mr. CBK Pillai as Managing Director of the Company for the period beginning 1st January, 2010 and ending on 30th June, 2010, subject to the approval of the Members in the General Meeting.
- B. Mr. Pillai, aged more than 59 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 41 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc. He is also a graduate in Law.
- C. Mr Pillai had expressed his intention to retire from the services as the Managing Director at the expiry of the previous contract on 31st December, 2009 as also the Company Secretary from 31st December, 2009 after office hours. On the request of the Board, he has agreed to continue as the Managing Director and the Company Secretary till 30th June, 2010 on the same terms and conditions and within the over all remuneration as approved by the shareholders at the 25th Annual General Meeting. Mr.Pillai has not availed the fixed and varying performance allowances aggregating to Rs. 26.8 lacs for the period January, 2007 to December 2009 which he agreed to forgo due to the prevailing condition of the company. The Board of Directors and the Remuneration Committee of the Board are of the view that his continued services are required for 6 more months in the interest of the company.
- D. The terms and conditions of his appointment are as under:

Terms of Remuneration:

- a. Salary:
Rs. 1,50,000/- (Rupees One lac Fifty thousand only) per month.
- c. 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 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/Mediclaim insurance:**
Personal Accident Insurance/mediclaim 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 as per the existing Company Rules, whichever is 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.3,44,575/- (Rupees Three lacs forty four thousand five hundred seventy five only) from January 2010 to June 2010.
- 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.
- 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 3 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 Tuesday being weekly off.
- Q. Information sought to be disclosed to the Shareholders under Schedule XIII of the Companies Act, 1956 for re-appointment of Mr. CBK Pillai as Managing Director.

1. General information

Schlafhorst Engineering (India) Limited (SEIL) was incorporated in 1981 and commenced production of Textile Machineries in 1983. Till 1997, the main products of the Company were (1) Automatic Cone Winding textile machinery (Autoconer) & (2) Draw Frame textile machinery. Production of Autoconer was discontinued by end 1997 due to liberalized import regime, high cost of operations, technological obsolescence of the product and increasing competition from multinational companies with technologically superior products. Since 1998 the Company has been continuing the operation with Draw Frame production, which itself is an obsolete and old design and engineering job work. As the net worth of the company was negative, the Company was declared Sick by BIFR in 2000. The financial positions of the Company in December 1998 vis-à-vis December 2009 are as under:

	Rs. in Mio.	
	December 1998	December 2009
Share capital	256	380
Loans	260	0
Current liability	54	13
Total outside liability	314	13
Net Fixed assets	118	29
Usable current assets	96	151
Obsolete current assets	57	5
Cumulative losses/Misc. exp.	299	196
Net worth	-43	172
No. of permanent employees	440	21

Notes:

1. Losses were Rs.535 Mio as at 15th Dec.2003 & Rs.350 Mio as at 31st Dec.2003 after set off with the relief and concessions from Banks/finance Institutions, etc.
2. Employee strength was brought down to 21 on 1st April 2009.
3. Current Assets of Rs.156 Mio. includes cash of Rs.99 Mio.

The Company was de-registered from BIFR in 2007.

The detailed financial performance of the Company for the last 5 years are as under:

	Rs.in Mio.				
	2009	2008	2007	2006	2005
Equity share capital	194	194	194	194	194
Preference share capital	124	124	124	124	124
Reserves & Surplus	62	62	62	62	62
Loans	0	0	0	0	57
Total	380	380	380	380	437
Net Block	29	35	39	42	49
Current assets	143	140	127	116	96
Loans & advances	13	13	14	18	49
Less:Current liabilities & Prov.	13	14	21	36	99
Net current assets	143	139	120	98	45
Misc.Expenditure-VRS deferred	12	0	0	0	2
Debit balance of P&L A/c	196	206	221	239	341
Total	380	380	380	380	437
Total income	72	93	127	277	94
Total expenditure	57	74	102	166	72
Interest & financial charges	0	0	0	4	9
Depreciation	4	5	5	5	6
Tax	1	0	0	0	0
Profit	10	14	19	102	7
Export earnings	NIL	0.10	0.18	0.16	0.12
Net foreign exchange outgo (import of parts)	3.30	5.84	15.46	15.03	8.00

Foreign investments:

1. Equity participation from the Collaborators : Rs. 10,55,12,480
 2. Preference capital from the Collaborators : Rs. 12,40,00,000
 3. Non Resident Indians in the equity capital : Rs. 7,57,920
 4. Non Resident Body Corporate : Rs. 58,40,000
 5. Foreign Institutional Investor (FII) : Rs. 20,000
2. Information about the appointee:
- a) Mr. Pillai, aged more than 59 years, has been in the Company as Company Secretary from February 1995 and as Managing Director from 1st June 1998 and is a Chartered Secretary by profession with more than 41 years experience in various fields including Corporate Management, Legal affairs, Finance, Insurance, etc. He is a Graduate in Law.
 - b) In 1998, Mr. Pillai assumed the leadership when its accumulated losses were around Rs.300 Mio, which went up to Rs.535 Mio in 2003 and succeeded in bringing it down to Rs.196 Mio in 2009. He also brought down the outside liability of Rs.314 Mio in 1998 to Rs.13 Mio in 2009 and streamlined the operations of the Company, introduced engineering job work and generated a net cash of Rs.99 Mio by December 2009 after liquidating almost all outside liabilities, placing it on a sound financial footing.
 - c) His past and proposed remunerations are as under:

	Past remuneration from 1st January 2009 to 31st December 2009	Proposed remuneration from 1st January 2010 to 30th June 2010
	Rs. in Lacs	Rs. in Lacs
Basic salary	13.23	9.00
PF, Superannuation, Gratuity @ 31.81% of basic salary, Medical & LTA	6.00	3.45
Fixed Allowance	5.00	0.00
Variable performance allowance	5.00	0.00
Total	29.23	12.45

- d) Due to operational losses, Mr. Pillai has not claimed the fixed & variable allowances of Rs.10 lacs per annum since 2007 aggregating to Rs.26.8 lacs till December 2009, which he has agreed to forgo.
- e) His total remuneration package as indicated above is quite reasonable compared to still higher remuneration packages prevailing in the comparable industry for senior positions.

3. Other information:

Reason for loss and inadequate profit.

The company was set up in 1981 to produce Autoconer under a protected market but with liberalized economy since 1991, increasing competition from imported technologically superior product, which virtually marketed out the

Company's product, continuing with the production of Autoconer was unsustainable with heavy losses and therefore discontinued the production of Autoconer in December 1997.

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 : 30th April, 2010

DIRECTORS' REPORT

To,

The Shareholders,

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Your Directors submit their Twenty Eight Annual Report & Audited Statement of Accounts for the year ended on 31st December, 2009.

1. FINANCIAL RESULTS

	Current Year Rupees ('000)	Previous Year Rupees ('000)
Net Income from manufacturing	37,990	63,683
Income from trading in spare parts	11,632	13,689
Other income (Interest, Lease Rent, etc.)	22,418	16,017
Total income	72,040	93,389
Depreciation	3,732	4,924
Profit/(Loss) before Tax	11,566	14,769
Provision for taxation	1,345	215
Profit after tax	10,221	14,554
Brought forward balance of previous year losses	206,383	220,937
Cumulative losses	196,162	206,383
Deferred amount under VRS	12,294	-
Net worth	171,827	173,900

2. FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE:

- a) During the year, 4 Draw Frames of the aggregate value of Rs.3.09 mio was sold as against 21 Draw Frames of the aggregate value of Rs.18.42 mio in the previous year and job work aggregating to Rs.38.15 mio was executed as against Rs.54.31 mio in the previous year. Job work constituted around 69% of the total manufacturing income. The decrease of income from sale of spare parts from Rs.14.15 mio in the previous year to 11.85 Mio during the year under review is mainly on account of phasing out of old model Autoconers AC138 (which was discontinued in 1993) and AC 238 (which was discontinued in 1997) from the market. Other income includes interest from deposits

of Rs.8.84 Mio (Rs.6.75 Mio in the previous year) and rent from the lease of company's Factory premise surplus to its current requirement of Rs.7.87 Mio (previous year Rs.7.26 Mio) and write back of provisions and liabilities no more required to be provided amounting to Rs.4.7 Mio. The net profit after provision for tax is Rs.10.22 Mio (14.1% of total income) as against Rs.14.6 Mio (15.6% of total income) in the previous year.

- b) The current liabilities have decreased to Rs.13.4 Mio from Rs.14.1 Mio in the previous year which can at any time be met out of Rs.156 Mio current assets which includes cash of Rs.98.6 Mio in Fixed Deposits in various Banks. The preference shares which are repayable anytime after 15th December, 2006 (but before 28th October 2024) are yet to be redeemed. The Preference Share holder (Oerlikon) has sought the redemption of preference shares as early as possible.
- c) Net cash addition from the operation for the year under review is Rs.8.2 Mio.

2A Qualification in Auditors' Report

The Auditors in their report for the year under review vide para 4, subpara (iv) & (vi) has stated that the Company has not provided for the obsolete/slow/non moving inventory worth Rs.4.7 Mio. No provision was made in the earlier years as effort for liquidating the stock was in process. However, provision has now been made in the first quarter January - March 2010.

3. 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.

4. MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

- (a) Industry structure and development

The Company was set up in 1983 to produce Autoconers (Yarn Tester & Rectifier). The Autoconer was discontinued in 1997 due to high cost of production and competition from imported Autoconers of superior technology from various countries. The resources so released are being used for job work since 1998.

Since 1984, your Company has been manufacturing Draw Frame, which is used as a spinning preparatory machine by textile

mills. It is a very old product designed by Zinser several years back. Due to paucity of funds, difficulty in getting competent technical hands and lack of R&D facilities, the Company has not been able to make any material technological improvement in it, except replacing PCB with PLC and some other minor changes. It is a small value product.

(b) Opportunities and Threats

The fortunes of Textile Machinery Industry are tied with the fortunes of Textile Mills Industry which has enormous scope for enormous growth. Your Company was set up during an era of protected market and has not been able to face the onslaught of competitive product with superior technology under the liberalized economy policies initiated since 1991. The Draw Frame being manufactured by your Company is of very old design and technology. Draw Frames of superior technology are available in the market. The Mills increasingly prefer Autoleveller Draw Frame for which your Company does not have the required technology and R & D facilities. In the case of mills setting up new projects, the tendency is to source the Draw Frames from the manufacturers, who supply a line/range of products.

(c) Outlook, risk and concerns:

- i) 2009 was the worst year for your Company as far as Draw Frame sale was concerned. The company received orders for 5 draw frames over the last 15 months from January, 2009 till March, 2010 and the future outlook continues to be not encouraging.
- ii) The company has not been able to obtain any viable product from its Collaborators. The majority share holder does not have any product to offer which could be manufactured in this company. Job work is not a reliable source of business & is likely to further slow down. The same can be the case with income from lease rent as the lessees have the option to move out after the lease period. Two of the Lessees namely Suzlon Infrastructure Services Ltd. and Zinser Textile Systems Pvt. Ltd. have vacated the leased premises in October 2009 and February 2010 respectively. The vacated premises have been now leased to ArcelorMittal

Dhamm Processing Pvt. Ltd. from 15th March 2010 for 3 years.

- iii) As reported to you in the past, the Board has been trying to attract investment in your company by any other reliable company with competitive technology and viable product. The overriding concern of the Board is the interest of the minority Shareholders. The accumulated losses of Rs.196 Mio and the Preference Shares of Rs.124 Mio are coming in the way of all efforts. However, the efforts are still continuing.
- iv) Till such time, the concern of the Board is to keep the company's operations profitable. Costs on all fronts have been on constant watch and critical evaluation. To reduce the fixed cost further, the number of permanent employees has been further reduced with effect from 1st April, 2009.

(d) Material development in Human Resources:

The strength of the permanent employees has been reduced with their support and cooperation. Except this, which took place on 1st April, 2009, there has not been any material development during the year under review.

(e) Internal control systems and their adequacy:

The company has adequate internal control systems commensurate with its size. The Internal Auditors submit their quarterly reports to the Audit Committee / the Board of Directors. Every month, a detailed Management report containing statistics on sales, income, expenses and cash flow of the company is being submitted to the Audit Committee and the Board for their review. All the fixed assets of the company are physically examined and recorded at regular intervals. In all operational matters, the Company follows the systems and procedures as set out in ISO 9001 : 2000 certification manual implemented since February 2007 and other standard operating procedures. Since February 2010, the company is ISO 9001 : 2008 certified.

5. DIVIDEND

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

6. 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, 2010 was Rs. 11.2 Mio (previous year Rs.12.59 Mio). The operation of the company for the first quarter resulted in to a loss of Rs.5.9 Mio mainly on account of the write off of the obsolete/slow/non moving inventories of around Rs.4.5 Mio in respect of which the Statutory Auditors had made qualification in their Report for the year under review, deferred VRS expenditure of around Rs.0.8 Mio and additional contribution to the Gratuity Fund with Life Insurance Corporation of India of Rs.1.8 Mio., aggregating to Rs.7.1 Mio. The total orders pending execution as on 31st March 2010 stood at Rs.24.85 Mio (previous year Rs.29.38 Mio). No significant improvement in the operational performance is expected in the current year. However, no cash loss is anticipated.

7. PARTICULARS OF EMPLOYEES:

a) 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. 41 years	Rs.19,25,151/-	60	Eimco Elecon (India) Ltd. Company Secretary 4 years

Notes: Remuneration as above includes Salary, Company's contribution to Provident Fund and Superannuation Scheme, Leave Travel Assistance, Medical Expense Reimbursement, other Allowances, Bonus/Ex-gratia, 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.

b) All the employees' liabilities namely Superannuation, Gratuity & Leave Encashment have been fully funded with Life Insurance Corporation of India as on the date of this report. In the event of the whole of the remaining employees on the present roll of the company being given voluntary retirement benefit to make the Company employee free, the maximum liability would not exceed Rs.8 Mio.

8. DIRECTORS

1. Mr. Sanjay Asher retires by rotation at the ensuing Annual General Meeting of the company and is eligible for reappointment. The Board recommends that he be reappointed as Director.

Borne on November 26, 1964, Mr. Asher is a Solicitor, Bachelor of Laws (LLB), Bachelor of Commerce and is a Chartered Accountant. He is a legal practitioner with wide experience and is Director of several other companies as under:

Name of the Listed Companies	Nature of interest
Finolex Cables Limited	Director
Repro India Limited	Director
Sharp India Limited	Director
Sparsh BPO Services Limited	Director
Shree Renuka Sugars Limited	Director
Sudarshan Chemicals Industries Limited	Director
Mandhana Industries Limited	Director

2. The other Directors on the Board are Mr. K.M. Thanawalla (DOB: December 24, 1942), is a graduate in Commerce, Fellow of Institute of Chartered Secretaries and Administration, besides being an Associate of Textile Institute, UK and British Institute of Management. He is presently Managing Director of Oerlikon Textile India Pvt Ltd (Registered Office: Maharashtra, Bombay) and has held various senior positions since 1965. Mr. Leen Osterloh (DOB: March 3, 1975) was appointed on April 30, 2008 as a Director nominated by the company's promoter. He is a graduate in Economics and held senior positions as Managing Director since 2002 and is the Chief Financial Officer of Oerlikon Textile GmbH & CO KG since 2006.

3. With effect from 28th October 2009, Mr. S.L. Mehta resigned. The Board put on records its appreciation of the valuable services rendered by Mr. Mehta during his tenure as Director, Chairman of the Board, Chairman of the company in General Meeting and the Chairman of the Audit Committee.

4. Mr. CBK Pillai's term as Managing Director came to an end on 31st December 2009. 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 6 months effective 1st January 2010 to 30th June 2010 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.

9. 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 and Technology Absorption, Adaptation and Innovation: NIL

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. NIL. The total foreign exchange used for imports and on account of various remittances amounted to Rs.33.01 lacs.

10. AUDITORS

The tenure of Shah & Shah Associates as Auditors of the Company expires at the conclusion of the 28th Annual General Meeting. You are requested to appoint Auditors and fix their remuneration.

11. INSURANCE

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

12. 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.
 - (ii) these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b) There are, to the best of our knowledge and belief, no transactions entered in to by the Company during the year which are fraudulent, illegal or violative of the company's code of conduct.
- c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the

effectiveness of internal control systems of the company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

d) We have indicated to the auditors and the Audit Committee

- (i) significant changes in internal control over financial reporting during the year;
- (ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
- (iii) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

CBK PILLAI

MANAGING DIRECTOR

Y.J. SHAH

SR. MANAGER -

FINANCE & ACCOUNTS

13. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to section 217 (2AA) of the Companies Act, 1956, your Directors confirm that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures. The Directors have selected appropriate accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company and of the profit of the Company for the financial year 1st January 2009 to 31st December 2009. Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities. The annual accounts have been prepared on a going concern basis.

14. CORPORATE GOVERNANCE:

1. Company's Philosophy:

Transparency, accountability, full disclosure and 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.

2. Board of Directors

2a) Board Meetings:

During 2009, Four meetings of the Board of Directors were held on January 23, 2009, on April 29, 2009, on July 21, 2009 and on October 28, 2009.

2b) Composition of the Board:

During the year under review, 5 Directors, whose names are given below, served the Board - a Managing Director & CEO, 2 non executive nominee directors representing the promoter - W.Reiners Verwaltungs GmbH, Germany, who are also employees of the promoter and 2 non-executive independent directors. The Chairman of the board is non executive and is no way connected with the Promoters. The non executive Independent Directors as at 28th October 2009 are one-third of the total strength.

Name of the Director	Category	Attendance of Board Meetings	Attendance of last AGM	Director ship	In other Companies Committee Member	Chairman ship of
Mr. Sanjay Asher	Independent, Rotational	4	NIL	33	9	6
Mr. KM Thanawalla	Promoter's Nominee Rotational	4	YES	16	3	-
Mr. Leen Osterloh	Non-Rotational, Promoter's Nominee	2	NIL	5	-	-
Mr. CBK Pillai	Mg. Director Rotational Executive	4	YES	NIL	NIL	NIL
Mr. SL Mehta	Chairman Up to 28.10.2009 Non-executive Independent Rotational	3	YES	3	-	-

Note: None of the Directors are inter se related to each other.

3) AUDIT COMMITTEE:

3a) The Company has constituted an Audit Committee on 30th January 2001. During 2009, the members of the committee were (i) Mr. Suraj L. Mehta (Chairman & Independent Director up to 28th October 2009), (ii) Mr. Sanjay Asher (Independent Director - Chairman from 28th October 2009), (iii) Mr. K.M.

Thanawalla (Promoter's Nominee) from 28th October 2009 with Mr.CBK Pillai as its Secretary.

- 3b) The Audit Committee is vested with the power to examine all the aspects of the Company's business, recommend capital expenditure and utilization of credit facilities, suggesting remedial measures on issues that are raised in the Internal Auditors' Report, Statutory Auditors' Report and other Management reports being generated every month, review of quarterly performance, cost reduction measures, compliance with statutory regulations, interaction with the Statutory Auditors and officers of the Company and other matters specified in Clause 49 of Listing Agreement and Section 292A of the Companies Act, 1956.
- 3c) The Audit Committee had its meetings on January 23, 2009, April 29, 2009, July 21, 2009 & October 28, 2009. These meetings were attended by Mr.S.L. Mehta (3 Meetings), Mr.Sanjay Asher (all Meetings), Mr. K.M. Thanawalla (1 Meeting) Mr. CBK Pillai (all meetings). Mr. Mukesh B. Banker, Statutory Auditor (3 Meetings).

4) COMPENSATION AND REMUNERATION COMMITTEE:

- 4a) *The terms of reference to the Committee are to consider suitability and adequate compensation to the Managing Director commensurate with the qualification, experience, past performance, future expected performance, etc.*
- 4b) The Remuneration Committee consists of Mr.Sanjay Asher as Chairman & Mr.KM Thanawalla for determining the appointment of and remuneration to the Managing Director.
- 4c) The Managing Director's remuneration is approved by the Remuneration Committee, the Board and the Shareholders. The Directors, except Mr.Osterloh and the Managing Director, were paid sitting fees within the limits prescribed by the Rules made under the Companies Act, 1956 for attending Board & Committee meetings from April 2008 Except as above, no director has any material pecuniary relationship or business transaction with the company.

None of the Directors is related to any other Director. The Managing Director is under a service contract for a period of six months commencing 1st January 2010 to 30th June 2010. His service is terminable by giving 3 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. The existing Managing Director's remuneration for the period 1st January 2010 to 30th June 2010 are set out in the explanatory statement annexed to the notice given in the annual report convening the 28th Annual General Meeting.

4d) Remuneration of the existing Managing Director

Particulars	For the Year 2009 (Rs. (in '000))
i) Salaries	1,323
ii) Contribution to Provident & other funds	356
iii) Gratuity	64
iv) Perquisites	182
Total	1,925

4e) Sitting fee paid to the Directors

Name of the Director	Amount paid (Rs.)			
	Board Meeting Committee	Audit Meeting	Shareholders' Grievance Committee Meeting	Managerial Remuneration Committee
Mr. Sanjay Asher	80,000/-	1,00,000/-	-	20,000/-
Mr. K.M. Thanawalla	1,00,000/-	20,000/-	60,000/-	20,000/-
Mr. S.L. Mehta	80,000/-	80,000/-	-	-

4f) None of the Non-Executive Directors hold any Equity Share of the Company.

4g) During the year one meeting was conducted by way of a Circular Resolution dated 16th December 2009.

4h) As the Managing Director's remuneration is decided by the Remuneration Committee, the Board & the Shareholders based on experience and merit and no remuneration is paid to any other

Director other than the sitting fee as permissible under the companies Act 1956, no separate remuneration policy has been laid down for the directors generally.

5) SHAREHOLDERS' / INVESTORS' COMMITTEE:

5a) On 29th January, 2002 a Shareholders'/ Investors' Grievance Committee headed by Mr. Josef Steiger (Non executive director - up to 19th April 2007) of the company was formed by the Board to review the status of investors' grievances and redressal mechanism and to suggest measures to improve the level of investor services. With the resignation of Mr. Steiger, Mr. K.M. Thanawalla is heading this Committee with Mr. CBK Pillai as the other Member. The Committee had its meetings on 23rd January 2009, 29th April 2009, 21st July 2009 & 28th October 2009.

5b) COMPLIANCE OFFICER:

Mr. CBK Pillai, Company Secretary, is the Compliance Officer overseeing the Investors' grievances. He can be contacted at Schlafhorst Engineering (India) Ltd., Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat, Telephone No. (02676) 221870, Fax No. (02676) 220887, E-mail: seilhalol@sify.com

5c) During the year the Company has received 9 complaints and all the complaints have been resolved well in time. No complaints are pending at the end of the financial year.

6. GENERAL BODY MEETING:

The previous 3 General Body Meetings were held as under :

Annual General Meeting	Day, Date & Time	Venue
25th Annual General Meeting	Monday 04.06.2007 at 2.30 p.m.	Registered Office of the Co. Chandrapura Village Tal. Halol-389 350 Dist. Panchmahals, Gujarat
26th Annual General Meeting	Friday 27.06.2008 at 2.30 p.m.	Registered Office of the Co. Chandrapura Village Tal. Halol-389 350 Dist. Panchmahals, Gujarat
27th Annual General Meeting	Thursday 25.06.2009 at 2.30 p.m.	Registered Office of the Co. Chandrapura Village Tal. Halol-389 350 Dist. Panchmahals, Gujarat

No special resolution was passed in the 25th or 26th or in the 27th Annual General Meetings.

7) DISCLOSURES:

- 7a)** The Company has not entered into any contract or transaction of material nature that may have a potential conflict with the interest of the company with any of the directors or their relatives or promoters during the year. There were no penalties or strictures imposed on the company by the Stock Exchanges or SEBI or any other statutory authority on any matter related to Capital Markets during the last 3 years.
- 7b)** There are no criminal cases by or against the Company pending in any Court. If there are any other disputes with financial implications, they are shown in the contingent liabilities in the Accounts under review.
- 7c)** The Company's Factory Shed admeasuring around 2488 sq. meter was let out to Zinser Textile Systems Pvt. Ltd. for a period of 3 years from March 2007. This contract expired in February 2010 and was not renewed by them. Around 2445 sq. meter of Factory Shed has also been let out to another group company namely Oerlikon Textile Components Pvt. Ltd (OTC) for a period of 5 years from 1st March 08. The terms and conditions of the lease are the same as applicable to the other lessee who is not a group company.
- 7d)** It is affirmed that no personnel has been denied access to the Audit committee and that the company has complied with all the mandatory and some of the non mandatory requirements under the corporate governance.
- 7e)** Except Mr. CBK Pillai, the Managing Director of the Company who holds 200 Equity Shares, no other Director holds any Equity Shares of the Company.

8) MEANS OF COMMUNICATION:**8a) QUARTERLY RESULTS**

The Quarterly results of 2009 are published as under:

	Date of Publication
First Quarter	30.04.2009
Second Quarter	22.07.2009
Third Quarter	29.10.2009
Fourth Quarter	28.01.2010

- 8b)** The quarterly results and half yearly results of the Company are sent to the Stock Exchange immediately after the Board's approval. The quarterly results are also published in Loksatta/Jansatta in vernacular language and in Business Standard in English language within 48 hours of the approval by the Board. There have been no news releases or presentation to the institutional investors or analysts.

9) GENERAL SHAREHOLDERS' INFORMATION:

- 9a)** The 28th Annual General Meeting of the company will be held on Wednesday, the 23rd June, 2010 at 2.30 pm at its Registered Office at Chandrapura Village, Tal Halol - 389 350, Dist Panchmahals, Gujarat State . The company follows calendar year (January - December) as its financial year. The Register of Members and the Share Transfer Books of the company will remain closed from Monday, the 21st June, 2010 to Tuesday, the 22nd June, 2010 (both days inclusive).

In view of accumulated losses, no dividend has been recommended. The Company's equity shares are listed on the Stock Exchange Mumbai. The stock code allotted is 505358.

9b) MARKET PRICE DATA:

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

Month	Sensex			
	Highest	Lowest	Highest	Lowest
January 2009	4.52	3.15	10335.93	8674.35
February 2009	5.26	3.78	9647.47	8822.06
March 2009	4.76	3.38	10048.49	8160.40
April 2009	4.73	3.55	11403.25	9901.99
May 2009	5.52	4.07	14625.25	11682.99
June 2009	8.35	5.79	15466.81	14265.53
July 2009	8.65	4.95	15670.31	13400.32
August 2009	7.50	6.06	15924.23	14784.92
September 2009	7.06	5.37	17126.84	15398.33
October 2009	6.50	5.17	17326.01	15896.28
November 2009	6.99	5.01	17198.95	15404.94
December 2009	10.38	5.86	17464.81	16601.20

Source : The Economic Times

9c) SHARE TRANSFER AGENTS:

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

9d) DISTRIBUTION OF SHAREHOLDING AS ON 31st DECEMBER 2009.

Equity Shares:

Sr. No.	No. of Equity Shares nominal value of Rs.	No. of Share-holders	Shares Amount	Percentage of Shareholding Rs.
i)	Up to 5,000	20865	2,36,36,480	12.18
ii)	5,001 - 10,000	946	78,69,670	4.06
iii)	10,001 - 20,000	442	68,76,740	3.55
iv)	20,001 - 30,000	178	45,50,540	2.35
v)	30,001 - 40,000	63	22,27,500	1.15
vi)	40,001 - 50,000	70	33,52,900	1.73
vii)	50,001 - 1,00,000	106	79,56,210	4.10
viii)	1,00,001 & above	105	13,74,81,920	70.88
		22775	19,39,51,960	100.00

9e) With effect from 9th October 2000, the Company's Equity Shares are admitted in Dematerialized Form through the Central Depository Services (India) Ltd. (CDSL). The Sharepro Services, 13AB, Samhita Warehousing complex, 2nd Floor, Sakinaka Telephone exchange lane, Opp. Andheri-Kurla Road, Sakinaka, Andheri (E) Mumbai - 400 072 has provided the Company necessary connectivity for the purpose. Around 54.52% of the company's publically held

equity shares are dematted as on 31st March 2010.

9f) Since inception of the Company, the Mafatal Consultancy Services were the Registrar to the Company. Due to several complaints of repeated nature, the Company took in house the share transfer work from 1st April 1999. On verification it was found that 8000 Folios of the shareholders were corrupted. The Company transferred these corrupted folios in a dummy folder and over the period rectified several folios leaving a balance of 217 Folios (461 records) to be rectified, which is possible only over a period of time when the shares are received for the transfers. It was, therefore, not possible for the Company (in the interest of shareholders) for appointment of a common Registrar and because there is no common Registrar, the other depository i.e. National Security Depository Limited is not prepared to admit the Company's equity shares. However, the Shareholders can deal with Central Depository Services (India) Ltd. The Company has been able to provide efficient and quick services to the shareholders over the last several years. It takes a maximum of 10 days to dispatch the share certificates duly transferred and 48 hours to respond to any complaint or any reasonable query from the shareholders.

9g) The company has not issued any GDRs/ ADRs/warrants. The company has only one plant at Chandrapura Village, Tal Halol 389 350 Dist Panchmahals, Gujarat State which is also its Registered Office. All communications should be addressed to the Registered Office.

15. ACKNOWLEDGEMENT

The Directors wish to place on record their appreciation of the whole-hearted support given by the Company's Collaborators, valuable customers and suppliers. The Directors also wish to express their appreciation of the co-operation received from the Shareholders and the employees at all levels.

For and on behalf of the Board

Place : Mumbai
Date : 30th April, 2010

CHAIRMAN

CERTIFICATE ON CLAUSE 49 COMPLIANCE

The Members

Schlafhorst Engineering (India) Limited

We have examined the compliance of conditions of Corporate Governance by M/s. Schlafhorst Engineering (India) Limited, for the financial year ended 31st December, 2009 as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges in India.

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

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the Listing Agreement.

We state that as per the records maintained, no investor grievances against the Company are pending for a period exceeding one month before shareholders / investors Grievance Committee.

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

Place : Vadodara.
Dated: 30th April 2010

Niraj Trivedi
Company Secretary
CP. No. 3123

AUDITORS' REPORT

TO THE MEMBERS OF
SCHLAFHORST ENGINEERING (INDIA) LIMITED.

We have audited the attached Balance Sheet of SCHLAFHORST ENGINEERING (INDIA) LIMITED, as at 31st December, 2009, the Profit & Loss Account & Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003, including Companies (Auditor's Report) (Amendment) Order, 2004, issued by the Government Of India in terms of sub-section (4A) of Section 227 of the Companies Act 1956, we enclose Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said order.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- (iii) The Balance sheet and Profit & Loss Account dealt with by this report are in agreement with the books of account.
- (iv) In our opinion **subject to Note No.6 of Schedule - 16 regarding non provision of obsolete /**

Slow Moving / Non Moving Inventory the Balance Sheet and Profit & Loss Account dealt with by the report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

- (v) On the basis of written representations received from the directors as on 31st December 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st December 2009 from being appointed as directors in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

- (vi) **Attention of the members is drawn to the following in Schedule - 16 Note No.6 regarding non-provision of Slow moving /Non Moving inventory aggregating to Rs.4689(in 000).**

We further report that by considering the above, the profit for the year (after tax) would have been Rs.5532 (in 000) as against the reported profit of Rs.10221 (in 000), the accumulated losses would have been Rs.200851 (in 000) as against the reported figure of Rs. 196162 (in 000).

Subject to the foregoing, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with the significant accounting policies and other notes thereon; give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

- (a) in the case of Balance Sheet, of the state of affairs of the Company as at 31st December, 2009,
 - (b) in the case of Profit & Loss Account, of the profit for the year ended on that date,
- and
- (c) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For SHAH & SHAH ASSOCIATES.

Chartered Accountants.

**Place : Mumbai.
Dated : 30/04/2010**

**PARTNER.
(MUKESH B. BANKER)
M. NO. 30367**

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date on the accounts of SCHLAFHORST ENGINEERING (INDIA) LTD., Halol for the year ended on 31st December 2009)

- (i) (a) The company has maintained proper records to show full particulars, including quantitative details and situation of its fixed assets.
- (b) As explained to us, the fixed assets have been physically verified by the management during the year in a phased periodic manner, which in our opinion, is reasonable having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such physical verification.
- (c) The company has not disposed of substantial part of fixed assets during the year.
- (ii) (a) The inventory has been physically verified by the management. In our opinion the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of the business.
- (c) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. The discrepancies noticed on such physical verification between physical stock and book records were not material.
- (iii) According to the information and explanation given to us, the company has neither taken nor granted any loans or advances in the nature of loans to parties covered in the register maintained under section 301 of the Companies Act, 1956. Hence question of reporting whether the terms and condition of such loans are prejudicial to the interest of the Company, and regularity on payment of principal amount and interest does not arise.
- (iv) In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for sale of goods and services. During the course of our audit, we have not observed any major weaknesses in internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that the

transactions that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.

- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangement entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of rupees five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) During the year, the company has not accepted deposits from the public.
- (vii) In our opinion, the company has an internal audit system commensurate with its size and the nature of its business.
- (viii) The Central Government has not prescribed the maintenance of cost records by the company under section 209 (1) (d) of the act for any of its products.
- (ix) (a) The company is regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Custom duties, Service Tax, Excise duty, Cess and any other statutory dues with the appropriate authorities.
- (b) According to the information and explanation given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom duty, Excise duty, Cess were in arrears, as at 31st December 2009 for the period of more than six month from the date they became payable.
- (c) According to the information and explanations given to us, there are no disputed dues which are not deposited of sales tax / Income Tax / Wealth Tax / Custom Duty / Excise Duty or cess except as stated below:

Name of Statute	Nature of Dues	Amount (Rs in Lacs)	Period to which Amount relates	Forum where Dispute is pending
Sale Tax Act	Sales Tax	13.51	89-90 - 2.91	Asstt Commissioner
			93-94 - 1.91	
			1999 - 8.69	
Income Tax Act	Income Tax	26.20	2007-2008	Income Tax Appeals - Addl. Commissioner.

- (x) The Company's accumulated losses at the end of the financial year are more than fifty percent of its net worth and the company has not incurred cash losses in such financial year & in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanation given to us, the company has not defaulted in repayment of dues to a Financial Institution, Bank or Debenture holders.
- (xii) According to the information and explanations given to us, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The company is not a Chit fund or a Nidhi mutual benefit fund/society. Therefore, the provisions of clause 4 (xiii) of the Order are not applicable to the company.
- (xiv) According to the information and explanations given to us, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Order are not applicable to the company.
- (xv) As per the information & explanations given to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.
- (xvi) The company has not obtained any term loans during the year. Accordingly the provision of clause (xvi) of the Order are not applicable to the company.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, in our opinion, there are no funds raised on short-term basis have been used for long-term investment.
- (xviii) According to the information and explanations given to us, during the year the company has not made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act.
- (xix) During the period covered by our audit report, the company has not issued debenture.
- (xx) During the year, the Company has not made any public issues of shares.
- (xxi) To the best of our knowledge and belief and according to the information and explanations given to us, *no fraud on or by the company has been noticed or reported during the course of our audit.*

For SHAH & SHAH ASSOCIATES.

Chartered Accountants.

**Place: Mumbai.
Dated: 30/04/2010**

**PARTNER.
(MUKESH B. BANKER)
M. NO. 30367**

BALANCE SHEET AS AT 31ST DECEMBER, 2009

	Schedule	Rupees (in'000)	As at 31.12.2009 Rupees (in'000)	As at 31.12.2008 Rupees (in'000)
SOURCES OF FUNDS :				
SHAREHOLDERS' FUNDS :				
Capital	1	317,952		317,952
Reserves and Surplus	2	39,331		39,331
			357,283	357,283
			357,283	357,283
APPLICATION OF FUNDS :				
FIXED ASSETS :				
Gross Block	3	161,047		166,240
Less: Depreciation		131,756		131,643
Net Block			29,291	34,597
CURRENT ASSETS, LOANS AND ADVANCES				
Inventories	4	35,380		45,006
Sundry Debtors	5	8,899		4,874
Cash and Bank Balances	6	98,637		90,437
Loans and Advances	7	13,059		13,087
		155,975		153,404
Less: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	8	11,425		13,431
Provisions	9	2,014		670
		13,439		14,101
NET CURRENT ASSETS			142,536	139,303
MISCELLANEOUS EXPENDITURE :				
(Payment under Voluntary Retirement Scheme to the extent not written off or adjusted)	10		12,294	-
PROFIT AND LOSS ACCOUNT :				
Debit Balance as per Profit and Loss Account		196,162		206,383
Less : Credit Balance in General Reserve deducted as per contra		23,000		23,000
			173,162	183,383
			357,283	357,283
Notes to the Accounts	16			

Schedules referred to herein and the attached notes form an integral part of the Balance Sheet.

This is the Balance Sheet referred to in our report of even date.

For and on Behalf of the Board

For and on behalf of
Shah & Shah Associates
Chartered AccountantsCBK Pillai
Company SecretaryS. K. Asher Chairman
K. M. Thanawalla Director
Leen Osterloh Director
CBK Pillai Managing Director**M.B.BANKER**

Partner

M. No. 30367

Dated: 30/04/2010, Mumbai

Dated: 30/04/2010, Mumbai

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Schedule	As at 31.12.2009 Rupees (in '000)	01.01.2008 to 31.12.2008 Rupees (in '000)
Income :			
[See Note 1(vii) - Schedule 16]			
Net Sales & Operating Income	11	49,622	77,372
Other Income	12	22,418	16,017
Increase/(Decrease) in Stocks of Finished Goods and Work - in - Progress	13	(7,079)	(9,883)
		<u>64,961</u>	<u>83,506</u>
Expenditure :			
Manufacturing and other Expenses	14	49,615	63,722
Interest and Finance Charges	15	48	91
Depreciation (See Note 1(i) - Schedule 16)		<u>3,732</u>	<u>4,924</u>
		<u>53,395</u>	<u>68,737</u>
PROFIT / (LOSS) BEFORE TAX		11,566	14,769
Provision For Taxation			
- Income Tax		1,260	-
- Wealth Tax		10	25
- Fringe Benefit Tax		75	190
PROFIT / (LOSS) AFTER TAX		<u>10,221</u>	<u>14,554</u>
Balance brought forward from previous year		<u>(206,383)</u>	<u>(220,937)</u>
Balance Carried to Balance Sheet		<u><u>(196,162)</u></u>	<u><u>(206,383)</u></u>
Earning per share (See Note 24 of Schedule 16)			
Basic		0.53	0.75
Diluted		0.53	0.75
Notes to the Accounts	16		

Schedules referred to herein and the attached notes form an integral part of the Profit & Loss Account.
This is the Profit & Loss Account referred to in our report of even date.

For and on behalf of
Shah & Shah Associates
Chartered Accountants

CBK Pillai
Company Secretary

S. K. Asher
K. M. Thanawalla
Leen Osterloh
CBK Pillai

Chairman
Director
Director
Managing Director

M.B.BANKER
Partner
M. No. 30367
Dated: 30/04/2010, Mumbai

Dated: 30/04/2010, Mumbai

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST DECEMBER, 2009

	Rupees (in'000)	As at 31.12.2009 Rupees (in'000)	As at 31.12.2008 Rupees (in'000)
Schedule 1			
CAPITAL			
Authorised :			
20,000,000	(Previous Year 20,000,000) Equity Shares of Rs. 10/- each	200,000	200,000
14,000,000	(Previous Year 14,000,000) Cumulative Redeemable Preference Shares of Rs.10 each (Payable at par)	140,000	140,000
		<u>340,000</u>	<u>340,000</u>
Issued and Subscribed :			
19,395,196	(Previous year 19,395,196) Equity Shares of Rs.10 each Fully paid up (See Note below)	193,952	193,952
12,400,000	(Previous Year 12,400,000) 4% Cumulative Redeemable Preference share (payable at par) of Rs.10/- each Fully paid up issued to the Collaborators & redeemable anytime after 15th December,2006 but before 28th October 2024	124,000	124,000
		<u>317,952</u>	<u>317,952</u>
Note:			
Of the above Equity Shares, 10,551,248 Shares are held by M/s. W. Reiners Verwaltungs GmbH., Germany - Holding Company.			
Schedule 2			
RESERVES AND SURPLUS			
Capital Reserve :			
	Central and State Government Cash Subsidy	2,500	2,500
	Profit on Re-issue of Forfeited Shares	<u>33</u>	<u>33</u>
		2,533	2,533
Share Premium Account:			
	As per last Balance Sheet	36,798	36,798
General Reserve :			
	As per last Balance Sheet	23,000	23,000
	Less : Deducted from debit balance of Profit and Loss Account as per contra	<u>23,000</u>	<u>23,000</u>
		<u>-</u>	<u>-</u>
		<u>39,331</u>	<u>39,331</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST DECEMBER, 2009

Schedule : 3

FIXED ASSETS

	GROSS BLOCK AT COST				DEPRECIATION *				NET BLOCK	
	As at January 1, 2009 Rupees (in '000)	Additions during the Year Rupees (in '000)	Deductions during the Year Rupees (in '000)	As at December 31, 2009 Rupees (in '000)	As at January 1, 2009 Rupees (in '000)	For the Year Rupees (in '000)	On deduction during the year Rupees (in '000)	As at December 31, 2009 Rupees (in '000)	As at December 31, 2009 Rupees (in '000)	As at December 31, 2008 Rupees (in '000)
Freehold Land	700	-	-	700	-	-	-	-	700	700
Buildings	41,579	114	-	41,693	25,101	1,390	-	26,491	15,202	16,478
Plant and Machinery	111,650	180	5,443	106,387	99,834	1,491	3,590	97,735	8,652	11,816
Computers	2,265	22	-	2,287	1,108	338	-	1,446	841	1,157
Furniture, Fixtures and Equipments	5,820	48	114	5,754	4,413	144	28	4,529	1,225	1,406
Vehicles	4,226	-	-	4,226	1,186	369	-	1,555	2,671	3,040
Total	166,240	364	5,557	161,047	131,642	3,732	3,618	131,756	29,291	34,597
As at 31st December, 2008	166,125	115	-	166,240	126,719	4,924	-	131,643	34,597	

* See Notes 1 (i) - Schedule 16

	As at 31.12.2009 Rupees (in'000)	As at 31.12.2008 Rupees (in'000)
Schedule 4		
INVENTORIES		
(As valued and certified by the Management)		
[See Notes 1(iii) - Schedule 16]		
Stores and Spare - Parts	1,783	1,940
Raw Materials and Components Including goods in transit Rs.NIL (in '000) (Previous year Rs.NIL (in '000))	10,795	10,923
Trading Components	8,886	11,148
Including goods in transit Rs.128 (in '000) (Previous year Rs.NIL (in '000))		
Work-in-Progress	11,274	16,249
Finished Goods	2,642	4,746
(See Note 18 - Schedule 16)		
	<u>33,597</u>	<u>43,066</u>
	<u>33,380</u>	<u>45,006</u>
Schedule 5		
SUNDRY DEBTORS (Unsecured)		
(Considered good)		
Debts outstanding over six months	-	304
Other Debts	8,899	4,570
	<u>8,899</u>	<u>4,874</u>
Schedule 6		
CASH & BANK BALANCES		
Cash on Hand	121	162
With Scheduled Banks :		
- On Current Accounts	1,588	1,491
- Short Term Deposits	96,928	88,784
	<u>98,516</u>	<u>90,275</u>
	<u>98,637</u>	<u>90,437</u>
Schedule 7		
LOANS AND ADVANCES (Unsecured)		
(Considered good)		
Advances recoverable in Cash or in kind or for value to be received	4,577	7,958
Advances to Suppliers	141	51
Balance with Central Excise	14	70
Balance with Life Insurance Corporation - Gratuity (Net) (See Note 1(v) & 19 - Schedule 16)	1,492	1,567
Balance with Life Insurance Corporation - Leave Encashment (Net) (See Note 1(vi) - Schedule 16)	61	49
Advance payment of Tax (Tax Deducted at Source)	6,774	3,392
	<u>13,059</u>	<u>13,087</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST DECEMBER, 2009

	Rupees (in'000)	As at 31.12.2009 Rupees (in'000)	As at 31.12.2008 Rupees (in'000)
Schedule 8			
CURRENT LIABILITIES			
Sundry Creditors		2,816	1,387
Advances from Customers		1,217	4,112
Other Liabilities		7,392	7,932
		<u>11,425</u>	<u>13,431</u>

Schedule 9**PROVISIONS**

Provision for Income Tax		1,260	-
Provision for Wealth Tax		89	80
Provision for Fringe Benefit Tax		665	590
		<u>2,014</u>	<u>670</u>

Schedule 10

Payment under Voluntary Retirement Scheme		-	-
Add: Addition during the year		15,368	-
Less: Written off during the year		3,074	-
		<u>12,294</u>	<u>-</u>

SCHEDULES ANNEXED TO AND FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Rupees (in '000)	As at 31.12.2009 Rupees (in '000)	01.01.2008 to 31.12.2008 Rupees (in '000)
Schedule 11			
SALES AND OPERATING INCOME			
Gross Sales	14,944		32,573
Job work	<u>38,152</u>		<u>54,307</u>
		53,096	86,880
Less: Excise Duty		<u>3,474</u>	<u>9,508</u>
Net sales		<u><u>49,622</u></u>	<u><u>77,372</u></u>
Schedule 12			
OTHER INCOME			
Income from services		272	273
Sundry Receipts		687	1,736
Rent received		7,874	7,255
(Tax deducted at source RS.15,89,769 (Prev year, Rs.1366567)			
Profit on sale of fixed assets - Net		54	-
Interest Received		8,842	6,753
(Tax deducted at source RS.16,80,040 (Prev.year, Rs.210769)			
Excess Provision / Liability written back		<u>4,689</u>	-
		<u><u>22,418</u></u>	<u><u>16,017</u></u>
Schedule 13			
INCREASE / (DECREASE) IN STOCK OF FINISHED GOODS AND WORK-IN-PROGRESS			
Stock as at 31st December, 2009			
Finished Goods		2,642	4,746
Work-in-Progress		<u>11,274</u>	<u>16,249</u>
		13,916	20,995
Less :			
Stock as at 1st January, 2009			
Finished Goods		4,746	12,022
Work-in-Progress		<u>16,249</u>	<u>18,856</u>
		20,995	30,878
		<u><u>(7,079)</u></u>	<u><u>(9,883)</u></u>

SCHEDULES ANNEXED TO AND FORMING PART OF PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 2009

	As at 31.12.2009 Rupees (in '000)	01.01.2008 to 31.12.2008 Rupees (in '000)
Schedule 14		
MANUFACTURING AND OTHER EXPENSES		
RAW MATERIALS AND COMPONENTS CONSUMED	17,020	28,271
PAYMENTS TO AND PROVISION FOR EMPLOYEES :		
Salaries, Wages and Bonus	11,088	14,244
Contribution to Provident and other Funds	1,289	1,763
Staff Welfare Expenses	2,517	2,928
Gratuity	600	50
Expenses for Voluntary Retirement Scheme amortised	<u>3,074</u>	-
	18,568	18,985
Stores and Spare parts consumed	1,123	2,166
Processing Charges	44	123
Power & Fuel	1,472	1,775
Rent	81	164
Repairs to Buildings	349	1,555
Repairs to Machinery	119	153
Repairs & Maintenance of general assets incl.computers	319	451
Insurance	159	175
Rates & Taxes	101	88
Printing & Stationery	267	346
Postage, Telegrams & Telephones	381	456
Commission / Brokerage	327	690
Legal & Professional Charges	1,462	936
Travelling Expenses	482	704
Bad Debts written off	-	221
Security Service & Other service Charges	1,866	1,481
Advertisements	35	29
Provision for Excise duty on Finished Goods	321	574
Miscellaneous Expenses	5,119	4,379
	<u>49,615</u>	<u>63,722</u>
Schedule 15		
FINANCE CHARGES		
Bank charges & other Financial charges	48	91
	<u>48</u>	<u>91</u>

Schedule 16 : Notes to the Accounts**1. SIGNIFICANT ACCOUNTING POLICIES**

These accounts have been prepared under the historical cost convention on accrual basis and comply with Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956 of India.

i) FIXED ASSETS AND DEPRECIATION:

- a. Fixed assets are stated at cost of acquisition inclusive of any other cost attributable to bringing the same into working condition. They are stated at historical cost.
- b. Depreciation is provided on Straight Line Method in accordance with the rates prescribed in Schedule XIV to the Companies Act, 1956 of India.
- c. In respect of assets acquired /sold/discarded during the financial year, depreciation is provided on prorata basis.

ii) INVESTMENTS:

Investments are stated at cost of acquisition or are marked down if there is a permanent diminution in value.

iii) INVENTORIES:

- a. Stores and spare parts are valued at weighted average cost.
- b. Raw materials, and components are valued at weighted average cost.
- c. Work-in-progress is valued at cost. Finished goods are valued at cost or market value whichever is lower. Cost represents historical cost arrived at on the basis of absorption costing.

iv) FOREIGN CURRENCY TRANSACTIONS:

Transactions in foreign currencies, to the extent not covered by forward contracts, are accounted at current exchange rates. Gains and losses arising out of subsequent fluctuations in exchange rates are accounted for on realisation. Conversion losses/gains at the year end in respect of current assets and current liabilities are dealt with in the Profit & Loss Account.

v) GRATUITY :

Effective January 01, 2007 the Company has adopted the revised Accounting Standards (AS) 15 on Employee Benefits.

The Company has taken Master Policy from Life Insurance Corporation (LIC) under Employees Group Gratuity cum Life Assurance (Cash Accumulation) Scheme. All employees are covered under Employees Gratuity Scheme which is a defined plan. The Company contributes to the fund on the basis of the liability actuarially determined in pursuance of the Scheme. All actuarial gains / losses arising during the accounting year are recognised immediately in the profit and loss account as income or expense.

vi) LEAVE ENCASHMENT :

Provision has been made in respect of accumulated encashable leave balances of the employees on the basis of their current salaries. Since 2006, the Leave Encashment liability has been fully funded with Life Insurance Corporation of India.

vii) REVENUE RECOGNITION:

- a) Sale of goods is recognised on transfer of property therein. Sales are inclusive of Excise duty and net of sales tax / value added tax and sales returns.
- b) Insurance and other claims are recognised only on acceptance of claims by the appropriate authorities.
- c) Interest income is accounted for on a time proportion basis taking into account the amount outstanding and the rate applicable.

viii) INCOME AND DEFERRED TAXES :

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income tax reflect the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the Balance Sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. In situations where the Company has unabsorbed depreciation or carry forward tax losses, deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

At each Balance Sheet date the Company reassesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax assets to the extent that it has become reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which such deferred tax assets can be realized.

ix) MISCELLANEOUS EXPENDITURE :

The expenditure in respect of the Voluntary Retirement Scheme is being amortised over a period of five years.

x) IMPAIRMENT OF ASSETS

The Company evaluates the impairment of losses on the fixed assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If such assets are considered to be impaired the impairment loss is then recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the smallest level for which there is separately identifiable cash flows.

2. Contingent Liabilities in respect of:

Particulars	As at 31.12.2009 Rupees (in '000)	As at 31.12.2008 Rupees (in '000)
A Demand raised by Sales Tax Authorities & disputed by the Company	13,51	13,51
B Demand raised by Income Tax Authorities & disputed by the company	26,20	NIL
C Claims against the Company not acknowledged as debts	9,50	9,40
D Dividend on 4% Cumulative Redeemable Preference Shares	256,70	207,10

The above Contingent liabilities do not include the following, as the same are not ascertainable.

- i) Continuity Bonds given to Customs Authorities from time to time and
- ii) Pending labour cases.

3. The Accounts have been prepared on a going concern basis.

4. During the year, no Research & Development expenditure have been incurred.

5. The tax year of the Company being March 31, 2010, the provision for taxation for the year is the aggregate of the provision made for the three months ended March 31, 2009 and the provision based on the figures for the remaining nine months up to December 31, 2009 the ultimate tax liability of which will be determined on the basis of the figures for the period April 1, 2009 to March 31, 2010.

6. Provision has not been made for Obsolete/slow moving / non moving inventory aggregating Rs.4691 (in '000)

7. As per the information available with the Company and as certified by the management, there are no dues outstanding including interest as on 31st December, 2009 to Small and Micro enterprises as defined under Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.

8. During the year the Company has given Voluntary Retirement Scheme to its employees. Expenditure in respect of Voluntary Retirement Scheme is being amortised over a period of five years. Accordingly, an amount of Rs.3074 (in '000) has been expensed during the year and a balance of Rs. 12294 (in '000) has been carried forward and disclosed under Miscellaneous Expenditure as at December 31, 2009.

9. Remuneration to Directors:

(a) Managerial Remuneration

Particulars	For the Year 2009 Rs. (in'000)	For the Year 2008 Rs. (in'000)
i) Salaries	1323	1260
ii) Contribution to Provident and other funds	356	340
iii) Gratuity	64	60
iv) Perquisites	182	240
	<u>1925</u>	<u>1900</u>

(b) Computation of net loss in accordance with Section 309(5) of the Companies Act, 1956 has not been made in view of the brought forward losses.

(c) Perquisites have been valued as per Income tax rules 1962, where applicable.

10. Remuneration to Auditors:

Particulars	For the	For the
	Year 2009	Year 2008
	Rs. (in'000)	Rs. (in'000)
Audit Fees	150	150
In other capacity for	0	0
Tax Audit	50	50
Other services	68	42
	<u>268</u>	<u>242</u>

11. Contracts on capital account:

Particulars	31.12.2009	31.12.2008
	Rupees (in '000)	Rupees (in '000)
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances)	NIL	NIL

12. Stock and Turnover

Class of goods	Opening stock				Turnover				Closing stock			
	As at January 1, 2009		As at January 1, 2008		01.01.2009 to 31.12.2009		01.01.2008 to 31.12.2008		As at December 31, 2009		As at December 31, 2008	
	Nos.	Rs. (in'000)	Nos.	Rs. (in'000)	Nos.	Rs. (in'000)	Nos.	Rs. (in'000)	Nos.	Rs. (in'000)	Nos.	Rs. (in'000)
Draw frames	9	4746	26	15048	4	3090	21	18422	5	2642	9	4746
Spares	-	-	-	-	*	11854	*	14151	-	-	-	-
		<u>4746</u>		<u>15048</u>		<u>14944</u>		<u>32573</u>		<u>2642</u>		<u>4746</u>

Note: Due to large variety and numbers, the quantitative details of spares are not ascertainable.

13. *Licensed & Installed Capacity & Production

Class of Goods	Installed Capacity(**)		Production per annum	
	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008
	Nos.	Nos.	Nos.	Nos.
Automatic Cone Winding Machines	-	-	-	-
Draw Frame Machines	24	24	-	4
Speed Frame Machines	-	-	-	-

* Licensing has been abolished vide notification dated 25th July 1991 and therefore the information relating to licensed capacity has not been given above.

** The Speed Frame and Automatic Cone Winding Machine were discontinued in 1996 & 1997 respectively due to lack of demand and their installed capacity was redeployed for job work.

14. Raw materials & Components Consumed:

Class of Goods	Quantity (M.T.)		Amount (Rs. in '000)	
	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008
	Steel Rounds, Bars, Plates & Castings	97.80	198.86	9228
Components	*	*	7792	9886
			<u>17020</u>	<u>28271</u>

* Due to large variety and numbers quantitative details are not readily ascertainable.

	01.01.2009 to 31.12.2009		01.01.2008 to 31.12.2008	
	Value Rupees (in'000)	% of total consumption	Value Rupees (in'000)	% of total consumption
Indigenous	10228	60.09%	21132	74.75%
Imported	6792	39.91%	7139	25.25%
	17020	100.00%	28271	100.00%

15. Value of Stores & Spare parts Consumed

	01.01.2009 to 31.12.2009		01.01.2008 to 31.12.2008	
	Value Rupees (in'000)	% of total consumption	Value Rupees (in'000)	% of total consumption
Indigenous	1123	100.00%	2166	100.00%
Imported	0			
	1123	100.00%	2166	100.00%

16. Value of Imports Calculated on C.I.F. basis in respect of :

	01.01.2009 to 31.12.2009 Rupees. (in'000)	01.01.2008 to 31.12.2008 Rupees.(in'000)
Raw Material and Components	3301	5838

17. Earnings in Foreign Exchange

	01.01.2009 to 31.12.2009 Rupees (in '000)	01.01.2008 to 31.12.2008 Rupees (in '000)
FOB Value of Exports	NIL	102

18. The Company has provided an amount of Rs.321 (in '000) for excise duty payable on finished manufactured goods but not cleared from the factory in accordance with the 'Guidance Note on Accounting Treatment for Excise Duty' and other professional pronouncements issued by the Institute of Chartered Accountants of India. However, the same has no effect on the profit for the year.

19. GRATUITY

Provision of gratuity liability on actuarial valuation under Projected Unit Credit (PUC) Method has been done on going concern basis, in accordance with revised AS 15.

Since 2006, Gratuity liability has been fully funded with Life Insurance Corporation of India.

The amount recognized in the Balance Sheet are as follows :

For the Year ended 31.12.2009	
Present Value of funded obligations	31,68,824
Fair Value of plan assets	46,60,554
Over funded liability	14,91,730
Over funded liability recognized in Balance Sheet as asset	14,91,730

The amount recognized in the statement of Profit & Loss Sheet are as follows :

For the year ended 31.12.2009	
Current service cost	2,13,560
Interest on obligation	3,51,755
Expected return on plan assets	(3,91,011)
Net actuarial losses (gains) recognized in year	4,25,577
Total included in 'employee benefit expense'	5,99,881

Changes in the present value of the defined benefit obligation representing reconciliation of opening and closing balance thereof are as follows :

	For the year ended 31.12.2009
Opening defined benefit of obligation	67,00,086
Service cost	2,13,560
Interest cost	3,51,755
Actuarial losses (gains)	(1,55,408)
Benefits paid	(42,51,985)
Closing defined benefit obligation	31,68,824

Changes in the fair value of plan assets representing reconciliation of the opening balance and closing balance thereof as follows :

	For the year ended 31.12.2009
Opening fair value of plan assets	85,21,528
Expected return	3,91,011
Contributions by employer	-
Benefits paid	(42,51,985)
Closing fair value of plan assets	46,60,554

20. Segment reporting:

In the opinion of the Company, the Company has only one segment viz., Textile machines, hence no separate disclosure of segment wise information has been made. The surplus capacity is being deployed for the Job work which are not considered permanent identifiable product of the company.

21. Operating Lease :

The Company has given certain factory premises on non-cancellable operating lease.

The tenure of these lease agreements ranges from 36 months to 60 months.

The details are as under

Particulars	As at and for the year ended 31st December, 2009	As at and for the year ended 31st December, 2008
	Rupees in Lacs	Rupees in Lacs
Gross Block of Assets	224.32	224.32
Accumulated Depreciation	151.10	143.61
Net block of Assets	73.22	80.71
Receivable	As at and for the year ended 31st December, 2009	As at and for the year ended 31st December, 2008
	Rupees in Lacs	Rupees in Lacs
Not later than one year	29.49	78.74
Later than one year and not later than five years	57.89	87.38
Later than five years	-	-

Other Income includes income from lease of Rs.78.74 Lacs in schedule 12.

22. Related parties disclosures:

Related parties disclosures as required by Accounting Standard 18 are given below:

Sr. No.	Name of the related parties	Nature of relationship With Company	Nature of transaction	Volume of transaction (Rs in lacs)	Balance at the end of the year (Rs in lacs)	Payable (P) or Receivable(R)
1.	Oerlikon Schlafhorst Zweignied Erlassung Der Oerlikon Textile GmbH & Co. KG (Formerly Known as Saurer GmbH & Co.) Germany	Associate Company	Purchase of spares	21.39	-	-
2.	Mr.CBK Pillai	Key Management Personnel	Remuneration	19.25	-	-
3.	Zinser Textile Systems Pvt. Ltd., Ahmedabad	Associate Company	Services & Rent	1.86 18.50	- -	- -
4	Oerlikon Textile Components India pvt Ltd., Halol	Associate Company	Services & Rent	4.13 29.59	- -	- -

23. Taxes on income:

The Company has net deferred tax assets as at 1st April, 2008 as well as at 31st March, 2009. Deferred tax assets arising mainly on account of unabsorbed depreciation and carried forward losses under the tax laws have not been considered for recognition as there is no virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. Therefore, such deferred tax assets has not been recognized in the accounts of the Company.

24. Earning per share (EPS) - The numerators and denominators used to calculate Basic and Diluted Earnings per share.

		2009	2008
Basic Earnings per share before Extra Ordinary Items :			
Profit attributable to the shareholders (Rs.)	A	10221000	14554000
Weighted average number of Equity Shares Outstanding during the year	B	19395196	19395196
Nominal value of Equity Shares (Rs.)		10.00	10.00
Basic Earnings per Share (Rs.)	A/B	0.53	0.75
Diluted Earnings per share before Extra Ordinary Items :			
Profit attributable to the shareholders (Rs.)	A	10221000	14554000
Weighted average number of Equity Shares Outstanding during the year	B	19395196	19395196
Nominal value of Equity Shares (Rs.)		10.00	10.00
Diluted Earning per share (Rs.)	A/B	0.53	0.75

25. The previous year's figures have been regrouped wherever necessary.

26. Refer Annexure 1 for additional information pursuant to Part IV of Schedule VI to the Companies Act, 1956 of India

Signature to Schedules 1 to 16 forming part of the Accounts

For and on behalf of the Board

For and on behalf of
Shah & Shah Associates
Chartered Accountants

CBK Pillai
Company Secretary

S. K. Asher Chairman
K. M. Thanawalla Director
Leen Osterloh Director
CBK Pillai Managing Director

M.B.BANKER

Partner

M. No. 30367

Dated: 30/04/2010, Mumbai

Dated: 30/04/2010, Mumbai

Annexure - I

Additional Information as required under Part - IV of Schedule - VI of the Companies Act, 1956

Balance Sheet Abstract and Company's General Business Profile

I Registration Details :	
Registration No.	28741
State Code	04
Balance Sheet Date	31.12.2008
II Capital Raised during the year (Amount in Rs. '000)	
Public Issue	Nil
Rights Issue	Nil
Bonus Issue	Nil
Private Placement	Nil
III Position of Mobilisation and Deployment of Funds (Amount in Rs. '000)	
Total liabilities	357283
Total Assets	357283
Sources of Funds	
Paid-up capital	317952
Reserves & Surplus	39331
Secured Loans	0
Unsecured Loans	0
Application of Funds	
Net Fixed Assets	29291
Investments	0
Net Current Assets	142536
Misc. Expenditure	12294
Accumulated Lossess	173162
IV Performance of the Company (Amount in Rs. '000)	
Turnover	72040
Total Expenditure	60474
Profit / (Loss) Before Tax	11566
Profit / (Loss) After Tax	10221
Earnings per share in Rs.	0.53
Dividend Rate %	Nil
V Generic Names of Three Principal Products / Services of Company (as per monetary terms)	
Item Code No (ITC Code)	8445900
Product Description	Automatic Winding Machine
Item Code No (ITC Code)	84451300
Product Description	Draw Frame
Item Code No (ITC Code)	84451300
Product Description	Speed Frame

Signature to Schedules forming part of the Balance Sheet and Profit and Loss Account and to the above notes.

For and on behalf of
Shah & Shah Associates
Chartered Accountants

CBK Pillai
Company Secretary

For and on Behalf of the Board

S. K. Asher Chairman
K. M. Thanawalla Director
Leen Osterloh Director
CBK Pillai Managing Director

M.B.BANKER

Partner

M. No. 30367

Dated: 30/04/2010, Mumbai

Dated: 30/04/2010, Mumbai

CASH FLOW FOR THE YEAR ENDED 31-12-2009

PARTICULARS	Rupees (in '000)	Current Year Rupees (in '000)	Previous Year Rupees (in '000)1
A) Cash Flow From Operating Activities			
1) Net profit / (loss) before Tax		11,566	14,769
2) Add: Adjustments for :			
Depreciation	(3,732)		(4,924)
Profit / (Loss) on Assets sold, demolished or discarded	54		-
Interest & Finance charges	(48)		(91)
		<u>(3,726)</u>	<u>(5,015)</u>
		15,292	19,784
Less:- Exchange Gain on foreign currency loan			
3) Operating (Loss)/Gain before working capital changes		15,292	19,784
4) Adjustments for working capital changes			
i) Inventories	9,626		15,242
ii) Sundry Debtors	(4,025)		(1,492)
iii) Other Current Assets, Loans & Advances	28		1,259
iv) Employee Liabilities (decrease) / increase	(12,294)		-
	<u>(6,665)</u>		<u>15,009</u>
Trade Payables	(662)		(7,112)
		<u>(7,327)</u>	7,897
5) Net Cash Generated from operations after Working Capital changes		7,965	27,681
6) (Less:-) Tax Paid		(1,345)	(215)
		<u>6,620</u>	<u>27,466</u>
7) Cash flow before extra ordinary item (5 - 6) Extra ordinary item (Deffered VRS Expenditure)		-	-
Net cash from Operating Activities (A)		6,620	27,466
B) Cash Flow From Investing Activities			
1			
i) Sale of Fixed Assets	1,992		-
ii) Sale of Investments	-		-
iii) Income from investing activities Profit on sale of investments (net)	-		-
iv) Interest	-		-
Sub- total (i) to (iv)	<u>1,992</u>		-
2			
i) Purchase of fixed assets	364		115
ii) Profit on sale of assets	-		-
iii) VRS Dues ex-employees	-		-
3 Net Cash used in investing Activities (1 - 2) (B)		1,628	(115)
C) Cash Flow From Financing Activities			
i) Interest & Finance charges paid	(48)		(91)
ii) Un secured loans taken / (paid)	-		-
iii) Cash credit	-		-
iv) secured loans taken / (paid)	-		-
Net cash used in Financing Activities (C)		<u>(48)</u>	<u>(91)</u>
D) Net increase in Cash & Cash Equivalents (A+B+C)		8,200	27,260
E) Cash & Cash Equivalents as at 01.01.09 (opening balance)		90,437	63,177
F) Cash & Cash Equivalents as at 31.12.09 (closing balance)		98,637	90,437

Notes: 1 Cash flow statement has been prepared following indirect method.
2 Previous year's figures have been regrouped where necessary.

This is the Cash Flow Statement referred to in our report of even date.

For and on behalf of
Shah & Shah Associates
Chartered Accountants

CBK Pillai
Company Secretary

For and on Behalf of the Board

S. K. Asher Chairman
K. M. Thanawalla Director
Leen Osterloh Director
CBK Pillai Managing Director

M.B.BANKER

Partner
M. No. 30367
Dated: 30/04/2010, Mumbai

Dated: 30/04/2010, Mumbai

SUMMARISED YEAR END FINANCIAL DATA

Rs. in Lacs

Sr. No. PARTICULARS	01.01.99	01.01.00	01.01.01	01.01.02	01.01.03	01.01.04	01.01.05	01.01.06	01.01.07	01.01.08	01.01.09
	to 31.12.99	to 31.12.00	to 31.12.01	to 31.12.02	to 31.12.03	to 31.12.04	to 31.12.05	to 31.12.06	to 31.12.07	to 31.12.08	to 31.12.09
PROFIT AND LOSS A/C											
1 Sales & Other Income	868.68	809.74	682.69	546.28	611.49	865.76	968.38	1,342.47	1,421.29	1028.97	755.14
2 Materials	261.01	253.10	179.72	220.75	229.79	288.40	344.01	497.33	491.80	282.71	170.20
3 Personnel Expenses	250.60	181.87	166.62	128.00	119.78	119.38	146.00	240.50	237.22	189.85	185.68
4 Excise Duty	38.58	42.46	22.00	31.41	47.55	76.27	86.10	144.06	155.47	95.08	34.74
5 Other Expenses	350.57	319.28	257.23	474.66	391.65	186.33	169.68	294.48	295.50	263.49	211.06
6 Profit/(loss) before Depreciation											
Interest & Tax and Extra ordinary items	(32.08)	13.03	57.12	(308.54)	(177.28)	195.38	222.59	166.10	241.30	197.84	153.46
Exceptional items											
7 Interest / Debt remission by F.I / Bank					893.02	0.00	0.00	0.00	0.00	0.00	0.00
8 Interest / Debt remission by WSC					878.12	0.00	0.00	0.00	0.00	0.00	0.00
9 Profit on Sale of Vadodara Property								1,572.24	0.00	0.00	0.00
10 Loss on obsolete assets sold/discarded					83.78	0.00	0.00	623.09	0.00	0.00	0.00
11 Depreciation	120.56	112.77	93.60	84.23	82.28	62.77	64.26	54.62	53.04	49.24	37.32
12 Interest	265.31	274.20	258.26	280.46	284.01	101.66	93.86	42.11	1.19	0.91	0.48
13 Profit/(loss) before Tax	(417.95)	(373.94)	(294.74)	(673.23)	1,143.79	30.95	64.47	1,018.52	187.07	147.69	115.66
14 Taxation	0.38	0.37	0.37	0.44	0.37	0.37	0.37	2.02	3.05	2.15	13.45
15 Profit/(loss) after Tax	(418.33)	(374.31)	(295.11)	(673.67)	1,143.42	30.58	64.10	1,016.50	184.02	145.54	102.21
16 Dividend	-	-	-	-	-	-	-	-	-	-	-
17 Earning per Share (annualised)	(2.16)	(1.93)	(1.52)	(3.47)	5.90	0.16	0.33	5.24	0.95	0.75	0.53
BALANCE SHEET											
Sources of Fund											
18 Capital	1,939.52	1,939.52	1,939.52	1,939.52	1,939.52	3,179.52	3,179.52	3,179.52	3,179.52	3,179.52	3,179.52
19 Reserve & Surplus	623.31	623.31	623.31	623.31	623.31	623.31	623.31	623.31	623.31	623.31	623.31
20 Accumulated Losses	3,304.90	3,679.21	3,974.32	4,647.99	3,504.57	3,473.99	3,409.89	2,393.39	2,209.37	2,063.83	1,961.62
21 Net Worth (18+19-20)	(742.07)	(1,116.38)	(1,411.49)	(2,085.16)	(941.74)	328.84	392.94	1,409.44	1,593.46	1,739.00	1,841.21
22 Borrowings											
a. Long Term	1,055.41	1,058.40	1,232.74	1,321.25	581.42	0.00	11.70	0.00	0.00	0.00	0.00
b. Short Term	1,470.84	1,535.24	1,567.93	1,913.74	1,271.62	602.93	560.00	0.00	0.00	0.00	0.00
Employees Liability	453.12	469.99	534.08	632.70	637.96	639.06	641.10	0.00	0.00	0.00	0.00
23 Total (21+22)	2,237.30	1,947.25	1,923.26	1,782.53	1,549.26	1,570.83	1,605.74	1,409.44	1,593.46	1,739.00	1,841.21
Uses of Fund											
24 Fixed Assets											
a. Gross Fixed Assets	2,553.84	2,463.99	2,428.55	2,426.57	2,062.30	2,060.79	2,104.86	1,646.11	1,661.25	1,662.40	1,610.47
b. Less : Depreciation	1,494.67	1,519.28	1,583.16	1,665.46	1,498.80	1,557.95	1,615.71	1,225.11	1,267.19	1,316.43	1,317.56
c. Net Fixed Assets	1,059.17	944.71	845.40	761.11	563.50	502.84	489.15	421.00	394.06	345.97	292.91
25 Investments	71.04	71.04	71.04	71.04	71.04	71.04	71.04	0.00	0.00	0.00	0.00
26 Net Working Capital											
a. Inventories	595.46	578.74	594.30	549.51	517.31	596.54	661.31	551.00	602.48	450.06	353.80
b. Debtors	140.94	95.91	74.54	86.67	138.41	127.29	148.82	147.19	33.82	48.74	88.99
c. Other Current Assets	497.81	444.36	447.72	448.05	478.75	524.50	564.30	644.71	775.23	1035.24	1,116.96
Total Current Assets	1,234.21	1,119.01	1,116.56	1,084.23	1,134.47	1,248.33	1,374.43	1,342.90	1,411.53	1,534.04	1,559.75
d. Less : Current Liabilities and Provision	462.86	425.04	282.63	298.29	293.87	298.58	350.28	354.46	212.13	134.39	134.39
e. Net Working Capital	771.35	693.97	833.93	785.94	840.60	949.75	1,024.15	988.44	1,199.40	1,399.65	1,425.36
27 Miscellaneous Expenditure	335.74	237.53	172.89	164.44	74.12	47.20	21.40	0.00	0.00	0.00	122.94
28 Total (24 to 27)	2,237.30	1,947.25	1,923.26	1,782.53	1,549.26	1,570.83	1,605.74	1,409.44	1,593.46	1,745.62	1,841.21
29 Debt/Equity Ratio	-	-	-	-	-	-	-	-	-	-	-
30 Book Value per Share	(3.83)	(5.76)	(7.28)	(10.75)	(4.86)	(4.70)	(4.37)	0.87	1.82	2.57	3.10

ATTENDANCE SLIP

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Registered Office : Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat State.

PLEASE COMPLETE THIS ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL. Joint Shareholders may obtain additional Attendance Slips on request. Regd. Folio No. & Name of the Shareholder/ Joint holder/Proxy and address as given on the envelope in BLOCK LETTERS to be furnished below.

Name of the Shareholder / Name of the Proxy	Regd. Folio No.	No. of Shares held

I hereby record my presence at the 28th Annual General Meeting of the Company on Wednesday, the 23rd June, 2010 at 2.30 p.m. at the Registered Office of the Company, Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat State.

SIGNATURE OF THE
SHARE HOLDER OR PROXY _____

Notes:

- (1) Shareholders/Proxy holders are requested to bring the Attendance Slip with them when they come to the meeting and hand it over at the gate after affixing their signature on it.
- (2) Shareholders who come to attend the meeting are requested to bring their copies of Annual Report with them.
- (3) Shareholders are requested to advise, indicating their Folio Nos., the change in their addresses, if any, to the Company.

PROXY FORM

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Registered Office : Chandrapura Village, Tal. Halol - 389 350, Dist. Panchmahals, Gujarat State.

(Regd. Folio No. and name of the Shareholder/Joint holder and address as given on the envelope in BLOCK LETTERS to be furnished below)

Regd. Folio No.	No. of Shares held

I/We _____ of _____

being a Member(s) of the Company, hereby appoint _____

_____ of _____ or failing him

_____ of _____ as my/our

proxy to vote for me/us, on my/our behalf at the 28th ANNUAL GENERAL MEETING of the Company to be held on Wednesday, the 23rd June, 2010 at 2.30 p.m. at the Registered Office of the Company or any adjournment thereof.

As Witness my/our hand(s) this _____ day of _____ 2010.

Signed by the said _____

AFFIX A 1 RUPEE REVENUE STAMP
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NOTE: The Companies Act, 1956 lays down that an instrument appointing proxy shall be deposited at the Registered Office of the Company not less than 48 hours before the time of holding the Meeting.

BOOK-POST

If undelivered, please return to:

SCHLAFHORST ENGINEERING (INDIA) LIMITED

Chandrapura Village, Tal. Halol - 389 350

Dist. Panchmahals, Gujarat State.