

NIRLON LIMITED

DIRECTORS' REPORT TO THE MEMBERS

Your Directors' present their 47th Annual Report and the audited financial accounts for the period ended June 30, 2006.

Financial highlights

(Rs. in crores)

	<u>2005-06</u> <u>15 months</u>	<u>2004-05</u> <u>12 months</u>
Gross sales and other income	44.70	37.35
Gross profit/(Loss)	9.80	(10.23)
Interest paid	6.61	6.50
Cash profit/(Loss)	3.19	(16.73)
Depreciation	1.25	3.54
Net (Loss)/ profit before extraordinary items	1.94	(20.27)
(Less): Extra ordinary items (VRS)	25.45	3.33
Net loss for the year after extra ordinary items	(23.51)	(23.60)
Less/(Add): Provision of income tax for earlier year		
Deferred Tax	1.33	-0.14
Fringe Benefit Tax	(0.07)	-
Net loss for the year	(22.25)	(23.46)

FINANCIAL YEAR

The Company has extended its current financial year by 3 months ending on June 30, 2006.

DIVIDEND

The Directors do not recommend any dividend in view of the net loss for the year.

OPERATIONS:

(a) Real Estate Division

The Company has rented on a leave and licence basis approx. **5,39,437 sq. ft.** built up space at Goregaon and **70,166 sq.ft.** at Tarapur to various corporate clients as on **June 30, 2006.**

The income from this Division increased from Rs.11.69 crores in 2004-05 to Rs.18.51 crores in the financial Year under review.

(b) Belting Division

Your Company continues to hold 26% equity in its Conveyor Belting Joint Venture Company '**Sempertrans-Nirlon Pvt. Ltd.**' which was formed in November 2000.

This Joint Venture Company continued to improve its performance and its profitability in 2005.

During the period under review, the performance of the V-Belt Division has improved. This is primarily due to a VRS in June 2005 under which the Company released 106 out of 173 workmen. The VRS amounts and other workmen dues have been paid in full. The Company's efforts to provide a full basic range of V-Belts and increase its geographical coverage were also responsible for the improved performance of this Division. However, though the losses from this Division have been reduced as a result of these measures, it was still not profitable during the period under review.

(c) Nylon Tyrecord Division

Under the Amended Modified Rehabilitation Scheme (**AMRS**), the Company has already discontinued tyre record manufacturing activity at Goregaon.

Dipping of Tyrecord Fabric and Industrial Fabric, as well as the manufacture/job work of grieger tyre record and industrial fabric continued at the Company's Tarapur location.

FUTURE OUTLOOK:

(a) Real Estate Division

Your Company will continue to consolidate the position of this Division during the financial year 2006-07. The Company is presently also evaluating its options to optimize the value of its real estate assets. An appropriate enabling resolution for the commencement of new business is placed before the shareholders at this Annual General Meeting.

(b) Belting Division

Your Company's Conveyor Belting Joint Venture, i.e. "**Sempertrans Nirlon Pvt. Ltd.**", is in the process of expanding its production capacities during the financial year 2006-07.

Your Company continues to improve the capacity utilization and quality of its V-Belts. The Company has set a target to make this Division profitable by the quarter ending March 2007, based on increased production and sales, and by providing a wider product range.

(c) Nylon Tyrecord Division

Your Company is in the process of evaluating the competitiveness of its Dipping Unit at Tarapur, so as to identify and execute the modifications required to make this Unit competitive for the medium and long term. This exercise is expected to be complete by the end of the financial year 2006-07.

BIFR REHABILITATION SCHEME

The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on March 24, 2005 sanctioned the Amended Modified Rehabilitation Scheme (AMRS) in modification to the scheme sanctioned in

the year 1999. This AMRS being implemented under the supervision of the Monitoring Agency, viz. **IDBI**.

Your Company has substantially implemented the Rehabilitation Scheme as of June 30, 2006. The Company expects to complete the implementation of the Rehabilitation Scheme in the financial year 2006-07. Accordingly, an application to BIFR will be made to deregister the Company from the list of companies functioning under the Sick Industrial Companies (Special Provisions) Act, 1985.

FIXED DEPOSITS

The Company has neither accepted nor invited any fixed deposits during the year. The Company has, under Section 205-C of the Companies Act, 1956, transferred the unpaid and unclaimed matured deposits lying with the Company to the **“Investor Education and Protection Fund (IEPF)”**.

DEBENTURES

The Company has no overdue debenture redemption amounts, save and except unclaimed amounts.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, ETC.

The information as required under **Section 217(1)(e)** of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is provided in **Annexure I** and forms part of this report.

EMPLOYEES

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not applicable for the year under review as there was no employee of the Company who was paid Rs.24,00,000/-p.a during the year or Rs.2,00,000/- p.m. if employed for part of the year.

DIRECTORS

Your Company continues to be governed by the Board of Directors as defined in the sanctioned Rehabilitation Scheme.

Shri Rama Varma, a nominee director of the Sagar Promoter Group and Shri Arjan Gurbuxani, a nominee director of the Bhagat Promoter Group, have resigned from the Board of Directors of the Company with effect from June 24, 2006.

Shri Rahul Sagar and Shri Jai Shroff have been appointed as the nominee Directors of the Sagar Promoter Group and the Bhagat Promoter Group respectively in place of the above two nominees with effect from June 24, 2006.

Shri Rama Varma and Shri Arjan Gurbuxani have been appointed as additional/independent Directors on the Board of Directors of the Company

with effect from June 24, 2006 in the vacancies available as per the Rehabilitation Scheme presently under implementation.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under **Section 217(2AA)** of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed:

- (i) That in the preparation of the annual accounts for the period ended June 30, 2006, applicable accounting standards have been followed along with proper explanations relating to material departures;
- (ii) That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the period ended June 30, 2006 and of the profit of the Company for that period.
- (iii) that the Directors had taken proper and sufficient care 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;
- (iv) that the Directors had prepared the accounts for the period ended June 30, 2006 on a 'going concern' basis.

COMPLIANCE CERTIFICATE

The Compliance Certificate is enclosed.

CORPORATE GOVERNANCE DISCLOSURE

The information required is provided in **Annexure II** and forms part of this report.

MANAGEMENT DISCUSSION ANALYSIS

Details are provided in **Annexure III** and forms part of this report.

INTERNAL AND STATUTORY AUDITORS

M/s. Haribhakti & Co., Chartered Accountants are appointed as Internal auditors of the Company and their reports are reviewed by the Audit Committee appointed by the Board.

M/s. N. M. Raiji & Co., Chartered Accountants, the Statutory Auditors of the Company, retire from the office of auditors and being eligible, offer themselves for re-appointment as the Statutory Auditors of the Company.

Members are requested to appoint **M/s. N. M. Raiji & Co.** as the Statutory Auditors of the Company and authorize the Board of Directors to fix their remuneration.

AUDITORS' REPORT

The Auditors' Report and Notes to the accounts are self-explanatory.

INDUSTRIAL RELATIONS AND ACKNOWLEDGEMENTS

Industrial relations with employees continue to remain cordial.

Your Directors record their appreciation for the services rendered by employees at all levels. They acknowledge and record their appreciation for the co-operation and assistance rendered by the lenders, Financial Institutions, Banks and various Government Authorities at the State and Central levels. Your Directors thank the stakeholders for their continued support and patience.

For and on behalf of the Board of Directors
For NIRLON LIMITED

**MOOSA RAZA
CHAIRMAN**

Mumbai, July 31, 2006

ANNEXURE I TO THE DIRECTORS' REPORT

FORM A

Since the manufacturing activities at the Company's Goregaon Plant have been discontinued during the year, no additional measures have been taken for conservation of energy. However, during the financial year 2005-06, adequate measures were taken for conservation of energy in the Company's manufacturing activities.

Energy conservation measures taken earlier at Goregaon resulted in improvement in the consumption of electricity.

Energy conservation measures taken (Roha)

1. Steam lines insulation improved
2. Steam traps installed to improve heating efficiency

At the Roha Plant of the Company, measures taken for the conservation of energy have shown a marginal improvement in the consumption ratio of steam.

Impact of measures (Roha)

(1) Power and steam consumption (Roha)

	<u>2005-2006</u>	<u>2004-2005</u>
	15 months	12 months
1. Electricity		
a. Purchased Units(KWH)	418736	277228
Amount (Rs.)	21,86,352	14,13,753
Rate/unit (Rs./KWH)	5.22	5.09
2. Steam		
Purchased (M.Tons)	1478.50	1147.78
Amount (Rs.)	24,40,826	14,78,325
Rate/unit (Rs./kg)	1.65	1.29

3. Consumption per unit of production:

<u>V-BELT</u>			
Particulars	Standard	<u>2005-2006</u>	<u>2004-2005</u>
		15 months	12 months
Production	Pieces	507987	368,659
Electricity	KWH/PC	1.20	0.752
Steam	Kgs/PC	2.90	3.11

ANNEXURE III TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION ANALYSIS

OVERVIEW

In the year 2004-05, the AAIFR sanctioned the Amended Rehabilitation Scheme (AMRS) in modification to the scheme sanctioned by the BIFR in 1999. The Company has substantially implemented the AMRS as on June 30, 2006. The Company expects to complete the implementation of the Rehabilitation Scheme in the financial year 2006-07. Accordingly, an application to BIFR will be made to deregister the Company from the list of companies functioning under the Sick Industrial Companies (Special Provisions) Act, 1985.

While implementing the Rehabilitation Scheme during the financial year 2005-06, the Company disposed off its idle machinery at Goregaon and Tarapur. The monies realized were utilized to make repayments under the Rehabilitation Scheme. Further, in the financial year 2005-06, the Company concluded its VRS at Tarapur and Roha. In the financial year 2006-07, the Company intends to focus its efforts on evaluating the opportunities available to optimize its core real estate and related assets. It will also continue to consolidate and make resources available to its existing real estate activity, which forms the basis of the Company's return to profitability.

In this context, the Company has introduced an enabling resolution under Section 149 (2A) of the Companies Act, so as to allow it to make progress in the commencement of businesses as set out in the Memorandum of Association.

SEGMENT ANALYSIS AND REVIEW

Real Estate Division

Goregaon in general, and the Nirlon complex in particular continue to develop as attractive venues for various corporates, more particularly in the field of Information Technology (IT) and its related services.

The Company will continue to develop this business in a planned and systematic manner.

Realizations from the Company's property at Nirlon House, Worli, Mumbai, have also contributed sizably towards the Company's efforts to consolidate its position and to implement the BIFR Scheme.

V-Belt Division

In the financial year 2006-07, the Company intends to ensure full capacity utilization of the installed production capacity by the end of March 2007. This is an aggressive target, but is imperative if the viability of this Division is to be established, and if it is to contribute in any meaningful manner to the Company's profitability. To this end, the Company has strengthened its marketing efforts and expects to see improved results in the second half of this financial year.

Nylon Tyrecord Division

The Company has discontinued tyre record manufacturing activity at Goregaon in the financial year 2004-05, and has been taking effective steps to improve manufacturing process at its fabric dipping and conversion unit at Tarapur to make its product competitive.

RISKS AND CONCERNS

A. Real Estate Division

More than 60% of commercial demand in India is driven by Information Technology (IT) and related industries. Increasing salaries, attrition rates, real estate prices, and other increasing expenditure in Mumbai, will continue to mean that the city could remain less attractive to IT/related companies when compared to other more cost effective destinations in Maharashtra and India. The commercial real estate market without IT (including retail) is also fiercely competitive, and is likely to remain so for the foreseeable future as the demand supply gap reduces in the coming years. A similar situation exists in the residential real estate sector as well.

However, the continuing shift of businesses and residential locations away from South Mumbai towards the suburbs, as well as the continuing rapid growth of the economy as a whole, will certainly help to mitigate these factors.

It is, therefore, essential that the Company recognizes its strengths and weaknesses in this industry, and acts to evaluate and optimize its assets accordingly.

B. V-Belt Division

The largest concern for the V-Belt Division remains the stiff competition posed by unorganized small-scale players who characterize this industry. The relatively small scale of Nirlon's operations when compared to its competitors in the organized market, is also a major concern for this Division.