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ARORA FIBRES LIMITED

13TH ANNUAL REPORT
2005-2006

Board of Directors :

Rupinder Singh Arora : *Chairman*
Navin Marwah : *Director*
S. M. Gupta : *Director*
M. Girijan Nair : *Director*

Company Secretary :

A. Gopalan

Auditors :

M/s. A. M. JOSHI & CO.
Chartered Accountants
Sukrita, 127, Shivaji Park,
Dr. M. B. Raut Road,
Dadar, Mumbai-400 024.

Banker :

CORPORATION BANK

Registered Office :

Survey No. 213, Piparia Industrial Estate,
Silvassa - 396 230, Dadra & Nagar Haveli.

Corporate Office :

Arora House,
16, Golf Link, Union Park,
Khar (West), Mumbai-400 052.

1. Shareholders are requested to bring their copy of the Annual Report to the Meeting.
2. Please address all correspondence regarding share transfer work to the Registrars and Share Transfer Agents and **not to the Company's Registered Office.**
3. Members are requested to notify their change of address, if any, to our Registrars and Share Transfer Agents, **at the following address:**

SHAREX DYNAMIC (INDIA) PVT. LTD.

Unit-I, Luthra Ind. Premises, Safed Pool,
Andheri-Kurla Road, Andheri (East),
Mumbai-400 072.

THIRTEENTH ANNUAL REPORT**Notice**

NOTICE is hereby given that the Thirteenth Annual General Meeting of the Members of ARORA FIBRES LTD. will be held on Friday, the 22nd September, 2006, at 11.00 A.M. at the Registered Office of the Company at Survey No. 213, Piparia Industrial Estate, Silvassa - 396 230 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider, approve and adopt the Audited Balance Sheet and the Profit and Loss Account as at and for the year ended 31st March, 2006 and the Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of Shri M. Girijan Nair, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri Rupinder Singh Arora, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To consider and, if thought fit, to pass, with or without modification(s), the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT M/s. A. M. Joshi & Co. Chartered Accountants, Mumbai, the retiring Auditors of the Company, be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at such remuneration as may be determined by the Board in consultation with the said auditors in addition to payment for other services and reimbursement of out of pocket expenses."

SPECIAL BUSINESS:

5. To consider and, if though fit, to pass, with or without modification(s), the following resolution as an **ORDINARY RESOLUTION**:

"RESOLVED THAT Shri Navin Marwah who was appointed as an Additional Director of the Company by the Board of Directors and who holds office only upto the date of ensuing Annual General Meeting and in respect of whom the Company has received a Notice in writing from a member proposing his candidature for the office of Director, be and he is hereby appointed as a Director of the Company, liable to retire by rotation."
6. To consider and, if through fit, to pass, the following resolution as a Special Resolution, with or without modification(s):

RESOLVED THAT, subject to the provisions of the Companies Act, 1956 (including any statutory modification(s) or re-enactment(s) thereof for the time being in force and as may be enacted hereinafter), the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 and subject to such approvals, permissions, exemptions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed or imposed, while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company (hereinafter referred to as "the Board", which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board of this resolution), consent and

ARORA FIBRES LIMITED

approval of the Company be and is hereby accorded to the Board to delist the Equity Shares of the Company from the Stock Exchange, Ahmedabad.

7. To consider erosion of peak net worth by over fifty percent and the causes of such erosion in terms of The Sick Industrial Companies Act.

By Order of the Board of Directors

A. GOPALAN

Company Secretary

Mumbai, Dated : 26th June, 2006

Corporate Office :

Arora House, 16, Golf Link,
Union Park, Khar (West),
Mumbai-400 052.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF. A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

Proxies in order to be effective must be received by the Company not less than 48 hours before the scheduled time of the meeting. A blank form is annexed to this notice.

2. The Explanatory Statement, pursuant to Section 173(2) of the Companies Act, 1956, is annexed herewith.
3. The Register of Members and Share Transfer Books of the Company will remain closed from Saturday, the 2nd September, 2006 to Tuesday, the 19th September, 2006 (both days inclusive).

THIRTEENTH ANNUAL REPORT**Annexure to Notice**

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

ITEM NO. 5

Shri Navin Marwah was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 20.03.2006. He holds his office as a Director till the ensuing Annual General Meeting. Under Section 257 of the Companies Act, 1956, the Company has received a Notice from a member alongwith deposit of Rs. 500/- signifying his intention to propose candidature of Shri Navin Marwah as a Director of the Company, liable to retire by rotation.

Mr. Navin Marwah is a B.Com from Bombay University. He has 20 years experience in Stock Market and Financial Market. Manager Portfolio of reputed Corporates and High Networth Individuals. He has good contacts with Corporates and Stock Market Community.

ITEM NO. 6:

Presently, the Company's securities are listed on the following Stock Exchanges:

- (1) Bombay Stock Exchange Limited at Mumbai
- (2) Ahmedabad Stock Exchange Limited at Ahmedabad

Owing to the expansion of Bombay Stock Exchange Ltd. (BSE) and their extensive networking and extension of their terminals to other cities, the Investors have access to on-line, dealings in the Company's Equity Shares on such terminals across the country. Moreover, the Company's securities are one of the securities, which Securities and Exchange Board of India (hereinafter referred to as "SEBI") has specified for settlement only in demat form by all investors.

The annual listing fees paid to the Stock Exchange at Ahmedabad do not offer commensurate benefits to the Company and its investors in the changed scenario of the nationwide trading terminals set up by BSE.

In this backdrop, the continued listing on the Stock Exchange, Ahmedabad is not considered necessary. It would further contribute to reduction in administrative costs/efforts of the Company. Therefore, it is proposed to apply for voluntary delisting of the Company's Equity Shares from the Stock Exchange, Ahmedabad.

Pursuant to the SEBI (Delisting of Securities) Guidelines, 2003, it is now proposed to seek the members' approval by way of a Special Resolution for the removal of the Company's Equity Shares from the Stock Exchange, Ahmedabad.

The Proposed delisting is in the interest of the Company and the Board recommends the Proposed Resolution as set out at Item No. 6.

No Director of the Company is concerned or interested in the Proposed Resolution.

ITEM NO. 7:

In accordance with such clause (ii) of clause (a) of Section 23(i) of The Sick Industrial Companies Act, this meeting of the shareholders is convened to consider, along with other matters, erosion of peak net worth by over fifty percent and the reasons for such erosion.

ARORA FIBRES LIMITED**Management Discussion & Analysis Report:**

The Company has become a potentially Sick Industrial Company. The peak net worth during the immediately preceding four years has eroded by more than fifty percent.

Peak net worth during the immediately preceding four financial years –

Share Capital	15,03,73,000
Add : Tax Reserve	1,22,06,486
	<u>16,25,79,486</u>
50% of the Net worth	8,12,89,743
Accumulated Losses as on 31.03.2006	9,08,82,877

(Including loss of Rs. 1,35,69,161/- Caused by Floods in 2004-05).

But for this extraordinary loss, the accumulated loss would have been Rs. 7,43,13,716 which is much less than 50% of net worth at Rs. 8,12,89,743/-.

Reasons for loss and erosion of net worth and steps being taken to improve the working.

The Recycled Polyester Fibre Industry is not in a happy situation. The working of the Company has been affected owing to the following reasons:

1. Excess supply vis-a-vis demand;
2. Unhealthy competition from unorganized sector;
3. New units coming up in areas enjoying excise and other tax concessions offering the Fibre at low prices uneconomical to the Company;

Though the imported Chinese plant for production of Hollow Fibre/Finer Fibre of 6000 tons capacity per annum went into commercial production in December, 2005, production and sales were not smooth for the first 4 months upto March, 2006. These were the higher value added products. Because of various initial teething problems, the utilized capacity was only 31%, which contributed to the unreasonably higher losses.

Steps are being taken to make the project profitable with Aggressive Marketing, Improving the Quality, focussing more on higher value added products like Hollow Fibre, Finer Fibre produced from Chinese Plant, increasing capacity utilization etc. It is expected that the profitability will increase gradually.

By Order of the Board of Directors

A. GOPALAN
Company Secretary

Mumbai, Dated : 26th June, 2006

Corporate Office :

Arora House, 16, Golf Link,
Union Park, Khar (West),
Mumbai-400 052.

THIRTEENTH ANNUAL REPORT**Directors' Report
to the Shareholders**

Your Directors present before you the Thirteenth Annual Report together with the Audited Statement of Accounts of the Company for the year ended 31st March, 2006.

	2005-2006 Rupees	2004-2005 Rupees
FINANCIAL RESULTS:		
Profit/Loss before Finance Charges, Depreciation & Taxation	- 1,56,56,221	74,95,351
Add/Less: Interest	52,47,459	14,10,635
Profit/Loss before Depreciation and Taxation	- 2,09,03,680	60,84,716
Less: Depreciation	68,75,933	60,67,209
Profit/Loss for the year before extraordinary item	- 2,77,79,613	17,507
Less: Extra Ordinary Loss		
Loss on Account of Floods in Silvassa	—	1,65,69,161
Loss on Sale of Fixed Assets	27,97,131	—
Profit/Loss Before Taxation	- 3,05,76,744	- 1,65,51,654
Less: Deferred Tax	6,33,232	- 2,11,462
Profit/Loss after Tax	- 3,12,09,976	- 1,63,40,192
Brought forward Loss from previous year	5,96,72,901	- 4,33,32,709
Balance carried to Balance Sheet	- 9,08,82,877	- 5,96,72,901

DIVIDEND:

The Board of Directors regret their inability to declare dividend in view of carried forward loss and loss for the year.

WORKING:

The working has resulted in a loss of Rs. 3,12,09,976/- after providing for depreciation of Rs. 68,75,933/-.

Management Discussion & Analysis Report:

The Company has become a potentially Sick Industrial Company. The peak net worth during the immediately preceding four years has eroded by more than fifty percent.

Peak net worth during the immediately preceding four financial years –

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Add : Tax Reserve	1,22,06,486
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Accumulated Losses as on 31.03.2006	9,08,82,877
(Including loss of Rs. 1,65,69,161/- Caused by Floods in 2004-05)	

ARORA FIBRES LIMITED

But for this extraordinary loss, the accumulated loss would have been Rs. 7,43,13,716 which is much less than 50% of net worth at Rs. 8,12,89,743.

Reasons for loss and erosion of net worth and steps being taken to improve the working.

The Recycled Polyester Fibre Industry is not in a happy situation. The working of the company has been affected owing to the following reasons:

1. Excess supply vis-a-vis demand;
2. Unhealthy competition from unorganized sector;
3. New units coming up in areas enjoying excise and other tax concessions offering the Fibre at low prices uneconomical to the Company;

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Steps are being taken to make the project profitable with Aggressive Marketing, Improving the Quality, focussing more on higher value added products like Hollow Fibre, Finer Fibre produced from Chinese Plant, increasing capacity utilization etc. It is expected that the profitability will increase gradually.

Expansion and Diversification:

The plant for production of Hollow Fibre/Finer Fibre from imported Chinese Plant has commenced production on 1st Decemebr, 2005. The quality of the product is reasonably good.

The Company has now installed capacity of round fibre of 6000 tons per annum and 6000 tons of Hollow Fibre/Finer Fibre. Since these are higher value added products, the company should become profitable in due course.

1. Directors' Responsibility Statement

Your Directors confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) that the Directors have selected such 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 at the end of the financial year ended 31st March, 2006 and of the loss of the Company for that year;
- (iii) that the Directors have 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 have prepared the annual accounts on a going concern basis.

2. Corporate Governance

As per clause 49 of the Listing Agreement with The Stock Exchanges, a detailed Corporate Governance Report is annexed to the Directors' Report.

THIRTEENTH ANNUAL REPORT**3. Audit Committee**

An Audit Committee has been constituted with (1) Shri Navin Marwah, with financial and accounting knowledge as Chairman (2) Shri S. M. Gupta and (3) Shri Girijan Nair, all the three independent directors with independent judgment in the deliberation and decisions of the Board. The Company Secretary, Shri A. Gopalan, B.A., F.C.A., F.C.S. is the secretary of this committee.

4. Directors

Shri Girijan Nair and Shri Rupinder Singh Arora, retire by rotation and are eligible for re-appointment.

Shri Navin Marwah was appointed as an Additional Director of the Company by the Board of Directors at their meeting held on 20.03.2006. He holds his office as a Director till the ensuing Annual General Meeting. Under Section 257 of the Companies Act, 1956, the Company has received a Notice from a member alongwith deposit of Rs. 500/- signifying his intention to propose candidature of Shri Navin Marwah as a Director of the Company, liable to retire by rotation.

Mr. Navin Marwah is a B.Com. from Bombay University. He has 20 years experience in Stock Market and Financial Market. Manager Port-folio of reputed corporates and High Network Individuals. He has good contacts with Corporates and Stock Market Community.

5. Auditors' Report

The observations of the Auditors have been explained in the notes to the accounts wherever necessary.

6. Auditors

The Company's Auditors M/s. A. M. Joshi & Co., Chartered Accountants, retire and are eligible for re-appointment.

7. Particulars of Employees

The particulars of employees required to be given under provisions of Section 217 (2A) of the Companies Act, 1956 – NIL.

8. Conservation of Energy

The information required under Section 217 (1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 with Annexure 'A' and forms part of the Report.

9. All the Board members and senior management personnel affirm compliance with the code of conduct laid down by the Board.

For and on behalf of the Board of Directors

RUPINDER SINGH ARORA
Chairman

Mumbai, Dated : 26th June, 2006

Corporate Office :

Arora House, 16, Golf Link,
Union Park, Khar (West),
Mumbai-400 052.

ARORA FIBRES LIMITED**Annexure to the Directors' Report**

Information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

Annexure 'A'**A Conservation of Energy:**

Various steps and measures are continuously being taken to further reduce consumption of electricity.

The above measures have resulted/will result in saving in the consumption of power and fuel.

B Total energy consumption and energy consumption per unit of production as per prescribed Form 'A':

(A) Power and Fuel Consumption	31.03.2006	31.03.2005
1. Electricity		
(a) Purchased – Units (in lacs)	22.46	22.89
Total amount (Rs. in lacs)	79.70	66.49
Rate per Unit (Rs.)	3.55	2.90
(b) Own generation	NIL	NIL
2. Coal	NIL	NIL
3. Furnace Oil		
Quantity (Litres in lacs)	1.54	1.25
Total (Rs. in lacs)	52.42	32.29
Average Rate (Rs.)	34.04	25.65
(B) Consumption per unit of production		
Electricity (Per Kg.)	0.77	0.76
Furnace Oil (Per Kg.)	0.05	0.04

C Research:

There is no activity on research and development.

D Technology Absorption:

The Company has fully absorbed the technology obtained from Mijung Ind. Co. Ltd., Korea. The Company is continuously taking steps to improve the product and process technology.

E Foreign Exchange Earnings and Outgo:

	(Rs. in lacs)
(a) Foreign Exchange earned	NIL
(b) Foreign Exchange used – Import of Equipment	3.10
(c) Foreign Exchange used – Travelling Expenses	1.22

For and on behalf of the Board of Directors

RUPINDER SINGH ARORA

Chairman

Mumbai, Dated: 26th June, 2006