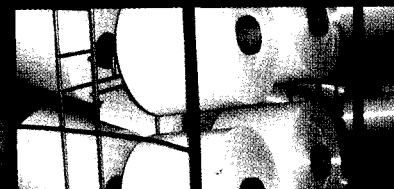
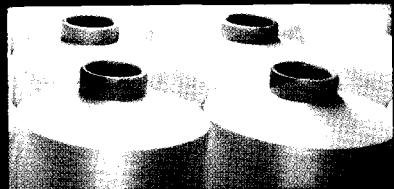
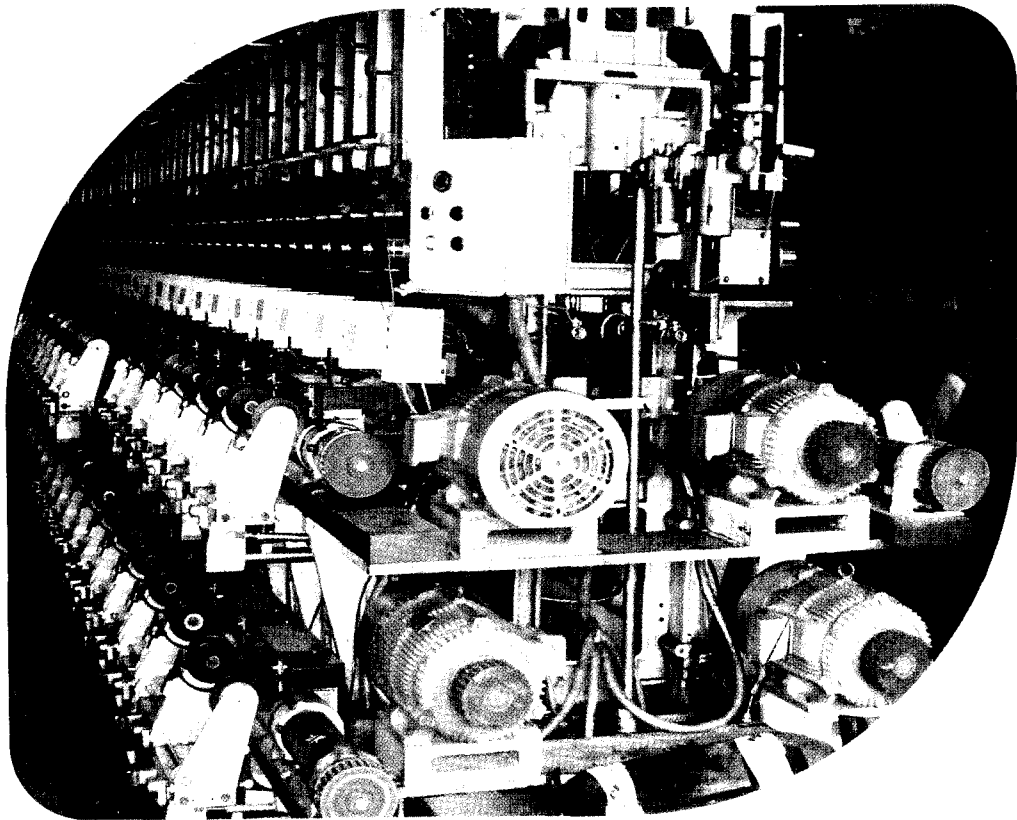




RAJ RAYON LIMITED

13th ANNUAL REPORT 2005-2006





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COMPANY INFORMATION

BOARD OF DIRECTORS : **SHRI. GOURISHANKAR PODDAR** *Chairman & Managing Director*
SMT. RAJKUMARI KANODIA *Director*
SHRI. ASHOK TREHAN *Director Technical*
SHRI. JAGDISH CHANDRA SOMANI *Director*
SHRI. VINOD KUMAR JAIN *Director*
SHRI. NERAJ AGARWAL *Director*

PRESIDENT FINANCE & COMPANY SECRETARY : **MR. PRADEEP KUMAR AGRAWAL**

AUDITORS : **M/S. R.S.AGRawal & ASSOCIATES**
CHARTERED ACCOUNTANTS

BANKERS : **STATE BANK OF INDIA**
STATE BANK OF INDORE
STATE BANK OF MYSORE

REGISTERED OFFICE : 3A/205, Mittal Industrial Estate,
 Saki Naka, Andheri (East),
 Mumbai – 400 059
 Tel: 91-22-2850 8905 / 06
 Fax: 91-22-2852 3574
 Website : www.rajrayon.com
 E-mail: mumbai@rajrayon.com

PLANT LOCATIONS :
POLYESTER TEXTURED YARN (PTY) DIVISION

- (i) **Survey No. 272/1/1,**
 Plot No. 1, Village : Dadra,
 Dadra Demani Road
 Dist. Silvassa, Dadra & Nagar Haveli (UT) - 396 230.
- (ii) **Survey No. 185/1/1,**
 Plot No.17, Dokmandi, Village : Amli,
 Dist. Silvassa, Dadra & Nagar Haveli (UT) - 396 230.
- (iii) **Survey No.259/12,**
 Parsinath Industrial Estate
 Village : Dadra
 Dist. Silvassa, Dadra & Nagar Haveli (UT) - 396 230.

PARTIALLY ORIENTED YARN (POY) DIVISION

- (iv) **Survey Number 177/1/3 & 177/1/4,**
 Village – Surangi,
 Dist. Silvassa, Dadra & Nagar Haveli (UT) - 396 230

REGISTRAR & SHARE TRANSFER AGENT

INTIME SPECTRUM REGISTRY LTD.
 C-13, Pannalal Silk Mills Compound,
 L.B.S. Marg, Bhandup (W), Mumbai – 400 078.
 Tel: 91-22- 25963838; Fax: 91-22- 25946969
 Website: www.intimespectrum.com
 E-mail: isrl@intimespectrum.com

NOTICE

Notice is hereby given that the 13th Annual General Meeting of the Members of RAJ RAYON LIMITED will be held on Saturday, September 30, 2006 at 1.00 p.m., at Chakra Hotel, A. K. Road, Saki Naka, Andheri (East), Mumbai-400 072, to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at March 31, 2006, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To declare a dividend on Equity Shares.
3. To appoint a director in place of Smt. Rajkumari Kanodia, who retires by rotation and being eligible, offers herself for re-appointment.
4. To appoint a director in place of Shri Jagdish Chandra Somani, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration and in this regard to consider and if thought fit to pass, with or without modification(s), the following resolution as an **ordinary resolution**:

"RESOLVED THAT M/s. R. S. Agrawal & Associates, Chartered Accountants, be and are hereby 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 on such remuneration as shall be fixed by the Board of Directors."

SPECIAL BUSINESS

6. To consider and if thought fit to pass, with or without modification(s), the following resolution as an **ordinary resolution**:

"RESOLVED THAT in accordance with the provisions of Section 257 and all other applicable provisions, if any, of the Companies Act, 1956, or any statutory modification(s) or re-enactment thereof, Shri Neraj Agarwal, who was appointed as an additional director pursuant to the provisions of Section 260 of the Companies Act, 1956, be and is hereby appointed as a director of the Company, subject to retirement by rotation under the provisions of the Articles of the Association of the Company."

By order of the Board of Directors,

PRADEEP AGRAWAL
President Finance &
Company Secretary

Mumbai, August 29, 2006

Registered Office:
3A/205, Mittal Industrial Estate,
Saki Naka, Andheri (East),
Mumbai - 400 059

NOTES:

1. A member entitled to attend and vote at the Annual General Meeting (the Meeting) is entitled to appoint a proxy to attend and vote on a poll instead of himself and the proxy need not be a member of the Company. The instrument appointing Proxy should, however, be deposited at the Registered Office of the Company not less than forty-eight hours before commencement of the Meeting.
2. Corporate Members intending to send their authorised representatives to attend the meeting are requested to send a certified copy of the Board resolution authorising their representative to attend and vote on their behalf at the meeting.
3. In terms of Article 99 of the Articles of Association of the Company, Smt. Raj kumari Kanodia and Shri Jagdish Chandra Somani, Directors retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. Brief resume of these Directors, nature of their expertise in specific functional areas and names of companies in which they hold directorships and memberships/chairmanships of Board Committees, as stipulated under clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report. The Board of Directors of the Company commends their respective re-appointments.
4. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
5. Members are requested to bring their Attendance Slip alongwith their copy of Annual Report to the meeting.
6. Members who hold shares in dematerialised form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the Attendance Slip for attending the Meeting.
7. In case of Joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
8. Relevant documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company on all working days, except Saturdays, between 11.00 a.m. and 1.00 p.m. up to the date of the Meeting.

SANSKO SERVICES LIMITED

9. (a) The Company has already notified closure of Register of Members and Transfer Books from Saturday, September 23, 2006 to Saturday, September 30, 2006 (both days inclusive) for determining the names of members eligible for dividend on Equity Shares, if declared at the Meeting.

- (b) The dividend on Equity Shares, if declared at the Meeting, will be paid on or after September 30, 2006 to those Members whose names shall appear on the Company's Register of Members on Friday, September 22, 2006. In respect of shares held in dematerialised form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories as at the end of business on Friday, June 22, 2006.

10. (a) In order to provide protection against fraudulent encashment of dividend warrants, Members who hold shares in physical form are requested to intimate the Company's Registrars & Transfer Agents, M/s. Intime Spectrum Registry Limited, under the signature of the Sole/First joint holder, the following information to be incorporated on dividend warrants:

- (i) Name of the Sole/First joint holder and the Folio Number.

- (ii) Particulars of Bank Account, viz.:

(a) Name of the Bank

(b) Name of Branch

(c) Complete address of the Bank with Pin Code Number

(d) Account type, whether Savings Account (SA) or Current Account (CA)

(e) Bank Account number

- (b) Members who hold Shares in dematerialised form may kindly note that their Bank account details, as furnished by their Depositories to the company, will be printed on their dividend warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such Members for deletion of or change in such Bank Account details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic form. **Members who wish to change such Bank Account details are**

therefore requested to advise their Depository Participants about such change with complete details of Bank Account.

11. There was no unclaimed dividends declared upto the financial year ended March 31, 1995 as such Company has not transferred any fund to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978 (the Rules).
12. Pursuant to the provisions of Section 205A(5) and 205C of the Companies Act, 1956, dividend for the financial year ended March 31, 1996 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend when due for transfer to the said fund is given below.

Financial Year ended	Date of declaration of Dividend	Last Date for claiming unpaid Dividend	Due date for transfer to IEP Fund
31.03.2003	29-8-2003	28-08-2010	28-09-2010
31.03.2004	30-9-2004	29-09-2011	29-10-2011
31.03.2005	16-8-2005	15-08-2012	15-09-2012

Shareholders who have not so far encashed the dividend warrant(s) are requested to seek issue of duplicate warrant(s)/Demand Draft by writing to the Company or Registrar & Transfer Agent immediately.

13. Members who hold shares in physical form in multiple folios in identical names or joint accounts in the same order of names are requested to send the share certificates to the company's Registrars & Transfer Agents, M/s. Intime Spectrum Registry Limited, for consolidation into a single folio.
14. Non-Resident Indian Members are requested to inform the Company's Registrars & Transfer Agents, M/s. Intime Spectrum Registry Limited, immediately of:
- The change in the Residential status on return to India for permanent settlement.
 - The particulars of the Bank Account maintained in India with complete name, branch, account type, account number and address of Bank with Pin Code Number, if not furnished earlier.



EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No.6

The Board of Directors of the Company (the Board), has appointed, pursuant to the provisions of Sections 260 of the Companies Act, 1956 (the Act) and Articles 85 of the Articles of Association of the Company, Shri Neraj Agarwal as an Additional Directors of the Company with effect from November 25, 2005.

In terms of the provisions of Section 260 of the Act, Shri Neraj Agarwal would hold office upto the date of this Annual General Meeting.

The Company has received a notice in writing from a member alongwith a deposit of Rs.500/-, proposing the candidature of Shri Neraj Agarwal for the office of Director of the Company, under the provisions of section 257 of the Act.

Shri Neraj Agarwal has, to his credit, qualification in business management. Keeping in view his qualification and

knowledge, it will be in the interest of the Company that Shri Neraj Agarwal is appointed as a Director, who if appointed, shall be liable to retire by rotation, in accordance with the provisions of Articles of Association of the Company.

A brief resume of Shri Neraj Agarwal, nature of his expertise in specific functional areas and names of companies in which he holds directorships and memberships/ chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in Report on Corporate Governance forming part of the Annual Report.

The Board commends the resolution set out at Item No. 6 of the Notice for your approval.

Save and except Shri Neraj Agarwal, none of the other Directors of the Company is, in any way, concerned or interested in the resolution.

By order of the Board of Directors,

PRADEEP AGRAWAL
President Finance &
Company Secretary

Place : Mumbai

Date : August 29, 2006

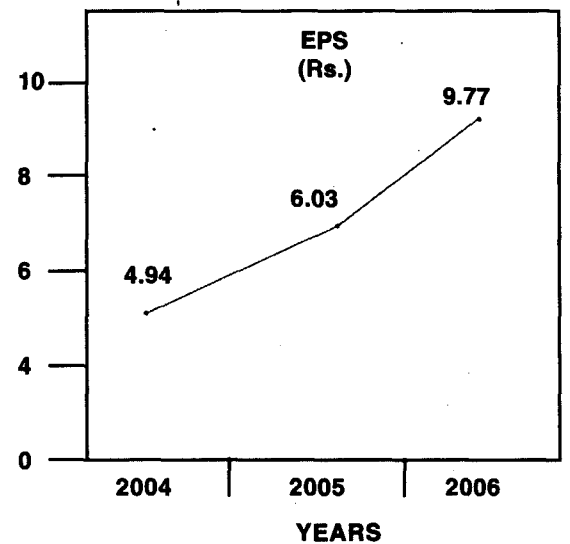
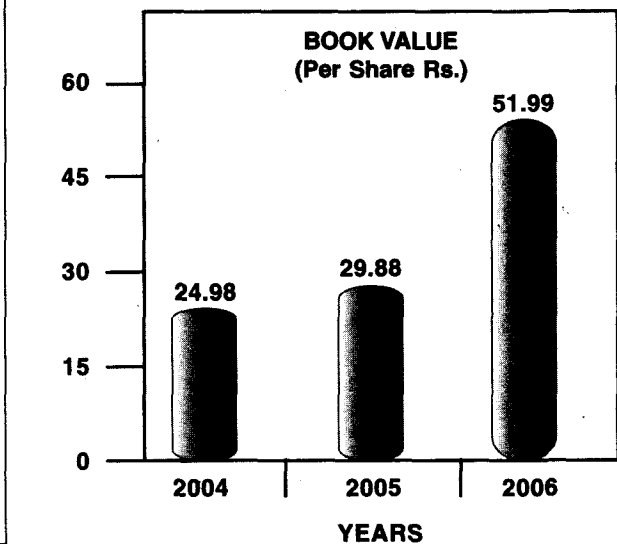
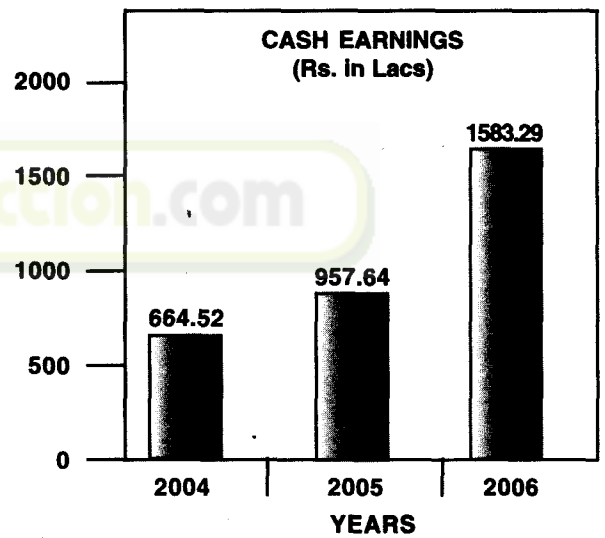
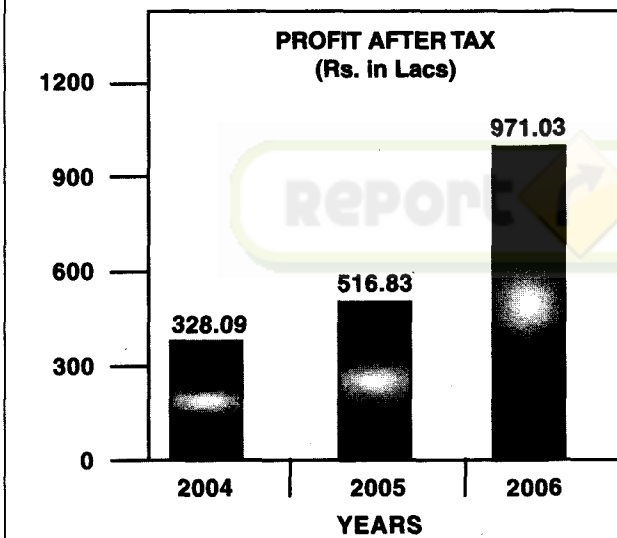
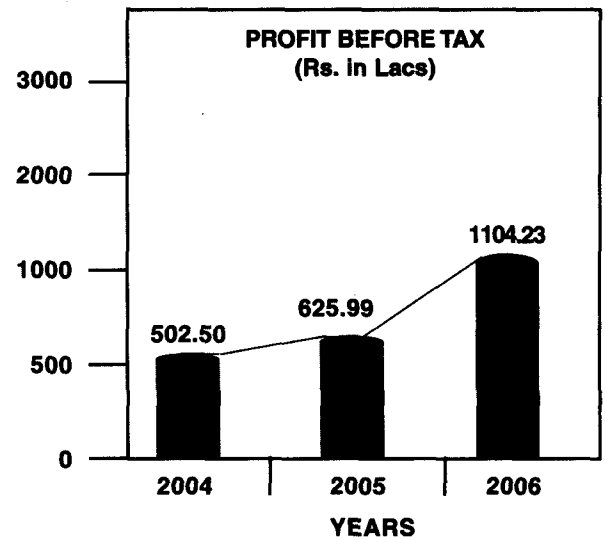
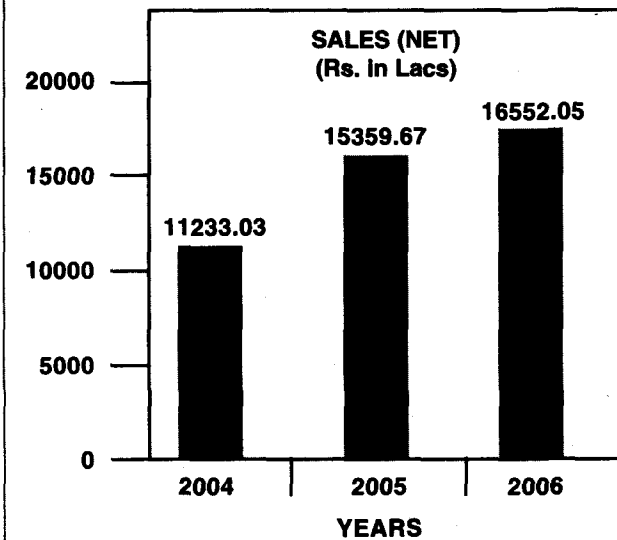


RAJ RAYON LIMITED

FINANCIAL HIGHLIGHTS

		(Rupees in Lacs)		
	Units	2005-06	2004-05	2003-04
PROFIT & LOSS ACCOUNT				
Net Sales		16552.05	15359.67	11233.03
Other Income		159.13	137.47	48.28
TOTAL		16711.18	15497.14	11281.31
Less: Expenditure		14638.88	14193.88	10262.39
Profit before Interest, Depreciation & TAX (PBIDT)		2072.30	1303.26	1018.92
Less: Interest (on Term Loan)		131.21	104.92	81.74
Less: Interest (Others)		224.60	131.54	98.25
Profit Before Depreciation & Tax		1716.49	1066.80	838.93
Less: Depreciation		612.26	440.81	336.43
Profit Before Tax (PBT)		1104.23	625.99	502.50
Less: Provision for Current Tax		98.02	49.09	42.28
Profit after Current Tax		1006.21	576.90	460.22
Less: Provision for Deferred Tax		35.18	60.07	132.13
Profit after Tax (PAT)		971.03	516.83	328.09
Cash Profit (PAT+Dep.)		1583.29	957.64	664.52
BALANCE SHEET				
Net Fixed Assets		9905.54	5375.10	3515.18
Investments		654.75	51.01	51.01
Net Current Assets		4575.63	2078.03	1940.68
Misc. Expenditure		360.99	9.62	1.68
Capital Employed		15496.91	7513.76	5508.55
Net Worth represented by-				
Share Capital		1701.77	851.77	851.77
Reserves & Surplus		7144.89	1693.70	1276.09
Net Worth		8846.66	2545.47	2127.86
Loan Fund				
Long Term		5000.42	2519.45	1786.20
Others		1193.70	2027.90	1233.62
Total Loan Funds		6194.12	4547.35	3019.82
Deferred Tax		456.13	420.94	360.87
Capital Employed		15496.91	7513.76	5508.55
Term Loan Repayment		410.09	276.33	342.62
RATIO & STATISTICS				
PBIDT/Net Sales	%	12.52	8.48	9.07
PAT/Net Sales	%	5.87	3.36	2.92
Cash Profit/Net Sales	%	9.57	6.23	5.92
Interest Cover (PBIDT/Interest)	x	5.82	5.51	5.66
DSCR	x	3.17	2.79	1.76
Debt Equity Ratio	x	0.57	0.99	0.84
Book Value	Rs.	51.99	29.88	24.98
EPS	Rs.	9.77	6.03	4.94

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RAJ RAYON LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

This report contains forward-looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realized. The company's actual results, performance or achievements could thus differ materially from those projected in any such forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

Overview

Landmark Events

The year 2005-06 was a landmark year in the history of Raj Rayon Ltd (RRL). During the year, RRL has set up a backward integration project to manufacture Partially Oriented Yarn (POY), having 18 lines of POY with total production capacity of 60000 TPA. RRL has completed its Rs.55.25 Crore Public Offering of equity shares, which received an overwhelming response across different classes of investors and are now listed on the Bombay Stock Exchange.

Financial Performance

The margins for the polyester business improved significantly during the year. Key contributors towards these were lower intermediate price and rising cotton prices. Another significant development was the changes in the duty structure announced in the Union Budget this year, which makes polyester more competitive as compared to cotton. The excise duty on polyester was reduced to 8 per cent from earlier level of 16 per cent and this is expected to lead to substantial growth of the polyester industry. RRL is very close to completing another expansion in Polyester Texturised Yarn capacity by adding 14,400 TPA of new capacity.

Financial Review

Amidst a challenging business environment, RRL has reported improved volumes, higher revenues and a substantial growth in pre & post tax profits. Notwithstanding, RRL achieved a 7.76% year-on-year growth in sales. Cash

profit has increased substantially from Rs.954.73 Lacs in year 2004-05 to Rs. 1583.29 Lacs in year 2005-06. Profit after taxation increased 87.88 percent to Rs. 971.03 Lacs from Rs. 516.83 Lacs.

Resources and Liquidity

RRL has a financial framework, which enables it to pursue aggressive business growth strategies while retaining a prudent capital structure. RRL continues to maintain its conservative financial profile and practice prudent fiscal strategies.

RRL's debt equity ratio, excluding short-term debt as on March 31, 2006, is on conservative at 0.57 only.

RRL's long-term debt as on March 31, 2006 stood at Rs.50.00 Crore. Of this debt, 24.56 percent represented debts under TUFs Scheme. The long-term debts cost under TUFs stood at 3.75% p.a. and non TUFs Debt stood at 8.75% p.a..

RRL meets its working capital requirements through Cash credit limits provided by consortium of Indian banks, which are fixed annually. RRL undertakes liability management transactions and enters into other structured arrangements such as interest rate and currency swaps (CP related pricing & FCNR(B)). This is practiced on an ongoing basis to reduce overall cost of debt and diversify liability mix.

RRL actively manages its short-term liquidity to generate reasonable returns by investing surplus funds while preserving the safety of capital and maintaining liquidity. RRL's current cash flow levels, for less than three years, are adequate to extinguish its entire net debt, reflecting its inherent financial strength and conservatism.

Business Review

For Financial reporting company has defined five segments such as PTY, POY, Trading activities, Services & others. However the key business segments of the Company are Polyester & Trading in Fabric & Other Household imported items.

-Polyester (PTY & POY)

RRL is one of the largest producers of PTY & POY in the India.

In 2005, the increase in global polyester production was about 3 MMT, which has taken the world polyester production to 41 MMT, a growth of 8 per cent. The major growth impetus came from China and India. China's polyester production (including Fibers and Yarns, PET and Films) grew by 17 percent from 12 MMT to 14 MMT. India and China are now the global hubs for the production of Polyester Fibre and Yarn contributing over 65 per cent of global capacity. Low per capita consumption in India offers strong growth potential for existing players like RRL. The per capita consumption of polyester in India is very low at