

RESTILE CERAMICS LIMITED

20th Annual Report
2005 - 2006



RESTILE
The Original *Fulbody* Tiles

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THE ORIGINAL SETS A NEW TREND. AGAIN.

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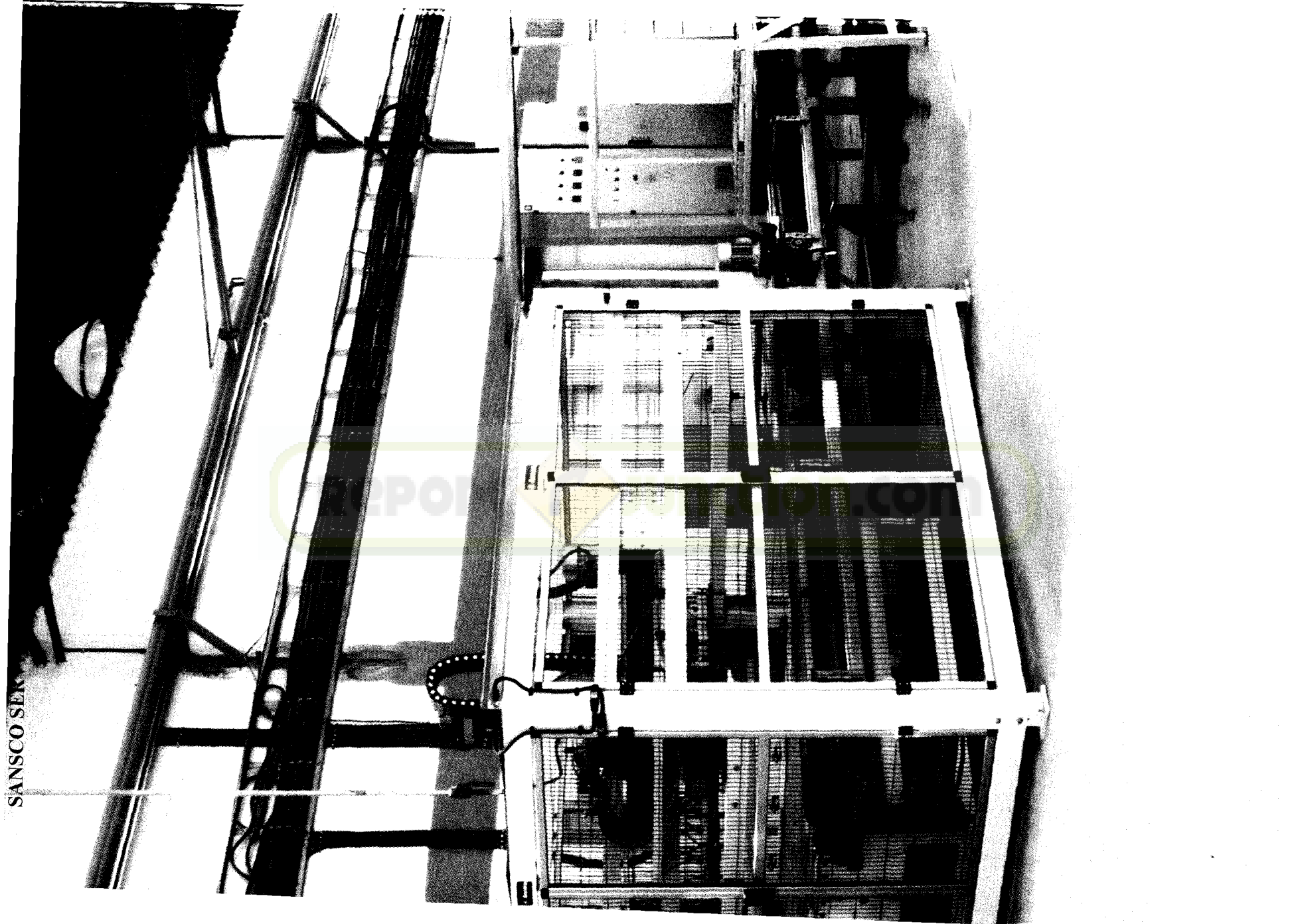
Restile introduces PearlRock

Restile. The original. The innovator.

A couple of decades ago, Restile changed the way India looked at tiles, by introducing Fulbody Design vitrified tiles. Spawning a generation of imitations.

Restile innovates again. With PearlRock... Silky as pearl. Solid as rock.

RESTILE
The Original *Fulbody* Tiles



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CHAIRMAN'S SPEECH

Ladies and Gentlemen:

It gives me immense pleasure to address you at this exciting time when your company is cruising through the path of expansion beyond what we have planned last year.

The economic scenario in the country is in great spirit with added growth and expansion in the infrastructure, housing, retail and entertainment spaces.

This is in addition to the continuing boom in the information technology, biosciences and manufacturing sectors. This has created a good market for "High Quality High Value" products.

As the pioneer in the Industry for "Full Body, High Quality" products, your Company is gearing up to meet the growing demand and has re-established "RESTILE" product leadership by introducing into the market yet another pioneering product "Pearl Rock", a full body product with a unique pearl like finish, one more first in the industry. You must have witnessed the Company's efforts in creating product launches and awareness across the media. Your company trusts, this will go a long way in retaining strong brand awareness/recognition for our products in both project and retail markets.

Company's R&D, Manufacturing and Marketing teams are in great zeal and energy by the overwhelming response for the Pearl Rock and marble varieties from the industry professionals, project consultants and dealer network. This adds to our existing product line of Mirror Stone, Granamite and Impacta.

On the expansion front, I have the following to report to you:

1. Refurbishment and balancing of existing lines: This project is now completed and the company is in a position to consistently produce and sell nearly 3500 sq. mtrs. per day (Phase I).
2. Management of the Company has finalized plans to fully optimize the existing location by adding a third line with 6000 sq. mtrs. per day and take the total capacity to 9500 sq. mtr. per day (Phase II). To accommodate this, the company has already purchased additional land adjacent to our existing plant.
3. The management is also in the process of conducting location study and feasibility to have natural gas based manufacturing at the second location (Phase III).

In respect of financial matters, I have the following to report to you:

1. Your Company has performed quite satisfactorily at a time when a combination of expansion, R&D and product development are all happening together affecting commercial production for sales. It is a grueling task to carryout project execution in an operating plant with space constraints. Our employees deserve full recognition in carrying out the multiple tasks and at the same time, satisfying customer needs with a smile.
2. Your company recently obtained BIFR permission to raise more capital to meet the capital expenditure for expansion. The management is confident that with the support of the promoters, the capital-raising program will be successful.
3. Your company will have no long-term borrowing after the Rights Issue, (unless we take on further expansion). With the increase in capitalization, the management is confident of a rewarding future.

I am hopeful that with the expanded capacity, optimum asset/capital utilization and encouraging market position, your company is poised for a profitable year ahead.

Thank You

Nalin A Rathod

Chairman & Managing Director

BOARD OF DIRECTORS

Shri Nalinkant Amratlal Rathod	- Chairman & Managing Director
Shri G.V.Ramana Murthy	- Joint Managing Director & C.E.O.
Shri K.Rajendra Prasad	- Director - Nominee APIDC
Dr. P.V.Lakshmipathy	- Director
Shri V.Padmakar	- Director
Shri G.Padmanabhan	- Director
Shri Raj Mitta	- Director (w.e.f.25.03.06)
Shri K. Krishna Rao, B.Com., FCA, ACS	- Sr. General Manager (Fin) & Company Secretary

AUDITORS

M/s.Lalith Prasad & Co.
 Chartered Accountants
 Flat No. 402, Golden Green Apts.
 Erramanzil Colony
 Hyderabad – 500 082

SHARE AND DEPOSITORY TRANSFER AGENTS

Sathguru Management Consultants Pvt.Ltd.
 Plot No. 15, Hindi Nagar
 Punjagutta
 Hyderabad – 500 034
 Ph : 040-2335 6975/2335 6507
 E-mail : sta@sathguru.com

BANKERS

State Bank of India
 Industrial Finance Branch
 Somajiguda
 Hyderabad-500 082

ADMINISTRATIVE OFFICE

301 & 302, Aditya Trade Centre,
 Aditya Enclave Road,
 Ameerpet.
 Hyderabad – 500 038

REGISTERED OFFICE AND FACTORY

Malkapur Village
 Hatnoora Mandal
 Narsapur Taluk
 Medak District-502 296
 Andhra Pradesh

NOTICE TO THE SHAREHOLDERS

Notice is hereby given that the **TWENTIETH ANNUAL GENERAL MEETING** of the Members of the Company will be held on Thursday, the 28th day of September, 2006 at 11.30 A.M at the Regd. Office of the Company at Malkapur Village, Hatnoor Mandal, Medak District-502 296, Andhra Pradesh to transact the following businesses:

ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2006 and the audited Profit and Loss Account for the year ended 31st March, 2006 together with Director's Report and Auditor's Report thereon.
2. To appoint a Director in place of Dr. P V Lakshmiopathy who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint M/s. Lalith Prasad and Co., Chartered Accountants, Hyderabad the retiring Auditors as Auditors for the year 2006-07 and to fix their remuneration.

SPECIAL BUSINESS:

4. To consider and, if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution:

"RESOLVED THAT Shri Raj Mitta, who was appointed as an Additional Director of the Company with effect from 25th Day of March, 2006 and who holds office up to the date of this Annual General Meeting, in respect of whom, the Company has received a Notice under Section 257 of the Companies Act, 1956 from a member proposing the candidature of Shri Raj Mitta to the office of Director, be and is hereby appointed as a Director of the Company liable to retire by rotation".

5. To consider and, if thought fit, to pass with or without modification(s) the following resolution as Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 94 and other applicable provisions if any, of the Companies Act, 1956 the Authorised Share Capital of the Company be and is hereby increased from Rs. 15.00 Crores (Rupees Fifteen Crores only) to Rs. 100.00

Crores (Rupees Hundred Crores only) by addition of 8,50,00,000 equity shares of Rs.10/- each.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to take all steps and actions and give such directions as may be in its discretion deem necessary and to settle any question that may arise in this regard."

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

"RESOLVED THAT pursuant to the provisions of Section 16 and other applicable provisions, if any, of the Companies Act, 1956, Clause V of the Memorandum of Association of the Company be altered as follows:

The Authorised Share Capital of the Company is Rs. 100,00,00,000 (Rupees Hundred Crores only) divided into 10,00,00,000 (Ten Crores) Equity Shares of Rs. 10/- (Rupees Ten only) each. The Company has the right to increase or reduce its capital for the time being into several classes and to attach thereto respectively, such (preferential or special) rights / privileges or conditions including power to create and increase preference shares as may be determined by or in accordance with the Articles of Association of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may for the time being provided by the Articles of Association of the Company.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to take all steps and actions and give such directions as may be in its discretion deem necessary and to settle any question that may arise in this regard."

7. To consider and, if thought fit, to pass with or without modification(s) the following resolution as Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956,

Article 1 (a) of the Articles of Association of the Company be altered as follows:

The Authorised share capital of the Company is same as mentioned in Clause V of the Memorandum of Association of the Company.

RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors of the Company be and is hereby authorized to take all steps and actions and give such directions as may be in its discretion deem necessary and to settle any question that may arise in this regard."

8. To consider and, if thought fit, to pass with or without modification(s) the following resolution as Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactments thereof for the time being in force) and enabling provisions of the Memorandum and Articles of Association of the Company and the Listing Agreement with the Stock Exchange where the equity shares of the Company are listed and subject to the applicable provisions, rules, regulations, guidelines or laws and/or any approvals, consents, permissions or sanctions of the Central Government, Reserve Bank of India, Board for Industrial and Financial Reconstruction (BIFR) and any other appropriate authorities, Institutions or Bodies (hereinafter collectively referred to as the "appropriate authorities") and subject to such conditions as may be prescribed by any one of them while granting any such approvals, consents, permissions and / or sanctions (hereinafter referred to as the "requisite approvals"), which may be agreed by the Board of Directors of the Company (hereinafter called the "Board" which term shall be deemed to include any committee which the Board may have constituted or hereafter constitute to exercise its powers including the power conferred by this resolution), the Board be and is hereby authorized to issue and allot not exceeding 4,00,00,000 equity shares of Rs.10/- (Rupees Ten only) each at par on preferential basis to the promoters, friends and their associates.

RESOLVED FURTHER THAT the Board be and is hereby authorized to do all such acts, deeds and things as it may in its/their absolute discretion deem necessary or desirable and to settle any question, difficulty or doubt that may arise in regard to the offer, issue and allotment of the shares and also to seek listing of these shares on the stock exchanges where listed.

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any powers herein conferred to any Committee of Directors or Joint Managing Director & Chief Executive Officer or Sr. General Manager (Fin.) & Company Secretary of the Company to give effect to the aforesaid resolution."

9. To consider and, if thought fit, to pass, with or without modification(s), the following resolution/s as Special Resolution:

"RESOLVED THAT pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactments thereof for the time being in force) and enabling provisions of the Memorandum and Articles of Association of the Company and the Listing Agreement with the Stock Exchange where the equity shares of the Company are listed and subject to the applicable provisions, rules, regulations, guidelines or laws and/or any approvals, consents, permissions, or sanctions of the Central Government, Reserve Bank of India, Board for Industrial and Financial Reconstruction (BIFR) and any other appropriate authorities, Institutions or Bodies (hereinafter collectively referred to as the "appropriate authorities") and subject to such conditions as may be prescribed by any one of them while granting any such approvals, consents, permissions and / or sanctions (hereinafter referred to as the "requisite approvals"), which may be agreed by the Board of Directors of the Company (hereinafter called the "Board" which term shall be deemed to include any committee which the Board may have constituted or hereafter constitute to exercise its powers including the power conferred by this resolution), the Board be and is

hereby authorized to issue and allot Fully Convertible Debentures (hereinafter call FCDs), with zero coupon, convertible into equity shares, on preferential basis not exceeding 14,00,000 (Fourteen Lakhs) face value of Rs.100 each (Rupees One Hundred Only) to be subscribed by Mrs. Saraswathi Kuppaswami (NRI), Capital Carriers Limited (OCB) and other eligible prospective investors as may be identified by the Board of Directors whether or not such persons/entities/investors are members of the Company, such issue and allotment to be made at such time or times in one or more tranches, at par, at Rs.100/- each and on such terms and conditions and in such manner as the Board may, in its absolute discretion think fit.

RESOLVED FURTHER THAT the Fully Convertible Debentures shall be issued by the Company include the following terms and conditions:

- (a) The conversion of FCDs into Equity Shares shall be exercised in one or more tranches on or before the expiry of 12 months from the date of allotment of the FCDs but before 30 days prior to the fixing of Record date for any Rights Issue, which ever is earlier.
- (b) The FCDs proposed to be allotted shall be subject to a lock-in to be determined in accordance with the provisions of the SEBI Guidelines.
- (c) The issue of the FCDs as well as the Equity Shares arising from the conversion of FCDs aforesaid shall be governed by the respective provisions of the Companies Act, 1956 the Memorandum & Articles of Association of the Company and also the Guidelines issued by SEBI and/or any other authority as the case may be, or any modifications thereof.

RESOLVED FURTHER THAT the Board or any Committee thereof be and is hereby authorized to issue and allot such number of equity shares, at par, at Rs.10/- each as may be required to be issued and allotted upon

conversion of FCDs referred above or as may be necessary in accordance with the terms of the offering, all such shares being pari passu with the then existing shares of the Company in all respects.

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of FCDs as described above, the Board or any Committee thereof be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may at its absolute discretion deem necessary or desirable for such purpose and to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit.

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any powers herein conferred to any Committee of Directors or Joint Managing Director & Chief Executive Officer or Sr.General Manager (Fin.) & Company Secretary of the Company to give effect to the aforesaid resolution."

10. To consider and, if thought fit, to pass with or without modification the following resolution as special resolution

"RESOLVED THAT pursuant to Section81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the Memorandum and Articles of Association of the Company, Listing Agreements entered into by the Company with the Stock Exchange where the shares of the company are listed, Disclosure and Investor Protection Guidelines issued by the Securities and Exchange Board of India (SEBI) and other applicable Regulations / Guidelines and subject to the approval of the Board for Industrial and Financial Reconstruction (BIFR), Reserve Bank of India wherever applicable, such other approvals, permissions, sanctions consent as may be necessary or expedient under the applicable law, rules and regulations and subject to such terms, conditions, alterations and modifications as may be

hereby authorized to issue and allot Fully Convertible Debentures (hereinafter call FCDs), with zero coupon, convertible into equity shares, on preferential basis not exceeding 14,00,000 (Fourteen Lakhs) face value of Rs.100 each (Rupees One Hundred Only) to be subscribed by Mrs. Saraswathi Kuppaswami (NRI), Capital Carriers Limited (OCB) and other eligible prospective investors as may be identified by the Board of Directors whether or not such persons/entities/investors are members of the Company, such issue and allotment to be made at such time or times in one or more tranches, at par, at Rs.100/- each and on such terms and conditions and in such manner as the Board may, in its absolute discretion think fit.

RESOLVED FURTHER THAT the Fully Convertible Debentures shall be issued by the Company include the following terms and conditions:

- (a) The conversion of FCDs into Equity Shares shall be exercised in one or more tranches on or before the expiry of 12 months from the date of allotment of the FCDs but before 30 days prior to the fixing of Record date for any Rights Issue, which ever is earlier.
- (b) The FCDs proposed to be allotted shall be subject to a lock-in to be determined in accordance with the provisions of the SEBI Guidelines.
- (c) The issue of the FCDs as well as the Equity Shares arising from the conversion of FCDs aforesaid shall be governed by the respective provisions of the Companies Act, 1956 the Memorandum & Articles of Association of the Company and also the Guidelines issued by SEBI and/or any other authority as the case may be, or any modifications thereof.

RESOLVED FURTHER THAT the Board or any Committee thereof be and is hereby authorized to issue and allot such number of equity shares, at par, at Rs.10/- each as may be required to be issued and allotted upon

conversion of FCDs referred above or as may be necessary in accordance with the terms of the offering, all such shares being pari passu with the then existing shares of the Company in all respects.

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of FCDs as described above, the Board or any Committee thereof be and is hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as it may at its absolute discretion deem necessary or desirable for such purpose and to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit.

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any powers herein conferred to any Committee of Directors or Joint Managing Director & Chief Executive Officer or Sr.General Manager (Fin.) & Company Secretary of the Company to give effect to the aforesaid resolution."

10. To consider and, if thought fit, to pass with or without modification the following resolution as special resolution

"RESOLVED THAT pursuant to Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force), the Memorandum and Articles of Association of the Company, Listing Agreements entered into by the Company with the Stock Exchange where the shares of the company are listed, Disclosure and Investor Protection Guidelines issued by the Securities and Exchange Board of India (SEBI) and other applicable Regulations / Guidelines and subject to the approval of the Board for Industrial and Financial Reconstruction (BIFR), Reserve Bank of India wherever applicable, such other approvals, permissions, sanctions consent as may be necessary or expedient under the applicable law, rules and regulations and subject to such terms, conditions, alterations and modifications as may be