

**SRI LAKSHMI SARASWATHI TEXTILES
(ARNI) LIMITED**

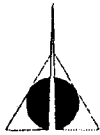
*42nd
Annual Report 2005 - 2006*



SRI B. RAJAGOPAL NAIDU 1901 - 73
OUR REVERED FOUNDER

Contents

Notice	3
Director's Report	7
Annexure-I to Directors' Report	10
Annexure-II to Director's Report	
Report on Management's Discussion & Analysis	11
Annexure-III to Directors' Report	
Report on Corporate Governance	13
Auditors' Report	21
Annexure to Auditors' Report	22
Balance Sheet	24
Profit & Loss Account	25
Schedules	26
Cash Flow Statement	37



Sri Lakshmi Saraswathi Textiles (Arni) Limited

BOARD OF DIRECTORS

SRI. R. SRIHARI

Managing Director

SRI. BALAKRISHNA S

Wholesale Director

SRI. R. PADMANABAN

Technical Director

SRI. V.N. SUBBA RAO

SRI. K.S.T. PANI

SRI J. M. GROVER

BANKERS

Indian Overseas Bank
Chennai House
Esplanade, Chennai 600 108

State Bank of India,
Leather & International Branch,
'MVJ' Tower, 177/1 PH Road,
Chennai – 600 010

AUDITORS

Messrs S. Viswanathan
17, Bishop Wallers Avenue (West)
Mylapore, Chennai 600 004.

REGISTERED OFFICE

16, Krishnama Road,
Nungambakkam, Chennai 600 034.
Email: slst@vsnl.com,
Web: www.slstindia.com

FACTORY

Raghunathapuram,
Sevoor Village,
PIN 632 316
Arni Taluk, Tiruvannamalai District,
Tamil Nadu

REGISTRARS & SHARE TRANSFER AGENTS

Cameo Corporate Services Limited
Subramanian Building,
No.1 Club House Road,
Chennai 600 002



Sri Lakshmi Saraswathi Textiles (Arni) Limited

NOTICE TO SHAREHOLDERS

NOTICE is hereby given that the Forty Second Annual General Meeting of the Company will be held at 02.30 P.M. on Friday, August 25, 2006 at Rani Seethai Hall, 603 Mount Road, Chennai-600 006, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Profit and Loss Account of the Company for the year ended 31st March 2006, the Audited Balance Sheet as at that date and the Reports of the Directors and Auditors thereon.
2. To declare a dividend
3. To appoint a Director in the place of Sri K S T Pani, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in the place of Sri V N Subba Rao, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

6. To re-appoint Sri R Srihari, Managing Director, for a period of 3 years and to fix his remuneration. To consider and if thought fit, to pass, with or without modification, the following as a SPECIAL RESOLUTION.
 "RESOLVED THAT pursuant to Sections 269, 198(4), 309(3) and 310 and other applicable provisions of the Companies Act, 1956, if any, Sri R Srihari, be and is hereby re-appointed as Managing Director of the Company for a period of 3 years from 01.04.2006 to 31.03.2009 and that he may be paid remuneration in accordance with Part II of Schedule XIII as detailed below from 01.04.2006 to 31.03.2009.
 - a) Salary Rs.60,000/- per month
 - b) Allowance of 2/3rd of salary per month. This allowance is not to be taken into account for the purpose of calculation of employer's contribution to provident fund and gratuity payable.
 - c) Perquisites
 - i) Contribution to provident fund to the extent not taxable under the Income Tax Act, 1961.
 - ii) Gratuity at the rate not exceeding half-a-month's salary for each completed year of service.
 - iii) Medical Reimbursement - Reimbursement of Medical expenses incurred for self and family subject to a ceiling of one month salary in a year or 3 months salary over a period of 3 years.

EXPLANATION: Family means Spouse, Dependent Children and Dependent Parents of the Director

- d) Provision of Car for use on Company's business, telephone at residence and mobile phones will not be considered as perquisites. Personal long distance calls on telephones and use of car for private purpose shall be billed by the Company to the Individual appointee concerned.
7. To re-appoint Sri Balakrishna. S, Wholtime Director, for a period of 3 years and to fix his remuneration. To consider and if thought fit, to pass, with or without modification, the following as an ORDINARY RESOLUTION.

"RESOLVED THAT, pursuant to Sections 269, 198(4), 309(3) and 310 and other applicable provisions of the Companies Act, 1956, if any, Sri Balakrishna.S, who fulfills the conditions laid down in Part I



Sri Lakshmi Saraswathi Textiles (Arni) Limited

of Schedule XIII, be and is hereby re-appointed as Wholtime Director of the Company for a period of 3 years from 01.04.2006 to 31.03.2009 and that he may be paid remuneration in accordance with Part II of Schedule XIII as detailed below from 01.04.2006 to 31.03.2009.

- a) Salary Rs.54,000/- per month
- b) Allowance of 2/3rd of salary per month.

This allowance is not to be taken into account for the purpose of calculation of employer's contribution to provident fund and gratuity payable.

c) Perquisites

- i. Contribution to provident fund to the extent not taxable under the Income Tax Act, 1961.
- ii. Gratuity at the rate not exceeding half-a-month's salary for each completed year of service.
- iii. Medical Reimbursement - Reimbursement of Medical expenses incurred for self and family subject to a ceiling of one month salary in a year or 3 months salary over a period of 3 years.

EXPLANATION: Family means Spouse, Dependent Children and Dependent Parents of the Director

- d) Provision of Car for use on Company's business, telephone at residence and mobile phones will not be considered as perquisites. Personal long distance calls on telephones and use of car for private purpose shall be billed by the Company to the Individual appointee concerned.

8. To re-appoint Sri R Padmanaban, Technical Director, for a period of 3 years and to fix his remuneration. To consider and if thought fit, to pass, with or without modification, the following as an ORDINARY RESOLUTION.

"RESOLVED THAT, pursuant to Sections 269, 198(4), 309(3) and 310 and other applicable provisions of the Companies Act, 1956, if any, and subject to the approval of shareholders, Sri R Padmanaban, who fulfills the conditions laid down in Part I of Schedule XIII, be and is hereby re-appointed as Technical Director of the Company for a period of 3 years from 01.04.2006 to 31.03.2009 and that he may be paid remuneration in accordance with Part II of Schedule XIII as detailed below from 01.04.2006 to 31.03.2009.

- a) Salary Rs.36,000/- per month
- b) Allowance of 2/3rd of salary per month.

This allowance is not to be taken into account for the purpose of calculation of employer's contribution to provident fund and gratuity payable.

c) Perquisites

- i. Contribution to provident fund to the extent not taxable under the Income Tax Act, 1961.
- ii. Gratuity at the rate not exceeding half-a-month's salary for each completed year of service.
- iii. Medical Reimbursement - Reimbursement of Medical expenses incurred for self and family subject to a ceiling of one month salary in a year or 3 months salary over a period of 3 years.

EXPLANATION: Family means Spouse, Dependent Children and Dependent Parents of the Director

- d) Provision of Car for use on Company's business, telephone at residence and mobile phones will not be considered as perquisites. Personal long distance calls on telephones and use of car for private purpose shall be billed by the Company to the Individual appointee concerned.

By Order of the Board

Place : Chennai
Date : 29th June 2006

R. SRIHARI
Chairman & Managing Director



Sri Lakshmi Saraswathi Textiles (Arni) Limited

NOTE:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH A PROXY NEED NOT BE A MEMBER.**
2. The Proxy form duly stamped and executed should be deposited at the Registered Office of the Company atleast forty eight hours before the time fixed for the commencement of the Meeting.
3. Members/ Proxies are requested to bring the attendance slip duly filled in for attending the meeting
4. Members who hold shares in the de-materialised form are requested to bring their depository account number for easier identification of attendance at the meeting
5. The Register of Members and Share Transfer Books of the Company will remain closed from August 18, 2006 to August 25, 2006 (both days inclusive).
6. The Dividend upon its declaration at the meeting will be paid to those shareholders whose names appear in the Registrar of Members as on August 25, 2006 and in respect of shares held in electronic form, the dividend will be payable on the basis of beneficial ownership as on August 25, 2006 as per details furnished by NSDL and CDSL for this purpose.
7. The ISIN No. allotted to the equity shares of your company for the purpose of de-materialization is **INE456D01010**
8. Members holding shares in physical form are requested to notify the change in address, immediately.
9. Members holding shares in the electronic form are advised that address/ bank details as furnished to the company by the respective depositories viz., NSDL & CDSL will be printed on the dividend warrants.
10. Pursuant to the provisions of Sec. 205A and 205C, the dividend for the year 1998-99 and subsequent dividends, which remains unpaid or unclaimed for a period of seven years will be transferred to the investor education and protection fund of the Central Government. Members who have not encashed their dividend warrants for the year 1998-99 or any subsequent financial years, are requested to make their claim to the company. Unclaimed Dividend for the year 1997-98 was transferred to the Investor Education and Protection Fund of the Central Government on 25.08.2005 and unclaimed dividend for the year 1998-99 will be transferred to the Investor Education and Protection Fund of the Central Government on 24.09.2006.

Year	Interim / Final	Date of Declaration	%
1998-1999	Final	24.09.1999	12%
1999-2000	Interim	12.06.2000	15%
2000-2001	Interim	18.06.2001	20%
2001-2002	Interim	09.04.2002	15%
2002-2003	Final	29.08.2003	15%
2003-2004	Final	03.09.2004	15%
2004-2005	Final	12.08.2005	15%

11. The Equity Shares of the Company are listed in the following Exchanges

- | | | |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| a. Madras Stock Exchange Limited,
Exchange Building
P B No. 183
11, 2 nd Line Beach
CHENNAI 600 001 | b. Bombay Stock Exchange Limited,
Phiroze Jeejeebhoy Towers
25 th Floor, Dalal Street
MUMBAI 400 023 | c. Ahmedabad Stock Exchange Limited,
Kamadhenu Complex
Near Polytechnic Panjara Pole
AHMEDABAD 380 015 |
|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|

The company has paid the listing fees for 2006-07 to all the three stock exchanges.



Sri Lakshmi Saraswathi Textiles (Arni) Limited

12. At this Annual General Meeting, Sri K S T Pani and Sri V.N.Subba Rao retire by rotation and being eligible, offer themselves for reappointment.

Sri K S T Pani, former Chairman and Managing Director of State Bank of Travancore is a Professional Banker. He has been with the company since August 1990.

Details of other Directorships / Committee memberships held by him - Nil

Sri V.N.Subba Rao, former Technical Director of Binny Limited is a Chartered Textile Technologist. He has been with the company since October, 1987.

Details of other Directorships – One

Other Committee memberships held by him – Nil

By Order of the Board

Place : Chennai

Date : 29th June 2006

R. SRIHARI

Chairman & Managing Director

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

Subject 6 to Subject 8

Sri R Srihari, Managing Director, Sri S Balakrishna, Wholetime Director and Sri R.Padmanaban, Technical Director, were re-appointed by the Shareholders for a period of 3 years from April 1, 2003 to March 31, 2006 at the 39th Annual General Meeting held on August 29, 2003. Under the able guidance of these Directors, the Company has made good progress. The Board considers that their continued guidance and services are necessary to the Company in the coming years also. The remuneration proposed is in accordance with the provisions of the Companies Act, 1956.

The proposed Resolutions are to obtain the approval of the Shareholders for the reappointment of these three Directors for a period of 3 years from April 1, 2006 and payment of Remuneration from April 1, 2006, which have already been approved by the Board at its Meeting held on June 29, 2006 as recommended by the Remuneration Committee at its Meeting held on June 29, 2006.

Sri R.Srihari and Sri S Balakrishna are interested in Resolutions 6 and 7

Sri R.Padmanaban is interested in Resolution 8.

This explanatory statement with the accompanying notice, should be treated as Memorandum of Interest, required to be sent to Shareholders under Section 302 of the Companies Act, 1956.

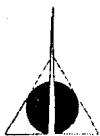
By Order of the Board

Place : Chennai

Date : 29th June 2006

R. SRIHARI

Chairman & Managing Director



Sri Lakshmi Saraswathi Textiles (Arni) Limited

FORTY SECOND ANNUAL REPORT

DIRECTORS' REPORT

Ladies and Gentlemen,

Your Directors are pleased to present the Forty Second Annual Report of the Company along with the audited statement of accounts for the year ended 31st March 2006

WORKING RESULTS

	Rs.	Rs.
Profit before financial charges and depreciation from business operations.		9,38,20,028
Less:-		
1) Financial Charges	3,06,09,243	
2) Depreciation	<u>4,06,61,299</u>	
		<u>7,12,70,542</u>
Profit before Tax		2,25,49,486
Less: (i) Provision for Tax		
- For Current Tax	19,21,000	
Less: Eligible MAT credit written back	<u>19,00,000</u>	21,000
- For Deferred Tax	63,35,000	
- For Fringe Benefit Tax	<u>4,23,636</u>	
		<u>67,79,636</u>
Profit for the Year		<u>1,57,69,850</u>
Add :- Profit brought forward		<u>29,59,499</u>
Profit available for appropriation		<u>1,87,29,349</u>

APPROPRIATION:

i) Provision for earlier year taxation	25,760	
ii) Proposed Dividend and Dividend Tax	57,00,253	
iii) Transfer to General Reserve	<u>1,00,00,000</u>	
		<u>1,57,26,013</u>
Balance Carried Over		<u>30,03,336</u>



Sri Lakshmi Saraswathi Textiles (Arni) Limited

PRODUCTION AND SALES

Production during the year was 36.60 lakhs kgs as against 69.78 lakhs kgs in the previous year. The quantity and value of yarn sold during the year were 37.25 lakhs kgs. and Rs.6,410.59 lakhs as against 71.06 lakhs kgs and Rs. 9,671.90 lakhs in the previous year. The quantity and value of export sales were 10.59 lakhs kgs and Rs.1,798.75 lakhs as against 24.83 lakhs kgs and Rs. 4,021.41 lakhs in the previous year, due to sluggish export market. The reduction in production and sales are mainly due to discontinuance of production on job work basis and due to change in product mix, necessitating production of finer count. Since the profit margin in the domestic sales was higher, thrust was given for domestic sales. It has been our endeavour to maintain productivity at high level.

CAPITAL EXPENSES

The expansion and modernization taken up for execution during the year under review at an estimated cost of Rs.967.20 lakhs was completed in full. The company started to realize the full benefit of the capital expenses from the last quarter of 2005-06.

DIVIDEND

Your Directors have pleasure in recommending a dividend of 15% on the equity.

TRADE PROSPECT AND OUT LOOK

There was a good demand for yarn in the domestic market throughout the year and the price obtained was satisfactory. The raw material cost remained constant. This has resulted in satisfactory performance during 2005-06. Since the benefit of capital expenses incurred during 2005-06 will be available for full year of 2006-07, the performance during the year 2006-07 is expected to be better than 2005-06.

RETIREMENT OF DIRECTORS

Sri K S T Pani and Sri V N Subba Rao are due to retire by rotation and are eligible for reappointment.

DIRECTOR'S RESPONSIBILITY STATEMENT

In terms of Section 217(2AA) of the Companies Act, 1956, the Directors would like to state that –

1. In the preparation of Annual Accounts for the year ended 31st March 2006, the applicable accounting standards had been followed along with proper explanation relating to material departures.
2. The Directors had selected such accounting policies and applied them consistently and made judgements 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 profit of the company for that period.
3. The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. The Directors have prepared the annual accounts on a going concern basis.

FINANCE

The Board of Directors wishes to thank Indian Overseas Bank and State Bank of India for their assistance and co-operation.

LABOUR

The relationship with labour continues to be cordial. Your Directors place on record their appreciation of the devoted services of the Officers, Members of the Staff and Workers during the year.

COST AUDIT

As per Statutory requirement, the Costing Records are being audited by the Cost Auditor and he will be submitting his report directly to the Central Government.



Sri Lakshmi Saraswathi Textiles (Arni) Limited

PUBLIC DEPOSIT

Your company is not accepting any deposit from public.

DETAILS TO BE DISCLOSED AS PER PROVISION OF SEC.217 OF THE COMPANIES ACT 1956

The information to be disclosed as per provision of Sec.217(1)(e) of the Companies Act 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is given in Annexure I which forms part of this report.

As none of the employees was in receipt of remuneration in excess of the prescribed limit, there is no report under Section 217(2A) of the Companies Act, 1956.

CORPORATE GOVERNANCE

The report on management's discussion and analysis and the report on Corporate Governance are given in Annexure II & Annexure III respectively.

AUDITORS

The Auditors of the Company M/s. S.Viswanathan retire and are eligible for reappointment. The Audit Committee of the Board of Directors has recommended their re-appointment. A Certificate under Section 224(1B) of the Companies Act 1956 has been obtained from them.

By Order of the Board

Place : Chennai

Date : 29th June 2006

R. SRIHARI
Chairman & Managing Director