

21st

Annual Report

2005-06



Quality & Commitment



STI India Limited

Manufacturers of quality Cotton Yarn & Cotton Knitted Fabrics

Twenty First Annual Report 2005-2006

BOARD OF DIRECTORS

| | |
|------------------|---------------------------------------|
| DR. R.B. BAHETI | <i>Chairman and Managing Director</i> |
| MR. M. R. SHROFF | <i>Director</i> |
| MR. R. C. JAIN | <i>Director</i> |
| MR. N. M. SHARMA | <i>Director</i> |
| MR. K. N. GARG | <i>Director</i> |

MUKESH KUMAR GARG - *COMPANY SECRETARY*

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REGD. OFFICE, WORKS & SHARES DEPARTMENT

Rau-Pithampur Link Raod,
Tehsil-Mhow,
Distt, Indore (M.P.) - 453 332
Tel.: +91-0731-4020000 / 05
Fax: +91-0731-4020011

AUDITORS

M/s Rastogi Narain & Co.,
Chartered Accountants,
304-305, Lotus Chamber,
2079/38, Nalwa Street, Karol Bagh,
New Delhi - 110 005
Tel.: 011-25734688, 25752005

ADMINISTRATIVE OFFICE

Badgara House,
13/1, New Palasia,
Indore (M.P.) 452 001
Tel.: +91-0731-2530950
Fax: +91-0731-2430221

TWENTY-FIRST ANNUAL GENERAL MEETING

*of the Company to be held
on Saturday, the 30th
September,
2006 at 12.00 Noon, at
Regd. Office of the Company*

NOTICE OF THE TWENTY-FIRST ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty-First Annual General Meeting of the members of STI INDIA LIMITED will be held at its Registered Office at Rau-Pithampur Link Road, Tehsil: Mhow, Distt. Indore - 453 332 (M.P.) on Saturday the 30th September, 2006, at 12.00 Noon to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on said date together with Directors' Report and the Report of Auditors thereon.
2. To appoint a Director in place of Mr. N. M. Sharma, who retires by rotation and being eligible offers himself for re-appointment.
3. To reappoint M/s. Rastogi Narain & Co. as Statutory Auditors of the Company and to fix their remuneration, and in this regard pass the following resolution as Special Resolution:
"RESOLVED THAT M/s Rastogi Narain & Co., Chartered Accountants, New Delhi, be and are hereby re-appointed as the Auditors of the Company to hold office from conclusion of this Annual General Meeting till conclusion of the next Annual General Meeting as recommended by the Audit Committee of the Company at a remuneration of Rs.4,00,000/- with service tax and such out of pocket expenses as may be incurred."

SPECIAL BUSINESS:**4. TO DELIST THE SHARES OF THE COMPANY FROM M. P. STOCK EXCHANGE INDORE.**

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

"RESOLVED THAT in accordance with SEBI (Delisting of Securities) Guidelines, 2003, provisions of the Listing Agreements and subject to such other approvals, permissions and sanctions as may be necessary and subject to such conditions and modifications as may be prescribed while granting such approvals, permissions and sanctions, the Equity Shares of the Company be delisted from M. P. Stock Exchange, Indore."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to agree such terms and conditions which they may consider appropriate and to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable in regard to the delisting of the Equity Shares from M.P. Stock Exchange, Indore."

5. TO CONSIDER CHANGE IN THE AUTHORISED SHARE CAPITAL OF THE COMPANY.

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 16, 31 and 94 and other applicable provisions of the Companies Act, 1956, approval of the Company be and is hereby accorded to effect necessary changes in the Authorized Capital of the company so as to make it Rs.45.00 Crores consisting of 4,00,00,000 equity shares of Rs. 10/- each and 5,00,000 preference shares of Rs.100/- each, by converting the unissued 15,00,000 preference shares of Rs.100/- each into creation of fresh 1,50,00,000 Equity Shares of Rs. 10/- each and such shares shall rank pari passu in all respects with the existing 2,50,00,000 equity shares of Rs. 10/- each of the Company and that Clause V of the Memorandum of Association and Article 6 of the Articles of Association of the Company be altered accordingly."

"RESOLVED FURTHER THAT the existing Clause V of the

Memorandum of Association of the Company be deleted and substituted by the following:

V. The Authorized Share Capital of the Company is Rs.45,00,00,000/- (Rupees Forty Five Crores Only) divided into 4,00,00,000 (Four Crores) Equity Shares of Rs.10/- (Rupees Ten) each and 5,00,000 (Five Lacs) Preference Shares of Rs.100/- (Rupees One Hundred) each with the rights, privileges and conditions attached thereto as are provided by the Regulations of the Company for the time being with the power to increase or reduce the Capital and to divide the shares in the capital for the time being into several classes and to attach thereto respectively such preferential, deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with Articles of Association of the Company and to vary, modify, amalgamate or abrogate any such rules, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the Company."

"RESOLVED FURTHER THAT the existing Article 6 of the Articles of Association of the Company be deleted and substituted by the following:

(6) The Authorized Share Capital of the Company is Rs.45,00,00,000/- (Rupees Forty Five Crores Only) divided into 4,00,00,000 (Four Crores) Equity Shares of Rs.10/- (Rupees Ten) each and 5,00,000 (Five Lacs) Preference Shares of Rs.100/- (Rupees One Hundred) each with the rights, privileges and conditions attached thereto as are provided by the Regulations of the Company for the time being with the power to increase or reduce the Capital and to divide the shares in the capital for the time being into several classes and to attach thereto respectively such preferential deferred, qualified or special rights, privileges or conditions as may be determined by or in accordance with Articles of Association of the Company and to vary, modify, amalgamate or abrogate any such rules, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the Company."

"RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take all necessary steps as are necessary to give effect to the above resolution."

6. TO CONSIDER INCREASE IN THE BORROWING LIMITS OF THE COMPANY.

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

"RESOLVED THAT in modification to the resolution passed in the Extra Ordinary General meeting of the Company held on 5th February, 2000, the consent of the Company be and is hereby accorded pursuant to the provisions of Section 293 (1) (d) of the Companies Act, 1956 to the Board of Directors of the Company to borrow any sum or sums of money from time to time notwithstanding that the money or moneys to be borrowed together with moneys already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) may exceed the aggregate of the Paid up Capital of the Company and its free reserves not set apart for any specific purposes, provided, however, that the total amount so borrowed shall not exceed Rs. 450.00 Crores (Rupees Four Hundred Fifty Crores) at any one time."

7. TO CONSIDER INCREASE IN THE LIMIT TO MORTGAGE BY THE COMPANY.

To consider, and if thought, fit, to pass, with or without modification (s) the following resolution as Ordinary Resolution. "RESOLVED THAT in modification of the resolution passed in the Extra Ordinary General meeting of the Company held on 5th February, 2000, the consent of the Company be and is hereby granted in terms of Section 293 (1) (a) and all applicable provisions of the Companies Act, 1956 (including any statutory modification or re enactment thereof for the time being in force), to the Board of Directors to mortgage/charges created/to be created by the Company, in such form and manner and with such ranking and at such time and on such terms as the Board may determine, on all or any of the movable and/or immovable properties of the Company, both present and future and/or the whole or any part of the undertaking (s) of the Company together with the power to take over the management of the business and concern of the Company in certain events of default, in favour of the Lender (s), Agent (s), Investor (s) and Trustee (s) for securing the borrowings availed / to be availed by way of Loan(s) (in foreign currency and/or rupee currency) and Securities (comprising fully / partly Optionally Convertible Debentures and/or Non-convertible debentures, detachable or non-detachable warrants (with or without) and/or secured premium notes and /or floating rates/bonds or other debt instruments), issued / to be issued by the Company from time to time, subject to the limits approved under Section 293 (1) (d) of the Companies Act, 1956 together with interest at the respective agreed rates, additional interest, compound interest in case of default, accumulated interest, liquidated damages, commitment charges, Fees, premia on prepayment, remuneration of the Agent (s) / Trustee (s), premium (if any) on redemption, all other, costs, charges and expenses including any increase as a result of devaluation/ revaluation/ fluctuation in the rates of exchange and all other monies payable by the Company in terms of the Loan Agreement (s) / Heads of the Agreement (s), Debenture Trust Deed (s) / Term Sheet (s) / Subscription Agreement (s) or any other document, entered into/ to be entered into between the Company and the Lender (s), Agent (s), Investor (s) and Trustee (s), in respect of the said Loans/ borrowings/ debentures / Bonds / Stocks etc and containing such terms and conditions and covenants in respect of enforcement of security as may be stipulated in that behalf and agreed to between the Board of Directors or Committee thereof and the Lender."

"RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors / Committee be and is hereby authorized to finalize, settle and execute such documents / deeds / writings / papers / agreements as may be required and do all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, proper or desirable and to settle any question, difficulty or doubt that may arise in regard to creating mortgages/ charges as aforesaid."

8. INCREASE IN LIMIT FOR FOREIGN INSTITUTIONAL INVESTORS' (FIIs) HOLDING IN THE EQUITY SHARE CAPITAL UPTO 49%.

To consider and, if thought fit, to pass with or without modification, the following as a Special Resolution:-

"RESOLVED THAT pursuant to the guidelines issued by the Government of India, all applicable provisions of Foreign Exchange Management Act and other applicable laws, if any, and subject to such other statutory / regulatory approvals of the Reserve Bank of India or any other statutory / regulatory

approvals as may be necessary, consent of the Company be and is hereby accorded to fix the ceiling limit on total holdings of Foreign Institutional Investors (FIIs) / sub-account of FIIs approved by Securities and Exchange Board of India (SEBI), to maximum 49% in the equity share capital including any security instrument convertible in to Equity Shares of the Company with effect from such date (s) as may be decided by the Board from time to time."

9. ADOPT AND APPROVE EMPLOYEE STOCK OPTION SCHEME (ESOS).

To consider and, if thought fit, to pass with or without modification, the following as a Special Resolution :-

"RESOLVED THAT, in confirmation with the EMPLOYEE STOCK OPTION SCHEME (ESOS), and upon the listing such shares of the Company at the National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd. (BSE) in line with the SEBI guidelines on ESOS for listed companies, approval be and is hereby granted for adopting of the EMPLOYEES STOCK OPTION SCHEME. A copy of which is available for inspection of the member at the Registered Office of the company."

"RESOLVED FURTHER THAT for the purpose of giving effect to the above resolution, the Board / Compensation Committee be and is hereby authorized to do all such acts, deeds, matters and things and execute all such deeds, documents, instruments and writings as it may in its absolute discretion deem necessary or desirable in relation thereto."

"RESOLVED FURTHER THAT the Board / compensation Committee be and is hereby authorized to settle all question difficulties or doubts that may arise in relation to the implementation of the Scheme, including to amend or modify from time to time, any of the terms conditions or any provisions including the terms relating to exercise price, grant date and vesting date etc., as the same amended / modified by SEBI or any regularity authority from time to time, without being required to seek any further consent or approval of the Members or otherwise to the end and intent that the Members shall be deemed to have given their approval thereto expressly by authority of this resolution."

"RESOLVED FURTHER THAT the Board / Compensation Committee be and is hereby authorized to grant options under the ESOS to eligible employees of the Company from time to time."

"RESOLVED FURTHER THAT the EMPLOYEES STOCK OPTION SCHEME be operated by the Board / Compensation Committee such that the total number of shares to be issued under Employee Stock Option Scheme (ESOS) and /or Employee Share Purchase Scheme (ESPS) shall not exceed in the aggregate to 12,50,000 shares or 5% of the paid up share capital of the Company, whichever is greater."

"RESOLVED FURTHER THAT the said shares may be allotted in accordance with the EMPLOYEE STOCK OPTION SCHEME, directly to such employees by the company and that the provision of this resolution shall operate in line with the SEBI Guidelines for ESOS / ESPS."

By Order of the Board of Directors
For **STI INDIA LIMITED**
(MUKESH KUMAR GARG)
COMPANY SECRETARY

Place: Indore
Date: 4th September, 2006

NOTES:

1. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote at the meeting 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 48 hours before the commencement of the meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 23th September, 2006 to 30th September, 2006 (both days inclusive).
3. Pursuant to the provision of Section 205C of the Companies Act, 1956 the money remained unpaid for more than 7 years from the due date of refund has been transferred to the Investor Education and Protection Fund of the Central Government during the year.
4. Members desirous of getting any information about the accounts and operation of the Company are requested to

address their query to the Shares Department at the Registered Office well in advance so that the same may reach at least seven days before the date of the meeting to enable the management to keep the required information readily available at the meeting.

5. The members having physical shares are requested to notify immediately any change in their addresses with the postal identity number (Pin code) and quoting their folio numbers to the Company. The Members holding shares in demat form are required to get updated change in their address through their depository.
6. The Company has already paid listing fee to all the three Stock Exchanges for the Financial Year 2006-07.
7. The shareholders may also note that considering inadequacy of profits the company had not declared any dividend for the financial year commencing from 1996-97. The Board of Directors has not recommended any dividend for the year 2005-2006.

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

For item No. 2 .

Mr. N. M. Sharma, Director of the Company, is retiring by rotation at the ensuing Annual General Meeting and he is eligible for re-appointment. He was appointed on the Board as an Additional Director of the Company effective from 22nd January, 2002.

Mr. N. M. Sharma holds a degree in Commerce and he is a Fellow member of Institute of Chartered Accountants of India. He has wide experience of more than 25 years in the corporate sector having held senior management positions. Presently, he is the Managing Director in Gujarat State Co-Operative Federation Limited, Ahmedabad and other than this he is also associated with All India Co-Operative Cotton federation Limited as Hon. Managing Director.

Considering the continued association of Mr. N. M. Sharma extremely beneficial for the Company, the Board of Directors recommends his re-appointment, as Director liable to retire by rotation, for the approval of members. Apart from Mr. N. M. Sharma, no other Director is interested in the resolution.

For item No. 3

As more than 25% paid up share capital of the company is held by public financial institution, pursuant to the provisions of section 224 A of the Companies Act, 1956, the appointment of Statutory Auditors of the company shall be made by special resolution. Therefore, the resolution at item no. 3 is proposed for approval of the members as special resolution.

None of the Directors of the company is concerned or interested in the resolution.

For item No. 4.

Presently the Company's Equity shares are listed on the Bombay Stock Exchange, National Stock Exchange and M.P. Stock Exchange, Indore.

With the computerization of NSE & BSE, the investors can easily access to on line dealing in the Company's equity shares across the country. For last few years, there is no trading in the Company's equity shares at the M.P. Stock Exchange Indore. Thus the listing fees paid for M.P. Stock Exchange do not have any cost

benefit for the shareholders. The company had passed necessary resolution in the General Meeting of the company held on 27th September 2004 and accordingly applied to M.P. Stock Exchange for getting its shares delisted. However, the application is still pending with M. P. Stock Exchange because of delay on the part of the M.P. Stock Exchange for delisting.

Therefore, in accordance with the provisions of SEBI (Delisting of Securities) Guidelines, 2003, an enabling resolution at item no. 4 is proposed to renew the approval of shareholders. The Company has already completed all the formalities for delisting of shares from M. P. Stock Exchange, Indore.

None of the Directors of the Company is interested in the above resolution.

For item No. 5

The existing Authorised Capital of the Company is Rs.45.00 Crores consisting of 2,50,00,000 Equity Shares of Rs.10/- each and 20,00,000 Preference Shares of Rs.100/- each.

As the company do not consider any need to issue so much of preference shares in immediate future, it is proposed to effect changes in the authorised capital of the company so as to make it Rs. 45.00 Crores consisting of 4,00,00,000 (Four Crores) equity shares of Rs.10/- (Rupees Ten) each and 5,00,000 (Five Lacs) preference shares of Rs.100/- (Rupees One Hundred) each by converting the unissued 15,00,000 preference shares of Rs.100/- each into fresh 1,50,00,000 Equity Shares of Rs. 10/- each. This will enable the company to accommodate suitably any future increase in the equity share capital of the Company without much delay.

Consent of members in general meeting by Special Resolution in terms of Sections 16, 31 and 94(1) (a) is required to the proposed change in the authorised capital and consequential changes in Clause V of the Memorandum of Association and Articles 6 of the Articles of Association of the Company.

The resolution placed before the meeting is recommended for the approval of members

None of the Directors of the Company is concerned or interested in the above resolution.

For item No. 6

The shareholders of the Company, at their Extraordinary General Meeting held on 5th February, 2000 had approved the proposal of the Company to borrow money upto Rs.400 Crores under Section 293 (1) (d) of the Companies Act, 1956.

There has been substantial changes in the operations of the Company in past six years. As at March 31, 2006, the total of Secured and unsecured Loans with current liabilities were to the tune of Rs.257 Crores.

Considering the current operations, though the limits are sufficient, it has been considered to include an enabling resolution in the ensuing Annual General Meeting to renew the approval of the shareholders with a marginal increase in the limits to Rs. 450 crores.

In view of above it is proposed to obtain the approval of the shareholders under Section 293(1) (d) of the Companies Act, 1956 to increase the borrowing limit of the Company.

The Directors commend the motion set out in the Notice to be passed as a Special Resolution by the Members.

None of the Directors of the Company is, in any way, concerned or interested in this item of business.

For item No. 7

Section 293 (1) (a) of the Companies Act, 1956, provides inter-alia that the Board of Directors of the company shall not, without the consent of members of the Company in general meeting sell, lease or otherwise dispose off the whole of the undertaking of the company or where the Company owns more than one undertaking of the whole or substantially the whole, of any such undertaking. Company's term loans and working capital credit facilities obtained / to be obtained from the banks, financial institutions and other lenders are to be secured against the movable & immovable properties of the company.

Since the creation of charge by the company on its fixed and non-fixed assets may be regarded as disposal of Company's properties / undertaking, it is necessary for the Company's members to pass a resolution under Section 293 (1) a) of the Companies Act, 1956. Copies of sanction letter received from these Banks and copies of relevant documents / correspondence are open for inspection at the Registered Office of the Company during the office hours on any working day prior to the date of meeting.

Your Directors recommend the resolution for approval.

None of the Directors is concerned or interested in the resolution.

For item No. 8

The issue of shares to Foreign Institutional Investors ("FIIs") is regulated by the Foreign Exchange Management (Transfer of Issue of Security by a Person Resident outside India), 2000 ("Regulations"). Regulation 5 (2) of the Regulations provide that a registered FII may purchase shares of an Indian company under the Portfolio Investment Scheme ("PIS") specified in Schedule 2 of the Regulations, which prescribes that the total holdings of all FII and sub-accounts of FIIs put together shall not exceed 24% of the Paid-up Equity Capital of the Indian Company. Therefore, the total holdings of registered FIIs and their sub-accounts in any company can not exceed provides that the limit of 24 per cent may be increased up to the sectoral cap on investment by persons resident outside India applicable to the Indian Company ("Sectoral Cap") on passing a resolution by its Board of Directors

followed by a special resolution to that effect by its shareholders. FIIs in general have been increasing their exposure to India (emerging markets) across all the sectors. The Company's debt have been recently restructured and the Company is in the process of exploring possibilities of one time settlement of dues with existing term lenders and banks. The Company also want to explore possibilities of investment by any private investors, either domestic or overseas, which may be interested to participate in the growth story of Indian cotton yarn and fabrics business through the Company and in the process like to take up share in the Equity Capital of the Company. As the existing management of the Company wants to retain the majority stake and control over management of the company with them, the Board of Directors had at their Board Meeting held on 4th September, 2006, decided to fix the FII limit to 49% subject to approval by the shareholders. Accordingly, a Special Resolution is being placed before the shareholders seeking their approval for fixation of FII limit.

The Directors Commend the motion set out in the Notice to be passed as a Special Resolution by the Members.

None of the Directors of the Company is, in any way, concerned or interested in this item of business.

For item No. 9

Stock Options have long been recognized as an effective instrument to attract talent and align the interest of employees with those of the company and its shareholders, providing an opportunity to employees to share the growth of the company and to create long-term wealth in the hands of employees. Stock Option Schemes also create a common sense of ownership between the company and its employees, paving the way for a unified approach to the common objective of enhancing overall shareholder value. The main objective of such schemes is to give employees who are performing well, a certain minimum opportunity to gain from the company's performance, thereby acting as a retention tool and to attract best talent available in the market.

The employee reward through this mechanism has been well tested over a period of time. The Securities and Exchange Board of India (employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("the Guidelines") were introduced by SEBI to govern necessary provisions for granting options to the Employees of the Company.

The Board of Directors of the company (hereinafter referred to as "the Board" which term shall include "Employee Stock compensation Committee of the Board") is now considering to reward such permanent employees of the company whether working in India or out of India and Director of the Company whether whole time Directors or otherwise (hereinafter referred collectively as the "Employees"), as it may decide from time to time, through this mechanism.

The salient features of the Employees Stock Option Scheme - 2006 (hereinafter referred to as the "The Scheme") are as under-

(A) Total number of Options to be granted :

The Options to be granted under the Scheme shall not result in issue of equity shares exceeding 5% of the issued, subscribed and paid-up equity shares of the Company.

(B) Identification of classes of employees entitled to participate

in the Scheme

Such permanent employees, including Directors, of the company as may be decided by the Board, from time to time, will be entitled to participate in the Scheme.

Under the prevailing Guidelines, an employee who is promoter or belongs to the promoter group will not be eligible to participate in the Scheme. A Director, who either by himself or through his relative or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the Company, will also not be eligible to participate in the Scheme.

The Option granted under the Scheme shall not be renounced, transferred, pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

- (C) Requirements of vesting, period of vesting and maximum period of vesting.

There shall be a minimum period of one year between the grant of Options and vesting of options. The maximum vesting period may extend up to three years from the date of grant of Options, unless otherwise decided by the Board. The vesting shall happen in one or more tranches as may be decided by the Board.

- (D) Exercise price or pricing formula

The exercise price for the purposes of the grant of Options shall be the market price' within the meaning set out in the Guidelines, i.e. the latest available closing price, prior to the date when Options are granted / shares are issued, on that Stock Exchange where there is highest trading volume on the said date.

- (E) Exercise period and the process of exercise

Exercise period will commence from the vesting date and will expire not later than four years from the date of grant of Options or such other period as may be decided by the Board. The Options will be exercisable by the Employees by a written application to the designated officer of the Company, in such manner, and on execution of such documents, as may be prescribed by the Board.

The Options shall lapse if not exercised any time within the exercise period.

- (F) Appraisal process for determining the eligibility of employees to participate in the Scheme

The Company has a formal performance appraisal system established whereby performance of the employees is assessed each year on the basis of various functional and managerial parameters. The appraisal process is revised at regular intervals in line with the emerging global standards. The employees would be granted Options based on performance-linked parameters such as work performance, technical knowledge, period of service, designation and such other parameters as may be decided by the Board from time to time.

The Board may at its discretion extend the benefits of the Scheme to a new entrant.

- (G) Maximum number of Options to be issued per employee and in aggregate

The number of Options that would be granted to an employee under the Scheme shall be decided by the Board. However,

Options to be granted to a single employee shall not result into equity shares exceeding 0.10% of the issued, subscribed and paid up equity shares of the Company as on March 31, 2006.

The maximum number of shares that can be issued under the Scheme to Non-Executive Directors of the company in a financial year and in aggregate shall not exceed 6,000 shares and 10,000 share respectively.

- (H) Accounting methods/ policies

The company shall conform to the accounting policies specified in Clause 13.1 of the Guidelines, and/ or such other guidelines as may be applicable, from time to time.

- (I) Method of valuation of Options

The Company shall use the intrinsic value method for valuation of the Options. The difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized, had the fair value of the Options been recognized, shall be disclosed in the Directors' Report and the impact of such difference on profits and on EPS of the Company shall also be disclosed in the Directors' Report.

Clause 6 (1) of the Guidelines requires that any employee stock option scheme must be approved by way of a special resolution. Further, as the Scheme will entail further shares to be offered to persons other than existing members of the Company, consent of Members is required by way of a special resolution pursuant to the provisions of Section 81 of the Companies Act, 1956 (the Act). Accordingly, the resolution set out at Item No.9 is being placed for approval of Members pursuant to the provisions of Section 81 of the Act and Clause 6 of the Guidelines and all other applicable provisions of laws.

The Board / Compensation committee shall have the absolute authority to vary or modify the terms hereinabove in accordance with and subject to all applicable guidelines of SEBI or otherwise.

A copy of the Employee Stock Option Scheme will be available for inspection by the Members at the Registered Office of the Company. The Certificate form Auditors of the company on ESOs being SEBI complaint will be available for inspection at the Annual General Meeting.

The options to be granted under the Scheme shall not be treated as an offer or invitation made to public for subscription in the securities of the Company.

The Board commends the Special Resolutions set out at item Nos. 9 for approval of Members.

None of the Directors of the Company is, in any way, concerned or interested in the resolutions, except to the extent of the Options that may be offered to them under the Scheme.

By Order of the Board of Directors
For **STI INDIA LIMITED**
(MUKESH KUMAR GARG)
COMPANY SECRETARY

Place: Indore

Date: 4th September, 2006

DIRECTORS' REPORT

To,
The Members,

The Directors have pleasure in presenting their Twenty-First Annual Report and the Audited Annual Accounts of the Company for the financial year ended 31st March, 2006.

FINANCIAL RESULTS

The salient features of the Company's financial results during the year are as under: (Rs.in Lacs)

| PARTICULARS | 2005-06 | 2004-05 |
|---|------------|------------|
| Sales & Other Income | 15934.56 | 16426.34 |
| Expenditures | 13484.04 | 15919.22 |
| Gross Profit / (Loss) before Interest, Depreciation and Tax (PBIDT) | 2450.52 | 507.12 |
| Less - Interest | 1235.65 | 24.60 |
| - Prcl. / Deferred revenue Exp. written off | - | 9.40 |
| Cash Profit | 1214.87 | 473.12 |
| Less: - Depreciation | 1095.08 | 1080.79 |
| Net Profit/(Loss) for the year | 119.79 | (607.67) |
| - Prior year adjustments | - | 5076.50 |
| - Provision for Tax (FBT) | 15.50 | - |
| Adjusted Profit/(Loss) for the year | 104.29 | 4468.83 |
| Balance brought forward from previous year | (14300.85) | (18769.68) |
| Net Profit/(Loss) carried forward to the Balance Sheet | (14196.56) | (14300.85) |

PERFORMANCE

In the financial year 2005-06, your Company registered a growth of 6% in its turnover in quantitative terms, total sales of Cotton Yarn & Fabric being 14514 MT (13691 MT). The turnover at Rs.15935 Lacs was lower by 3% in value terms (Rs.16426 Lacs) mainly because of lower sales realization on account of lower cotton prices.

In terms of profitability the year under review has seen a good turnaround with Gross Profit registering five-fold jump at Rs. 2451 Lacs (Rs. 504 Lacs) mainly on account of management policy of aggressive marketing, higher value realization and cost cutting measures taken by the company. The restructuring of debt approved by institutional lenders also had a favorable impact on profitability.

Your Company, being a 100% EOU, major thrust was continued to expand sales in various export markets, strategically focusing our efforts in premium market segment of Europe, US, Canada and other developed Countries. This has resulted in a spurt in Exports by 24% at 9237 MT (7475 MT). Exports at Rs.9689 Lacs during the year were up by 18% (Rs.8183 Lacs). The Sales in domestic market were lower at Rs. 5177 Lacs (Rs. 6171 Lacs).

The abolition of the Quota regime has provided Indian companies excellent opportunities for stepping up exports of Cotton Yarn and Fabrics globally. The company however continued to face working capital constraints despite marginally improved support from banks

and financial institutions.

DIVIDEND

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

MARKETING REVIEW

India has been successful in carving a niche for itself as a strong player in the middle and high value segments of the textile market. We believe that India is moving on a fast track to gain entry into major global retailer/outlets and establish itself as a preferred global supplier of textile and clothing. We expect more robust performance from textile players going forward buoyed by favourable global and domestic factors.

Based on huge demand in export markets and better price realization, the Company continued to keep its focus towards channeling supplies to European and American Markets, where we continuously pursuing our efforts to develop new customers and at the same time explore new markets in export with higher realizations.

FUTURE OUTLOOK

India is in a unique position to take advantage of the post WTO situation. After abolition of the quota system, as the textile sector integrates increasingly into the multilateral trading system, the Indian textile industry will undergo a massive resurgence. As a result, the recent globalization efforts of the textile industry will bear fruits resulting in growing requirements for outsourcing in textiles. To respond to the emerging opportunities companies have undertaken massive capacity expansion, which is expected to result in rapid top line growth in coming years and consequently improve the profitability of units, which are adept to such new business order.

China has had a strong hold in the manufacture of mass and low margin products, which are targeted at the lower end of market. India is expected to gain in the middle and higher end of the market. India has gained significantly over other competitors like Bangladesh, Sri Lanka, Pakistan, and China in the value added segments, which require higher skills and design capabilities resulting in higher realizations. The Indian market share in textile and garments to all the developed countries is expected to double from the current level in next 2-3 years.

CHANGE IN AUTHORISED SHARE CAPITAL

The existing Authorised Capital of the Company is Rs.45.00 Crores consisting of 2,50,00,000 Equity Shares of Rs.10/- each and 20,00,000 Preference Shares of Rs.100/- each. As the company is not considering issuing Preference Shares in foreseeable future, it is proposed to effect changes in the Authorised Capital of the company. As per the proposed change, the total Authorised Capital of Rs. 45.00 Crores will now consist of 4, 00, 00,000 Equity Shares of Rs. 10/- each and 5,00,000 Preference shares of Rs. 100/- each. Total Authorised Share Capital of the Company will, however, remain the same after the proposed change.

Consent of members in general meeting is sought by passing a Special Resolution for the proposed change in the authorised capital and consequential changes in Clause V of the Memorandum of Association and Articles 6 of the Articles of Association of the Company. This item is already included in the notice of ensuing Annual General Meeting.

BOARD OF DIRECTORS

Mr. N. M. Sharma, Director, retires by rotation at the ensuing Annual General Meeting and is eligible for re-appointment.

PERFORMANCE OF STI SANOH INDIA LIMITED - THE JOINT VENTURE COMPANY

Your Directors are pleased to inform that growth in the automobile sector has resulted in an improved performance by STI Sanoh India Limited, your Joint Venture Company with Sanoh Industrial Co. Limited. During the year it recorded 15% growth in sales & operating Income at Rs.7730 Lacs (Rs. 6735 Lacs). The measures adopted for cost control and improvement in yield have resulted in improvement in profitability to Rs. 401 Lacs (Rs.13 Lacs).

As a result of spurt in GDP growth in the last three years, we expects this company to do better in the current year.

AUDITORS

M/s Rastogi Narain & Co., Chartered Accountants, New Delhi, Statutory Auditors of the Company, hold office until the conclusion of the ensuing Annual General Meeting. The Company has received a letter from them to the effect that their appointment if made would be within the limits prescribed under 224(1B) of the Companies Act, 1956. Members may accord their approval for their re-appointment.

COST AUDITORS

Central Government have made it mandatory for the Company to appoint Cost Auditors to conduct cost audit in respect of cotton yarn and cotton knitted fabrics, every year. Accordingly, M/s R.J. Goel & Co. New Delhi, Cost Accountants are proposed to be re-appointed to carry out audit of the cost accounts for the financial year 2006-07.

DIRECTORS' COMMENTS ON AUDITORS QUALIFICATION

Your Directors have taken note of the observations/qualifications of the Company's Auditors in their report including its annexure. The Company has further strengthened the internal control systems and procedures by enlarging and upgrading the scope of work of Internal Auditors. It has also taken positive measures for removing the deficiencies pointed out from time to time. All other points have been adequately covered and explained in the notes to the accounts.

FIXED DEPOSITS

The Company has neither accepted nor invited any deposits from public under the provisions of Section 58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975 during the year under review.

RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies

Act, 1956, your Directors hereby confirm that:

In the preparation of the Annual Accounts for 2005-06, the applicable accounting standards have been followed with proper explanations relating to material departures;

They 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 and of the loss of the Company for the financial year;

They 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;

They have prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE

Your Directors are committed to good corporate governance as a policy. The Audit Committee, Investors Grievance cum Share Transfer Committee and Remuneration Committee have been constituted, as required. A detailed report on Corporate Governance is given in the annexure, which form part of this report.

PARTICULARS OF ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

As required under section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in Report of Board of Directors) Rules, 1988, particulars of conservation of energy, technology absorption and Foreign Exchange earnings and outgo are given in the Annexure I which forms part of this Report.

PARTICULARS OF EMPLOYEES

None of the employees of the Company during the year are in receipt of remuneration of more than the maximum permitted ceiling given in Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended up to date.

INDUSTRIAL RELATIONS

The company provides a very congenial and friendly atmosphere to its employees to maintain cordial relations and motivate them to develop to their full potential. Industrial Relations throughout the year were very peaceful.

APPRECIATION

Your Directors place on record their sincere appreciation to the Financial Institutions, Banks, Central and State Government authorities, Commonwealth Development Corporation, clients and shareholders for their support and co-operation during the year.

For and on behalf of the Board of Directors,

Dr. R.B. Baheti

Chairman and Managing Director

Place : Indore

Date : 4th September, 2006

ANNEXURE - I : TO THE DIRECTORS' REPORT

Particulars of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as per Section 217(1)(e) of the Companies Act, 1956 and the Rules made therein and forming part of the Directors' Report for the year ended 31st March, 2006.

Form A (Rule 2)

CONSERVATION OF ENERGY:

Management has great concern not only on energy conservation but also for the fuel conservation. During the financial year we got reconnected with State Electricity Board Power to bring down the fuel consumption.

Following steps have been taken for energy conservation:

- 1: Installation of Invertors and control system for suction fans on Auto cones.
- 2: Installation of Flat Belt driving system on Filters.
- 3: Pressure optimization of compressed air for production machinery to reduce leakage and Air consumption, which directly saved electric energy.
- 4: Installed energy saving flat belt pulley system on auto winders.
- 5: Further optimization of speeds of machines with respect to the maximum out put.
- 6: To maintain good power factor & load factor to reduce energy losses. The recurring efforts made during the past and this year could lead us to reduce the consumption of electrical energy per kg. of production by approx. 3.50% over the last year.

The required data with regard to Conservation of Energy as applicable to our industry are furnished below:

| | Current year 2005-2006 | Previous year 2004-2005 |
|-------------------------------------|---------------------------|----------------------------|
| Power & fuel consumption | | |
| Electricity : | | |
| i. Purchased (Units in Lacs) | 448.998 | 193.98 |
| ii. Own generated (Units in Lacs) | 1.50284 | 256.25 |
| Total amount (Rs in Lacs) | 1692.345 | 2098.06 |
| Rate/Unit (in Rs) | 3.76 | 4.66 |
| Consumption of electrical energy | | |
| Per Kg. of production | 3.19 | 3.30 |

FORM-B (Rule-2)

(A) RESEARCH AND DEVELOPMENT (R & D)

1. Specific Areas in which R & D was carried out:

- a) Effective bale management system in receiving stage of raw cotton and to enhance homogeneity in mixing, stacking & conditioning was followed strictly.
- b) Further, to maintain better process control, optimized the settings & gauges through out the process i.e. Blow Room, Carding, Comber, Simplex, Ring Frame & Auto Coner with help of R&D facilities.
- c) Trials taken in different stages of the process and changes were done accordingly, after getting positives results.
- d) Effectively taking shop floor observations / studies through out the process in all three shifts by newly trained staffs.
- e) Quality M.I.S. (Data base) of year - 05-06 was prepared, to see the monthly quality aspects of our products.
- f) Solving customer complaints by root cause analysis.
- g) Sampling & New developments
- h) Machinery Maintenance Audit

2. Benefits derived as a result of the above R & D:

- a) Consistency in yarn quality and meet the performance specifications.
- b) Controlled the re-occurrence of the problems by taking corrective & preventive actions.
- c) Improvement in yarn as well as fabric quality.
- d) Process control irregularities are controlled and attended immediately due to process control observations by quality team.
- e) Quality consciousness in all level due to Quality M.I.S. (Data base), the monthly quality aspects of our products.
- f) Minimized rejections.

3. Future Plan of Action:

- a) Up-gradation & standardization in quality of products
- b) Planned & systematic actions to provide adequate confidence that, the product will satisfy given requirements for quality
- c) In-coming material Inspection & Testing
- d) Incorporation of projection microscope, co-efficient friction tester & pilling tester

4. Expenditure on Research & Development:

No capital expenditure has been incurred in Research & Development activities.

B) TECHNOLOGY ABSORPTION, ADAPTION & INNOVATION:

1. Efforts, in brief, made towards technology Absorption, Adoption and Innovation:

The entire range of plant and machinery is imported and the company does not

have any technical collaboration. The company is managed by highly qualified and experienced skilled staff, equipped with advanced form of information technology at all levels. As it is the demand of the time to reduce the cost of maintenance and at the same time maintaining the same level of quality, alternate substitute components were developed.

- a) Rings with Adaptor: Indigenous Lakshmi make rings have been fitted on the Ring frame with the help of a modified adaptor, which was developed locally. This will help us to replace the costly imported rings.
- b) Super Cleaner & On-line Sorting on Conveyor: Introduction of a super cleaner machine & on-line conveyor for sorting has reduced the trash content as well as contamination of the mixing. This has improved the grade of cotton fed in Blow room & also reduced the man power to the tune of 100 hands per day in sorting department
- c) Vision Shield: Introduction of vision shield is planned in Blow room line to reduce the contamination level in the cotton. This electronic device is indigenous and is able to sort out the white polypropylene fibers as well as colour contaminations from the cotton. This is a indigenous product made by M/s. Vetal engineers and it's cost is 50% lesser than the imported one.
- d) Accura (Fibre Saver): Installation of accura (fibre saver) in carding machines improves the yarn quality as well as save the fibre i.e. waste.

2. Benefits derived as a result of the above efforts, i.e. Product Development & Import Substitution etc.

The basic strength of the Company is its quality and that matches in all respects with international standards. The quality parameters satisfy to the Uster norms that are accepted worldwide. Quality of our yarn is rendered possible not only because of the sophisticated imported machinery installed for all crucial operations including auto cone winding, but also due to backward integration through appropriate tie up for procurement of superior quality cotton.

By substituting the above-mentioned components, quality of the maintenance is at the same level, though we have reduced the cost of maintenance and also the lead-time procuring the components.

3. Future Plan of Action:

- a) To reduce the hairiness in final yarn we are going to replace the old rings of R&F quality from Germany by Lakshmi make rings of still better quality.
- b) We have planned to introduce transfer of material from mixing bin to blow room by conveyor belt system in all individual lines. This will help us to reduce the manpower by 54 hands, the wastage & the time.
- c) Addition of 11 new combers (Indigenous - 6 nos. & Imported - 5 nos.) enhance our combing capacity & make us able to produce 100% combed yarn.
- d) Installation of 12 new Quantum-2 clearer gauges will upgrade our yarn quality further & make our yarns 100% contamination controlled.
- e) Addition of one cot-buffing machine will be able to manage the cot-buffing schedule as per planning in day shift only.
- f) Addition of 4 new knitting machines will increase our production in knitting.
- g) Replacement of springs in 2600 cans of draw frame enhance our quality further.

4. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished:

- a) Technology imported - Not Applicable
- b) Year of import - Not Applicable
- c) Has technology fully been absorbed? - Not Applicable
- d) If not fully absorbed, areas where this has not taken place, reason thereof and future plan of action- Not Applicable

The Company does not have any technical collaboration and hence there is no Technology Absorption and Adoption.

(C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

| | Current year 2005-2006 | Previous year 2004-2005 |
|---|---------------------------|----------------------------|
| Particulars | | |
| - Foreign Exchange earnings, FOB value | 9387.42 | 7874.37 |
| - CIF value of imported Spare parts, components and HSD | 72.64 | 867.95 |
| - CIF value of machinery | 5.47 | ---- |
| - Others | 78.16 | 84.86 |
| - Traveling | 14.70 | 14.61 |

For and on behalf of the Board of Directors.

Dr. R.B. Baheti

Chairman and Managing Director

Place : Indore

Date: 4th September, 2006