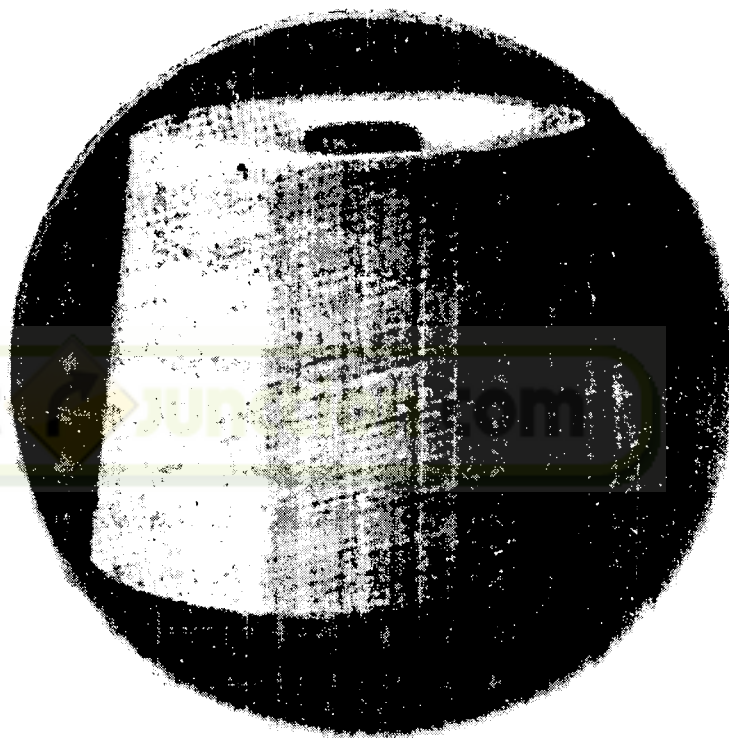


**23<sup>rd</sup>**

**Annual Report**

**2007-08**



*Quality & Commitment*



**STI India Limited**

*Manufacturers of quality Cotton Yarn & Cotton Knitted Fabrics*

## Twenty Third Annual Report 2007-08

### BOARD OF DIRECTORS

Dr. R.B. Baheti	-	Chairman and Managing Director
Mr. M.R. Shroff	-	Director
Mr. P. Bhaskara Rao	-	Director (wef 24.10.07)
Dr. Shashank N. Desai	-	Director (wef 30.06.08)
Mr. T. N. Anand Reddy	-	Director (wef 30.06.08)
Mr. S. Sreedhar Reddy	-	Director (wef 30.06.08)
Mr. A. V. Narasimha Reddy	-	Director (wef 30.06.08)
Mr. K. N. Garg	-	Director
Mr. R. C. Jain	-	Director (upto 30.06.08)
Dr. (Mrs.) Indira J. Parikh	-	Director (wef 31.07.07- 30.06.08)
Mr. Ashok Sharma	-	Director (wef 23.04.07 to 24.10.07)

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#### BANKERS

IndusInd Bank Limited  
State Bank of India  
Axis Bank Ltd.

#### AUDITORS

M/s Rastogi Narain & Co.,  
Chartered Accountants,  
Flat No. 303, DDA HIG Multystory Building,  
Block-I, Rani Jhansi Complex, Pahadganj,  
NEW DELHI-110055  
Tel.: 011-23557512, 13 Fax.: 011-23557517

#### REGISTRAR & TRANSFER AGENT

M/s Intime Spectrum Registry Limited,  
C-13, Pannalal Silk Mills Compound,  
L.B.S. Marg, Bhandup (W) Mumbai-400  
078  
Tel: 022-25963838, Fax: 022-25946969  
E-mail: binod.rao@intimespectrum.com.,  
rnt.helpdesk@intimespectrum.com

#### REGD. OFFICE AND WORKS

##### STI INDIA LTD.

Rau-Pithampur Link Road,  
Tehsil-Mhow, Distt. Indore (M.P.) -  
453 332 INDIA  
Tel.: +91-0731-4014400  
Fax: +91-0731-4020011



### TWENTY THIRD ANNUAL GENERAL MEETING

of the Company to be held on  
Tuesday the 30th September, 2008  
at 11:00 A. M., at  
Regd. Office of the Company





## NOTICE OF THE TWENTY-THIRD ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twenty-Third 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 Tuesday the 30<sup>th</sup> September, 2008, at 11.00 A.M. to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2008 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. K. N. Garg, who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint Joint Auditors and to fix their remuneration and for that purpose pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of section 224, 225 and other applicable provisions of the Companies Act, 1956 M/s. Rastogi Narain & Co., Chartered Accountants, New Delhi and M/s. Vikas Kochhar & Associates, Chartered Accountants, New Delhi, be and are hereby re-appointed / appointed respectively as Joint Auditors of the Company, to hold office from the conclusion of this Meeting till conclusion of the next Annual General Meeting of the Company at a separate remuneration of Rs. 5,00,000/- to each with reimbursement of such travel, service tax and out of pocket expenses as may be actually incurred by them in connection with the Audit."

### SPECIAL BUSINESS:

4. **TO CONSIDER, AND IF THOUGHT, FIT, TO PASS, WITH OR WITHOUT MODIFICATION (S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Mr. Pelluru Bhaskara Rao, who was appointed as an Additional Director of the Company with effect from 24<sup>th</sup> October, 2007 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

5. **TO CONSIDER, AND IF THOUGHT, FIT, TO PASS, WITH OR WITHOUT MODIFICATION(S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Dr. Shashank Narendra Desai, who was appointed as an Additional Director of the Company with effect from 30<sup>th</sup> June, 2008 and who holds such office until the date of this meeting in terms of Section 260 of the

Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

6. **TO CONSIDER, AND IF THOUGHT, FIT, TO PASS, WITH OR WITHOUT MODIFICATION (S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Mr. T. N. Anand Reddy, who was appointed as an Additional Director of the Company with effect from 30<sup>th</sup> June, 2008 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

7. **TO CONSIDER, AND IF THOUGHT, FIT, TO PASS, WITH OR WITHOUT MODIFICATION (S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Mr. S. Sreedhar Reddy, who was appointed as an Additional Director of the Company with effect from 30<sup>th</sup> June, 2008 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

8. **TO CONSIDER, AND IF THOUGHT, FIT, TO PASS, WITH OR WITHOUT MODIFICATION (S) THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTION.**

"RESOLVED THAT Mr. A. V. Narasimha Reddy, who was appointed as an Additional Director of the Company with effect from 30<sup>th</sup> June, 2008 and who holds such office until the date of this meeting in terms of Section 260 of the Companies Act, 1956 and in respect of whom the Company has received a notice in writing from a member under Section 257 of the Act, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company liable to retirement by rotation."

By Order of the Board of Directors  
For STI INDIA LIMITED

Mukesh Kumar Garg  
Company Secretary

Place: Mumbai  
Date: 29<sup>th</sup> August, 2008

**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 25<sup>th</sup> September, 2008 to 30<sup>th</sup> September, 2008 (both days inclusive).
3. 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.

4. 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 addresses through their depositories.
5. Companies Equity Shares are listed at National Stock Exchange (NSE), Mumbai, and Bombay Stock Exchange (BSE), Mumbai. The Company has already paid listing fee to both the Stock Exchanges upto the Financial Year 2008-09.
6. The shareholders may also note that considering inadequacy of profits the Board of Directors has not recommended any dividend for the year 2007-2008.

**Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 and details required as per Listing Agreement & other compliances.**

**FORITEM NO. 2**

**Mr. K. N. Garg**, Director of the Company, is retiring by rotation at the ensuing Annual General Meeting and being eligible offer himself for re-appointment.

Mr. K. N. Garg, a Promoter Director of the Company, is an Industrialist. Mr. Garg born in 1945, having Masters' Degree in Commerce and a Bachelors' Degree in Law, is a new age entrepreneur. Mr. K. N. Garg, has very wide experience of trade, business and industry for more than three decades. Mr. Garg has been key driver in making strategic moves for bringing STI Sanoh India Limited, the joint venture company, out of critical conditions running its business successfully. Presently, he is a Whole Time Director of STI Sanoh India Limited and also acting as Director on the Board of other companies.

Your Directors recommend his appointment, as Director liable to retire by rotation, for the approval of members. Apart from Mr. K. N. Garg, Dr. R. B. Baheti, being another promoter director is interested in the resolution. Mr. K. N. Garg is not a relative of any other member of the Board.

**FORITEM NO. 3**

The retiring Auditors, M/s Rastogi Narain & Co., Chartered Accountants, New Delhi, are eligible to be re-appointed at the conclusion of the ensuing Annual General Meeting. The Company has also received a letter from the existing auditors that their re-appointment shall be within the limits under section 224 (1) (b) of the Companies Act, 1956.

The Company has also received a notice from one of the member signifying its intention to propose the appointment of M/s. Vikas Kochhar & Associates, Chartered Accountants, New Delhi, as the Joint Auditors of the Company from the conclusion of ensuing Annual General Meeting till conclusion of the next

Annual General Meeting of the Company. M/s. Vikas Kochhar & Associates, Chartered Accountants, New Delhi, have expressed their willingness to act as Joint Auditors of the Company, if appointed and have confirmed that the said appointment would be in conformity with the provisions of Section 224 (1) (b) of the Companies Act, 1956.

Therefore your Directors recommend appointment of both the Chartered Auditors' firms as the Joint Auditors of the Company. As the proposed appointment requires the approval of members, the resolution including notice for Annual General Meeting is recommended for members' approval.

None of the Directors are concerned or interested in the above resolution.

**FORITEM NO. 4**

**Mr. Pelluru Bhaskara Rao**, was appointed as an Additional Director on the Board of the Company with effect from 24<sup>th</sup> October, 2007 and as such he holds his office till the date of the ensuing Annual General Meeting.

Mr. Pelluru Bhaskara Rao, is a Chartered Accountant by profession. On the Board of Directors of the Company, Mr. Pelluru Bhaskara Rao represents, Eight Capital & Associates, the overseas private investors of the company. As member of the Board Mr. P. Bhaskara Rao is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 4 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mr. P. Bhaskara Rao is concerned or interested in the resolution. Mr. P. Bhaskara Rao is not a relative of any other member of the Board.

**FOR ITEM NO. 5**

**Dr. Shashank Narendra Desai**, was appointed as an Additional Director on the Board of the Company with effect from 30<sup>th</sup> June, 2008 and as such he holds his office till the date of the ensuing Annual General Meeting.

Dr. Shashank Narendra Desai, is an experienced practicing Chartered Accountant with Ph. D. in addition to Bachelor Degree in Commerce and Law. On the Board of Directors of the Company Dr. Shashank Narendra Desai is proposed to be appointed as an Independent Director. As member of the Board Dr. Shashank N. Desai is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 5 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Dr. Shashank N. Desai is concerned or interested in the resolution. Dr. Desai is not a relative of any other member of the Board.

**FOR ITEM NO. 6**

**Mr. T. N. Anand Reddy**, was appointed as an Additional Director on the Board of the Company with effect from 30<sup>th</sup> June, 2008 and as such he holds his office till the date of the ensuing Annual General Meeting.

Mr. T. N. Anand Reddy, is an experienced Textile Technocrat with B. Tech Degree in Chemical Engineering from I.I.T. Chennai. On the Board of Directors of the Company Mr. T. N. Anand Reddy is proposed to be appointed as an Independent Director. As member of the Board Mr. T. N. Anand Reddy is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 6 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mr. T. N. Anand Reddy is concerned or interested in the resolution. Mr. T. N. Anand Reddy is not a relative of any other member of the Board.

**FOR ITEM NO. 7**

**Mr. S. Sreedhar Reddy**, was appointed as an Additional Director on the Board of the Company with effect from 30<sup>th</sup> June, 2008 and as such he holds his office till the date of the ensuing Annual General Meeting.

Mr. S. Sreedhar Reddy, is an experienced industrialist having good exposure to production and marketing with B. Tech. Degree in Electronics and Communications. On the Board of Directors of the Company Mr. S. Sreedhar Reddy is proposed to be appointed as an Independent Director. As member of the Board Mr. S. Sreedhar Reddy is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 7 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mr. S. Sreedhar Reddy is concerned or interested in the resolution. Mr. S. Sreedhar Reddy is not a relative of any other member of the Board.

**FOR ITEM NO. 8**

**Mr. A. V. Narasimha Reddy**, was appointed as an Additional Director on the Board of the Company with effect from 30<sup>th</sup> June, 2008 and as such he holds his office till the date of the ensuing Annual General Meeting.

Mr. A. V. Narasimha Reddy, is an experienced Corporate Executive with B. Tech. Degree in Electronics & Communications. On the Board of Directors of the Company Mr. A. V. Narasimha Reddy is proposed to be appointed as an Independent Director. As member of the Board Mr. A. V. Narasimha Reddy is likely to add immense value for the long-term growth of the Company.

The Company has received a Notice from a shareholder proposing his name for appointment as Director of the Company liable to retire by rotation in terms of Section 257 of the Companies Act, 1956. Accordingly, a resolution at item No. 8 is placed before the members for his appointment. The Board of Directors recommends his appointment for approval of the members.

None of the Directors of the company other than Mr. A. V. Narasimha Reddy is concerned or interested in the resolution. Mr. A. V. Narasimha Reddy is not a relative of any other member of the Board.

By Order of the Board of Directors  
**For STI INDIA LIMITED**

**Mukesh Kumar Garg**  
Company Secretary

Place: Mumbai

Date: 29<sup>th</sup> August, 2008

## DIRECTORS' REPORT

To,

The Members,

The Directors have pleasure in presenting their Twenty-Third Annual Report and the Audited Annual Accounts of the Company for the financial year ended 31<sup>st</sup> March, 2008.

### FINANCIAL RESULTS

The salient features of the Company's financial results during the year are as under:

PARTICULARS	2007 - 08	(Rs. in Lacs)
<b>Sales &amp; Other Income</b>	<b>16075.48</b>	15809.94
<b>Expenditures</b>	<b>16394.79</b>	13796.60
<b>Earnings before Interest &amp; Depreciation</b>	<b>(319.31)</b>	2013.34
Less - Interest	<b>803.39</b>	304.80
Less - Depreciation	<b>1147.93</b>	1092.82
<b>Net Profit/(Loss) for the year</b>	<b>(2270.63)</b>	615.72
(Less) - Capital advance written off	<b>216.98</b>	-
(Less)- Provision for Tax (FBT)	<b>11.00</b>	12.63
(Less)- Preliminary Exp. Written Off	<b>307.03</b>	2.68
Interest for Earlier years /		
Extinguishments of Loan Liabilities	-	(9568.39)
<b>Adjusted Profit/(Loss) for the year</b>	<b>(2805.64)</b>	10168.80
Balance brought forward from previous year	<b>(4027.76)</b>	(14196.56)
<b>Net Profit/(Loss) carried forward to the Balance Sheet</b>	<b>(6833.40)</b>	(4027.76)
Less Share Premium	<b>3773.00</b>	3773.00
<b>Profit &amp; Loss Account</b>	<b>(3060.40)</b>	254.76
Paidup Share Capital & Reserve & Surplus	<b>2940.01</b>	2940.01
<b>Adjusted Net Worth of the Company</b>	<b>(120.39)</b>	2685.25

### PERFORMANCE

During the financial year under review, the turnover and other income of your company increased marginally by 1.68% and in value term touched Rs.161 Crores (previous year Rs.158 Crores). However due to steep rise in raw cotton prices as well as the adverse impact of Indian Rupee appreciation against US Dollar, Company's EBIDTA margin was very adversely impacted. During the year the Company had a negative EBIDTA of Rs. 319 Lacs against EBIDTA of Rs. 2013 Lacs (12.28%) in the previous year.

The Board wishes members of the Company to take note that in the previous year the net profit of the Company registered a five-fold increase mainly on account of reduced interest cost on account of one time Settlement of dues with major secured lenders. However, interest cost in the current year, at Rs. 803 Lacs, is 263% higher than the previous year of Rs. 305 Lacs, before providing for interest to overseas private investors for the period from 1<sup>st</sup> July, 2007 to 31<sup>st</sup> March, 2008 amounting

to Rs. 1538 Lacs. The loss of the Company, to the extent of interest to overseas investors not provided for, be considered as understated.

However due to export sales of higher value added products, such as Organic Cotton Yarn and Elitwist Yarn, mainly to high-end European market helped in receiving comparatively better realizations.

The turnover in quantity term at 14407 MT was higher by 502 MT in comparison to 13904 MT in the previous year. The average sales realization was lower at Rs. 100.31 per Kg. (Rs. 103.83). During the year the utilization of Company's knitted fabric capacity was lower by 25% at producing 12.60 Lacs KG knitted fabrics in comparison to the production of 16.78 Lacs Kg fabrics in the previous year. This was only due to lower orders from domestic and overseas markets on account of cutthroat competition and un-remunerative prices in the segment.

### DEBONDING

Your Company, being a 100% EOU, major thrust was placed on expansion of sales in various export markets specifically Europe, US, Canada and other developed Countries. This has resulted in Exports being higher by 8% at 11325 MT (9836 MT). Exports at Rs. 11140 lacs were better by 8% (Rs. 10286 Lacs). During the year your Company faced marketing compulsions to export, being a 100% EOU, even when the price realizations in domestic market were better by more than 6% on account of better demand and supply scenario. The Company has therefore, considered it necessary to de-bond the unit by converting its EOU status into a DTA unit under the EPCG Scheme. The Company has already made an application to the competent authority for such permission and arrangement for necessary funds required to pay one time custom duty liabilities as well as requirement of Bank Guarantee for other liabilities are being made by the Management of the company. It is believed that de-bonding will yield better realization to the Company on its sales due to freedom of marketing its products in the market where realization are higher.

### WORKING CAPITAL CONSTRAINTS

The company continued to face working capital constraints during the year. After completion of process of One Time Settlement with the secured lenders and entry of overseas private investors the Company was expecting improvement in working capital funding. The Company tried various options for securing working capital sanction from Banks including financial institutions and NBFC Companies, but due to lack of sufficient profit margin on its operation and sudden change in the out look for Textile and yarn industry, raising working capital became difficult, which had a direct impact on the profitability of the Company.





## OVERSEAS PRIVATE INVESTMENT

The members of the company are aware that in the previous year the Company settled outstanding dues of its major term lenders and banks through One Time Settlement (OTS). The majority of the term lenders and banks had provided necessary support to the Company and the process for OTS was completed in the previous year. The members of the company are also aware that necessary funding support for OTS was received from two overseas Private Equity Investors i.e. Spinnaker Investment Group, United Kingdom and Eight Capital & Associates, United States who in total invested an amount of Rs.141,12,75,000/- Crores in the company towards the subscription of Optionally Convertible Debentures and Convertible Warrants in summary as under:

Investor	OCD-1	OCD-2	OCD-3	OCD-4	Warrants
Eight Capital Master Fund Ltd.	2290.00	195.551	510.00	1504.8925	12.875
Spinnaker Global Strategic Fund Ltd.	0	773.114	0	5946.5755	0
Spinnaker Global Emerging Markets Fund Ltd.	0	220.89	0	1699.0215	0
Spinnaker Global Opportunity Fund Ltd.	0	110.445	0	849.5105	0
<b>Total</b>	<b>2290.00</b>	<b>1300.00</b>	<b>510.00</b>	<b>10000.00</b>	<b>12.875</b>

Due to sharp increase in the raw cotton prices and continuous steep rise in Indian currency against US Dollar in the previous year, the Company has been unable to generate sufficient revenue to serve the cost of funds received from Overseas Private Investors after 1<sup>st</sup> July, 2007. The Company has also not been able to redeem 26,00,000, Rupee Denominated Optionally Convertible Debentures (OCD Series 2) of Rs. 50/- each issued amounting in total to Rs. 13 Crores to Overseas Private Investors on its due date of 16<sup>th</sup> October, 2007 in absence of a sanction of equivalent amount by any bank to the Company against working capital requirements for which the Company is continuing its efforts.

## OPEN OFFER UNDER SEBI REGULATIONS

The Members are aware that the Overseas Private Investors of the Company i.e. Eight Capital Master Fund Limited, Cayman Islands ("Eight Capital") and Spinnaker Global Opportunity Fund Ltd, Spinnaker Global Emerging Markets Fund Ltd and Spinnaker Global Strategic Fund Ltd ("Spinnaker Funds") [hereinafter referred to as the "Acquirers"] had entered into a Share Purchase Agreement dated May 24, 2007 with CDC Group plc (formerly known as Commonwealth Development Corporation) (CDC).

As per this Share Purchase Agreement Eight Capital agreed to acquire 1,00,000 fully paid up equity shares representing 0.34% and Spinnaker Funds agreed to acquire 44,94,594 fully paid up equity shares representing 15.50% of the paid-up equity share capital of the Company. The quantity of shares between Spinnaker Funds was to be divided as that Spinnaker Global Opportunity Fund Ltd to have 11,68,595 shares, Spinnaker Global Emerging Markets Fund Ltd - 19,77,621

shares and Spinnaker Global Strategic Fund Ltd to purchase 13,48,378 equity shares of the Company. Thus in all total holding of 45,94,594 equity shares of CDC was to be purchased at a price of Rs. 3.26 per share for a total purchase consideration of Rs. 1,50,00,000/-. The Negotiated Price per Sale Share was to be paid in the form of cash. Acquirers were not to pay any other monetary consideration, whether by way of any non-compete fee or otherwise for acquisition of the shares of STI.

As the equity stake of Overseas Private Investors after the proposed purchase of shares was going to be more than the stipulated threshold of 15% under SEBI Regulations, the Acquirer were subject to make an Open Offer pursuant to and in compliance with Regulation 10 and 12 of Chapter III of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 including subsequent amendments thereto (the "Regulations"). Accordingly the Overseas Private Investors of the Company had made a public announcement of the Open Offer on 31<sup>st</sup> May, 2007 to acquire up to 58,00,000 equity shares of Rs. 10/- each, representing 20% of the issued, subscribed and paid-up equity share capital of STI, from the public shareholders of STI, at a price of Rs. 25.00 per share ("Offer Price") payable in cash subject to the terms and conditions mentioned in the Offer Document. Currently this open Offer is pending for approval of SEBI.

The members may kindly take note that no other person / entity is acting as Person Acting in Concert with Eight Capital and Spinnaker Funds for the purpose of this open offer. The Open Offer made by the Overseas Private Investors is not a competitive bid. This Offer is not pursuant to any global acquisition resulting in an indirect acquisition of shares of STI. Equity shares that would be tendered in the valid form in terms of this Offer, when opened after SEBI approval, will be transferred in favour of Eight Capital and Spinnaker Funds in the ratio of 1:2. This open Offer is being managed by YES BANK Limited as the "Manager to the Offer" on behalf of the Overseas Private Investors of the Company.

## CAPITAL EXPENDITURE FOR EXPANSION PLAN

In the previous year your Company had planned for an expansion of 31656 Spindles Ring Spinning Capacity through an overseas buy out of a yarn manufacturing plant from Nomexy, France. The purchase deal was valued at 38 mn Euro and your Company had paid an advance of Euro 0.38 mn (equivalent to Rs. 2.17 Crores) to the machinery supplier.

Subsequently yarn market, domestically and export, became adverse due to abnormal rise of raw cotton prices and Indian Rupee appreciation against US dollar, which made such expansion proposal financially unviable. The Company was left with no alternative but to cancel the purchase deal to avoid further losses. The cancellation of this deal has resulted in a loss of Rs. 2.17 Crores paid as advance to overseas supplier, which is being written off in the current year.

## FUTURE

While the appreciating Rupee and hardening of raw cotton prices have hit price realization for all textile and garment industry, the impact is more severe for 100% export oriented units. This has also happened when the industry has expanded its capacities significantly in last two years. The South India, where 60% of country's total 35 mn spindle capacity exists, is already facing closure and consolidation. Your Company has been surviving in this turmoil because of its superior quality, prompt services and close relationship with clients & customers, cost cutting measures for controlling manpower and power cost and better HR practices.

With a view to keep pace with ever-increasing competition and expected strengthening of Indian Rupee in future, the Company plans to increase production of value added products such as Organic Yarn, Elitwist Yarn, Slub Yarn and Compact Yarn. Production of Fair Trade Yarn will also improve margins for the company in future. However, these efforts need to be further supported by de-bonding the unit by converting it from a 100% EOU to a DTA Unit under EPCG Scheme. The company will also make all efforts that its knitting capacity is also fully utilized in the current year.

The Company also expects that the Government of India shall continue to provide policy support for textile industry, as they are major contributors to exports and employment in the country.

All the above measures will help placing the Company on a path of sustained growth with improved margins making some room for the company to liquidates its liabilities towards interest payment to overseas private investors and also redeem the debentures even if not on schedule with some delay.

## DIVIDEND

In view of the losses, the Board of Directors does not recommend any dividend for the year under review.

## FUTURE OUTLOOK AND MARKETING STRATEGY

Despite adverse financial parameters, India continues to be a preferred choice of American, European and other developed markets especially in the high-end segment and major global retailer / outlets. India has also increased its acceptance in the world as an emerging economic power. The policy support being provided by the Indian Government to the entire yarn, textile and garment industry and the process of labour reforms initiated in India as well as enhanced government spending in the agriculture and farm sector is going to improve prospects for high value added products procurement from India and presents an excellent opportunity for the industry in the coming years. The Indian Government has placed an ambitious export target of US\$ 200 bn to be achieved in the financial year 2008-09. Therefore, we expect that government support to the yarn, textile and garment industry will continue.

Expecting improved demand in export markets and better price realizations in the domestic market, the Company will continue to focus in increasing its supplies to the market where price realizations are better.

## BOARD OF DIRECTORS

Mr. K. N. Garg, Director, retires by rotation at the ensuing Annual General Meeting and is eligible for re-appointment. His re-appointment as Director liable to retire by rotation is submitted to the shareholders for their approval in the ensuing Annual General Meeting.

Mr. Ashok Sharma, Director resigned from the Board w.e.f. 24<sup>th</sup> October, 2007. Mr R. C. Jain and Dr. (Mrs.) Indira J. Parikh, both the Directors also resigned from the Board w.e.f. 30<sup>th</sup> June, 2008 due to their other pre-occupations. The Board places on record its deep appreciation for valuable contributions made by the outgoing Directors during their tenure.

Mr. P. Bhaskara Rao, an experienced Chartered Accountant was nominated by Overseas Private Investors on the Board w.e.f 24<sup>th</sup> October, 2007. Mr. P. Bhaskara Rao has wide experience of accounts, finance, trade, commerce and industry. Being additional director, Mr. Rao holds his office till the date of ensuing Annual General Meeting (AGM). The Company has received a notice from a member of the Company proposing his candidature for appointment as a Director liable to retire by rotation. Accordingly his appointment is being considered for approval of shareholders in the next AGM.

With a view to further broad base the Board of Directors of your Company, Dr. Shashank N. Desai, Mr. T. N. Anand Reddy, Mr. S. Sreedhar Reddy and Mr. A. V. Narasimha Reddy were appointed as Independent Directors with effect from 30<sup>th</sup> June, 2008. All the new Directors have wide range of experience and exposure of the field of finance & management of trade, business and industry. It is expected that appointment of these new independent directors will add immense value to the Board.

Being additional Directors these new four directors hold their office till the date of ensuing Annual General Meeting (AGM) of the Company. The Company has received notices from members of the Company proposing candidature of these four new Directors for appointment as Directors liable to retire by rotation. Accordingly appointment of Dr. Shashank N. Desai, Mr. T. N. Anand Reddy, Mr. S. Sreedhar Reddy and Mr. A. V. Narasimha Reddy is being considered for approval of shareholders in the next AGM as Directors liable to retire by rotation. Your Board of Directors welcomes these appointments.

The re-appointment of Dr. R. B. Baheti as Chairman & Managing Director of the Company for a period of three years effective from 1<sup>st</sup> November, 2007 has already been approved by the shareholders and Government of India.





## PERFORMANCE OF STI SANOH INDIA LIMITED - THE JOINT VENTURE COMPANY

As the Audited Annual Accounts of your Joint Venture Company (JVC) with Sanoh Industrial Co. Limited are still under preparation, your Directors are pleased to inform that growth in the automobile and refrigeration sector is expected to result in a yet another improved performance by STI Sanoh India Limited.

### 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 and being eligible offers themselves to be re-appointed. The Company has received notice from a member signifying its intention to propose the appointment of M/s. Vikas Kochhar & Associates, Chartered Accountants, New Delhi, as the Joint Auditors of the Company from the conclusion of ensuing Annual General Meeting till conclusion of the next Annual General Meeting of the Company. M/s. Vikas Kochhar & Associates, Chartered Accountants, New Delhi, have expressed their willingness to act as Joint Auditors of the Company, if appointed and have confirmed that the said appointment would be in conformity with the provisions of Section 224 (1) (b) of the Companies Act, 1956.

Accordingly necessary resolution is proposed in the notice for approval of the Shareholders.

### DIRECTORS' COMMENTS ON AUDITORS QUALIFICATION

Your Directors have taken note of the observations / suggestions of the Company's Auditors in their report including its annexure and positive measures have been taken to implement the same. All their points have been adequately covered and explained in the report of the Board of Directors as well as in notes to the accounts. The Company has further strengthened the internal control systems and procedures by enlarging and upgrading the scope of work of Internal Auditors.

### 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 2007-08, 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 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, representatives of Overseas Private Investors, Commonwealth Development Corporation, clients and shareholders for their support and co-operation during the year. The Directors convey their special thanks to the overseas financial partners and look forward for their unstinted support.

For and on behalf of the Board of Directors,

For STI India Limited

Dr. R.B. Baheti

Chairman and Managing Director

Place : Mumbai

Date : 29<sup>th</sup> August, 2008

## 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, 2008.**

### Form A (Rule 2)

#### CONSERVATION OF ENERGY

There is a constant thrust on energy saving in every sphere of activity as the company has conceptualized that "Energy saved is energy generated". In the process we have added the following measures to harness the energy consumption:

1. We replaced 6 nos. 22 KW Centrifugal pumps with motors by 15 KW Energy efficient pumps and motor set in Humidification Plant.
2. In Humidification plants the centrifugal pumps are the second largest power consuming equipment after the Fans. We have total 17 humidification stations, which has 211 KW connected load only for the pumps. We have made different trials on the stations to save power. We are purchasing Variable frequency drives to save power.

#### Future Planning for Energy conservation (2008-09)

- Further saving of power can be achieved by installation of 93.5 KW Variable frequency drives on Humidification plants.

Technology upgradation and development of alternative spares for plant machinery saves considerable amount per year, a brief of which is detailed as below:

1. Up gradation of Quantum II software version 4.11.24 to version 4.11.29 on free of cost basis in 12 nos. Auto winding machine where we installed quantum II Yarn clearers avoid system bugs.
2. Development of brake spares for Reiter combers model E-62.
3. Development of brake spares for Reiter combers model E-65.
4. Development of STK modules of Muratec, by that repairing of the inverters for drums will be in house instead of existing at MMIS.
5. Local development of Tacho sensor of Finisher draw frame.

6. To get repaired RF generator of Fabric Inspection table of Knitting from original manufacturer.
7. Development of driving system for Trash analyzer MDTA-3.
8. Alternative development of the gear motors of the Comber noil compactor Luwa.

Power and Fuel consumption	Current year <u>2007-08</u>	Previous year <u>2006-07</u>
Electricity		
1. Purchased (Units in Lacs)	467.40960	452.04800
2. Generated (Units in Lacs)	0.69600	1.28054
Total Amount (Rs. In Lacs)	1780.91691	1678.84893
Rate per unit	3.804	3.703
Consumption of Electrical Energy per Kg. Of Yarn	3.290 *	3.273

\* The increase is to be seen in light of average yarn count becoming finer.

### FORM-B (Rule-2)

#### (A) RESEARCH AND DEVELOPMENT (R & D)

##### 1. Specific areas where the R & D department worked are:

- a) Bale Management System
- b) Inspection of incoming, in process and final material
- c) Process control at all stages of production
- d) Machinery Maintenance Audit
- e) Quality Assurance MIS
- f) Implementation of Control Union Certification for Organic Cotton Yarn & Fabric Production as well as FLO-Certification for Fair Trade Yarn & Fabric Production
- g) Checking regular replacement items, e.g. cots, aprons, ball & needle bearings, waxes and packing materials etc

##### 2. Benefits derived as a result of the above activities.

- a) Maintaining consistency in Quality Parameters.
- b) Process control helped us in reducing non-conformities in the processed products.
- c) The spares and bearings of right quality has helped production to minimize detentions due to early failure of these parts