

SARUP TANNERIES LTD.

**ANNUAL REPORT
AND
ACCOUNTS
2006 - 2007**

P.O. Ramdaspora, JALANDHAR - 144003, PUNJAB (INDIA)

SARUP TANNERIES LIMITED

DIRECTORS	:	BAWA ATAMJIT SINGH Mrs. MANJIT BAWA Mr. G.S. BEDI BAWA SIMERJIT SINGH Col. GURCHARAN SINGH (Retd.) Col. SURAT SINGH BAJWA (Retd.) MR. ASHWANI KUMAR ARORA
AUDITORS	:	M/s Y.K. SUD & CO. DURGA NIWAS OPP. FRIENDS CINEAMA JALANDHAR - 144 001
LEGAL ADVISOR	:	Mr. V.K. SAREEN 7-NEW RAJENDRA NAGAR POLICE LINES ROAD, JALANDHAR
REGISTERED OFFICE	:	P.O. RAMDASPURA JALANDHAR - 144 003
OTHER FACTORIES	:	(1) PLOT NO. 141 LEATHER COMPLEX KAPURTHALA ROAD JALANDHAR (2) UNIT NO. IV, VILL DHEROWAL P.O. MAJHOLI, DISTT. SOLAN (H.P.)
BANKERS	:	STATE BANK OF INDIA SCB, CIVIL LINES JALANDHAR - 144001

SARUP TANNERIES LIMITED

NOTICE OF THE ANNUAL GENERAL MEETING

The TWENTY EIGHTH ANNUAL GENERAL MEETING of SARUP TANNERIES LIMITED will be held at the Registered Office of the company at P.O. Ramdaspora, Jalandhar on Friday, the 28th day of September 2007 at 10.30 AM to transact the following business:

ORDINARY BUSINESS

- 1 To receive, consider and adopt the Audited Balance Sheet as at 31st March 2007, the Profit & Loss Account for the year ended on that date and the Report of the Auditors and Directors thereon.
- 2 To declare dividend for the year 2006-2007.
- 3 To appoint a Director in place of Atamjit Singh Bawa, who retires by rotation and, being eligible, offers him self for re-appointment.
- 4 To appoint a Director in place of Simarjit Singh Bawa, who retires by rotation and, being eligible, offers him self for re-appointment.
- 5 To appoint Statutory Auditors by passing the following ordinary resolution with or without modifications:
"RESOLVED THAT pursuant to the provisions of Section 224A of the Companies Act, 1956, M/S Y.K. Sud & Company, Chartered Accountants, 6, Durga Niwas, Civil Lines, Jalandhar, be and are hereby appointed as statutory auditors of the company for the year ending 31st March, 2008 and to hold the office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting at a remuneration to be decided by Board of directors of the Company.

SPECIAL BUSINESS

- 6 To consider and if thought fit to pass with or without modification the following resolution as an ORDINARY RESOLUTION:

"RESOLVED that Mr. Ashwani Kumar Arora who was appointed as an Additional and executive Director of the Company by the Board of the Directors w.e.f 3rd September 2007 u/s 260 of the Companies Act, 1956 and who hold office upto the date of the forthcoming Annual General Meeting, who is eligible for re-appointment and in the respect of whom the company has received a notice in writing proposing his candidature for the office of the Director u/s 257 of the Act be and is hereby appointed as Executive Director of the Company on salary scale as mentioned in explanatory statement."

- 7 To Consider if thought fit to pass with or without modification(s) the following resolution as ORDINARY RESOLUTIONS

"RESOLVED that subject to the Provisions of Sec. 198, 269, 309 read with Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (as amended, from time to time or any statutory modifications or re-enactment thereof, for the time being in force) and subject to approval of the Members of the Company in general meeting, consent of Board of Directors be and is hereby accorded to the appointment of Mr. Ashwani Kumar Arora as Executive Director w.e.f. from 3rd September, 2007 on remuneration package and other terms and conditions duly approved by remuneration committee as mentioned in the explanatory statement.

The Board is further authorised to vary, alter, increase, expand, enhance, enlarge or widen the remuneration and perquisites, including the monetary value thereof as amended from time to time or any statutory modification or re-enactment thereof for the time being in force and as may be agreed between Mr. Ashwani Kumar Arora and the Board of Directors."

Place: Jalandhar
Date: 3rd September, 2007

By order of Board of Directors
for Sarup Tanneries Ltd.,

BAWA ATAMJIT SINGH
Managing Director

SARUP TANNERIES LIMITED

NOTES.

- I A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on a poll on his behalf and such proxy need not be a member of the company. A proxy may be sent in the form enclosed and in order to be effective must reach the registered office of the company at least 48 hours before the commencement of the meeting.
- II Balance Sheet as at 31st March 2007 and the Profit & Loss Account for the year ended on that date together with the Director's & Auditors Report are enclosed.
- III Members are requested to notify changes in their address, if any, quoting their folio number to the Registered Office of the Company.
- IV Members are requested to bring the copy of their Annual Report with them at the Annual General Meeting.
- V Shareholders desiring any information as regards the Accounts are requested to write to the company at least seven working days prior to the meeting so as to enable the management to keep the information ready.
- VI The Register of Members and share transfer books of the company shall remain closed from 25th September 2007 to 28th September 2007 (both days inclusive) for the purpose of determining entitlement of dividend as may be declared by the company.
- VII Pursuant to sections 205A to 205C of the Companies Act, 1956, any money transferred to the unpaid dividend account which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred by the company to the fund called Investor Education and Protection Fund to be set up by the Central Government. Accordingly, the unpaid/unclaimed dividend for the years 2000-2001 onwards will become transferable at the end of seven years respectively, to the said Investor Education and Protection Fund and no claims shall be against the fund or the company in respect of individual amounts thereafter. Shareholders are, therefore, requested to check up and send their claims, if any, for the relevant years from 2000-2001 onwards before the respective amounts become due for transfer to the above fund.

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956:**ITEM NO: 6&7****Appointment of Mr. Ashwani Kumar Arora as Executive Director**

Mr. Arora is a qualified Chartered Accountant with 15 years of experience in finance and administration. The company shall be benefited by his vast experience and expert knowledge in the field. Mr. Arora holds office upto the ensuing Annual General Meeting. The company has received a notice under Section 257 of the Companies Act, 1956 from a member proposing his candidature as a director of the company. The Board commends his appointment. The Board has decided to elect him as Executive Director of the company w.e.f. 3rd September, 2007. The package offered to him is within the ceiling prescribed under Schedule XIII for the Companies Act, 1956, which has been approved by the Remuneration Committee in their meeting as under:

- (a) Salary: 21400/- (Rupees Twenty One Thousand Four Hundred only) per month in the scale of 21400-30000.
- (b) Allowances : As Per Company Rules

By order of Board for
Sarup Tanneries Ltd.

Place : Jalandhar
Date : 3rd September, 2007

BAWA ATAMJIT SINGH
Managing Director

SARUP TANNERIES LIMITED

DIRECTORS' REPORT

Dear Shareholders,

Your Directors are pleased to present the Twenty Eighth Annual Report together with the Audited Accounts for the year ended 31st March 2007.

FINANCIAL RESULTS

	Current Year ended 31.3.2007	Previous Year ended 31.3.2006 (Fig. in Laes)
INCOME & PROFITS		
Sales & Other Income	3266.42	3125.84
Profit before Interest (a)	277.36	241.70
Interest	62.96	63.96
Depreciation	89.86	81.71
	152.82	145.67
Exceptional Item (Loss)	0.00	0.00
	152.82	145.67
Profit before tax (a) - (b)	124.54	96.03
Less: Provision for Taxation - Current	14.33	13.68
Deferred	(12.35)	(8.61)
Profit after tax	122.56	90.96
Surplus b/fd	302.22	261.86
Others	0.00	3.98
Balance of P&L B/F	424.78	356.80
Proposed Dividend	39.03	39.02
Income Tax Provisions of Pr. Year	—	—
Interim Dividend	—	—
Dividend Tax on Proposed Dividend	6.63	5.48
Dividend Tax on Interim Dividend	—	—
Transfer to General Reserve	20.00	10.00
Income Tax & Tds Adj/ Wealth Tax Prov.	0.05	0.08
SURPLUS CARRIED TO BALANCE SHEET	359.07	302.22
	424.78	356.80

OPERATING PERFORMANCE

Your Company have registered total sale of Rs. 3180.96 Laes in the year ended on 31st March-2007 as compared to last year, which was of Rs.3096.96 Laes registering a growth of 2.71%.

Your Company have earned a Net Profit of Rs. 122.56 Laes after tax in the year ended on 31st March 2007 as against Rs. 90.96 laes in the previous year registering a growth of Rs.34.74% The Earning per share as on March 31, 2007 is Rs.3.77 and cash earning per share-Rs.6.53. The increase in Net profit is due to higher export sales by the company with substantial reduction in excise duty.

The company is in the process of setting up an independent composite new unit in a declared Tax Free Zone at Village Shyampura, District Una H.P. The unit will start function by the mid of next financial year. The Sales and profitability of the company is expected to increase substantially with the operation of the unit.

DIVIDEND

The Board of Directors have proposed a dividend at Rs.1.20 per share (12%) for the year 2006-07. The amount of dividend and corporate dividend tax thereon will aggregate of Rs.45.66 Laes. The dividend is tax free in the hands of shareholders.

SARUP TANNERIES LIMITED**DIRECTORS**

Mr. Atanjit Singh Bawa and Mr. Simerjit Singh Bawa retire by rotation and being eligible offer themselves for re-appointment. The Board commends their appointment. Mr. Ashwani Kumar Arora, Chartered Accountant has been appointed as an Executive Director w.e.f. 3rd September, 2007 as an Additional Director. Mr. Arora is a qualified Chartered Accountant with 15 years of experience in finance and administration. The company shall be benefited by his vast experience and expert knowledge in the field. Mr. Arora holds office upto the ensuing Annual General Meeting. The company has received a notice under section 257 of the Companies Act, 1956 from a member proposing his candidature as a director of the company. The Board commends his appointment.

Energy conservation has remained an area of high priority for the company. The deployment of latest technology in the manufacturing process helped the company in controlling and saving the energy consumption. Employee awareness has also been increased through constant guidance.

The Auditors of the company M/s Y.K. Sud & Co., retires at the forth-coming annual general meeting and offer themselves for re-appointment. The Board recommends their reappointment. The Note referred to in Auditor's Report are self-explanatory and do not require any further comments.

The Board has appointed M/s Verma, Verma & Associates as Cost Auditor for the year 2006-07 in pursuance of sections 233-B of the Companies Act, 1956.

The employees of the company have worked with dedication and commitment during the year and have made an excellent contribution to achieve the high level of profitability. The Board wishes to record its deep appreciation to all employees of the company. The Board also wishes to place on record their thanks to the Bankers and suppliers for the trust and confidence reposed and to the Customers for their valuable patronage.

There is no employee whose particulars are required to be given under section 217(2A) of the Companies Act, 1956 and the Companies(particulars of employees) Rules, 1975. Information pursuant to Section 217(1)(c) of the Companies Act, 1956, read with the Companies (Disclosures of particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure-A annexed hereto, forms part of this Report.

CORPORATE GOVERNANCE

Pursuant to clause 49 of the listing agreements with Stock Exchanges, a Management Discussion and Analysis, Corporate Governance Report, Managing Director's and Auditor's Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

Directors Responsibility Statement

Pursuant to the Sec 217(2AA) of the Companies (Amendment) Act, 2000 the Director confirm that :

- (i) in preparation of the Balance Sheet and the profit & Loss Account of the Company the applicable accounting standards had been followed along with proper explanation relating to material departures
- (ii) the Director had 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 profit of the Company for that period.
- (iii) the Directors had 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 other irregularities.

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(iv) the Directors had prepared the annual accounts on a "going concern basis".

The stocks of the company are available for the trading in dematerialized shape on the stock exchanges.

The equity share of the Company are listed on the following Stock Exchanges and that the annual fees for the year 2007-2008 has been duly paid.

The Mumbai Stock Exchange, Phiroze Jeejeebhoy Towers Dalal Street, Mumbai - 400-001

VOLUNTARY DELISTING OF THE COMPANY'S ORDINARY SHARES FROM CERTAIN STOCK EXCHANGES

The company's application for delisting of ordinary shares is pending with The Delhi Stock Exchange Association Ltd.

on behalf of the Board

Place : Jalandhar

Bawa Atamjit Singh

Manjit Kaur

Dated : 3rd September, 2007

Managing Director

Chairman

ANNEXURE TO DIRECTOR'S REPORT

Statement pursuant to section 217(1)(e) read with the Companies (Disclosure of particulars in the Report of Directors) Rules, 1988 and forming part of the Directors Report for the year ended 31st March 2007.

A. CONSERVATION OF ENERGY

- (a) All the machinery used is subject to a strict repair and maintenance schedule. Further, the maintenance department has been instructed to take every step necessary for energy conservation.
- (b) No additional investment or proposal is there for reduction of consumption of energy.
- (c) Cost of production of goods has come down.

B. TECHNOLOGY ABSORPTION

Research & Development (R&D)

The company has not formally established a Research & Development wing.

Efforts in brief The company is using the modern technology in the manufacturing process. The company has imported technology, which has been introduced in the upper shoe section. As a result there has been a marked improvement in the quality of the products manufactured by the company besides lowering the cost of production. The technology has been fully absorbed.

C. DETAILS OF IMPORT OF TECHNOLOGY

During the year no fresh technology has been imported but for the normal repair and maintenance items.

D) FOREIGN EXCHANGE EARNINGS AND OUTGO

Detail in item 7, 8 & 9 of Schedule 20.

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MANAGEMENT DISCUSSION AND ANALYSIS

Industry, Structure & Development

The Footwear industry is a significant segment of the Industry in India. India ranks second among the footwear producing countries next to China. The industry is labour intensive and is concentrated in the small and Cottage industry sectors. While leather and upper are concentrated in large-scale units, the sandals and chappals are produced in the household and cottage sector. India produces more of men's footwear while the world's major production is in ladies footwear. In case of chappals and sandals, use of non-leather material is prevalent in the domestic market.

Leather industry in India occupies a place of prominence in Indian economy in view of its massive potential for employment, growth and exports. There has been increasing emphasis on its planned development, aimed at optimum utilization of available raw materials for maximizing the returns, particularly from exports.

The major production centers in India are as follows:

Southern Region	
Tamil Nadu	Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, Dindigul
Andhra Pradesh	Hyderabad
Karnataka	Bangalore
Northern Region	
Punjab	Jalandhar
Delhi	Delhi
Eastern Region	
West Bengal	Calcutta
Central Region	
Uttar Pradesh	Kanpur, Agra
Western Region	
Maharashtra	Mumbai (Bombay)

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Shoes manufactured in India wear brand name like Florsheim, Gabor, Clarks, Salamander and St. Micheal's. As part of its effort to play a lead role in the global trade Indian leather industry is focusing on key deliverables innovative designs, consistency superior quality and delivery schedules.

OPPERTUNITIES AND THREATS

Many international buyers are shifting their focus in India for import of leather footwear. India has not just the cost advantage but also the highly skilled labourers and designers. A 13-member delegation from the American Apparel & Footwear Association, which visited Tamil Nadu and other parts of India has predicted a bright future for the footwear export trade to the US. Particularly impressive for them were the skills displayed by the footwear industry in the country. The delegation also had Fawn Evenson, vice-president of AAFA, who had taken active interest in making the mission happen. The delegation has representatives of well-known US brands - Timberland Company, New Balance, Wolverine Worldwide etc.

India has potential threat from china, which is the largest exporter of footwear in the world.

Competitiveness in the production of footwear

At the beginning of the 90s, the two most fundamental determinants of competitiveness in footwear production were considered to be, production costs and the differential impact of trade barriers. At that time other, less quantifiable factors that influence competitiveness were considered to be the following: technological developments; proximity to major markets and the role of quick response; requirements for high quality production; access to technology and management, design and marketing skills; the increasing importance of offshore, joint venture and contract production and some more country specific factors such as political and infrastructure constraints and the availability of raw materials and components (Landell Mills 1990).

The significance of several of the above factors for the next five years has been subject to revisions. At a recent conference, it was predicted that factors (different from shoemaking technology) to make shoes better, quicker or more productively than before will be driving the footwear industry in the new millennium (SATRA Conference, Hong Kong, April 2000).

Competitiveness in the production stages of the chain has been addressed, in many instances, through the promotion of collective efficiency by enterprises operating within clusters and industrial districts as discussed in other sections of the paper. The design and managing of different types of marketing and distribution global chains represent the challenge of the present decade to stay competitive in a fast changing world.

Internal Control Systems and their Adequacy

Your Company firmly believes that a strong Internal Control framework is essential for good Corporate Governance and that freedom of management should be exercised within the framework of proper checks and balances. The company has in place adequate internal control systems and procedures commensurate with the size and nature of business.

Your company has a strong Internal Audit function at the Corporate level which carries out risk focused audits across all activities of the company and identifies areas where risk management processes need to be improved. The audit committee of the Board provides valuable suggestions and strategic guidance on internal controls and ensures that the recommendations of the Internal Audit are implemented effectively.

Safety Management:

Your Company and its employees are conscious of their commitment to conduct business by adopting best safety practices in handling equipment and material. Your Company adopts best safety practices at par with Indian and international standards.

Risk Management

The Company shall lay down procedures to inform Board Members about the risk assessment and minimization procedures. These procedures shall be reviewed to ensure that executive management controls risk through means of a properly defined framework. Your Company has a comprehensive risk management policy. The risk management policy inter alia provides for review of the risk assessment and minimization procedure, laying down procedure, laying down procedure to inform the Board in the matter and for periodical review of the procedure to ensure that executive controls the risk through properly defined framework. Proceeds from public issues, right issues, preferential issues, etc.. If any capital is raised through an issue, the company needs to disclose to the Audit Committee, the uses/ applications of fund on a quarterly basis. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. This statement shall

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be certified by the statutory auditors of the Company. During the year under review, the company has not raised any proceeds from public issue, right issue for preferential issue.

Your company in order to meet the risks and concerns is taking all necessary initiatives. The company keeps on view demand patterns, control energy consumption, reduce the operating cost and monitor the parameters on a weekly basis.

Projects

The company has tied up with MGF for setting up a multiplex cum shopping mall at P.O. Ramdaspora, Jalandhar located at the prime location in Jalandhar District. The project is proposed to be set up in about 23 kanals of land. The construction of the project has started and would be completed in about 18 months.

The company proposes to set up an independent composite unit in a declared Tax Free Zone at village Shyampura, Sub-Tehsil Haroli, District Una, Himachal Pradesh. With an installed capacity of manufacturing 70000 pairs of shoes every Month. This manufacturing unit would provide 700 jobs to local people. In this proposed manufacturing plant, company will use advanced technology to produced better quality shoes with various designs. The company has already tied up for purchase of 23186 Sq mtrs of land. The company has received single window clearance for setting up the unit from Department of Industries, H.P. The installation of the proposed unit will be completed by during the current financial year and the commercial production will start in September 2008.

Human Resources Development

As markets become increasingly competitive and the competition for talent grows more intense, human resources has become a core element of corporate competitiveness, which can greatly influence a company's present and future development. Company as a well-wisher for employees, fulfills its mandate to promote the health of all the employees at workplace and encourage attitudes and methods that leads to improved health. During the past year, the Company further enhanced its job and remuneration management systems and rationalized its internal staff deployment structure, progressively constructing a market-oriented job grading structure and remuneration system, which align more closely with international best practice, to ensure that employee contributions and value are appropriately recognized and rewarded.

Environmental Protection

Environment is the great matter of concern for the company. Company over the last few years has tried its best to conserve the environment. Company is always keen to make new policies for the environment and company regularly monitor all the policies made in this matter. Company is committed to achieve high level of efficiency by lowering down the impact of industrial wastage on the environment.

Investors Relations

The redressal of investor's grievances with a view to ensure zero complaints at any given point of time is the continued priority of your company. The Shareholders/Investors Grievances Committee, which is the sub Committee of the Board of Directors of the Company meets at regular interval to review the status of investor's grievances and offer valuable guidance.

Cautionary Statement

Statement in the Management Discussions and Analysis describing the company's objectives, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company's operations include economic conditions affecting demand/supply and price conditions in the domestic overseas markets in which company operates.

On behalf of the Board

Place: Jalandhar
Dated: 3rd September, 2007

Manjit Kaur
Chairman

Bawa Atanjit Singh
Managing Director