



Report of the Directors

Your Directors have pleasure in presenting the Twenty-Fifth Annual Report of your Company together with the Audited Accounts for the Financial Year ended 31st March 2004.

Business review

The fiscal 2003-2004 has been a satisfactory year with the Company achieving all-round progress. Sales at Rs. 8807.41 Lacs increased by 42.86% as compared to Sales at Rs. 6165.27 Lacs in the previous financial year.

On the strength of volume growth, Profit Before Tax for the fiscal 2003-2004 rose to Rs. 918.52 Lacs (up by 50.18%) against Rs. 611.63 Lacs and Profit After Tax rose to Rs. 604.22 Lacs (up by 43.75%) as against Rs. 420.33 Lacs for the previous financial year. The Company's performance for the Financial Year 2003-2004 vis-à-vis 2002-2003 are summarised as under:

(Rs. in Lacs)

Particulars	Financial Year	
	2003-2004	2002-2003
Gross Sales Turnover	8807.41	6165.27
Profit before interest, depreciation and tax	1244.46	944.10
Interest	79.52	119.62
Depreciation	246.42	212.85
Profit Before Tax (PBT)	918.52	611.63
Provision for Tax including Deferred Tax Liability	314.30	191.30
Profit After Tax (PAT)	604.22	420.33

Dividend and Appropriations

Keeping in view the Sterling's tradition of high regard for its shareholders, your Directors have recommended 40% Dividend for the financial year 2003-2004 as against a dividend of 35% for the financial year 2002-2003.

With the proposed dividend of Rs. 136.89 Lacs and distribution tax @12.81% on dividend absorbing Rs. 17.54 Lacs, a sum of Rs. 100.00 Lacs has been transferred to General Reserve.

Finance

Your Company has enjoyed sound financial health throughout the year. The Company has not accepted any deposits which come under the purview of Section 58A of the Companies Act, 1956.

Current Performance

It is matter of great satisfaction that fiscal 2004-2005 has begun with a promising note. During April-June quarter of the current Financial Year gross sales reached at Rs. 2560.46 Lacs as against Rs. 1798.44 Lacs during the corresponding quarter of the previous year, registering a growth of almost 42.4%. Margins are however under pressure due to substantial increase in steel prices-our raw material, coupled with prevailing keen competition.

We hope this trend of growth in our sales to continue through-out the year, due to new product developments, focus on key customers, aggressive marketing for exports and encouraging response of dealers to the sale of STL high tensile fasteners in the replacement market.

Corporate Governance

The Company is committed to build a long term shareholder value with full emphasis on corporate governance. In achieving this objective, the Company has always endeavoured to operate as a responsible and law abiding corporate entity. The corporate governance practices followed by your Company alongwith a certificate from the Auditors of the Company confirming the Compliance of Corporate Governance, have been given separately & form part of this Annual Report.

Management Discussion and Analysis

Management Discussion and Analysis Report covering issues relating to Industry structure, Opportunities, Challenges, Outlook and Performance, etc. has been given separately and form part of this Annual Report.

Director's Responsibility Statement

Pursuant to the requirement under Section 217(2AA) of the Companies (Amendment) Act, 2000, with respect to Director's Responsibility Statement, it is hereby confirmed that:

- (i) in the preparation of the accounts for the Financial Year ended 31st March, 2004, the applicable accounting standards have been followed;
- (ii) the Directors 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 profit or loss of the Company for the year under review;
- (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 and other irregularities;
- (iv) the Directors have prepared the accounts for the Financial Year ended 31st March, 2004 on a 'going concern' basis.

Human Resources

The industrial relations continued to be cordial throughout the year and human resource and its development continue to be our focus area. Due to intensive training, there has been an improvement in terms of quality, productivity and house keeping.

As required by Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, a statement on information relating to employees has been given by way of **Annexure-I** to this Report

Conservation of energy, technology absorption and foreign exchange earnings and outgo

Information pursuant to the provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, relating to conservation of energy, technology absorption & foreign exchange earnings and outgo are given by way of **Annexure-II** to this Report.

Directors

In terms of Article 89 of the Articles of Association and Sections 255 & 256 of the Companies Act, 1956, Shri Atul Aggarwal retires by rotation in the forthcoming Annual General Meeting and being eligible offers himself for re-appointment.

Auditors**a) Appointment**

M/s. S. R. Dinodia & Co., the Statutory Auditors of the Company, retire at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment. As recommended by the Audit Committee, your Directors propose that they may be reappointed as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company.

b) Report

The remarks of the Auditors in their Report and Notes attached to the Accounts for the financial year 2003-2004 are self-explanatory and therefore do not call for any further comments.

Acknowledgements

Your Directors wish to take this opportunity to thank the customers, vendors, suppliers, shareholders, bankers and all associates for their continued support to your Company's growth and also wish to place on record their appreciation for dedicated services rendered by employees at all levels who have contributed to a satisfactory performance of your Company.

for and on behalf of the Board

Date: 14th July, 2004

Place: Faridabad

M. L. Aggarwal

Chairman

Annexure - I to Directors' Report

Information as per Section 217(2A) of the Companies Act 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March 2004.

Name of the Employee	Designation and nature of duties	Remuneration (Rs.)	Qualification	Age in years	Experience in years	Date of commencement of employment	Last employment held and designation
Mr. M. L. Aggarwal	Chairman	28,05,712	B. Sc.	74	50	07.06.1979	NONE
Mr. Anil Aggarwal	Managing Director	24,24,770	B. Com.	46	25	07.06.1979	NONE
Mr. Atul Aggarwal	Whole Time Director	23,71,470	MBA	40	15	01.07.1989	NONE

Note:

1. Remuneration means gross remuneration calculated in accordance with provisions of Section 198 of the Companies Act, 1956
2. The nature of employment in all cases is contractual.
3. The above employees are directors in whole time employment with the Company and are related to each other.
4. There is no other employee employed during the year drawing remuneration more than Rs. 2,00,000 p.m.

Annexure - II to Directors' Report

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo pursuant to Section 217 (1) (e) of the Companies Act, 1956 and Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy

- | | | |
|------------------------------------------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------|
| 1) Measures taken | : | a) Addition of another two continuous heat treatment line to save at least 50 units KWH / MT viz-a-viz conventional hardening on SHF. |
| | | b) Introduced aqua heating line to semi-auto plating plant for improving heating efficiency thereby saving energy. |
| | | c) Consumption of LPG brought down further by using methanol in heat treatment process. |
| | | d) Power Factor has been consistently maintained at 0.92 or above for better effectiveness. |
| | | e) Fitted sensors in most of the machines to stop the ideal running of machine thereby saving energy. |
| 2) Additional investment proposals, if any, for reduction of consumption of energy | : | a) Installation of additional continuous heat treatment line to save electrical energy. |
| | | b) Phased replacement of old and low efficiency machines. |
| | | c) Synchronizing D G Sets. |
| 3) Impact of (1) & (2) | : | Optimum use of Fuel & Power. |
| 4) Total energy consumption and energy consumption per unit of production. | : | As given in Form A (enclosed) |

B. Technology Absorption

- | | | |
|--------------------------|---|----------------------------------------------------------------------------------------------------------|
| 1) Specific areas | : | Design & Engineering |
| | | a) Increased productivity to improve the service level to the customers. |
| | | b) Concentrated more on critical items including engine fasteners supplied to key / important customers. |
| | | c) Introduced defect detecting mechanism in our process to improve productivity. |
| | | d) Upgraded quality equipments to meet demand of the customers. |
| | | e) New breed of fasteners development for overseas customers. |
| 2) Benefits | : | a) Reduction in inventory level. |
| | | b) Improvement in customer's satisfaction. |
| 3) Future plan of action | : | a) Introducing a new coating process plant. |
| | | b) Addition of new plating process to cater to the increased demand. |
| 4) Expenditure on R&D | : | Expenditure on R&D though incurred yet has not been quantified as research and development expenses. |

Technology Absorption, Adaptation & Innovation

- | | | |
|-----------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) Efforts made | : | No technology ties up were entered into during the last five years. The Company keeps itself updated with latest technological innovations by way of constant communication, personal discussions and visits to foreign countries/plants. The Company has adopted TS16949 Management System. |
| 2) Benefits | : | The process flow management is very well defined by effective systems which has brought down rejection PPM phenomenally. |

C. Foreign Exchange Earnings and outgo

- 1) Efforts : Despite severe competition from China & Taiwan, the Company has made efforts on various fronts for promotion of exports like manufacturing products as per the international specifications, improvement in packaging and finishing. Specific markets like U. K., U.S.A., Germany, Australia, France, Belgium and Italy have been chosen for special thrust in future.
- 2) Earnings and Outgo : (1) Foreign Exchange earnings Rs. 2,84,75,112/-
(2) Foreign Exchange outgo Rs. 7,74,24,592/-

Form A**a) Power and Fuel consumption**

	Current Year	Previous Year
1. Electricity		
(a) Purchased		
Unit (KWH' 000)	8798	6267
Total amount (Rs in lacs)	373.04	265.32
Rate/unit (Rs)	4.24	4.23
(b) Own generation		
I. Through diesel generator		
Unit (KWH'000)	731	1195
Unit per ltr of diesel oil	3.37	3.34
Cost/unit (Rs)	6.12	5.99
II. Through steam turbine/generator	Nil	Nil
Units		
Units per ltr of fuel oil/gas		
Cost/units		
2. Coal (specify quantity and where used)	Nil	Nil
Quantity (tonnes)		
Total cost		
Average rate		
3. Furnace Oil	Nil	Nil
Quantity (K.ltrs)		
Total amount		
Average rate		
4. Other/internal generation	Nil	Nil
b) Consumption per unit of production		
(Per MT of High Tensile Fasteners)		
Electricity (in KWH)	917	889
Diesel (in Liter)	32.69	50.57
Coal (specify quality)	Nil	Nil
Others (specify)	Nil	Nil

Report on Corporate Governance

The Board of Directors accepts and acknowledges that the responsibility for governing the Company primarily rests with itself. In order to ensure proper discharge of responsibility, the Board is conscious of the need to maintain the highest standards of character and competence among its members severally and collectively. In pursuit of these objectives, the Board has adopted policies in compliance with the various recommendations prescribed by SEBI and the Listing Agreement.

Composition & Responsibilities of Board of Directors

The Board Comprise of three Whole Time Directors including the Executive Chairman and the Managing Director and three Non-Executive Directors, taking present strength to Six Directors. The Non-Executive Directors bring wide-ranging experience and independent judgement to the Board's deliberations and decisions. These Non-Executive Directors are Independent Directors. The Chairman is a well qualified and experienced professional.

Name of the Director	Designation	Category
Shri. M. L. Aggarwal	Chairman	Executive
Shri. Anil Aggarwal	Managing Director	Executive
Shri. Atul Aggarwal	Whole Time Director	Executive
Shri. D. K. Chakraborty	Director	Independent, Non-Executive
Dr. T. N. Kapoor	Director	Independent, Non-Executive
Shri. K. R. Gupta	Director	Independent, Non-Executive

The Board has a formal schedule of matters reserved for its consideration and decision including approval of Annual Business Plan, Capital Budget, Investments and Borrowings and Review of Operations & Financial Results, besides taking due and proper note of all the decisions of Board Committees. Board Members ensure that their other responsibilities do not materially impact on their responsibilities as a Director of the Company. During the Financial Year 2003-2004, the Board met 4 times-on 29th May 2003, 24th July 2003, 28th October 2003 and 28th January 2004.

Name of the Director	No. of Board Meeting attended	Whether attended last AGM	No. of Directorships held in other companies	No. of Chairmanship/ Membership in Board Committee of other companies	
				Chairman	member
Shri. M. L. Aggarwal	4	Yes	1	Nil	Nil
Shri Anil Aggarwal	4	Yes	2	Nil	Nil
Shri Atul Aggarwal	4	Yes	3	Nil	Nil
Shri D.K. Chakraborty	3	No	1	Nil	Nil
Dr. T. N. Kapoor	4	Yes	6	4	4
Shri K. R. Gupta	4	Yes	1	1	1

Board Committees

To enable better and more focused attention at its affairs, the Company, virtually since becoming Public Limited Company has had Board Committees for key functional areas. At present the Company has three Board Committee such as:

- (i) Audit Committee
- (ii) Shareholders' / Investors' Grievances Committee
- (iii) Share Transfer Committee

Audit Committee

At present, the Audit Committee comprises of following Directors as members having wide experience and knowledge of Corporate Affairs, Income Tax & Finance. All of them are Independent & Non-executive Directors.

- Shri. K. R. Gupta - Chairman
- Dr. T. N. Kapoor
- Shri D.K. Chakroborty

The role and terms of reference of the Audit Committee cover all areas mentioned in the Clause 49 of Listing Agreement with Stock Exchange and section 292A of the Companies Act. 1956 which, among others, include:

1. A periodic review of efficacy of the financial control systems and suggestions for improvement therein.
2. Review of operating results on a quarterly basis, prior to their submission for the consideration and adoption by the Board.
3. Advice to the Board on an appointment / removal of statutory auditors and fixing their remuneration.
4. Review with statutory auditors their audit findings and suggested measures to address any areas of concern cited by them.
5. Advice to the Board on the adequacy of Company's risk management measures and implementation of financial policies and procedures.

During the Financial Year 2003-2004, Audit committee has been reconstituted and Shri. Anil Aggarwal, Managing Director, who was a member of the Committee earlier, act as Permanent Special Invitee to the Committee w. e. f. 28th October, 2003.

Shri Suvendu Sahu, Company Secretary-Cum-Manager (Finance), is the Secretary to the Committee.

During the Financial Year 2003-2004, the Audit Committee met 3 times-on 29th May 2003, 28th October 2003 and 28th January, 2004.

Shareholders' / Investors' Grievances Committee

The Investors Grievances Committee comprises of following Directors as members:

- Dr. T. N. Kapoor - Chairman & Independent Director
- Shri K. R. Gupta - Independent Director
- Shri Atul Aggarwal - Whole Time Director

The Committee has the role to look into the grievances of all the Investors relating to transfer/ transmission of shares, Non-issue of duplicate share certificates, consolidation, splitting of shares, Non receipt of Annual Report/Declared Dividend, review status of investor grievances and the functioning of the Share Department to render efficient, effective and satisfactory services to investors.

Shri Suvendu Sahu, Company Secretary-Cum-Manager (Finance), is the Compliance Officer of the Company.

During the financial year 2003-2004 the Committee met on 28th January, 2004 to review the grievances / complaints received from Shareholders.

1.	Number of shareholder's complaints received during the financial year 2003-2004	3
2.	Number of shareholder's complaints solved to the satisfaction of shareholders.	3
3.	Number of pending shareholders' complaints	NIL

Share Transfer Committee

The Share Transfer Committee comprises of following Directors as members:

- Shri M. L. Aggarwal - Chairman
- Shri Anil Aggarwal - Managing Director
- Shri Atul Aggarwal - Whole Time Director

Shri Suvendu Sahu, Company Secretary-Cum-Manager (Finance) acts as secretary of the Committee.

The Committee meets at frequent intervals, to approve inter-alia, transfer/transmission of Shares, dematerialization of shares, issue of duplicate share certificate, Consolidation and Split of Share Certificate and any other powers / responsibilities entrusted by the Board. During the Financial Year 2003-2004 the committee met 17 (Seventeen) times.

Remuneration of Directors

Forming a Remuneration Committee by a listed company in terms of listing agreements is non-mandatory in nature. Further, since the Company has adequate profits for the purpose of payment of remuneration to all Executive Directors of the Company as per Section-I of Part-II of Schedule-XIII of the Companies Act, 1956 and only sitting fees are paid to all Non-executive Directors for attending the Board / Committee Meetings, Remuneration Committee has not been formed by the Board.

Remuneration of Executive Directors

The terms of remuneration of Shri M. L. Aggarwal, Shri Anil Aggarwal and Shri Atul Aggarwal have already been fixed by the Board of Directors and approved by the shareholders.

Sterling Tools Limited has no stock option plans and hence, such instruments do not form a part of the remuneration package payable to any executive and/or non-executive director. During the year under review, none of the directors was paid any performance-linked incentive.

During the year 2003-2004, the Company did not advance any loans to any of the executive and/or non-executive directors. Details of the remuneration paid to executive directors during the year 2003-2004 are given below:

(Figure in Rs.)

Name of the Director	Salary and other Allowances	Commission	Perquisites	Total
Shri. M. L. Aggarwal	16,12,800	9,75,000	2,17,912	28,05,712
Shri Anil Aggarwal	13,44,000	9,75,000	1,05,770	24,24,770
Shri Atul Aggarwal	12,76,800	9,75,000	1,19,670	23,71,470

Remuneration of Non-executive Directors

Non-executive directors are paid a sitting fee of Rs. 5000 for every meeting of the Board or Audit Committee and Rs. 2500 for every other Committee Meeting attended by them based on their attendance at the board and the committee meetings.

General Body Meetings

The details of Annual General Meetings held in the last three years are given below:

Financial	Date	Time	Venue	Details of Special Resolutions Passed
2002-2003	04.09.03	9:00 A.M.	ELCINA House, 422, Okhla Industrial Estate, New Delhi - 110 020	Voluntary delisting of Equity Shares from Delhi Stock Exchange
2001-2002	12.09.02	9:00 A.M.	- Do -	Nil
2000-2001	29.09.01	9:00 A.M.	- Do -	Nil

No special resolutions were required to be put through postal ballot last year

No special resolution requiring postal balloting as recommended under clause-49 of the Listing Agreement are placed for shareholders' approval at this meeting.

Material Disclosure and Compliance

All details relating to financial and commercial transactions where Directors may have potential interest are provided to the Board and the interested Directors neither participated in the discussion nor did they vote on such matters. None of the transactions of the Company of material value with directors or their relatives or with the Company in which directors are interested, had any potential conflict with the interests of Sterling Tools Limited.

There was neither any non-compliance by the Company on any matter relating to capital markets during the year nor did the Company attract any penalties or strictures by the Stock Exchanges, SEBI or any Statutory Bodies.

Means of Communication

- a) At present quarterly/half yearly reports are not being sent to each household of shareholders.
- b) The quarterly/half yearly results are being furnished to stock exchanges and also are being published in leading English and Hindi Newspapers and are displayed on the website of the Company - www.stlfasteners.com.

Shareholder Information

Annual General Meeting :

Date	:	Wednesday, 29th September, 2004
Time	:	9:00 A. M.
Venue	:	Shriram Hall, PHD Chamber of Commerce & Industry, PHD House, 4/2, Siri Institutional Area, August Kranti Marg, New Delhi - 110016.

Financial Calendar

Audited annual results for the year ending 31st March 2004	:	First half of June, 2004
Mailing of Annual reports	:	Second Half of August
Annual General Meeting	:	Second Half of September
Unaudited first quarter financial results	:	First Half of July
Unaudited second quarter financial results	:	Second Half of October
Unaudited third quarter financial results	:	Second Half of January

Dividend Announcement : The Board of Directors of Sterling Tools Limited has proposed a dividend of Rs. 4.00 per equity share (40 per cent) for the financial year ended 31st March 2004, subject to approval by the shareholders of the company at the ensuing Annual General Meeting. Dividend paid in the previous year was Rs. 3.50 per equity share (35 per cent).

Dates of Book Closure : The Register of Members and Share Transfer Books of the company will remain closed from Friday, 24th September, 2004 to Wednesday, 29th September, 2004 both days inclusive, for the purpose of annual general meeting and payment of dividend, if declared.

Date of Dividend Payment : The payment of dividend, upon declaration by the shareholders at the forthcoming annual general meeting, will be made on or after 30th September, 2004 as under:

- a) To all those beneficial owners holding shares in electronic form, as per the beneficial ownership data made available to the company by National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) as on the end-of-the-day on 23rd September, 2004 and
- b) To all those shareholders holding shares in physical form, after giving effect to all the valid share transfers lodged with the company on or before the closing hours on 23rd September, 2004.