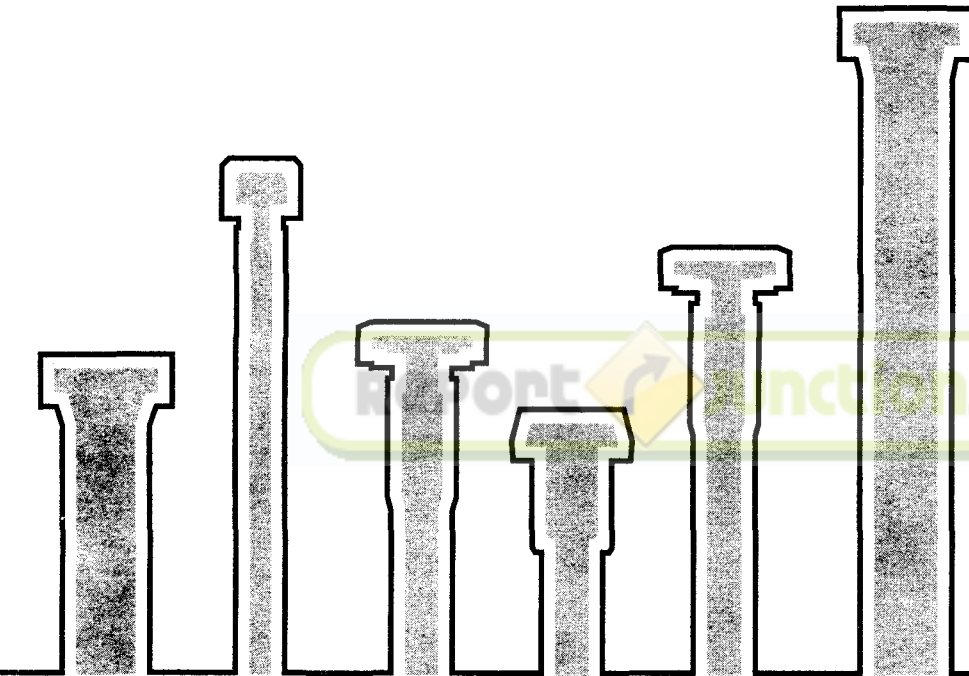
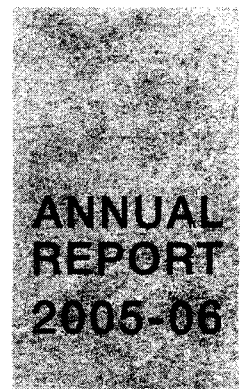
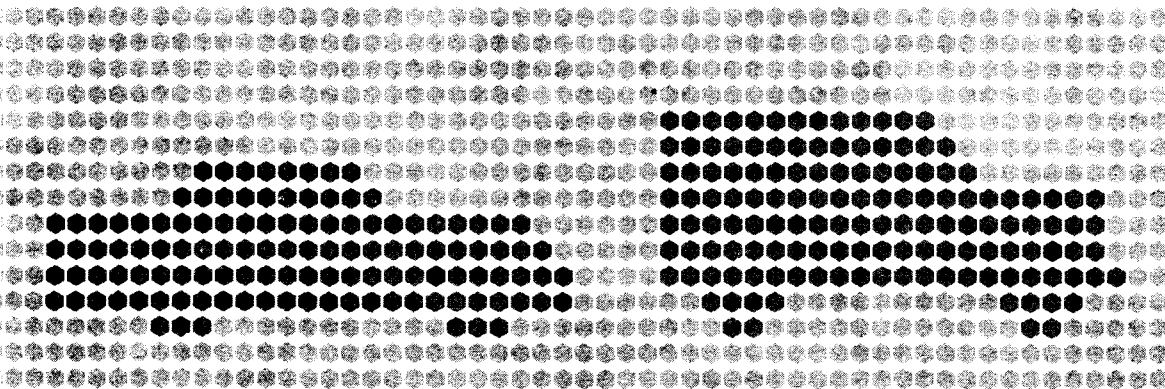


STERLING TOOLS LIMITED



superior fasteners. greater value



Registered Office

F-37, Okhla Industrial Area, Phase-I
New Delhi - 110 020
Tel. : 41615428, 41616055, 41616056
Fax : 2681 0091

Board of Directors

Shri M.L. Aggarwal
Chairman

Shri Anil Aggarwal
Managing Director

Shri Atul Aggarwal
Director

Dr. T.N. Kapoor
Director

Shri K.R. Gupta
Director

Shri C.R. Sharma
Director

Compliance Officer

Shri Suwendu Sahu
Company Secretary
Cum Manager (Finance)

Banker

Oriental Bank of Commerce

Auditors

S.R. Dinodia & Co.
Chartered Accountants
K-39, Connaught Place
New Delhi - 110 001

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Report of the Directors

Your Directors have pleasure in presenting the Twenty-Seventh Annual Report of your Company together with the Audited Accounts for the Financial Year ended 31st March 2006.

Business Review

During the fiscal 2005-2006, Sales at Rs.13481.59 Lacs increased by 7.13% as compared to Sales at Rs. 12583.92 Lacs in the previous financial year.

In spite of increase in Sales, there has been a decrease in the Profit before Tax from Rs. 1113.66 Lacs in previous financial year to Rs. 859.55 Lacs (down by 22.82%) and Profit after Tax from Rs. 748.15 Lacs in the previous financial year to Rs. 552.66 Lacs (down by 26.13%).

The decrease in profit is due to increase in cost of input materials and keen competition in the industry. Your Directors are hopeful of improving profitability during the current year by growth in Company's Sales Turn over and by cutting cost. The Company's performance for the Financial Year 2005-2006 vis-à-vis 2004-2005 is summarised as under:

(Rs. in Lacs)

Particulars	Financial Year	
	2005-2006	2004-2005
Gross Sales Turnover	13481.59	12583.92
Profit before Interest, Depreciation and Tax	1436.34	1577.96
Interest	216.15	154.81
Depreciation	360.64	309.49
Profit before Tax (PBT)	859.55	1113.66
Provision for Tax	306.89	365.51
Profit after Tax (PAT)	552.66	748.15

Issue of Bonus Shares

The Company has allotted bonus shares in the ratio of 1 (one) Equity Share for every 1 (one) existing Equity Share of the Company held by the members on 22nd November, 2005 by capitalising part of the Share Premium Account to the extent of Rs. 342.23 Lacs.

Dividend and Appropriations

Keeping in view Sterling's tradition of high regard for its shareholders, your Directors have recommended 30% Dividend on the enhanced capital, after allotment of bonus issue in the ratio of 1:1, for the financial year 2005-2006 as against a dividend of 50% for the financial year 2004-2005.

With the proposed dividend of Rs. 205.34 Lacs and distribution tax @14.025% on dividend absorbing Rs. 28.80 Lacs, a sum of Rs. 100.00 Lacs has been transferred to General Reserve.

Finance

Your Company has enjoyed sound financial health throughout the financial year 2005-06. 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 satisfaction that fiscal 2006-2007 has begun with a promising note. During April-June quarter of the current Financial Year gross sales reached at Rs 3498.41 Lacs as against Rs. 3188.51 Lacs during the corresponding quarter of the previous year, registering a growth of 9.72%.

Your Directors are hopeful that this trend of growth in Sales Turnover to continue through-out the year, due to enhancement of installed capacity through expansion program at Prithla Plant, 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.

Listing of Shares with National Stock Exchange

Keeping in view enhancing the brand equity of the Company in the Capital Market, your Company's Equity Shares are listed with National Stock Exchange of India Limited and admitted to dealing on the Exchange with effect from 2nd February, 2006.

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, 2006, 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, 2006 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 K. R. Gupta and Dr. T. N. Kapoor retire by rotation in the forthcoming Annual General Meeting and being eligible offer themselves for re-appointment.

Shri D. K. Chakraborty has resigned from the Board of Directors with effect from 28th June, 2006.

Shri C. R. Sharma was appointed as Additional Director of the Company on 28th June, 2006 and hold office upto the date of the forthcoming Annual General Meeting. Your approval is sought for his 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 2005-2006 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

Place : Faridabad

Date : 29th July, 2006

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 2006.

Name of the Employee	Designation and nature of duties	Remuneration (Rs)	Qualifications	Age in years	Experience in years	Date of commencement of employment	Last employment held and designation
1. Mr. M. L. Aggarwal	Chairman	34,29,008.00	B. Sc.	76	52	07.06.1979	None
2. Mr. Anil Aggarwal	Managing Director	31,63,998.00	B. Com.	48	24	07.06.1979	None
3. Mr. Atul Aggarwal	Whole Time Director	28,61,046.00	MBA	42	17	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 of 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) Introduced indo-gas instead of methanol in furnace to save the conservation of energy.
 - b) Synchronized D G Sets.
 - c) Installed additional fume exhaust blower system run by wind energy.
 - d) Power Factor has been consistently maintained at 0.95 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 and proposals :
 - a) Installation of additional continuous heat treatment line to save electrical energy.
 - b) Initiation of steps to save energy by adoption of energy saving practices.
- 3) Impact of (1) & (2) : Optimum use of Fuel & Power besides improving operational efficiency.
- 4) Total energy consumption and energy consumption per unit of production. : As given in Form A (enclosed)

B. Technology Absorption*(I) Design & Engineering*

- | | | |
|--------------------------|---|---|
| 1) Specific areas | : | <ul style="list-style-type: none"> a) Implementing & commissioning of state-of-art plant through expansion plan. b) New breed of Fasteners development for Overseas Customers. c) Concentrated more on critical items including engine fasteners supplied to key / important customers. d) Process improvement to increase productivity & quality. e) Upgraded quality equipments to support customer demand and their application requirements. f) Elevation of Company's lab to achieve NABL certification. |
| 2) Benefits | : | <ul style="list-style-type: none"> a) Reduction in inventory level. b) Ontime delivery to customers. c) Improvement in customer's satisfaction. |
| 3) Future plan of action | : | <ul style="list-style-type: none"> a) Introduction of new coating processes. b) Installation of additional continuous heat treatment line to save electrical energy. c) Implementation of simulation software for our tool designing. |
| 4) Expenditure on R&D | : | Expenditure on R&D though incurred yet has not been quantified as research and development expenses |

(II) Technology Absorption, Adaptation & Innovation

- | | | |
|-----------------|---|---|
| 1) Efforts made | : | No technology tie-ups were entered into during the last five years. The Company keeps itself updated with latest technological innovations by way of constant research & development, 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 processes/systems which has brought down rejections level. |

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. 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 | : | <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">(1) Foreign Exchange earnings</td> <td style="text-align: right;">Rs. 3,78,42,815.00</td> </tr> <tr> <td>(2) Foreign Exchange outgo</td> <td style="text-align: right;">Rs. 17,14,43,862.00</td> </tr> </table> | (1) Foreign Exchange earnings | Rs. 3,78,42,815.00 | (2) Foreign Exchange outgo | Rs. 17,14,43,862.00 |
| (1) Foreign Exchange earnings | Rs. 3,78,42,815.00 | | | | | |
| (2) Foreign Exchange outgo | Rs. 17,14,43,862.00 | | | | | |

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

	Current Year	Previous Year
1. Electricity		
(a) Purchased		
Unit (KWH' 000)	8741	10108
Total amount (Rs in lacs)	370.62	428.55
Rate/unit (Rs)	4.24	4.24
(b) Own generation		
I. Through diesel generator		
Unit (KWH'000)	3713	1955
Unit per ltr of diesel oil	3.52	3.31
Cost/unit (Rs)	8.18	6.51
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)	713	892
Diesel (in Liter)	86.02	52.15
Coal (specify quality)	Nil	Nil
Others (specify)	Nil	Nil

Report on Corporate Governance

Mandatory Requirements

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.

1. Board of Directors

1.1 Composition

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
Shri. C. R. Sharma**	Director	Independent, Non-Executive

* Resigned from the Board of Directors w.e.f. 28th June, 2006.

** Appointed with effect from 28th June, 2006.

1.2 Responsibilities

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 Sub 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 2005-2006, the Board met 6 times-on 19th May 2005, 25th July 2005, 27th August 2005, 25th October 2005, 22nd November 2005 and 30th January 2006.

1.3 Attendance of each Director at the Board Meetings and last AGM and the number of companies and committees where he is a Director/Member

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	6	Yes	1	Nil	Nil
Shri Anil Aggarwal	6	Yes	2	Nil	Nil
Shri Atul Aggarwal	6	Yes	3	Nil	Nil
Shri D.K. Chakraborty	5	No	Nil	Nil	Nil
Dr. T. N. Kapoor	6	Yes	6	4	4
Shri K. R. Gupta	6	Yes	1	1	1

In terms of the Company's Corporate Governance Policy, all statutory, significant and material information are placed before the Board to enable it to discharge its responsibilities of strategic supervision of the Company as trustees of the Shareholders.

1.4 Code of Conduct

The Board of Directors has laid down a code of conduct for all Board members and senior management of the Company. All Board members and senior management personnel have affirmed compliance with the code of conduct. A declaration signed by the Managing Director to this effect is enclosed at the end of this report.

2. Board Committees

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

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

2.1 Audit Committee

During the financial year 2005-06, the Audit Committee comprises of following Directors as members having wide experience and knowledge of Corporate Affairs, Income Tax & Finance.

- Shri. K. R. Gupta - Chairman & Non Executive Independent Director
- Dr. T. N. Kapoor - Non Executive Independent Director
- Shri D.K. Chakraborty - Non Executive Independent Director
- Shri Anil Aggarwal - Managing Director

The role and terms of reference of the Audit Committee cover 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.