



BOARD OF DIRECTORS

M. R. MOMAYA

Wholetime Director

S. M. VIG

S. N. GOUR

Y. C. PAPAIYA

M. PARMESWARAN

Nominee Director - Unit Trust of India

AUDITORSNATVARLAL VEPARI & CO.,
Chartered Accountants**BANKERS**

DENA BANK

COST AUDITORSP.M. NANABHOY & CO.
Mumbai.**REGISTERED OFFICE**Garden Mills' Complex,
Sahara Gate,
Surat 395010.**PLANTS**

- i. Varachha Road, Surat 395 006. Tel.No. (0261) 2551192
- ii. Vareli Complex, Village Vareli, Taluka Palsana, Dist. Surat 394 327
Tel.No. (02622) 271241-47
- iii. Village Jolva, Taluka Palsana, Dist. Surat 394 305
Tel.No.(02622) 271287-89,
- iv. Survey No.285, Village Khadoli, Silvassa-Khanvel Road, SILVASSA (DNH)
Tel. No.(0260) 2699009

**REGISTRARS &
SHARE TRANSFER AGENTS**MCS LIMITED,
Neelam Apartment,
88, Sampatrao Colony,
Behind Federation Bldg., Alkapuri,
Baroda 390 005.
Phone: (0265) 2339397, 2314757
Fax: (0265) 2341639.
e-mail: mcsbaroda@iqara.net**FIFTY-SEVENTH ANNUAL GENERAL MEETING**On Thursday, September 25, 2003 At 10.30 A.M.
At Garden Mills Complex, Sahara Gate, SURAT 395 010

["Surat Textile Mills Limited" formerly known as "Garden Cottons & Yarns Limited"]

NOTICE

NOTICE is hereby given that the Fifty-seventh Annual General Meeting of the Members of SURAT TEXTILE MILLS LIMITED will be held at the Registered office of the Company at Garden Mills' Complex, Sahara Gate, Surat 395 010 on Thursday, September 25, 2003, at 10.30 a.m. to transact the following business:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2003 and the Profit and Loss Account for the year ended on that date together with the reports of the Board of Directors and Auditors' thereon.
2. To appoint a Director in place of Mr. M. R. Momaya, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Y. C. Papaiya, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting and, to fix their remuneration, and for the purpose, to pass the following Resolution, which will be proposed as a **Special Resolution**:

"RESOLVED THAT pursuant to the provisions of Sections 224, 224A and other applicable provisions, if any, of the Companies Act, 1956, Messrs Natvarlal Vepari & Company, Chartered Accountants, the retiring Auditors, be and are hereby re-appointed Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting on such remuneration as may be mutually agreed upon between the Board of Directors and the auditors."

NOTES:

- (1) **A Member entitled to attend and vote is entitled to appoint proxy to attend and vote 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 forty eight hours before the commencement of the meeting.**
- (2) The Register of Members and Share Transfer Books of the Company will remain closed from Thursday, 18th September, 2003 to Thursday, 25th September, 2003 (both days inclusive).
- (3) Members are requested to notify immediately any change of address
 - to their Depository Participants in respect of their electronic share accounts, and
 - to the Company at its Share Department or to the Company's Registrar & Transfer Agent, MCS Limited, where shares are held in physical form.

- (4) The unclaimed dividend in respect of the year 1994-95 has been transferred to the General Revenue Account of the Central Government on 20th November, 1998. Shareholders, who have not encashed the Dividend Warrants for the said year, are requested to claim the amount from the Registrar of Companies - Gujarat, Opp. Rupal Park Flats, Near Ankur Bus Stand, Naranpura, Ahmedabad 380 013.
- (5) Pursuant to Section 205A to 205C of the Companies Act, 1956, read with Investor Education & Protection Fund (awareness and protection of the investors) Rules, 2001, any money transferred by the Company to the unpaid dividend account and remaining unclaimed for a period of seven years from the date of such transfer is required to be transferred by the Company to a fund called "Investor Education & Protection Fund" (the Fund) set up by the Central Government. Accordingly, the unpaid / unclaimed dividend for the year 1995-96 shall become transferable to the said Fund on 17th December, 2003.

Members are requested to note that no claim shall lie against the said Fund or the Company in respect of any amount which was unclaimed and unpaid for a period of seven years from the date that it first became due for payment and no payment shall be made in respect of any such claim, thereafter.

Shareholders are, therefore, requested to verify their records and send claims, if any, for the year 1995-96 before the said amount become due for transfer to the Fund.

- (6) Members, who hold shares in dematerialised form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
- (7) Queries on the Annual Report and Operations of the Company, if any, may please be sent to the Company seven days prior to the date of the Meeting so that the answers may be made available at the meeting.
- (8) Members, holding shares in multiple folios and in identical name(s) or joint accounts in the same order, are requested to send the details of their shareholding along with the share certificates so as to enable us to consolidate their shareholding into one folio.
- (9) The Shareholders may kindly note that as mandated by the Securities & Exchange Board of India (SEBI), the Equity Shares of the Company are traded in compulsory dematerialised form by all the investors since 17th January, 2000.
- (10) **Re-appointment of Directors:**
Mr. M. R. Momaya and Mr. Y. C. Papaiya retire by rotation, and being eligible offers themselves for re-appointment.

NOTICE (Contd.)

The information relating to the Directors proposed to be appointed/reappointed, as required by Clause 49(VIA) of the Listing Agreement with the Stock Exchange, is as under:

Mr. M. R. Momaya is a qualified engineer having wide experience in the textile industry. He was associated with one of the most reputed textile companies of Surat for about 30 years and has been rendering his services as Consultant Engineer.

Mr. Y. C. Papaiya is a Fellow Member of the Institute of Chartered Accountants of India and a practicing Chartered Accountant having an experience of about

20 years in the field of Finance and Accounting. Mr. Y. C. Papaiya is also the Chairman of Audit Committee and the shareholders' / Investors' Grievance Committee of Directors and a member of Remuneration Committee. He has extensive experience in industry, trade and finance.

By Order of the Board of Directors

Surat, July 30, 2003

M. R. MOMAYA
Wholetime Director

ANNEXURE TO THE NOTICE**EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956.****Item No. 4**

Section 224A of the Companies Act, 1956, provides, *inter alia* that in the case of a Company in which not less than 25% of the subscribed share capital is held, either singly or in combination by public financial institutions or any Government or nationalised banks or any other financial institutions referred to therein, the appointment or re-appointment of Auditors shall be made by a special resolution.

Since, the combined shareholding of IDBI and UTI in the Company exceeds 25% of the subscribed share capital of the Company, the re-appointment of Messrs Natvarlal Vepari & Co., Chartered Accountants, as Auditors of the Company is proposed by a special resolution.

As required under Section 224 of the Companies Act, 1956, a certificate has been obtained from them to the effect that

their appointment, if made, will be in accordance with the limits specified in Section 224(1B) of the Companies Act, 1956. The Shareholders' approval is also being sought to authorise the Board of Directors to determine the remuneration payable to the Auditors in consultation with them.

The Board recommends their re-appointment.

None of the Director of the Company is concerned or interested in the resolution.

By Order of the Board of Directors

Surat, July 30, 2003

M. R. MOMAYA
Wholetime Director

DIRECTORS' REPORT

To the Members of

SURAT TEXTILE MILLS LIMITED

The Directors present their Fifty-seventh Annual Report and the Audited Statement of Accounts for the year ended 31st March, 2003.

FINANCIAL RESULTS

	(Rs. in Lacs)	
	2002-03	2001-02
Total Income from operations	18716.89	16451.95
Profit / (Loss) before interest, depreciation and tax	(24.22)	(13.85)
Financial Charges (Net)	76.21	116.79
Profit / (Loss) before Depreciation	(100.43)	(130.64)
Depreciation	868.55	922.88
Profit / (Loss) for the year	(968.98)	(1053.52)
Prior period Adjustments	0.00	14.57
Profit / (Loss) Brought Forward	(4796.49)	(3757.54)
Balance carried to Balance Sheet	(5765.47)	(4796.49)

DIVIDEND

Your Directors regret their inability to propose any dividend in view of the accumulated losses of the Company.

OPERATING PERFORMANCE

The Company's Net Sales for the year ended March 31, 2003, increased to Rs.178.59 Crore, compared to Rs.163.40 Crore, in the previous year, registering a growth of about 9.29%. Conversion and processing by third parties augmented volume of products available for sale.

During the year under review, fluctuation in raw material prices coupled with competitive pressures continued to hamper the profitability of the Company.

Increase in the cost of major inputs, consequent to the rise in international Crude Oil prices, affected the performance of the Company, as the increase could not be entirely passed on to the customers. Further, the dispatches were affected during March 2003, on account of the agitation in textile industry after the proposed introduction of CENVAT in the recent budget.

The interest burden reduced during the year due to lower utilization of working capital limits as the activities of Cotton Spinning Division at Varachha remained suspended throughout the year.

PROVISIONS OF SICK INDUSTRIAL COMPANIES (SPECIAL PROVISIONS) ACT, 1985

In view of the accumulated loss of the Company, having exceeded its net worth as on 31st March, 2002, the Company became a sick industrial company in terms of the provisions of Sick Industrial Companies (Special Provisions) Act, 1985. The reference made by the Company U/s.15(1) of the said Act has been registered by the Board for Industrial and Financial Reconstruction (BIFR).

MANAGEMENT DISCUSSION & ANALYSIS:

Industry Scenario

The demand of Polyester Filament Yarn (PFY) during the year was subdued. High raw material prices, the textile strike, the adverse monsoons, the slow pace of growth in the overall Indian Manufacturing Sector and low market sentiments were contributing factors.

Outlook

After undergoing a slowdown in the last five years, the prospects of the industry have started improving of late. Your Company is pursuing cost control measures, increased productivity, improving efficiencies in manufacturing areas and a thrust in sales and better price realisation. The recent budget proposals have also aimed at ensuring better compliance of the regulatory regime, elimination of duty evasion, encouraging modernisation and introduction of a moderate duty structure. However, the performance in the coming months, would be largely dependent on the overall industry scenario.

Opportunities, Threats & Challenges

The per capita consumption of Polyester in India is still way behind the world average. This provides an opportunity for future growth in the Indian Polyester Industry. The Company perceives threat from imports and consequent pressure on domestic prices, apart from the increase in prices of raw materials and other inputs due to any spurt in crude oil prices. The continuing industrial and economic sluggishness does not indicate an immediate upswing in the performance of Polyester Industry but the future market potential, opportunities, development of new applications and rationalization of excise duty should improve the growth for the Indian Polyester Industry in the long run.

An important challenge for the Company is to remain competitive in light of energy efficient technological advancements in the industry as well as the lack of continuous captive power plants. Both require substantial investments, which the Company in its present financial condition would find difficult to undertake. The Company is attempting to improve its product-mix to mitigate this difficulty.

Your Company is working on strategies to effectively utilise its strength from skilled manpower and improved technologies to counter known threats in the market. The Company also hopes to counter this effect by improved product mix, higher value added products etc.

Internal Control Systems:

The Company has adequate internal control system to ensure operational efficiency, protection and conservation of resources, accuracy and promptness in financial reporting and compliance of laws and regulations. Standard operating procedures and guidelines are issued from time to time to support best practices for internal control. Your Company remains committed to maintain internal control systems and procedures designed to provide reasonable assurance for orderly and efficient conduct of business and security of its assets.

DIRECTORS' REPORT (Contd.)**Cautionary Statement**

Statements in this report on Management Discussion and Analysis describing the Company's objectives, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws or regulations. These statements are based on certain assumptions and expectations of future events. Actual results may 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, finished goods prices, raw material cost and availability, changes in government regulations, tax regimes, economic development within India and other factors such as litigation and industrial relations. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.

DIRECTORS

Mr. M. R. Momaya and Mr. Y. C. Papaiya, Directors, retire from the Board by rotation and being eligible, offer themselves for re-appointment.

FIXED DEPOSITS

Your Company has not accepted any deposit within the meaning of Section 58A of the Companies Act, 1956 and the rules made thereunder.

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

As required under 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, the particulars in respect of conservation of energy, technology absorption and foreign exchange earning and outgo are set out in Annexure 'A' to the Directors' Report.

PARTICULARS OF EMPLOYEES

There was no employee whose remuneration exceeded the limits prescribed under Section 217(2A) of the Companies Act, 1956. Hence, the information required to be given under the said section, read with Companies (Particulars of Employees) Rules, 1975 is not attached to this report.

AUDITORS & THEIR OBSERVATION

The retiring Auditors, Messrs Natvarlal Vepari & Co., Chartered Accountants, are eligible for re-appointment. The Company has obtained from auditors, a certificate as required under Section 224 (1 B) of the Companies Act, 1956 to the effect that their re-appointment, if made, will be in accordance with the limits specified in the said section.

With reference to Auditors' observation in Para (e)(i) of their report, in the opinion of the Company, the quoted investments are held as long term Investments and the diminution in the value of such investments due to decline in their present market value are considered temporary in nature.

The other observations of the Auditors read with relevant notes to the accounts and paras in italics in the Auditors' Report are self explanatory in nature and, therefore, do not call for any further explanations under Section 217(3) of the Companies Act, 1956.

COST AUDITORS

In pursuance of Section 233 B of the Companies Act, 1956, the Company appointed Messrs P. M. Nanabhoy & Co. as Cost Auditors for the year 2002-2003. The Government of India, Ministry of Law, Justice and Company Affairs, Department of Company Affairs, New Delhi, have approved their appointment vide their letter dated 27th June, 2002.

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance of Section 217(2AA) of the Companies Act, 1956, your Directors hereby state:

- (1) That in the preparation of the annual accounts, the applicable accounting standards as specified by the Institute of Chartered Accountants of India have been followed alongwith proper explanation given in the notes to accounts, relating to material departures;
- (2) That the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2003, and of the loss of the Company for the year ended on that date;
- (3) That the Directors 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; and
- (4) That the Directors have prepared the annual accounts of the Company on a 'going concern' basis.

CORPORATE GOVERNANCE

Your Company complies with all the requirements pertaining to Corporate Governance, in terms of Clause 49 of the Listing Agreement with the Stock Exchanges. A detailed report on Corporate Governance has been included in this report alongwith a certificate from the auditors of the company regarding compliance of conditions of Corporate Governance.

ACKNOWLEDGEMENTS

Your Directors wish to place on record their appreciation of the support and cooperation received from the financial institutions, banks, suppliers, customers and the Government authorities. Your Directors also comment the unstinting efforts put in by employees at all levels.

For and on behalf of the Board

M. R. Momaya
Wholtime Director

Surat, July 30, 2003.

ANNEXURE "A" TO THE DIRECTORS' REPORT

Information as per Section 217(1)(e) read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

I. CONSERVATION OF ENERGY:

a. Measures taken for conservation of energy:

- Energy conservation is an ongoing process in our organisation. Continuous monitoring, planning, development and modifications for energy conservation are done at the plant.

The Energy Audit is also being carried out by external agencies.

- b. Impact of above measures for reduction of energy consumption and consequent impact on the cost of production:
 - Reduction of fuel / electricity consumption.
- c. Total energy consumption and energy consumption per unit of production as per Form "A" as per annexure to the Rules.

FORM "A"

Form for Disclosure of Particulars with respect to Conservation of Energy.

	2002-03	2001-02
A. Power and Fuel Consumption		
1. Electricity		
a. Purchased Unit in lacs	160.30	207.98
Total amount Rs. in Lacs.	870.52	1122.98
Rate / Unit Rs.	5.43	5.40
b. Own Generation		
i. Through Diesel Generator		
Units in lacs	NIL	13.29
Units per Ltr. of Diesel Oil	NIL	2.45
Unit per SCM of Gas Consumption	NIL	3.05
Cost/Unit Rs.	NIL	4.90
ii. Through Steam turbine/Generator		
Units	NIL	NIL
Units per Ltr. of fuel oil / gas	NIL	NIL
Cost/Unit Rs.	NIL	NIL
2. Coal/Lignite for Generation of Steam		
Quantity (M.T.)	NIL	NIL
Total Cost Rs.in lacs	NIL	NIL
Average rate Rs./M.T.	NIL	NIL
3. Furnace Oil		
Quantity (K.Lts.)	4837	4984
Total Amount Rs. in Lacs.	452.67	410.14
Average rate Rs./ Lts.	9.36	8.23
4. Others/Internal generation		
Quantity	NIL	NIL
Total Cost	NIL	NIL
Rate / Unit Rs.	NIL	NIL
B. Consumption per Unit of Production		
Product Details	SPUN YARN	SPUN YARN
Unit	Kg.	Kg.
Electricity (Unit) *	5.26	5.44
Product Details	PFY	PFY
Unit	Kg.	Kg.
Electricity (Unit) *	0.81	0.92
Product Details	CHIPS	CHIPS
Unit	Kg.	Kg.
Electricity (Unit) *	0.13	0.15
Furnace Oil	NIL	NIL
Coal / Lignite (Kg.)	NIL	NIL
Others	NIL	NIL

* The variation in consumption of Electricity per unit of production is due to changes in product mix.

ANNEXURE "A" TO THE DIRECTORS' REPORT (Contd.)**II. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION****Research and Development**

1. Specific areas in which R & D carried out by the Company:

The Company has no specific Research & Development Department however, the Company has quality control department to check the quality of different products manufactured.

2. Benefits derived as a result of the above efforts:

The Company has been continuously improving the quality of its existing products and also been able to reduce the cost of production.

3. Future Plan of Action

Management is committed to strengthen quality control department further to improve its competitiveness in times to come.

4. Expenditure on R & D:

- The Company, from time to time incurs capital expenditure, exposes itself to better technology and keeps itself abreast of technological improvements.

Technology Absorption, Adaptation And Innovation

1. Efforts in brief, made towards absorption, adaptation and innovation:

- Modifications of process and products are carried out from time to time to suit market requirements and to improve operational efficiency.

2. Benefits derived as a result of the above efforts:

- Better quality of yarn will be produced at low costs.

3. Particulars of Technology Imported:

- The technology used by the Company is indigenously developed and no technology has been imported.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO

Details relating to foreign exchange earnings and outgo are given in Note No.15 of Schedule 13 annexed to the accounts.

By Order of the Board of Directors

Surat, July 30, 2003

M. R. MOMAYA
Wholtime Director

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CORPORATE GOVERNANCE REPORT

I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

The Company strongly believes in fair, efficient and transparent business operations, fairness to all stakeholders in the company, proper disclosure of relevant financial and non-financial information and enhancing shareholder value on a continuing basis.

II. BOARD OF DIRECTORS:

(a) Composition and Category of Directors:

Name of the Director	Category	No. of Other Directorship held	No. of other Board / Committee/s of which he is a member	No. of other Board / Committee/s of which he is a Chairperson
Mr. M.R. Momaya	Executive Director	None	None	None
Mr. S.M. Vig	Non-executive, Independent	None	None	None
Mr. S.N. Gour	Non-executive, Independent	None	None	None
Mr. Y.C. Papaiya	Non-executive, Independent	None	None	None
Mr. M.Parneswaran	Non-executive, Independent	1	None	None

(b) Number of Board meetings held during 2002-03:

The Board meets at least once in a quarter to consider amongst other business the performance of the Company and financial results.

Six Board Meetings were held during the year. The dates on which the meetings were held are as follows:

28th June, 2002, 5th July, 2002, 31st July, 2002, 27th September, 2002, 31st October, 2002 and 30th January, 2003.

(c) Attendance of each Director at the Board Meetings and at the last AGM:

Name of Director	No. of Meetings attended during 2002-2003	Whether present at the last AGM held on 26.09.2002
Mr. M.R. Momaya	6	Yes
Mr. S.M. Vig	4	Yes
Mr. S.N. Gour	5	Yes
Mr. Y.C. Papaiya	5	Yes
Mr. M. Parneswaran	4	No

III. AUDIT COMMITTEE

The Board of Directors has constituted an Audit Committee of Directors to exercise powers and discharge functions as stipulated in Section 292A of the Companies Act, 1956, Clause 49 of the Listing Agreement with Stock Exchanges and other relevant statutory/regulatory provisions. The Audit Committee of Directors consists of four Non-executive Directors viz.; Mr. Y. C. Papaiya as Chairman of the Committee and Mr. S. M. Vig, Mr. S. N. Gour and Mr. M. Parneswaran as members.

Besides the Committee Members, representative from various divisions of the Company, internal auditors and Secretary who is acting as Secretary to the Audit Committee were also present at the meetings to answer the queries raised by the committee members.

The Audit Committee met three times during 2002-03 on 27-06-2002, 30-10-2002 and 20-03-2003. Mr. Y. C. Papaiya, Mr. S. M. Vig and Mr. S. N. Gour were present for each of the three meetings.

IV. REMUNERATION COMMITTEE

The remuneration committee consists of three Non-executive Directors viz; Mr. Y. C. Papaiya, Mr. S. M. Vig and Mr. S. N. Gour as members. The terms of reference of the Remuneration Committee in brief pertain to determining the Company's policy on and approve specific remuneration packages for executive directors after taking into account the financial