

REPORT JUNCTION.COM

fabric
behind the brand

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using

words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or

unknown risks or uncertainties materialize or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



Dr.K.K.Birla, Chairman

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the next time you are impressed with fabric length at Raymonds, Grasim, Donear, Siyaram's or Arvind, hold your breath.

It may have been made with yarn from Sutlej.



the next time you admire a pair of trousers in a Marks & Spencer or a J.C. Penney store or Pantaloons, I.T.C Wills, Raymonds, Louis Philippe and Arrow showrooms, look carefully.

It may have been crafted with fabric from Sutilej in India.

about us

Who we are

- The flagship textiles company of the industrially prominent K.K. Birla Group in India.
- Integrated textiles company: a presence in yarn, fabric, processed fabric, garment (trousers) and home textiles furnishing.
- One of the leading exporters of man-made fibre blended yarn from India; exports to 60 countries.

The fabric behind prominent brands

Raymonds, Harry's Collection, Digjam, Marks & Spencer, Next, B.H.S., ASDA, J.C. Penney, Woolworth, Carrefour, Grasim, Donear, Siyaram's and Arvind.

Where we are located

Rajasthan Textile Mills:

Bhawanimandi, Rajasthan

Chenab Textile Mills:

Kathua, Jammu & Kashmir

Damanganga Fabrics:

Bhilad, Gujarat

Damanganga Garments:

Bhilad, Gujarat

Damanganga Home Textiles:

Bhilad, Gujarat

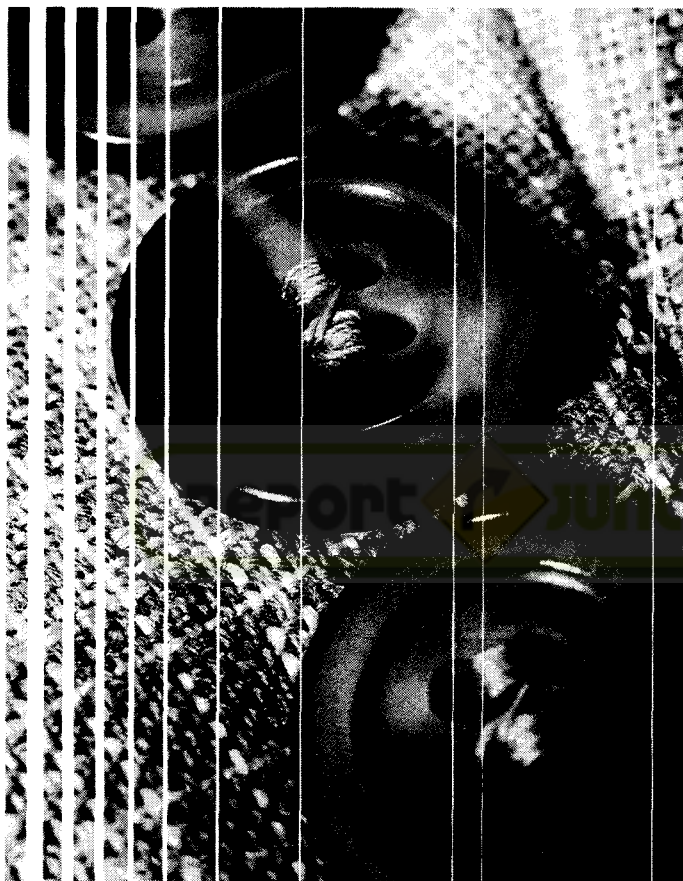
Our international presence

Australia, Argentina, Belgium, Brazil, Cyprus, Canada, Chile, Columbia, Egypt, England, Ecuador, France, Finland, Germany, Ghana, Greece, Holland, Italy, Iran, Israel, Ireland, Japan, Jordan, Kenya, Korea, Lebanon, Mauritius, Philippines, Nepal, New Zealand, Russia, Spain, Singapore, Syria, Sri Lanka, Bangladesh, Switzerland, South Africa, Slovenia, Sweden, Tunisia, Turkey, USA, UAE, Uruguay, Yugoslavia and Yemen.

What we achieved

in 2005-06 (for the period 22.6.2005 to 31.3.2006)

- Total revenue of Rs. 470.41 crores.
- Net profit of Rs. 20.67 crores.
- Initiation of new businesses: Damanganga Garments and Damanganga Home Textiles.



directors' report

Dear Shareholders,

Your Directors are pleased to inform you that the Schemes of Arrangement for demerger of the textiles divisions of Sutlej Industries Limited and Damanganga Processors Ltd. into your Company were sanctioned by the Hon'ble High Court of Rajasthan at Jaipur on 12 th May, 2006 and became effective on 29th May, 2006. Accordingly, all the assets and liabilities of the textiles divisions comprising of Rajasthan Textile Mills (RTM), Chenab Textile Mills (CTM) and

Damanganga Fabrics and Processors (DGF) stand transferred and vested as a going concern to your Company from the appointed date 1st July, 2005.

Your Directors have the pleasure in presenting their Annual Report together with the audited Statement of Accounts of the Company for the period ended 31st March, 2006 which includes the working of the textiles business for nine months from 1st July, 2005 to 31st March, 2006.

Financial results

(Rs. in lakhs)

Particulars		Period ended 31st March, 2006
Gross sales		49034.40
Gross profit		5438.41
Less: Depreciation		2689.38
Taxation:		681.65
- Current	235.50	
- Earlier years	49.35	
- Deferred	363.45	
- Fringe benefit tax	33.35	
Net profit		2067.38
Add: Balance brought forward as per scheme of arrangement		1319.30
Total		3386.68
Appropriations:		
Proposed dividend		436.88
Corporate dividend tax		61.27
Transfer to the general reserve		206.74
Balance in profit and loss a/c. carried to the balance sheet		2681.79
Total		3386.68

Dividend

Your Directors are pleased to recommend a dividend of 40% for the period ended 31st March, 2006. The total amount of dividend to be paid to the shareholders will be Rs. 498.15 lakhs (inclusive of Dividend Tax).

Capital projects

Your Directors have inherited the legacy of Sutlej Industries Ltd. which

always emphasised high technological efficiency so as to be able to compete effectively in the highly competitive and quality conscious global business environment. The Company is in the process of implementing current expansion and modernization programme aggregating Rs 123 crores. Under its ongoing expansion programme, DGF acquired by the Company had recently diversified into

the fast growing segment of Home Textiles & Garments and has expanded its weaving and processing capacities by investing Rs. 69.50 crores. Weaving capacity has been expanded by adding 20 Sulzer Looms to produce about 1.5 million metres of fabrics per annum. Processing capacity was also expanded by an additional 11.5 million metres fabric per annum during the period. Trial production of Home

Furnishing started in April, 2006 and commercial production is expected by July, 2006. The Garment unit started pilot project with capacity of 1000 trousers per day and the balance capacity for 3000 trousers per day is under implementation and is likely to be completed by October, 2006. The modernization programme at RTM and CTM with a capital outlay of Rs. 53 crores is progressing as per schedule.

Future capital investments

In addition to the ongoing expansion/modernization programme, following capital projects with an outlay of Rs. 260 crores have been undertaken:-

- Captive Power Co-Generation - Total 14.5 MW Co-Generation Thermal Power Plants at a capital outlay aggregating Rs. 62 crores are proposed to be set up at RTM and DGF.
 - Expansion at CTM by 31,104 Spindles to produce P/V Dyed yarn at a capital outlay of Rs. 121 crores is under progress. This will be completed by March, 2007.
 - Modernization at RTM and CTM- Investment of Rs. 77 crores which includes modernization, balancing and replacement of about 28500 spindles and increase in Dyeing Capacity over a period of 3 years.
- These capital projects will be financed

by internal accruals and financial assistance from Banks under the Technology Upgradation Fund Scheme.

Fixed deposits

As per Scheme of Arrangement between the Company and Sutlej Industries Ltd. (SIL), the Fixed Deposit held in textiles division of SIL stands vested with the Company.

At the end of the period 31st March, 2006, the amount of Fixed Deposits from public, shareholders and employees amounted to Rs. 1396.30 lakhs. Deposits amounting to Rs. 3.14 lakhs remained unclaimed as on 31.3.2006 out of which Rs. 1.94 lakhs have since been paid/ renewed.

Particulars of employees

Particulars of employees as required under Section 217 (2A) of the Companies Act, 1956, are given in Annexure-I which forms a part of this Report.

Energy conservation, technology absorption and foreign exchange earnings and outgo

Particulars relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as required under Section 217(1) (e) of the Companies Act, 1956 are given in Annexure-II, which forms a part of this Report.

Management's discussion and analysis report

The operations of the Company is reviewed in detail in the Management's Discussion and Analysis Report (Annexure - III) and forms a part of this Report.

Corporate Governance

Clause 49 of the Listing Agreement relating to Corporate Governance would become applicable only when the shares of the Company are listed with the Stock Exchanges. The Company believes in the highest principles of management and corporate governance and has reviewed its policy in the Corporate Governance Report that forms a part of this Report.

Listing

In terms of the Schemes of Arrangement approved by the Hon'ble High Court of Rajasthan Bench at Jaipur, the Company will issue 1,05,95,860 equity shares of face value of Rs. 10 each to the shareholders of Sutlej Industries Ltd. Furthermore, the Company will also issue 32,144 equity shares of face value of Rs. 10 each to the equity shareholders of Damanganga Processors Ltd. and 243904 equity shares of face value of Rs. 10 each to Preference Shareholders of Damanganga Processors Ltd. The Company has made application through Bombay

Stock Exchange Ltd., (the designated Stock Exchange) seeking exemption of Securities and Exchange Board of India under Rule 19(2) (b) of The Securities Contracts (Regulation) Rules, 1957 for listing of its equity shares without public offer. The Company is taking the necessary steps for listing of its equity shares to be allotted under the Schemes of Arrangement.

Directors' responsibility statement

Your Directors state:

(i) That in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanations relating to material departures, and the Notes in the auditors' Report in this regard are self explanatory;

(ii) That such accounting policies have been selected and applied consistently and judgements and estimates made 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 the period ended March 31, 2006.

(iii) That proper and sufficient care has been taken 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) That the annual accounts have been prepared on a going concern basis.

Directors

Dr. K.K. Birla, Shri C.S. Nopany, Shri J.S. Varshneya, Shri Rajaram Muchhal, Shri Bodhishwar Rai, Shri U.K. Khaitan and Shri Amit Dalal were appointed as additional directors in the Board meeting held on 01.6.2006. Dr. K.K. Birla has been appointed as Chairman of Board and Shri C.S. Nopany has been appointed as Vice Chairman of the Board. These directors will hold the office till the date of first Annual General Meeting of the Company and are eligible for re-appointment. Shri R.N. Laddha, Director of the Company who was Wholetime Director (in wholetime employment) of Suttlej Industries Ltd. has by virtue of transfer of employees under the Scheme of Arrangement, become Wholetime Director of the Company for his unexpired period of appointment. Shri S.M. Agarwal, Director of the Company retires by rotation and is eligible for re-election.

Auditors' report

The Audit Notes in the Auditors' Report are self explanatory and need no further clarifications.

Auditors

M/s Singhi & Co., New Delhi were appointed first Auditors of the Company. They hold office upto the date of first Annual General Meeting of

the Company and are eligible for re-appointment. M/s S.R. Batliboi & Company, New Delhi were appointed as Branch Auditors in the Extraordinary General Meeting held on 06.6.2006. They retire at the conclusion of first Annual General Meeting and are eligible for re-appointment.

Cost Auditors

M/s. K.G. Goyal & Associates, Jaipur who were appointed as Cost Auditors of textiles division of Suttlej Industries Ltd. with the approval of Central Government will act as Cost Auditor of the Company, as in terms of Scheme of Arrangement, the textiles division of Suttlej Industries Ltd. stands vested with the Company.

Acknowledgements

Your Directors place on record their deep appreciation of the sincere services rendered by the Officers, Staff and Workers and their contribution to the successful performance of the Company during the year. Your Directors are also grateful for the co-operation and assistance received from Financial Institutions and Banks during the year under review.

For and on behalf of the Board

Place : New Delhi

Dated: 24th June, 2006

Dr.K.K.Birla

Chairman

annexure-I to the directors' report

PARTICULARS OF EMPLOYEES AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956 AND THE RULES MADE THEREUNDER AND FORMING PART OF THE DIRECTORS' REPORT FOR THE PERIOD ENDED 31ST MARCH, 2006 IN RESPECT OF EMPLOYEES IN RECEIPT OF REMUNERATION FOR THAT YEAR AGGREGATING NOT LESS THAN Rs. 24,00,000 PER YEAR OR Rs. 2,00,000 PER MONTH.

Sl. No.	Name of Employees	Age (Yrs.)	Designation	Remuneration (Rs.)	Qualifications	Experience (Yrs.)	Date of Employment	Last Employment held
EMPLOYED FOR A PART OF THE PERIOD								
1.	Shri Gupta N.M.	77	President	71,77,928	B.Com.	51	@ 01.07.2005	Sutlej Industries Ltd. President 45 years.
2.	Shri Khandelia S.K.	55	Vice President	26,17,789	B.Com., FCA	31	@ 01.07.2005	Sutlej Industries Ltd. Vice President 30 years.

@ Transferred from Sutlej Industries Ltd. pursuant to the scheme of arrangement

Notes :

1. Other Terms & Conditions: As per Company's Rules and Regulations.
2. Remuneration received includes Salary, Reward, Encashment of Leaves, Medical Expenses, Premium of Personal Accident Policy, Perquisites and Company's contribution to Provident Fund and Superannuation Fund, but excludes Gratuity.
3. None of these employees is a relative of any Director of the Company.