

STERLING SPINNERS LTD.



TWELVETH ANNUAL REPORT 2005 - 2006

BOARD OF DIRECTORS

1. **Mr. K.S. VENUGOPALA**
2. **Mr. K. ALAGIRISWAMI**
2. **Mr. R. VIJAYKUMAR**

Chairman-Cum-Managing Director
Director
Director

AUDITORS

S. DHANYAKUMAR & CO.,
3, South Boag Road, Thyagaraya Nagar,
Chennai - 600 017.

BANKERS

PUNJAB NATIONAL BANK,
Sowcarpet Branch,
109, Nainiappan Naicken St.,
Sowcarpet, Chennai - 600 003.

REGISTERED OFFICE

New No. 4, (Old No. 377/2), S.N. Street,
Tollgate,
Chennai - 600 081.

SPINNING MILL

Pa Pudupatti (P.O.),
Vedasandur Taluk,
Dindigul - 624 005.

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TWELVETH ANNUAL REPORT
&
STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED
31st March, 2006

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NOTICE TO THE SHARE HOLDERS

NOTICE is hereby given that the **Twelveth Annual General Meeting** of Members of **M/s. STERLING SPINNERS LTD., CHENNAI** will be held at the Registered Office of the Company at New No. 4 (Old No. 377/2) Suryanarayana Street, Chennai-600 081 on **FRIDAY** the **29th SEPTEMBER 2006** at **10.00 A.M.** to transact the following business:

AGENDA

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31.03.2006 and Profit and Loss Account of the Company for the year ended 31st March, 2006 and the Report of the Auditor's and Director's thereon.

To consider and if thought fit to pass with or without modification the following resolutions as Ordinary Resolutions.

2. "RESOLVED that Sri. K.Alagirisami, Director who retires by rotation and who being eligible offers himself for re-appointment, be and is hereby appointed as Director of the Company who shall be liable to retire by way of rotation".

3. "RESOLVED that M/s.S.Dhanyakumar & Co., Chartered Accountants, Chennai retiring Auditors be and are hereby re-appointed as Auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the Thirteenth Annual General Meeting of the Company on a remuneration of Rs.20,000/- (Rupees Twenty thousand only)".

"BY ORDER OF THE BOARD"

For **STERLING SPINNERS LTD**
(K.S.VENUGOPALA)
CHAIRMAN-CUM-
MANAGING DIRECTOR

Place : Chennai

Date : 19.06.2006

NOTES:

A.1. A MEMBER IS ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY.

2. The proxy form must be lodged at the Registered Office of the Company at least 48 hours before the time of the Meeting.

3. The Register of Members and Share Transfer Books will remain closed from **Saturday the 24th September, 2006 to Friday the 29th September, 2006.** (both days inclusive).

4. Nomination facility is available to every shareholder under Section 109 A of the Companies Act, 1956.

B.1. Members are requested to notify immediately any change in their address, to our Registered Office of the Company New No. 4, (Old No.377/2) Suryanarayana Street, Tollgate, Chennai-600 081.

2. Shareholders seeking any information with regard to accounts are requested to write to the Registered Office of the Company at an early date so as to enable the Management to keep the information ready.

3. Members/Proxies should bring the attendance slip for attending the meeting.

4. Shareholders are requested to bring the copy of the Annual Report for the meeting.

DIRECTORS' REPORT

Your Directors have pleasure in presenting the Twelveth Annual Report together with the Audited Accounts of the Company for the year ended 31st March, 2006.

1. OPERATING RESULTS:

	Current Year	Previous Year
	(Rs. in lakhs)	
Net Sales / Income from Operations	370.21	686.95
Other Income	20.30	11.31
	<u>390.51</u>	<u>698.26</u>
 Total Expenditure	 382.15	 764.54
Interest	301.17	354.72
Gross Profit/(Loss) after Interest but before Depreciation and Taxation	(292.81)	(421.00)
Depreciation	75.66	75.53
Net Profit/(Loss)	(368.47)	(496.53)

Your Directors wish to inform that the Company has achieved a Turnover of Rs.370.21 lakhs in the Current Year as against Rs.686.95 Lakhs turnover of previous year. Your Directors report that the Net Loss of the Company for the year under review is decreased to Rs.368.47 lakhs from Rs.496.53 Lakhs of previous year due to increase in gross revenue and also due to decreased in interest on Term Loans and Working Capital Loan to Financial Institution and Bank etc., respectively.

2. DIVIDEND:

The Directors do not recommend any dividend for the year under review.

3. DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Sri. K.Alagiriswami, Director will retire by rotation and being eligible offers himself for re-appointment.

4. AUDITORS' OBSERVATION ON ACCOUNTS:

- In respect of qualification made by Auditors under Clause 4 (a) (i) of Auditor's Report, the Company has made a reference before BIFR on 28.05.2001 and the Company has been declared as Sick Industrial Company by the BIFR on 6.5.2003. The rehabilitation package is yet to be approved. The accounts have been prepared on a going concern basis since the Company is running the business inspite of sickness of the Company.
- In respect of qualification made by Auditors under Clause 4 (a) (ii) of Auditor's Report, due to sickness of the Company, the Company is not able to repay the principal and to pay interest to the Financial Institutions and Bank.
- In respect of qualification made by the Auditors under Clause 4 (a) (iii), the Company will take steps to obtain remaining confirmation letters for balances of Loans and Advances, Sundry Debtors and Sundry Creditors.

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d) In respect of comments made by the Auditors under clause ix (c), (x) and (xi) of the Annexure to the Auditor's Report, no explanation has been offered since the same are self-explanatory.

5. **AUDIT COMMITTEE:** An Audit Committee of the Board of Directors has been constituted as per Section 292A of the Companies Act, 1956. The Committee comprises of Sri.R. Vijaykumar, Director, Sri. K. Alagiriswami, Director and Sri. K.S. Venugopala, Chairman-cum-Managing Director with Sri.R.Vijaykumar as its Chairman.

The role, terms of reference and the authority and powers of the Audit Committee are in conformity with the requirements of the Companies Act, 1956.

6. **SHAREHOLDERS / INVESTORS' GRIEVANCES COMMITTEE :** The Shareholders / Investors' Grievances Committee was constituted with Mr. K. Alagirisamy as Chairman, Mr. R. Vijaykumar as Member and Mr. K.S. Venugopala as Member and Compliance Officer.

The Scope of the Committee is to look into the Shareholders/Investors' Complaints / Grievances relating to transfer of shares, non-receipt of Balance Sheet and issue of Duplicate Share Certificates. In addition, the Board shall also from time to time to provide requisite guidelines / scope of work for the Grievance Committee and the Committee will discharge such other functions as are required under the provisions of the Listing Agreement and Companies Act, 1956.

The Committee met twice during the year under review - on 28th July, 2005 and 30th January, 2006 to review the status of complaints from the Shareholders / investors and the redressal measures taken by the Company.

The following table shows the nature of complaints received from the Shareholders during the year 2005-2006.

<u>Nature of Complaints</u>	<u>No. of Complaints</u>
Non-receipt of shares sent for transfer/transmission	-
Non-receipt of Balance Sheet	-
Others	-
Total	Nil

The above shows that complaints received were 'Nil' and Pending Complaints were 'Nil'

Both the above meetings were attended by all the members of the Grievance Committee.

7. **MANAGEMENT DISCUSSION & ANALYSIS AND CORPORATE GOVERNANCE:** A report on Management Discussion and Analysis and a Status report on the compliance of Corporate Governance are annexed and form part of the Annual Report.

8. **DIRECTORS' RESPONSIBILITY STATEMENT:**

In terms of Section 217 (2AA) of the Companies Act, 1956, Your Directors declare:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed.
- that they 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 at the end of the financial year and of the profit or loss of the Company for that period;
- that they 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
- that they have prepared the annual accounts on a 'going concern' basis.

Sterling Spinners Ltd.,

9. AUDITORS:

M/s. S. Dhanyakumar & Co., Chartered Accountants will retire as Auditors at the ensuing Annual General Meeting and are eligible for re-appointment.

10. PARTICULARS OF EMPLOYEES :

In terms of the requirement of Section, 217 (2A) of the Companies Act , 1956, No employee was in receipt of remuneration of Rs, 24,00,000/- per annum during the year ended 31st March 2006.

11. INFORMATION AS PER SECTION 217 (1) (e) OF THE COMPANIES ACT, 1956:

Particulars required under Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988:

A. CONSERVATION OF ENERGY:

	2005-2006	2004-2005
1) POWER AND FUEL CONSUMPTION		
(i) ELECTRICITY PURCHASED		
Units	54.18 Lakhs	55.95 Lakhs
Total Amount	Rs. 221.96 Lakhs	Rs. 223.45 Lakhs
Rate/Unit	Rs. 4.10	Rs. 3.99
(ii) OWN GENERATION THROUGH DIESEL GENERATION:		
Units	0.75 Lakhs	0.61 Lakhs
Total Amount	Rs. 8.33 Lakhs	Rs. 6.96 Lakhs
Rate/Unit	Rs. 11.10	Rs. 11.42
2) a) Consumption per Kg. of Production	3.12 Per Unit	4.06 per Unit
b) Cost of Consumption per Kg. of Production	Rs. 13.09	Rs. 16.54

B. TECHNOLOGY ABSORPTION:

The Company has taken steps in carrying out Research & Development Activities in the areas of:

- Grading of Cotton for specific count and quality of yarn.
- Evaluation and maintenance of quality of Yarn at various stages of processing and optimising the process parameters to achieve the best quality of yarn to cope with the International Standards.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

During the year under review, there is neither Foreign Exchange Earnings nor out go.

12. ACKNOWLEDGEMENT:

Your Directors wish to place on record their gratitude to the Central and State Governments, M/s. State Industries Promotion Corporation of Tamilnadu Limited, M/s. Tamil Nadu Industrial Investment Corporation Limited, M/s. Punjab National Bank, M/s. Textool Company Limited, Suppliers, Dealers and the Share holders for their continued co-operation and support.

On behalf of the Board of Directors
For STERLING SPINNERS LTD.,

K.S. VENUGOPALA
Chairman-cum-Managing Director

Place : Chennai

Date : 19.06.2006

ANNEXURE TO THE DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

The Company has become a Sick Industrial Company within the meaning of (Clause 'O') of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985. The Company has made a reference before BIFR on 28.05.2001 and the Company has been declared as Sick Industrial Company by the BIFR on 6.5.2003.

OUTLOOK:

The Company has submitted rehabilitation proposal to operating Agency M/s. Punjab National Bank for consideration. The management is hopeful of getting approval of Rehabilitation proposal from the BIFR with the help of Financial Institutions, M/s. SIPCOT, M/s. TIIC, under OTS Scheme.

Risk and Concerns:

Fluctuations in the raw material prices will directly affect the cost of production.

Internal Control Systems:

The Company has constituted an Audit Committee, which looks into the aspects of internal control systems and ensures that all is well with the systems in vogue.

Financial and Operational Performance:

The financial statements have been prepared in accordance with the requirements of the Companies Act, 1956 and applicable Accounting Standards issued by the Institute of Chartered Accountants of India. The Management accepts the integrity and objectivity of these financial statements as well as various estimates and judgments as used therein. The estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the financial statements reflect a true and fair manner, the form of transactions and reasonably present the Company's state of affairs and loss for the year.

The Company has achieved a gross Turnover of Rs.370.21 lakhs in the Current year as against Rs.686.95 lakhs of turnover of previous year.

Human Resources and Industrial Relations:

The Industrial relations, by and large were cordial and the Management believes that its people are going to be main strength of its organisation in future.

REPORT ON CORPORATE GOVERNANCE

Company Philosophy on code of Governance:

Company firmly believes in and it has consistently practiced good corporate governance for conduct of its business and permitting its obligations towards all its shareholders.

I. BOARD OF DIRECTORS:

The Company has a Chairman-cum-Managing Director with two other independent Directors.

The number of independent Directors is more than fifty percent of the total number of Directors. The number of Non-Executive Directors is more than 50% of the total number of Directors.

None of the Directors on the board is a member on more than Ten Companies and Chairman of more than 5 committees, across all the companies in which he is a Director. The necessary disclosures regarding committee position have been made by the Directors.

Sterling Spinners Ltd.,

II) BOARD MEETING:

The Board of Directors formulate the business and operational policies and decide on strategic issues concerning the Company. The Board of Directors generally meets as and when situation so demand to review the business performance.

During the year under review 10 meetings of the Board of Directors were held.

2005		2006
16.05.2005	30.08.2005	31.01.2006
24.06.2005	30.09.2005	06.03.2006
28.07.2005	28.10.2005	
24.08.2005	15.11.2005	

The details of attendance at Board Meetings and details of other directorship committee chairmanship/ membership held by the Directors during the period from April 2005 to March 31, 2006 are as follows :

Name of the Director	Board Meetings Attended	Directorships (other than Sterling Spinners Ltd.)	Committees in which / Chairman / member (other than M/s. Sterling Spinners Ltd.)	
			Chairman	Member
Sri. K.S. Venugopala	10	1	-	1
Sri. K. Alagiriswami	10	-	-	-
Sri. R. Vijaykumar	10	-	-	-

All the Directors of the company attended the 11th Annual General Meeting held on 29.09.2005.

III. AUDIT COMMITTEE:

Composition of the Audit Committee is as follows:

Name of the Directors:

Sri. R. Vijaykumar	: Chairman
Sri. K.S. Venugopala	: Director
Sri. K. Alagiriswami	: Director

The Audit Committee reviews the financial accounts / Policies, adequacy of Internal Control Systems and interacts with the Statutory Auditor and Internal Auditors. The Directors and other functional heads are invited to all the committee meetings. Besides, the committee reviews the audit plans, audited and un-audited financial results, observations of the internal and external auditors and follow up with the management.

During the year the committee met 5 times on 11th May 05, 14th June 05, 14th July 05, 16th Oct 05 and 28th Jan 06. All the members attended all the committee meetings.

IV. REMUNERATION OF DIRECTORS:

The Chairman-cum-Managing Director of the company has been appointed on contractual terms, based on the approval of the shareholders. The remuneration package comprises of salary. The quantum of Commission payable to him will be subject to a ceiling of 1% of the Net Profit for each financial year. In the absence of Profits, the company has paid minimum remuneration to Chairman-cum-Managing Director upto August 2005. The remuneration is within the limits prescribed under Schedule XIII to the Companies Act, 1956. The Company has applied for Central Government approved for payment of remuneration to Chairman-cum-Managing Director w.e.f. 1.9.2005 and awaits for its approval.

V) COMMITTEE OF BOARD OF DIRECTORS:

Composition of the share transfer committee for approval of share transfers are as follows:

Name of the directors:

Sri. R. Vijaykumar	: Chairman
Sri. K.S. Venugopala	: Director
Sri. K. Alagiriswami	: Director

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The share transfer committee formed under Clause 49 of the Listing Agreement approves and monitors transfers and transmission of shares of the Company. The committee also reviews the compliance with various statutory and regularity requirements.

During 2005 – 2006 the committee met 4 times on 21st July 2005, 24th November 2005 and 27th January, 2006 24th February, 2006. All the members attended all the committee meetings.

VI) GENERAL BODY MEETINGS:

Time and location of Last three Annual General Meetings

Year	Date	Time	Location
2005	29.09.2005	10.45 A.M.	New No. 4, (Old No. 377/2) Suryanarayana Street, Tollgate, Chennai-600 081.
2004	29.09.2004	10.15 A.M.	New No. 4, (Old No. 377/2) Suryanarayana Street, Tollgate, Chennai-600 081.
2003	18.08.2003	10.15 A.M.	New No. 4, (Old No. 377/2) Suryanarayana Street, Tollgate, Chennai-600 081.

No Special Resolutions was put through postal ballot last year.

VII) DISCLOSURES:

There are no materially significant transactions with related parties i.e., Promoters, Directors or the management and companies under the same management conflicting with the Company's interest.

VIII) MEANS OF COMMUNICATION:

Quarterly un-audited results of the Company were published in accordance with Stock Exchange Listing Agreement in "Trinity Mirror" (English) and "Makkal Kural" (Tamil) Annual audited results of the company were published in "Trinity Mirror" (English) and "Makkal Kural" (Tamil).

IX) GENERAL SHAREHOLDER'S INFORMATION WITH REGARD TO NEXT ANNUAL GENERAL MEETING:

Date	Time	Location
28.09.2006	10.00 A.M.	New No. 4, S.N. Street, Tollgate, Chennai-600 081.

X) UNIT LOCATION: : Pa Pudupatti, (P.O.)
Vedasandur Taluk,
Dindigul-624 005.

XI) Address for Investor Correspondence: : New No. 4, (Old No. 377/2) S.N. Street,
Tollgate, Chennai-600 081.

Financial Calender: 2006 - 2007

Financial Reporting:

For the quarter ending June 30, 2006	:	July, 2006	}	
For the quarter ending September 30, 2006	:	October, 2006	}	
For the quarter ending December 31, 2006	:	January, 2007	}	Tentative
For the quarter ending March 31, 2007	:	May / June 2007	}	
Annual General Meeting for 2006 – 2007	:	September, 2007	}	

Sterling Spinners Ltd.,

- * The Company's shares are listed on the Mumbai Stock Exchange and Madras Stock Exchange.
- * The Company has not paid the listing fees for the financial year 2006 – 2007 to the Madras stock exchange, and for the financial years 2005 - 2006 and 2006 - 2007 to Mumbai stock exchange.
- * MSE stock code STR SPIN 31628
- * MSE stock code SSPS / RSV – MADRAS

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S. DHANYAKUMAR & Co.,
CHARTERED ACCOUNTANTS

Phone No : 24341189
3, SOUTH BOAG ROAD,
T. NAGAR,
CHENNAI - 600 017.

Auditor's Certificate regarding compliance of conditions of Corporate Governance as per Clause 49 of the Listing Agreement with the Stock Exchange.

To the Members of Sterling Spinners Ltd.

We have reviewed the compliance of conditions of Corporate Governance by M/s. Sterling Spinners Ltd., for the year ended 31st March, 2006 as stipulated in Clause 49 of the Listing Agreement of the said Company with Madras Stock Exchange Limited and The Stock Exchange Mumbai.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination has been limited to a review of the procedures and implementation thereof adopted by the company for ensuing compliance with the conditions of the compliance of Corporate Governance as stipulated in the said clause. It is neither an audit nor expression of opinion on the financial statements of the company.

No investor grievances are against the Company as per the records maintained by the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the Management, we certify that the company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the further viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place: Chennai
Date: 19.06.2006

For S. DHANYAKUMAR & CO.,
Chartered Accountants

D. SAMPATH KUMAR
Proprietor
M. No. 3483

AUDITOR'S REPORT

To

**The Shareholders of
M/s. STERLING SPINNERS LTD.**

1. We have audited the attached Balance Sheet of M/s Sterling Spinners Ltd., as at 31st March 2006, the Profit and Loss Account on that date and also Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We have conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
4. Further to our comments in the Annexure referred to above, we report that:
 - a) i. The Company's net worth has eroded due to losses and the Company has become a Sick Industrial Company within the meaning of Clause 'O' of Sub Section (I) of Section 3 of the Sick Industrial Companies (Special Provisions) Act 1985. The Company has made a reference before BIFR on 28.05.2001 and the Company has been declared as Sick Industrial Company by the BIFR on 06.05.2003. The rehabilitation package is still not formulated. Despite erosion of net worth, the accounts have been prepared on a going concern basis as the business is being continued.
 - ii. The Company has not made any repayment of principal to the Financial Institutions and Bank, also not paid the interest amounting to Rs.298.88 lakhs charged to Profit and Loss Account during the year, but credited to the Financial Institutions and Bank, total over due amount as on 31st March, 2006 of Rs.2483.11 lakhs.
 - iii. Some of the balances of Loans and Advances, Sundry Debtors and Sundry Creditors are subject to confirmation.

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**S. DHANYAKUMAR & Co.,
CHARTERED ACCOUNTANTS**

**Phone No : 24341189
3, SOUTH BOAG ROAD,
T. NAGAR,
CHENNAI - 600 017.**

- b) Subject to our comments above, we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- c) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
- d) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- e) In our opinion the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956;
- f) On the basis of written representation received from the Directors, as on 31st March, 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of Clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956;
- g) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;
 - i. In the case of the Balance Sheet, of the State of Affairs of the Company as at 31st March, 2006;
 - ii. In the case of the Profit and Loss Account, of the Loss for the year ended on that date; and
 - iii. In the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Chennai

Dated: 29.05.2006

**For S. DHANYAKUMAR & CO.,
Chartered Accountants**

**D. SAMPATH KUMAR
Proprietor
M. No. 3483**

ANNEXURE TO THE AUDITORS' REPORT

Referred to in paragraph 1 of our Report of even date

- i. a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
b) All the fixed assets have been physically verified by the Management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
c) During the year, the Company has not disposed off any fixed assets.
- ii. a) The inventory have been physically verified by the management. In our opinion, the frequency of verification is reasonable.
b) The procedures of physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.
c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the books records were not material.
- iii. a) The Company has taken Loan from one company and one party covered in the register maintained under Section 301 of the Companies Act, 1956. The Maximum amount involved during the year for the Company was Rs.83.27 Lakhs and that of party was Rs.76.02 Lakhs. The year end balance of loan from such company was Rs.83.27 Lakhs, and from such Party was Rs. 56.02 lakhs.
b) In our opinion, the rate of interest and other terms and conditions on which Loans have been taken from the Companies, the parties listed in the Register maintained under Section 301 of the Companies Act, 1956 are not, prima facie, prejudicial to the interest of the Company.
c) The Company is regular in repaying the principal amounts as stipulated and no interest has been paid as it is waived by them.
d) There is no overdue amount of Loans taken from or granted to Companies, firms or parties listed in the register maintained under Section 301 of the Companies Act, 1956.
- iv. In our opinion, and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventory, fixed assets and with regard to the sale of goods. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal controls.
- v. a) According to the information and explanations given to us, we are of the opinion that the particulars contracts and arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that Section.
b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained in Section 301 of the Companies Act, 1956, have been made at prices that are reasonable having regard to prevailing market prices at the relevant time.
- vi. In our opinion, and according to the information and explanations given to us, the Company has not accepted any deposits from the Public and consequently the provisions of Sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed thereunder are not applicable.

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- vii. In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- viii. We have broadly reviewed the books of account relating to material, labour and other items of cost maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209(1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.
- ix. a) According to the information and explanations given to us, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor education protection fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty, Cess and other material statutory dues applicable to it.
- b) According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess were in arrears, as at 31st March, 2006 for a period of more than six months from the date they became payable.
- c) According to the information and explanations given to us, except the following there are no dues of Income Tax, Sales Tax, Wealth Tax, Service Tax, Excise Duty and Cess which have not been deposited on account of any dispute.

	Name of the State Act	Nature of dues	Amount Rs.	Period to which the amount relates	Forum where dispute is pending
	P.F. ACT	P.F. Dues	Rs.2.95 Lacs	22.09.97 to 05.07.99	Madras High Court
x.	In our opinion, the accumulated losses of the Company are more than fifty percent of its networth and the Company has incurred cash losses during the financial year, covered by our audit and in the immediately preceeding financial year. The Company has been declared as Sick Industrial Company by the BIFR on 06.05.2003.				
xi.	In our opinion and according to the information and explanations given to us, the Company has defaulted in repayment of dues to Financial Institutions and Bank, as detailed below:				

Name of the Bank / Financial Institution	Rs. in lakhs			Total
	Principal	Funded Interest	Interest including Penal Interest	
A. TERM LOAN :				
SIPCOT	295.36	197.28	659.44	1152.08
TIIC	141.86	90.36	391.72	623.94
PNB	62.50	-	60.83	123.33
B. WORKING CAPITAL LOAN :				
PNB	352.55	-	231.20	583.75
TOTAL	852.27	287.64	1343.19	2483.10

- xii. In our opinion and according to the information and explanations given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.
- xiii. In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore the provisions of clause 4 (iii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

Sterling Spinners Ltd.,

- xiv. In our opinion, the Company is not dealing in or trading in shares, Securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.
- xv. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- xvi. The Company has not raised any fresh Term Loan during the year.
- xvii. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.
- xviii. According to the information and explanation given to us, the Company has not made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- xix. According to the information and explanations given to us, during the period covered by our audit report, the Company has not issued any debentures.
- xx. The Company has not raised any money by public issues during the year.
- xxi. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

Place: Chennai

Dated: 29.05.2006

For **S. DHANYAKUMAR & CO.,**
Chartered Accountants

D. SAMPATH KUMAR
Proprietor
M. No. 3483

12th Annual Report 2005-2006

BALANCE SHEET AS AT 31ST MARCH, 2006.

	Sch.No.	As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SOURCES OF FUNDS			
SHAREHOLDER'S FUNDS			
Share Capital	1	70000000	70000000
Reserves & Surplus	2	315000	315000
LOAN FUNDS			
Secured Loans	3	248310516	223681663
Unsecured Loans	4	33233631	27677183
TOTAL		<u>351859147</u>	<u>321673846</u>
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross block	5	159703180	159703180
Less: Depreciation		68460813	60894370
Net Block	A	<u>91242367</u>	<u>98808810</u>
INVESTMENTS	B	-	-
CURRENT ASSETS, LOANS & ADVANCES			
Inventories	6	1287446	1027820
Sundry debtors	7	1503769	2974333
Cash & bank balances	8	163715	96850
Loans & Advances	9	12074715	11137982
		<u>15029645</u>	<u>15236985</u>
Less: Current liabilities & provisions	10	<u>30421873</u>	<u>31849938</u>
NET CURRENT ASSETS	C	<u>(15392228)</u>	<u>(16612953)</u>
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)	11	390600	781199
PROFIT & LOSS ACCOUNT	12	<u>275618408</u>	<u>238696790</u>
	D	<u>276009008</u>	<u>239477989</u>
TOTAL	A+B+C+D	<u>351859147</u>	<u>321673846</u>
	22		

Notes on Accounts:

The schedules referred to above from an integral part of the Balance Sheet

Place: Chennai

Date: 29.05.2006

K.S. VENUGOPALA
CHAIRMAN-CUM-
MANAGING DIRECTOR

R. VIJAYKUMAR
DIRECTOR

As per our report attached
For **S. DHANYAKUMAR & CO.,**
CHARTERED ACCOUNTANTS

D. SAMPATHKUMAR
PROPRIETOR
M. No. 3483

Sterling Spinners Ltd.,

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006.

	Sch.No.	For the year ended 31.03.2006 Rs.	For the year ended 31.03.2005 Rs.
INCOME			
Sales	13	7151313	68695514
Other Income	14	31906110	1130659
TOTAL		39057423	69826173
EXPENDITURE			
Decrease/(Increase) in Stocks	15	(506837)	3609036
Raw material consumed	16	5718495	36092067
Manufacturing expenses	17	29103524	30356787
Payment & benefits to Employees	18	1546710	896202
Administrative expenses	19	1768090	2515024
Selling expenses	20	275223	2594410
Financial charges	21	30116795	35472141
Preliminary expenses		390599	390599
Depreciation		7566441	7553145
TOTAL		75979041	119479412
Profit/(Loss) Before Taxation		(36921618)	(49653239)
Profit/(Loss) after appropriation		(36921618)	(49653239)
Add: Balance Brought forward		(238696790)	(189043551)
Balance Carried to Balance sheet		(275618408)	(238696790)

Notes on Accounts:

22

The schedules referred to above from an integral part of the Profit and Loss Account

Place: Chennai

Date: 29.05.2006

K.S. VENUGOPALA
CHAIRMAN-CUM-
MANAGING DIRECTOR

R. VIJAYKUMAR
DIRECTOR

As per our report attached
For S. DHANYAKUMAR & CO.,
CHARTERED ACCOUNTANTS

D. SAMPATHKUMAR
PROPRIETOR
M. No. 3483

SCHEDULES FORMING PART OF THE ACCOUNTS

		As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SCHEDULE - 1			
SHARE CAPITAL			
Authorised			
100,00,000 Equity shares of Rs.10/-each		100000000	100000000
1,50,000 Preference shares of Rs.100/- each		15000000	15000000
		<u>115000000</u>	<u>115000000</u>
Issued Subscribed & paid up 70,00,000 Equity shares of Rs.10/- each		70000000	70000000
TOTAL		<u>70000000</u>	<u>70000000</u>
SCHEDULE - 2			
RESERVES AND SURPLUS			
Employment of women workers subsidy from SIPCOT		315000	315000
TOTAL		<u>315000</u>	<u>315000</u>
SCHEDULE - 3			
SECURED LOANS :			
A: TERM LOANS :			
i) SIPCOT			
Principal	29536000	29536000	
Interest accrued and due	65944741	47517989	
Funded Interest	<u>19727521</u>	<u>19727521</u>	96781510
ii) TIIC			
Principal	14186000	14186000	
Interest accrued and due	39171672	27710102	
Funded Interest	<u>9036216</u>	<u>9036216</u>	50932318
iii) PNB			
Principal	6250000	6250000	
Interest accrued and due	4697377	4697377	
Penal interest	<u>1385776</u>	<u>1385776</u>	12333153
B. WORKING CAPITAL LOAN :			
From Punjab National Bank			
OCC - Chennai			
Principal	23028671	28288140	
Interest accrued and due	17483158	17483158	
Penal interest	<u>4267176</u>	<u>4267176</u>	50038474
Book Debts			
Principal	3000000	3000000	
Interest accrued and due	2198458	2198458	
Penal interest	<u>658980</u>	<u>658980</u>	5857438
Bills Discounted			
Principal	3967200	3967200	
Interest accrued and due	3069842	3069842	
Penal interest	<u>701728</u>	<u>701728</u>	7738770
TOTAL		<u>248310516</u>	<u>223681663</u>
SCHEDULE - 4			
UNSECURED LOANS :			
From Bodies Corporate		8326554	8326554
Sales Tax Deferment Loan from Govt. of Tamilnadu		19305155	19350629
Advance from promoters		<u>5601922</u>	-
TOTAL		<u>33233631</u>	<u>27677183</u>

SCHEDULES FORMING PART OF ACCOUNTS

SCHEDULE-5

FIXED ASSETS :

Description of Assets	GROSS BLOCK			DEPRECIATION					NET BLOCK	
	As on 01.04.05	Additions	Deductions	As on 31.03.2006	Upto 31.03.2005	for the year	Adjusted on sales	Total	As on 31.03.2006	As on 31.03.2005
Land	1247689	-	-	1247689	-	-	-	-	1247689	1247689
Land development	705200	-	-	705200	-	-	-	-	705200	705200
Buildings	39109413	-	-	39109413	11012952	1306254	-	12319206	26790206	28096461
Plant & machinery	117088585	-	-	117088585	49193021	6182277	-	55375299	61713286	67895564
Furniture & Fixtures	225926	-	-	225926	106572	14075	-	120648	105278	119354
Office Equipment	1308824	-	-	1308824	579013	62169	-	641182	667642	729811
Vehicals	17543	-	-	17543	2811	1666	-	4478	13065	14732
TOTAL Rs.	159703180	-	-	159703180	60894370	7566441	-	68460812	91242367	98808810
PREVIOUS YEAR	159447520	255660	-	159703180	53341224	7553145	-	60894370	98808810	106106294

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SCHEDULES FORMING PART OF THE ACCOUNTS

	As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SCHEDULE - 6		
INVENTORIES		
(As per inventories taken, valued and certified by the management)		
Finished goods - Yarn	483379	14569
Raw materials	16880	393788
Stock-in-process	138786	100759
Stores and spares	648401	518704
TOTAL	<u>1287446</u>	<u>1027820</u>
SCHEDULE - 7		
SUNDRY DEBTORS		
(Unsecured and considered good)		
Due over six months	522403	522403
others	981366	2451930
TOTAL	<u>1503769</u>	<u>2974333</u>
SCHEDULE - 8		
CASH AND BANK BALANCE		
Cash on Hand	2457	6904
With scheduled banks:		
In current accounts	161258	89946
TOTAL	<u>163715</u>	<u>96850</u>
SCHEDULE - 9		
LOANS AND ADVANCES :		
Unsecured and considered good)		
(Advances recoverable in cash or in kind or for value to be received)		
ADVANCES :		
For others	40703	41352
Pre-paid expenses	102348	288322
Interest accrued on deposit	695828	696064
Income tax & TDS	407991	150463
Deposit with govt. department	10827845	9961781
TOTAL	<u>12074715</u>	<u>11137982</u>
SCHEDULE - 10		
CURRENT LIABILITIES AND PROVISIONS		
Other liabilities	2436828	2761571
Sundry creditors	11471073	14574396
Creditors for Capital works	9706295	9706295
Advances received from customers	6807677	4807677
TOTAL	<u>30421873</u>	<u>31849938</u>

Sterling Spinners Ltd.,

SCHEDULES FORMING PART OF THE ACCOUNTS

		As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
SCHEDULE - 11			
MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted)			
Preliminary expenses as per last balance sheet	64378		
Less: written off	<u>32187</u>	32191	64378
Public issue expenses as per last balance sheet	716821		
Less: written off	<u>358412</u>	358409	716821
TOTAL		<u>390600</u>	<u>781199</u>
SCHEDULE - 12			
PROFIT & LOSS ACCOUNT			
as per last balance sheet	238696790		
Add: for the year	<u>36921618</u>	275618408	238696790
TOTAL		<u>275618408</u>	<u>238696790</u>
SCHEDULE-13		For the year ended 31.03.2006	For the year ended 31.03.2005
SALES			
Yarn		7057747	52361603
Waste		<u>93566</u>	<u>595136</u>
TOTAL		<u>7151313</u>	<u>68695514</u>
SCHEDULE-14			
OTHER INCOME		2036163	1130659
Conversion Charges		<u>29869947</u>	<u>15738775</u>
TOTAL		<u>31906110</u>	<u>16869434</u>
SCHEDULE-15			
Decrease/(Increase) in stock			
Opening stock :			
Yarn		14569	1811464
Stock-in-process		<u>100759</u>	<u>1912900</u>
A		<u>115328</u>	<u>3724364</u>
Closing stock :			
Yarn		483379	14569
Stock-in-process		<u>138786</u>	<u>100759</u>
B		<u>622165</u>	<u>115328</u>
Decrease/(Increase) in Stocks (A-B)		<u><u>(506837)</u></u>	<u><u>3609036</u></u>
SCHEDULE-16			
RAW MATERIAL CONSUMED			
COTTON			
Opening stock		393788	13073161
Add: Purchases		<u>5341587</u>	<u>23412694</u>
		<u>5735375</u>	<u>36485855</u>
Less: Closing stock		<u>16880</u>	<u>393788</u>
TOTAL		<u><u>5718495</u></u>	<u><u>36092067</u></u>

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SCHEDULES FORMING PART OF THE ACCOUNTS

	For the year ended 31.03.2006 Rs.	For the year ended 31.03.2005 Rs.
SCHEDULE - 17		
MANUFACTURING EXPENSES		
Repairs & Maintenance	2137794	2860411
Wages & Salary - Factory	3936591	2593908
Power & Fuel	23029139	23041610
Excise Duty	-	1860858
TOTAL	<u>29103524</u>	<u>30356787</u>
SCHEDULE-18		
PAYMENTS AND BENEFITS TO EMPLOYEES		
Salaries & Wages	596252	526069
Welfare expenses	950459	370133
TOTAL	<u>1546710</u>	<u>896202</u>
SCHEDULE - 19		
ADMINISTRATIVE EXPENSES		
Printing & stationery	15405	22462
Communication cost	155878	123274
Travelling & Conveyance	59035	24988
Security service	119862	79200
Licence & taxes	97618	155398
Director's sitting fee	4500	3500
Insurance	308210	322440
Advertisement	48202	69051
Director's remuneration	600000	1440000
Legal & professional charges	229159	188704
Auditors remuneration	35000	35000
General expenses	36137	10507
Building Maintenance	39585	-
Rent	12000	12000
Subscription & Membership fee	7500	28500
TOTAL	<u>1768090</u>	<u>2515024</u>
SCHEDULE-20		
SELLING EXPENSES		
Packing material & expense	-	184275
Quality Allowance	-	387040
Sales tax	275223	2023095
TOTAL	<u>275223</u>	<u>2594410</u>
SCHEDULE-21		
INTEREST & FINANCIAL CHARGES		
Term loan & others	30081177	35439933
Bank charges	35618	32209
TOTAL	<u>30116795</u>	<u>35472141</u>

Sterling Spinners Ltd.,

SCHEDULE - 22

Notes forming part of the Balance Sheet as at 31st March, 2006 and Profit & Loss Account for the year ended on that date.

1. SIGNIFICANT ACCOUNTING POLICES:

A. Accounting Convention:

The Financial Statements are prepared in accordance with the requirements of the Companies Act, 1956 under the historical cost convention on the accrual basis.

B. Revenue Recognition:

Revenue from sale of goods is recognised upon passing of title to the consumer, and delivery as per terms of sale. Other income and expenses are accounted for on mercantile basis.

C. Fixed Assets:

Fixed Assets are stated at historical cost of acquisition (less CENVAT Credits) including installation and commissioning charges less accumulated depreciation. None of the Fixed Assets have been revalued during the year.

Depreciation is provided on Straight Line Method at the rates prescribed under the Schedule - XIV of the Companies Act, 1956 and while doing so the Plant and Machinery has been considered as continuous process plant by the Company.

D. Inventories:

- i. Raw material and work-in-process: Valued at cost on FIFO basis.
- ii. Finished goods and other Stock-in-trade: Valued at cost or net realisable value, whichever is lower.
- iii. Stores and Spares: Valued at cost.
- iv. Packing Material: Valued at cost
- v. Cotton waste: Net realisable value.

E. Investments: NIL

F. Retirement benefits

- i. Provident Fund : Eligible Employees receive benefits from a provident fund which is a defined contribution plan. The Company is regular in payment of Provident Fund dues.
- ii. Gratuity : The estimated liability of gratuity payable as per the management works out to Rs. 93, 515/- in accordance with the provisions of payment of Gratuity Act, 1972 which has been provided for.
- iii. Leave encashment : As determined on the basis of Leave Rules of the Company and are charged to the Profit and Loss Account on accrual basis.

G. Sales:

Sales represent the amount receivable for goods sold.

H. Foreign Exchange Transactions:

During the year the Company has not dealt with foreign exchange transactions.

I. Preliminary Expenses

1/10 of the preliminary expenses have been written off during the year.

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2. Estimated amount of contracts remaining to be executed on Capital Accounts not provided for

2005-06	2004-05
Nil	Nil

3. **Secured Loans:**

- a. Term loans from Financial institutions and Bank: They are secured by mortgage of fixed assets present and future of the Company on paripassu basis and floating charge on current assets subject to first charge to bank providing Working Capital. They are also guaranteed by the Chairman-Cum-Managing Director.
- b. Working Capital Loan has been secured against hypothecation of stock of raw material, finished goods, work-in-process, stores and spares, book debts and collaterally secured by second charge on the entire block of assets and by personal guarantee of Chairman-Cum-Managing Director and a shareholder of the Company.

4. **Contingent Liabilities not provided for**

- a. No provision has been made for the "Backward area power tariff concession" amounting to Rs. 80.94 lakhs claimed and taken credit in accounts but refused by the TNEB. The Madras High Court vide its order dated 19th July'05 has decided the case in favour of the Company, TNEB has appealed to Supreme court by way of special leave petition. Against this the Company has made a deposit of Rs 68.52 lakhs.
 - b. The Company has not yet made payment for purchase of machinery to M/s Textool Ltd., amounting to Rs. 97.06 lakhs and is pending since 2000. The Company has not made any provision for the interest payable of Rs. 90.30 on the above outstanding amount as per the MOU entered with that Company.
 - c. The Provident Fund Authorities vide their letter dt. 12.02.98 have intimated that the provisions of the Provident Fund Act are applicable to the Company with effect from 22.09.97. But the Company has disputed the same in Madras High Court. As a matter of caution the Company has made a provision of Rs 2.95 Lakhs towards P.F. Payable, in earlier years. However, with effect from 5th July 1999, the Company has complied with the provisions of the said Act.
5. As the net worth of the Company has been eroded, a reference as per provisions of Sick Industrial Companies (special provisions) Act 1985, (1 of 1986) was made to the Hon'ble BIFR on 28.05.2001 and the Company was declared as Sick Industrial Company by the Hon'ble BIFR on 06.05.2003.
6. The Company has not made any provision for the interest on Inter Corporate Deposit of Rs. 83.27 lakhs, taken from M/s. Savorit Limited, as the said Company has waived the interest.
7. The Company has not made any provision for the interest payable on unsecured loan taken from Chairman - cum - Managing Director since he has waived the interest.
8. In the absence of taxable income, no provision for income tax has been made.

9. **Director's Remuneration:**

As minimum remuneration as per schedule XIII of the Companies Act, 1956 has been paid to the Chairman-Cum-Managing Director, the Computation under section 349/350 of the Companies Act, 1956 has not been furnished.

	2005 - 06	2004 - 05
Remuneration	Rs.6.00 Lakhs p.a	Rs.14.40 Lakhs p.a

10. Some of the balances of Sundry Debtors, Sundry Creditors and Other Advances are subject to confirmation.
11. In the opinion of the Board of Directors the Current Assets, such as Stock-in-Trade, Sundry Debtors & Loans and advances are shown at realisable value.
12. As information relating to small scale units having business relationship with the Company is not readily available, such information is not furnished.

Sterling Spinners Ltd.,

13. Additional Information:

	2005 - 06		2004 - 05	
	M.T	Rs. in Lakhs	M.T	Rs. in Lakhs
a. Licensed Capacity (No. of Spindles)	Delicensed		Delicensed	
b. Installed Capacity (No. of Spindles)	16128		16128	
c. Production & Sales				
i. Production	108.424		541.256	
ii. Sales				
Yarn	102.034	70.58	559.378	519.77
Cotton	-	-	9.612	3.85
Waste	17.959	0.94	114.229	5.95
Job work receipts	1650.723	298.70	851.70	157.39
14. Raw Material Consumed				
Cotton	131.388	57.18	669.842	360.92
15. Opening & Closing Stocks				
a. Yarn	0.219	0.15	18.342	18.11
Work-in-Process	1.768	1.01	25.760	19.13
Total	1.987	1.15	44.102	37.24
Closing Stock				
Yarn	6.609	4.83	0.219	0.15
b. Work-in-Process	1.916	1.26	1.768	1.01
Total	8.525	6.09	1.987	1.15
16. Percentage of Raw Material Consumed Indigenous	100%	57.18	100%	360.92
17. Percentage of Spares parts & Components consumed (including machinery maintenance)	100%	21.38	100%	28.60
		2005-06	2004-05	
18. Auditor's Remuneration				
Audit Fee		0.20	0.20	
Tax Audit Fee		0.15	0.15	
Other Matters		-	-	
Total		0.35	0.35	
19. Value of Imports (CIF Value)				
a) Raw Materials		-	-	
b) Capital Goods		-	-	
20. Expenditure in Foreign Currency		-	-	
21. Previous Year's Figures have been regrouped where ever necessary.				
22(A) Related Parties:				
Sl.No.	Party	Relationship		
I. 1	Savorit Limited	Associate Enterprise		
2	Savorit Food Industries Limited	-do-		
3	Savorit Oils Limited	-do-		
II. a)	Sri. K.S. Venugopala, Chairman cum Managing Director	Key Managerial Personnel		
b)	Sri. R. Vijaykumar, Director	-do-		
c)	Sri. K. Alagiriswami, Director	-do-		

22(B). RELATED PARTY DISCLOSURES

Rs. in Lakhs

Sl.No.	Name of the related party	Description of the relationship	Nature of the transactions	Opening Balance 2004 - 2005	Volume of the transaction 2005 - 2006	Any other elements of the related party transactions	Amount written off in respect of debts due to related parties	Balance as on 31.03.2006
1.	K.S. Venugopala	Chairman - Cum- Managing Director	unsecured Loan received	NIL	56.02 (Cr.) (Net)	NIL	NIL	56.02 Cr.
2.	Savorit Limited	Controlled by the same management	Inter corporate deposit received	83.27 Cr.	NIL	NIL	NIL	83.27 Cr.
		United India Rentals (A Division of Savorit Limited)	Rental Payment	0.12 Cr.	0.03 (Cr.) (Net)	NIL	NIL	0.09 Cr.

23. The Basic and diluted Earning per Share (EPS)

Particulars	Year ended 31.03.2006	Year ended 31.03.2005
Loss After Tax	Rs. 36912584	Rs. 49653239
Number of Equity Share	7000000	7000000
Nominal Value of Ordinary Shares	Rs. 10/-	Rs. 10/-
Basic/diluted earning per share	Rs. (5.27)	Rs. (7.09)

24. The company has unabsorbed Depreciation and carry forward Losses under Income Tax Act, 1961 available to setoff against future taxable income. In the absence of virtual certainty of sufficient future taxable income to avail the said credit, deferred tax Assets are not recognised during the year.

Place: Chennai

Date: 29.05.2006

K.S. VENUGOPALA
CHAIRMAN-CUM-
MANAGING DIRECTOR

R. VIJAYKUMAR
DIRECTOR

As per our report attached
For **S. DHANYAKUMAR & CO.,**
CHARTERED ACCOUNTANTS

D. SAMPATHKUMAR
PROPRIETOR
M.No. 3483

Sterling Spinners Ltd.,

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

Registration No. **18-28672** State Code **18**
Balance Sheet **31032006**
Date _____ Date Month Year

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS. THOUSANDS)

Public Issue **NIL** Right Issue **NIL**
Bonus Issue **NIL** Private Placement **NIL**

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS. THOUSANDS)

Total Liabilities **351859** Total Assets **351859**
SOURCES OF FUNDS
Paid-up capital **70000** Reserves & Surplus **315**
Secured Loans **248310** Unsecured Loans **33234**

APPLICATION OF FUNDS

Net Fixed Assets **91242** Investments **-**
Net Current Assets **(15392)** Misc. Expenditure **391**
Accumulated Losses **275618** Deferred Tax Asset **-**

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover **39057** Total Expenditure **75979**
+ - PROFIT/LOSS BEFORE TAX **(-) 36922** + - PROFIT/LOSS AFTER TAX **(-) 36922**
(Please tick Appropriate box + for profit - for loss)
Earning per share in Rs. (Annualised) **NA** Dividend Rate (%) **0**

V. GENERIC NAMES OF PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY (AS PER MONETARY TERMS)

(Item Code No. (ITC Code)) **520790000** Product Description **COTTON YARN**

Place: Chennai
Date: 29.05.2006

K.S. VENUGOPALA
CHAIRMAN-CUM-
MANAGING DIRECTOR

R. VIJAYKUMAR
DIRECTOR

As per our report attached
For S. DHANYAKUMAR & CO.,
CHARTERED ACCOUNTANTS

D. SAMPATHKUMAR
PROPRIETOR
M.No. 3483

12th Annual Report 2005-2006

CASH FLOW STATEMENT FOR THE YEAR 2005 - 2006

A. CASH FLOW FROM OPERATING ACTIVITIES	31.03.2006 Rs. ('000)	31.03.2005 Rs. ('000)
Net profit before Tax and Extra Ordinary Items	(36922)	(49653)
Adjustment for:		
Depreciation	7566	7553
Other non-cash charges - Preliminary Exp. written off	391	391
Interest	30081	43384
Operating profit before working capital changes	<u>1116</u>	<u>(6270)</u>
Adjustment for:		
(Increase)/decrease in Sundry Debtors	-1471	15608
(Increase)/decrease in Inventories	(260)	16212
(Increase)/decrease in Loans & Advances	(1130)	(330)
Increase/(decrease) in Current Liabilities	<u>(1428)</u>	<u>5060</u>
Cash generated from operations (A)	<u>(231)</u>	<u>(1210)</u>
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Additions to Fixed Assets including CWIP and advances on capital account	-	256
Net Cash From Investing Activities (B)	-	<u>256</u>
C. CASH FLOW FROM FINANCIAL ACTIVITIES:		
Repayment of Borrowings	(5259)	(390)
Sales Tax deferment loan from Tamilnadu Govt.	(45)	1999
Loans from Promoters	5602	(466)
HP Loan	(0)	(2)
Interest paid	<u>(0)</u>	<u>(1)</u>
Net Cash From Financing Activities (C)	<u>298</u>	<u>1140</u>
Net Increase/(Decrease) in Cash and Cash Equivalents(A+B+C)	67	(325)
Opening Balance of Cash and Cash Equivalents	97	422
Closing Balance of Cash and Cash Equivalents	164	97

Place: Chennai
Date: 29.05.2006

K.S. VENUGOPALA
CHAIRMAN-CUM-
MANAGING DIRECTOR

R. VIJAYKUMAR
DIRECTOR

Sterling Spinners Ltd.,

**S. DHANYAKUMAR & Co.,
CHARTERED ACCOUNTANTS**

**PHONE : 24341189
3, SOUTH BOAG ROAD,
T. NAGAR,
CHENNAI - 600 017.**

AUDITOR'S CERTIFICATE

To
The Board of Directors
Sterling Spinners Ltd.,
Chennai - 600 081.

We have verified the above Cash Flow Statement of M/s. Sterling Spinners Ltd., derived from the Audited Financial Statements for the year ended 31st March, 2006 and found the same to be drawn in accordance with and also with the requirements of Clause 32 of the Listing Agreement with Stock Exchanges.

Place : Chennai
Date : 29.05.2006

**For S.DHANYAKUMAR & CO.,
CHARTERED ACCOUNTANTS**

**D.SAMPATHKUMAR
PROPRIETOR
M.No. 3483**

STERLING SPINNERS LTD.,
New No. 4, (Old No. 377/2) S.N. Street, Tollgate, Chennai-600 081.

PROXY FORM

Regd. Folio No.....No. of Shares held.....
I/We.....of.....
in the district being a member/members of Sterling Spinners Ltd. hereby appoint.....
.....in the district of.....of failing him/
her.....of.....in
the district of.....as my/our Proxy to attend and vote
for me/us behalf at the Twelveth Annual General Meeting of the Company to be held on Friday the 29th September
2006 at 10.00 a.m. and at any adjournment thereof.

As Witness my hand/our hands this.....day of.....2006.

Signed by said.....

Notes : a) The form should be signed across the stamp as per specimen signatures
Registered with the Company.

b) The Proxy form duly completed must be deposited at the Registered Office of the Company not less
than 48 hours before the time fixed for holding the aforesaid meeting.

Affix
1 Rupee
Revenue
Stamp

----- (Tare Here) -----

STERLING SPINNERS LTD.,
New No. 4, (Old No. 377/2) S.N. Street, Tollgate, Chennai-600 081.

ATTENDANCE SLIP

(To be handed over at the entrance of the meeting hall)

I/We hereby record my/our presence at the 12th Annual General Meeting of the Company held at 10.00 a.m. on
Friday the 29th September 2006 at New No. 4, (Old No. 377/2), S.N. Street, Tollgate, Chennai-600 081.

Full Name of Member (in Block Letter).....

Regd. Folio No.....No. of Shares held.....

Full Name of the Proxy (in Block Letter).....

Signature of the Member (s) or Proxy/Proxies Present.....

Please complete and sign this attendance slip and handover at the entrance of the meeting hall. Only Member(s)
or their proxies with this attendance slip will be allowed entry to the Meeting.

(Tare Here)

Book - Post.

To

If undelivered please return to :
STERLING SPINNERS LTD.,

Registered Office :
New No. 4, (Old No. 377/2) S.N. Street,
Tollgate, Chennai-600 081.