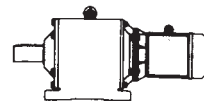
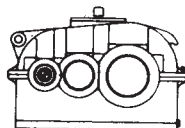
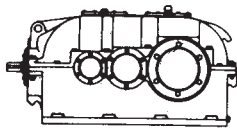
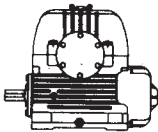
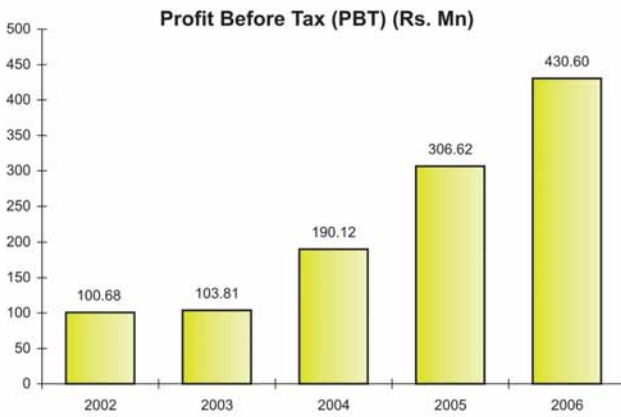
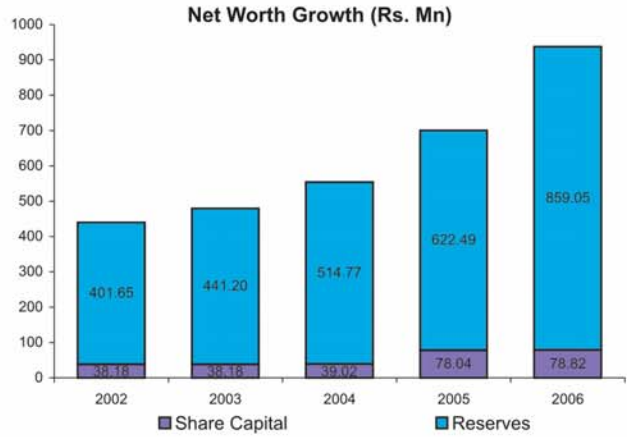
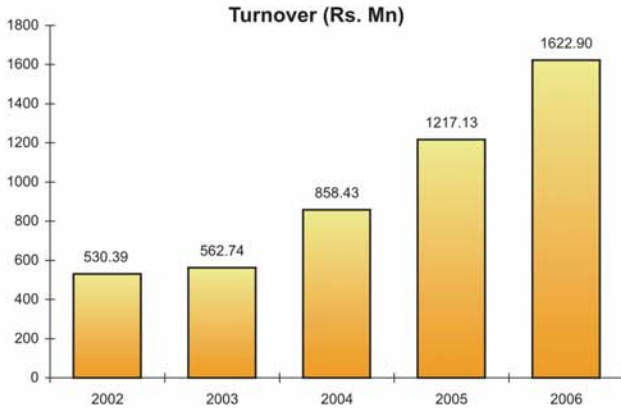


Shanthi  **Gears**

Thirty Third Annual Report 2006



Financial Performance Indicators



SHANTHI GEARS LIMITED

BOARD OF DIRECTORS

Shri P SUBRAMANIAN
Chairman & Managing Director

Shri P N GOPAL

Dr. D PADMANABAN

Shri M J VIJAYARAAGHAVAN

Ms S SANGEETHA
Wholetime Director

COMPANY SECRETARY

Shri C SUBRAMANIAM

AUDITORS

M/s. S LAKSHMINARAYANAN ASSOCIATES

INTERNAL AUDITOR

Shri T RAGHUNATHAN

BANKERS

STATE BANK OF INDIA
THE HONGKONG AND SHANGHAI BANKING
CORPORATION LIMITED
THE BANK OF NOVA SCOTIA
THE TORONTO-DOMINION BANK

REGISTRARS & SHARE TRANSFER AGENTS

S.K.D.C. Consultants Limited
No.7 (Old No.11), Street No.1, S.N. Layout
West Power House Road
Coimbatore - 641 012.

REGISTERED OFFICE

304-A, Trichy Road,
Singanallur, Coimbatore - 641 005.

PLANTS

A UNIT
304-A, Trichy Road,
Singanallur,
Coimbatore - 641 005.

B UNIT
304-F, Trichy Road,
Singanallur,
Coimbatore - 641 005.

C UNIT
Avanashi Road,
Muthugoundenpudur (PO),
Coimbatore - 641 406.

D UNIT
K. Krishnapuram,
Kamanaickenpalayam (PO),
Coimbatore - 641 658.

E UNIT
2249 A-1, Trichy Road,
Singanallur,
Coimbatore - 641 005.

FOUNDRY DIVISION
Kannampalayam, Suler Via,
Coimbatore - 641 402.

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NOTICE

Notice is hereby given that the **33rd Annual General Meeting** of the Company will be held on Friday the **14th day of July, 2006** at **9.30 a.m.** at the Registered Office of the Company at 304-A, Trichy Road, Singanallur, Coimbatore-641005 to transact the following business.

A G E N D A

Ordinary Business

1. To receive, consider and adopt the Directors' Report, Profit & Loss Account for the year ended 31st March 2006, the Balance Sheet as on that date and the Auditor's Report thereon.
2. To declare a Dividend.
3. To appoint a Director in the place of Sri. P.N.Gopal who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Sri. M.J.Vijayaraagavan who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

Special Business

6. To consider and if thought fit, to pass with or without modification, the following Resolution as a Special Resolution.

"RESOLVED that pursuant to the provisions of Section 314 (1) and other applicable provisions, if any, of the Companies Act, 1956, approval of the members be and is hereby given to the appointment of Ms. S. Sathya, daughter of Sri. P. Subramanian, Chairman & Managing Director and Sister of Ms. S. Sangeetha, Wholetime Director of the Company and her holding and continuing to hold office of profit as Vice President (Commercial) with effect from 1st April 2006 on the following Terms of Remuneration

Salary : Rs.35000 per month

Bonus : One Month Salary per Annum.

In addition, she shall be entitled to Provident Fund, Superannuation, Gratuity and other facilities, as admissible to the Cadre, as per the rules of the Company."

By Order of the Board

P. Subramanian

Chairman & Managing Director

Coimbatore
12th May, 2006

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself. Such proxy need not be a member of the Company. Proxies in order to be effective must be received by the Company not less than 48 hours before the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 01st July 2006 to 14th July 2006 (Both days inclusive).
3. Dividend on approval will be paid on 17th July 2006 to the members whose name appear in Register of Members as on 14th July 2006. In respect of shares held on Demat Form, the Dividend will be paid to the Beneficial owners as on the closing hours of 30th June 2006 as per the details forwarded by the RTA for this purpose.
4. In compliance with Section 205A and 205C of the Companies Act, 1956 unclaimed dividend upto the year ended 31st March, 1998 has been transferred to the "Investors Education and Protection Fund" established by the Central Government. Remaining unpaid dividends that are due for transfer are given below :

Dividend	For the Financial Year Ended	Date of Payment	Due for Transfer on
Final	31.03.1999	05.09.1999	13.09.2006
Interim	31.03.2000	29.05.2000	25.05.2007
Final	31.03.2001	27.07.2001	29.08.2008
Final	31.03.2002	29.07.2002	28.08.2009
Final	31.03.2003	01.08.2003	31.08.2010
Final	31.03.2004	05.07.2004	09.08.2011
Final	31.03.2005	14.07.2005	18.08.2012

Members who have not encashed their Dividend Warrants in respect of the year ended 31st March 1999 and succeeding years, are requested to make their claim to the Company by surrendering the unencashed warrants immediately.

5. Members are requested to notify immediately of any change in their address to the Registrars. Members holding shares in the electronic form are advised to notify any change in their address to the concerned Depository Participant. Members are requested to send Electronic Clearance Service Mandate (ECS) to the Registrars to enable the company to pay the dividend through Electronic Clearance Service (ECS).

6. Members are requested to bring their copies of report and Accounts to the Meeting.

7. Company's Equity Shares are listed at

National Stock Exchange Limited,
Trade World, Kamala Mill Compound,
2nd Floor, Senapati Bapat Marg,
Lower Parel, MUMBAI - 400 013.

Bombay Stock Exchange Limited,
Phiroze Jeejeebhoy Towers
Dalal Street,
MUMBAI - 400 001.

The Company has paid the Annual Listing fees for the financial year 2006-07 in respect of the above Stock Exchanges.

8. Members requiring information on the Accounts are requested to write to the Company atleast seven (7) days in advance, so as to enable the Company to furnish such information.

9. Details of shares held by Non-executive Directors who are seeking re-appointment are given below. None of them are holding shares on beneficial basis by/for other persons.

Name of Director	Number of shares held
1) Sri P.N. Gopal	50,000
2) Sri M.J. Vijayaraagaven	NIL

Explanatory Statement under Section 173(2) of the Companies Act, 1956

Item No.5

Ms. S. Sathya is the daughter of Sri. P. Subramanian, Chairman & Managing Director and Sister of Ms. S. Sangeetha, Wholetime Director of the Company. She is a Commerce Graduate and underwent Chartered Accountancy training. She is a Qualified Lead Auditor for ISO Certification. She was appointed as Commercial Executive by the Board of Directors on 26.08.1994. Since she has undergone training in various departments of the Company and has got the relevant exposure, the Board has appointed her as Vice President (Commercial) with effect from 1st April 2006. The Board has also approved the remuneration payable to her. The above remuneration payable to her requires the approval of members by means of Special Resolution.

The resolution is recommended to the members for approval as Special Resolution. Sri. P. Subramanian, Chairman & Managing Director and Ms. S. Sangeetha, Wholetime Director are concerned and interested in the Resolution.

Coimbatore
12th May, 2006

By Order of the Board
P. Subramanian
Chairman & Managing Director

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors have pleasure in presenting to you the Thirty third Annual Report, together with the audited accounts of your Company, for the year ended 31st March 2006.

FINANCIAL RESULTS

	31-03-2006 Rs. in Millions	31-03-2005 Rs. in Millions
Gross profit before interest and depreciation	588.030	416.841
Less : Interest	29.969	13.822
Depreciation	127.140	95.756
Donations	0.325	0.644
Provision for taxation / Withholding Tax	113.647	105.00
Fringe Benefit Tax	2.400	—
Deferred Taxes	33.969	9.243
Prior year Taxes	—	1.147
	<u>280.580</u>	<u>191.229</u>
Add : Surplus brought forward	12.709	15.970
	<u>293.289</u>	<u>207.199</u>
Appropriations :		
Proposed Dividend	79.993	39.018
Tax on Dividend	11.219	5.472
Debenture Redemption Reserve	10.000	10.000
General Reserve	160.000	140.000
Surplus in Profit & Loss Account	32.077	12.709
	<u>293.289</u>	<u>207.199</u>

DIVIDEND

Your Directors recommend a Dividend of **100%** (Re. 1 per Equity Share of Re.1 each fully paidup)

OPERATING RESULTS

The Company has achieved a Turnover of **Rs.1622.898** Million for the year under review as against the turnover of **Rs.1217.131** Millions of the previous year showing a growth of **33.34%**. The other financial parameters have also improved in line with the sales growth. Barring unforeseen circumstances your Directors hope to achieve satisfactory results for the current year.

CHANGES IN SHARE CAPITAL

As per the approval accorded at the EGM held on 23rd September 2005, the company had issued Foreign Currency Convertible Bonds (FCCBs) for the value of US \$10 Millions on 14/11/2005. The Bondholders have exercised the option of conversion of FCCBs into equity shares for the value of US\$ 1,000,000 before 31st March 2006 and subsequently US \$ 1,500,000 totalling to US \$ 2,5 Million out of US \$ 10 Millions. The company had allotted 783,033 Equity Shares of Re.1 each before 31st March 2006 and subsequently 1,174,549 Equity Shares of Re.1 each totalling to 1,957,582 equity shares of Re.1 each on conversion of FCCBs. Consequent to changes, the Issued Subscribed and paid up Equity Capital of the Company is 79,993,182 Equity Shares of Re.1 each.

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

The Company is making continuous efforts to conserve and optimise energy wherever practicable by economising on fuel and power. For the Company's existing product line there is no technical collaboration/arrangement. Your Company has made export sales of **Rs.91.17 Millions** during the year. The outflow of foreign exchange on import of Machinery, interest on FCNR (B) Loans, interest on FCCBs, Raw Materials, Consumable stores & Tools, Machinery Spares, Advertisement, Subscription,

Sales Promotion Expenses, Exhibition Expenses, Commission and Germany Liaison Office Expenses amounted **Rs.386.90 Millions** and **Rs.0.27 Million** has been spent towards payment of dividend for the year ended 31st March, 2005.

FIXED DEPOSITS

No Fixed Deposit which has become due remains unpaid as on the last day of the Financial Year.

DIRECTORS

The following Directors are due to retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-election

Sri P.N. Gopal

Sri M.J. Vijayaraagavan

DIRECTORS' RESPONSIBILITY STATEMENT

In compliance to the Provisions of Section 217 (2AA) of the Companies Act, 1956 your Directors wish to place on record –

- (i) that in preparing the Annual Account, all applicable accounting standards have been followed;
- (ii) that the accounting policies adopted are consistently followed and the judgments and estimates made 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 and Loss Account of the Company for the Financial year;
- (iii) that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities;
- (iv) that the Directors have prepared the Annual Accounts on going concern basis.

CORPORATE GOVERNANCE

Pursuant to the requirements of Listing Agreements with the Stock Exchanges, your Directors are pleased to annex the following :

1. Management Discussion and Analysis Report
2. A Report on Corporate Governance
3. Auditors' Certificate regarding Compliance of conditions of Corporate Governance.

AUDITOR

Your Company's auditors M/s. S. Lakshminarayanan Associates are due to retire at the ensuing Annual General Meeting and are eligible for re-appointment.

PERSONNEL

In accordance with the requirements of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, particulars of employees are given in the annexure to this report.

APPRECIATION

The relationship between management and Staff & Workers is very cordial and your Directors wish to place on record their sincere appreciation for the devoted and efficient services rendered by all employees of the Company. Your Directors thankfully acknowledge the continued co-operation and support rendered by Banks and Financial Institutions. The Board conveys its thanks to the Central and State Governments. It also thanks its customers and suppliers for their support and investors for reposing faith in the Company.

Coimbatore
12th May, 2006

By Order of the Board
P. Subramanian
Chairman & Managing Director

Statement Under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2006.

S.No.	Name	Age (Years)	Designation/ Nature of duties	Remuneration Rs.	Qualification	Experience	Date of Commencement of Employment	Previous Employment
1.	Mr. P. Subramanian *	63	Chairman & Managing Director Overall Management of the affairs of the Company	23,156,991	L.M.E. P.D. Prod.E.	41 Years	01-07-1972	Managing Partner Shanthy Engg & Trading Company.
2.	Ms. S. Sangeetha *	31	Wholetime Director Day to day Management of the Company	9,262,796	B.B.M.	10 Years	05-01-1996	—

* Note : The nature of employment is contractual.
Mr. P. Subramanian and Ms. S. Sangeetha are related.

Coimbatore
12th May, 2006

For The Board of Directors
P. Subramanian
Chairman & Managing Director

REPORT ON CORPORATE GOVERNANCE

1. Company's Philosophy of Corporate Governance
The Company firmly believes in good Corporate Governance and envisage the attainment of transparency in all matters of Management of the Company and in reporting to the Share Holders and all other concerned.
2. Board of Directors
 - a) The Board of Directors consists of 5 Directors, of whom 3 are Independent Non-executive Directors. An Executive Chairman heads the Board.
 - b) Attendance of each Director at the Board Meetings and the Last Annual General Meeting (AGM).

Name of the Directors	Category of Directorship	No. of Board Meeting Attended	Attendance at the Last AGM
Sri. P. Subramanian	Chairman & Managing Director Executive Director	4	Present
Sri. P.N. Gopal	Independent Director Non Executive	5	Present
Dr. D. Padmanaban	Independent Director Non Executive	4	Present
Sri. M.J. Vijayaraaghavan	Independent Director Non Executive	5	Present
Ms. S. Sangeetha	Wholetime Director Executive Director	4	Present

c) Number of other Companies or Committees the Directors of the Company is a Director / Member/ Chairman.

Name of the Directors	Other Directorship	Other Committee Positions	
		Member	Chairman
Sri. P. Subramanian	1	- NIL -	- NIL -
Sri. P.N. Gopal	- NIL -	- NIL -	- NIL -
Dr. D. Padmanaban	2	- NIL -	- NIL -
Sri. M.J. Vijayaraaghavan	1	- NIL -	- NIL -
Ms. S. Sangeetha	1	- NIL -	- NIL -

d) Details of Board Meetings held during the Period from 01.04.2005 to 31.03.2006.

Sl. No.	Date of the Meeting
1	14.05.2005
2	11.07.2005
3	19.08.2005
4	20.10.2005
5	18.01.2006

3. Audit Committee

The Audit Committee consists of 3 Independent Directors.

The Details of Audit Committee Meetings held

Sl. No.	Date of the Meeting
1	13.05.2005
2	08.07.2005
3	17.10.2005
4	17.01.2006

Composition of Audit Committee and Meeting Attendance

Sl.No.	Members of Audit Committee	No.of Meetings Attended
1	Sri. M.J. Vijayaraaghavan, Chairman	4
2	Sri. P.N. Gopal	4
3	Dr. D. Padmanaban	3

The terms of reference to the Audit Committee are wide enough to cover all matters specified under the Listing Agreement and the Companies Act, 1956.

The Committee has met 4 times during the Financial Year ended 31st March, 2006.

4. Remuneration paid to Chairman & Managing Director and Wholetime Director.

The Board of Directors at their Meeting held on 30.05.2003 have approved the re-appointment of Chairman & Managing Director and remuneration payable to him as recommended by the Remuneration Committee at their meeting held on 29.05.2003. The members in the General Meeting held on 28.07.2003 have approved the re-appointment of Mr.P.Subramanian as Chairman & Managing Director for a period of 5 years from 01.04.2004 and remuneration payable to him.

The aggregate value of salary, perquisites and commission for the period from 01.04.2005 to 31.03.2006 paid to the Chairman & Managing Director are given below :

Salary	Rs. 2,400,000
Perquisite	Rs. 3,079
Commission	Rs. 20,753,912
	Rs. 23,156,991

The Board of Directors at their Meeting held on 24.07.2002 have approved the appointment of Wholetime Director and remuneration payable to her as recommended by the Remuneration Committee at their meeting held on 24.07.2002. The members in the General Meeting held on 28.07.2003 have approved the appointment of Ms.S.Sangeetha as Wholetime Director for a period of 5 years from 24.07.2002 and remuneration payable to her.

The aggregate value of salary, perquisites and commission for the period from 01.04.2005 to 31.03.2006 paid to the Wholetime Director are given below :

Salary	Rs. 1,200,000
Perquisite	Rs. 144,000
Commission	Rs. 7,918,796
	<u>Rs. 9,262,796</u>

5. Remuneration paid to non executive Directors

No Remuneration is paid to Non Executive Directors except Sitting Fees payable for attending Board Meetings/ Committee Meetings which are as under.

Name of the Directors	Sitting Fees Paid
Sri. P.N. Gopal	Rs. 45,000
Dr. D. Padmanaban	Rs. 35,000
Sri. M.J. Vijayaraaghavan	Rs. 45,000

Non-executive Directors are not holding any convertible Instruments. Details of shares held by them are as under. None of them are holding shares on beneficial basis by / for other persons.

Name of the Director	Number of shares held
Sri. P.N. Gopal	50,000

6. Shareholders / Investors Grievance Committee

- a) The Shareholders/ Investors Grievance Committee consists of 3 Independent Directors.
b) Composition of Shareholders / Investors Grievance Committee

Sl.No.	Members
1	Sri. P.N. Gopal, Chairman
2	Sri. M.J. Vijayaraaghavan
3	Dr. D. Padmanaban

- c) Compliance Officer
Sri. C. Subramaniam, Company Secretary.
d) Complaints

During the year, 12 letters/complaints were received from the Investors, which were replied/resolved to the satisfaction of the investors and none of the complaint is pending. Complaints were routine in nature and it was resolved by the Company/ RTA.

6 Share Transfers for 8580 shares were pending as on 31st March 2006. Of these 2 transfers for 2480 Shares were processed on 01.04.2006, 1 transfer for 4000 shares was processed on 15.04.2006 and 3 transfers for 2100 shares were processed on 29.04.2006.

7. Remuneration Committee

- a) The Remuneration Committee consists of 3 Independent Directors.
b) The Details of Remuneration Committee Meeting held

- NIL -

- c) Composition of Remuneration Committee

Sl. No.	Members
1	Sri. M.J. Vijayaraaghavan, Chairman
2	Sri. P.N. Gopal
3	Dr. D. Padmanaban

8. General Body Meeting

i) Location and time of Last Three Annual General Meetings held.

Financial Year Ending	Date	Time	Venue
31.03.2003	28.07.2003	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore – 641 005
31.03.2004	02.07.2004	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore – 641 005
31.03.2005	11.07.2005	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore – 641 005

ii) Location and Time of Extra-Ordinary General Meeting held

Date	Time	Venue
23.09.2005	4.00 P.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore – 641 005

iii) Whether Special Resolutions passed at previous 3 AGMs :

— YES —

iv) Postal Ballot

A) Special Resolution for inclusion of the new objects in the Memorandum of Association of the Company.

B) Voting Pattern

Resolution relating to alteration of the clause III of the Memorandum of Association of the Company by inclusion of the new objects as item Nos.3,4,5 & 6 in sub-clause (a) of Clause III			
Particulars	No. of Ballots	No. of Votes	%
Total number of ballots deposited	1955	40828111	
Total number of ballots found to be invalid	116	229370	
Total number of valid votes	1839	40598741	
Total number of votes FOR	1830	40596279	99.99
Total number of votes AGAINST	9	2462	0.01

C) Persons who conducted the postal ballot exercise

Mr. P. Subramanian	Chairman & Managing Director
Mr. C. Subramaniam	Company Secretary
Mr. M.R.L. Narasimha Practicing Company Secretary	Scrutinizer

D) Procedure for postal Ballot

a	Board Meeting approving Postal Ballot	14.05.2005
b	Appointment of Scrutinizers	14.05.2005
c	Intimation to the Registrar of Companies	20.05.2005
d	Despatch of Notices & Postal Ballot Completed under Certificate of Posting	27.05.2005
e	Issue of Advertisement in the following newspapers informing completion of dispatch of notices 1) Business Line 2) Dinamalar	04.06.2005 04.06.2005
f	Cut off date for receipt of postal ballot	30.06.2005
g	Scrutinizer submitted report on	08.07.2005
h	Announcement of the result of postal ballot at Annual General Meeting held on	11.07.2005

v) Any voting proposed to be conducted through postal ballot, this year :

- NO -

9. a) Code of Conduct

The Board of Directors at their meeting held on 24th January 2005, approved the Code of Conduct for all the Directors and Senior Management Personnel. The said Code of Conduct has been posted on the website of the Company www.shanthigears.com. The CEO Certificate on compliance is furnished separately.

b) CEO / CFO Certification

CEO / CFO Certification under the corporate Governance Guidelines prescribed by SEBI has been submitted to the Board by the CEO and CFO.

10. a) Disclosure on Materially significant related party transaction.

The Company had not entered into any transaction of a material nature which will have a conflict with its interest during the year.

Full disclosure of related party transactions as per Accounting Standard 18 issued by the Institute of Chartered Accountants of India is given under Note No.16 of Notes on the Annual Accounts. All the transaction covered under related party transaction were fair, transparent and at arms length.

b) Details of Non-compliance by the Company, penalties, strictures imposed on the Company by the Stock Exchanges, SEBI or any Statutory authorities on any matter related to capital markets during the last three years.

NIL

c) The Company is not implementing formal Whistle Blower policy. However, no personnel has been denied access to the Audit Committee of the Company.

d) The Company has implemented all mandatory requirements of clause 49 of the listing agreement. Details of compliance of Non-mandatory requirements are given below.

A. Chairman of the Board :

The Company has Executive Chairman. Therefore clauses relating to non-executive chairman are not applicable to the company

B. Remuneration Committee :

The company has formed remuneration committee. Details of the committee are given in point No.7 of the report on Corporate Governance.

C. Audit Qualifications :

Financial Statements of the company does not have any Audit qualifications

11. Means of Communication

- i) Half Yearly Report sent to each house hold of Share holders : No. Quarterly, Half Yearly, Unaudited Financial Results and Audited Financial Results are published in leading National News Papers and in Regional News Papers.
- ii) Quarterly Results published in News Papers. : Yes. Details of Publication for the period 01.04.2005 to 31.03.2006 is as under.

Year Ended/ Quarter ended	Audited / Unaudited	Approved on	Published in
31.03.2005	Audited	14.05.2005	Business Line, Dinamalar, Dinathanthi & The Economic Times
30.06.2005	Unaudited	11.07.2005	Business Line, Dinamalar, Dinathanthi & The Financial Express
30.09.2005	Unaudited	20.10.2005	Business Line, Dinamalar & The Financial Express
31.12.2005	Unaudited	18.01.2006	Business Line, Dinamalar & The Financial Express

- iii) Any website where results published : www.shanthigears.com
- iv) No presentation has been made to Institutional Investors or to the Analysts.
- v) The Management Discussion and Analysis (MD & A) is part of the Annual Report.

12. General Share Holders Information.

a) Annual General Meeting

- i) Date & Time : 14th July, 2006 - 9.30 A.M. (Friday)
- ii) Venue : Registered Office of the Company
304-A, Trichy Road, Singanallur, Coimbatore – 641 005

b) Financial Calendar

Annual General Meeting	:	14th July, 2006
Results for the Quarter Ending 30th June, 2006	:	Last Week of July, 2006
Results for the Quarter Ending 30th September, 2006	:	Last Week of October, 2006
Results for the Quarter Ending 31st December, 2006	:	Last Week of January, 2007
Results for the Year Ending 31st March, 2007	:	Last week of June, 2007

- c) Book Closure Date : 01.07.2006 to 14.07.2006 (Both days inclusive)
- d) Dividend Payment Date : **Dividend recommended by the Directors, after the same is approved by the members at the Annual General Meeting will be paid to the Share Holders whose name appear on the Company's Register of Members as on 14/07/2006 and for the Beneficial owners whose name appears on the closing hours of 30/06/2006 as per the details forwarded by RTA for this purpose.**
- e) Listing on Stock Exchanges : National Stock Exchange Limited (NSE) and Bombay Stock Exchange Limited (BSE)

i) Registrar and Transfer Agents :

S.K.D.C. CONSULTANTS LIMITED
 No.7, (Old No.11), Street No.1, S.N.Layout
 West Power House Road
 Coimbatore - 641 012.
 Tel : (0422) 5549995
 Fax : (0422) 2499574
 Email : info@skdc-consultants.com

j) Share Transfer System :

The Company's Shares are being in Compulsory Demat List and are transferable through Depository system. Both Demat and Physical Share Transfers are handled by S.K.D.C. Consultants Limited.

The Share transfers which are received in physical form are processed and the share Certificates are returned within 21 days from the date of receipt, subject to the Documents being valid and complete in all respects.

k) Share holding pattern as on 31.03.2006

Sl.No.	Category	No. of Shares	%
1.	Promoters	36614366	46.45
2.	Mutual funds, Banks, Financial Institution, Insurance Companies	11023084	13.99
3.	Foreign Institutional Investors	1142818	1.45
4.	N.R.I.'s / OCB's	1773096	2.25
5.	Private Corporate Bodies	4249083	5.39
6.	Indian Public	24016186	30.47
	Total	78818633	100.00

l) Distribution of Share holding as on 31st March, 2006

No. of Shares held	No. of Shareholders	%	No. of Shares	%
1 to 500	10087	65.12	1838291	2.33
501 to 1000	1625	10.49	1454321	1.84
1001 to 5000	2625	16.95	7232616	9.18
5001 to 10000	762	4.92	5222855	6.63
10001 to 100000	349	2.25	7643371	9.70
100001 and above	41	0.27	55427179	70.32
Total	15489	100.00	78818633	100.00

m) Dematerialisation of Shares and Liquidity

As on 31st March 2006, 73111604 shares were in dematerialized form representing 92.76% of total shares.

n) Details of outstanding Foreign Currency Convertible Bonds (FCCBs)

(Amount in US \$)

FCCBs issued on 14.11.2005	10,000,000
Less : Converted into 783033 equity shares of Re.1 each on 24.03.2006	1,000,000
Outstanding FCCBs as on 31.03.2006	9,000,000
Less : 1) Converted into 391516 equity shares of Re.1 each on 20.04.2006	500,000
2) Converted into 783033 equity shares of Re.1 each on 22.04.2006	1,000,000
Outstanding FCCBs as on 12.05.2006	7,500,000

The FCCBs are convertible at the option of the bondholders before 14th November 2010. If the bondholders exercised entire conversion option, the company has to issue another 5,872,752 equity shares of Re.1 each.

o) Plant Location

Location and address of plants are given in the beginning of the Annual Report.

p) Address for Correspondence:

S.K.D.C. CONSULTANTS LIMITED
No.7, (Old No.11), Street No. 1,
S.N. Layout, West Power House Road
Coimbatore- 641 012
Tel : (0422) 5549995
Fax : (0422) 2499574
Email : info@skdc-consultants.com

q) Address for Communication to the Company :

Shanthy Gears Limited
304-A, Trichy Road, Singanallur,
Coimbatore- 641 005
Tel : (0422) 2273722 to 34
Fax : (0422) 2273884 & 85
E-mail : finance@shanthigears.com

r) Website of the Company : www.shanthigears.com

s) Profile of the Directors who retire by Rotation

- 1) a. Name of the Director : Shri P.N. Gopal
b. Age : 66 Years
c. Date of Appointment : 17.03.1986
d. Qualification : B.E., F.I.E., Chartered Engineer
e. Directorship in other Companies : NIL
f. Others : He was the past District Governor of Rotary International 320. In addition, he was a member of Advisory Committee for Central Excise and Sales Tax. Presently he is a member of Public Hearing Panel and Pollution Control Board. In addition, he is a well-known Social Activist.
- 2) a. Name of the Director : Shri M.J. Vijayaraaghavan
b. Age : 73 Years
c. Date of Appointment : 31.10.2001
d. Qualification : FCA, Chartered Accountant
e. Directorship in other Companies : K.G. Denim Limited
f. Others : An eminent Chartered Accountant & Partner in the following Firms :
- 1) M.S. Jagannathan & Visvanathan
Chartered Accountants
2) S.V. Visvanathan & Associates
Chartered Accountants
3) M.S. Jagannathan & Co
Chartered Accountants

Coimbatore
12th May, 2006

On behalf of the Board of Directors
P. Subramanian
Chairman & Managing Director

CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT FOR BOARD OF DIRECTORS AND SENIOR MANAGEMENT PERSONNEL

To the Members of Shanthi Gears Limited

I, P. Subramanian, Chairman & Managing Director of the Company, hereby certify that the Board of Directors and senior management personnel have affirmed that they will comply with the code of conduct.

Coimbatore
12th May, 2006

On behalf of the Board of Directors
P. Subramanian
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

1. Industry Structure and Developments :

The surge in demand for almost all our products namely Gears, Gear Boxes, Geared Motors and Gear Assemblies both standard and custom-built continued to be in the upward spiral across all the product segments on account of all round growth witnessed cutting across all Industries.

The maximum expansion and Greenfield Projects were in the Steel sector followed by Sugar and Cement. Other Industries like Agriculture, Pharmaceutical, Paper, Fertilisers etc. also did extremely well. While the Order inflow has been satisfactory, indications are that during the current year also (2006-07), the Company will be able to register "good upward trend".

Our Company's prime motto — to be the leader in the trade — with ultra modern Manufacturing and Quality Control Facilities remains undiluted. Accordingly, State-of-the-art Production Machines / Quality Control facilities worth Rs 44.19 Crores have been added during the FY 2005-06 along with our existing battery of Machines. Further, Orders for Machineries worth Rs 37.47 Crores are yet to be executed by the respective Suppliers.

It is the proud privilege of your Company that no other Gear Manufacturer in the country is equipped with such a wide range of Manufacturing / Quality Control Facilities and Infrastructure.

2. Opportunities and Threats :

With the most modern facilities (on hand) in abundant scale, your Company is in a position to manoeuvre itself to take full advantage of the increase in demand without any system strain or other constraints.

Conversely, if there is a sudden downward slide in the demand for whatsoever be the reasons, there could be a situation of idle capacity. In order to descale the ill effects of such possible situation/s, we have taken adequate measures to increase exports. It is gratifying to note that our products are very well received in other Continents for "very good" quality, timely supplies and competitive prices.

3. Outlook :

Our supplies have been by and large on time delighting the customers. As such, repeat Orders and Orders from new customers are very well on board. Accordingly, the prospects for the year 2006-07 remain bright.

4. Risks and Concerns :

- Fierce competition.
- Frequent increase in the prices of Steel and other inputs.
- Customers' unwillingness to share the escalating input costs.
- Invasion of foreign brands.

5. Internal Control Systems and their adequacy :

The Company's Internal Control Systems are adequate and ensures that all assets of the Company are safely guarded against loss, damage or pilferage. The internal control systems are designed to provide adequate financial and accounting control and transparent Accounting standards.

6. Discussions on the financial performance with respect to operational performance :

During the year, the Company has achieved a sales turnover of Rs 1622.898 Million as compared to Rs 1217.131 Million of the previous year. This is 33.34% better over 2004-05. The Profit After Tax (PAT) of the current Financial Year is Rs 280.579 Million as against Rs 191.229 Million of the previous year which is 46.72% better over the previous year.

7. Material developments in Human Resources/Industrial Relations front, including number of people employed :

The Company firmly believes that Man Power is the most important asset, above all. Hence the needs and aspiration of all ranks and files are very well taken care of all the time without any let-up. The Industrial relationship at all factories remained cordial. The Company had 861 employees as of 31st March 2006.

8. Caution :

The views and statements expressed or implied in the Management Discussions and Analysis are based on available information, assessments and judgments. They are subject to alterations. The Company's Actual Performance may differ due to national or international ramifications, Governmental Regulations, Policies, Tax Laws and other unforeseen factors over which the Company do not or may not have any control.

Coimbatore
12th May, 2006

On behalf of the Board of Directors
P. Subramanian
Chairman & Managing Director

**AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE TO
THE MEMBERS OF M/s.SHANTHI GEARS LIMITED**

We have examined the compliance of the conditions of Corporate Governance by **SHANTHI GEARS LIMITED** for the year ended 31st March 2006 as stipulated in Clause 49 of the Listing Agreement of the said company, with the stock exchanges.

The compliance of the conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof, adopted by the Company for ensuring compliance with the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of 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 state that no investor grievance is pending for a period exceeding one month against the company as per the records maintained by the Shareholders / Investor Grievance Committee.

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

For **S.Lakshminarayanan Associates**
Chartered Accountants
S. Lakshminarayanan
F - 12024
Partner

Place : Coimbatore.
Dated : 12th May, 2006.

AUDITOR'S REPORT

Ladies and Gentlemen,

We report that We have audited the Balance Sheet of M/s. SHANTHI GEARS LIMITED, COIMBATORE as at 31st March, 2006 and the Profit & Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. 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.

We conducted the 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, disclosures in the financial statements, assessing the accounting principles used, 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.

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 Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to in Paragraph 1 & 2 above, We state that :

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for our Audit.
- b) In our opinion, proper books of account as required by law have been kept so far as appears from our examination of those books.
- c) The Balance Sheet, Profit & Loss Account and Cash Flow Statement referred to in this Report are in agreement with the Books of Account.
- d) In our opinion the Profit & Loss Account and Balance Sheet read together with the notes thereon and Cash Flow Statement, comply with the Accounting Standards referred to in sub section (3C) of Section 211 of the Companies Act, 1956.
- e) On the basis of written representation received from all the Directors as of 31st March, 2006 and taken on record by the Board of Directors, We report that none of the Directors are disqualified as of 31st March, 2006 from being appointed as Directors in terms of section 274 (1)(g) of the Companies Act, 1956.
- f) In our opinion and according to the information and explanations given to us and on the basis of such checks as We considered appropriate, the said Balance Sheet and Profit & Loss Account read together with the Notes thereon 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 as at 31st March, 2006
 - (ii) in the case of the Profit & Loss Account of the PROFIT for the year ended that date
and
 - (iii) in the case of Cash Flow Statement of the CASH FLOWS for the year ended that date

For **S.Lakshminarayanan Associates**
Chartered Accountants
S. Lakshminarayanan
F - 12024
Partner

Place : Coimbatore.
Dated : 12th May, 2006.

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF THE REPORT OF EVEN DATE OF THE AUDITORS TO THE MEMBERS OF M/s SHANTHI GEARS LIMITED

- (i) a) The Company has maintained proper records showing full particulars including quantitative details and situation of its fixed assets.
b) The fixed assets of the Company have been physically verified by the Management during the year and no material discrepancies were noticed on such verification.
c) The company has not disposed off substantial part of fixed assets.
- (ii) a) The Stock in trade (including raw material) and stores, spare parts of the Company at all its locations have been physically verified by the Management during the year.
b) In our opinion, the procedures for physical verification of stock followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.
c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stock and book records were not material.
- (iii) a) The Company has not granted any loans, secured or unsecured, to companies, firms and other parties listed in the register maintained under section 301 of the Companies Act, 1956.
b) The Company has not taken any loans, secured or unsecured, from companies, firms and other parties listed in the register maintained under section 301 of the Companies Act, 1956.
- (iv) In our opinion, the internal control procedures of the company relating to purchases of stores, raw materials including components, plant & machinery, equipments and other similar assets and for sale of goods & services are commensurate with its size and nature of its business. During the course of our audit, we have not observed any continuing failure to correct major weakness in internal control systems.
- (v) a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements that need to be entered into the register maintained under section 301 of the Companies Act, 1956 have been so entered.
b) In our opinion and according to the information and explanations given to us, the transactions in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to prevalent market prices at the relevant time.
- (vi) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of sections Section 58A and 58 AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
- (vii) In our opinion, the Company's internal audit system is commensurate with its size and nature of its business.
- (viii) The provisions of the Companies Act for maintenance of Cost Records Under Section 209 (1)(d) are not applicable to the Company.
- (ix) a) The Company is regular in depositing with the appropriate authorities the undisputed statutory dues relating to provident fund, employees state insurance, investor education protection fund, 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 and the records of the company examined by us there are no dues of income tax, wealth tax, cess and service tax which have not been deposited on account any dispute. Particulars of dues to sales tax, excise duty, customs duty as at 31st March 2006 which have not been deposited on account of dispute, the amounts involved and the forum where the dispute is pending are given vide Annexure I.
- (x) The Company has no accumulated losses . The Company has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
- (xii) The Company has not granted loans and advances on the basis of security of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statute applicable to a chit fund / nidhi/ mutual benefit fund/ society are not applicable to the company.
- (xiv) The Company is not dealing in or trading in shares, securities, debentures and other investments.
- (xv) The Company has not given guarantees for loans taken by others from bank or financial institutions.
- (xvi) In our opinion, the term loans have been applied for the purpose for which they were raised.
- (xvii) According to the cash flow statement and other records examined by us and 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 explanations 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.
- During the year the Company has issued Foreign Currency Convertible Bonds (FCCB) with an option to convert bond into equity shares. The Pricing of the shares is in accordance with the requirement of the guidelines laid down in this regard by the Securities Exchange Board of India and that the price at which shares have been issued is not prejudicial to the interests of the company.
- (xix) According to the information and explanations given to us, during the year covered by our audit report, the company has not issued any debentures and the company has created securities & charge in respect of debentures already issued.
- (xx) According to the information and explanations given to us, the company has not raised funds by public issues during the year covered by our audit report.
- (xxi) According to the information and explanations given to us and on the basis of our examination of books & records of the company in accordance with the generally accepted auditing practices, no fraud on or by the company has been noticed or reported during the year.

For **S. Lakshminarayanan Associates**

Chartered Accountants

S. Lakshminarayanan

F - 12024

Partner

Place : Coimbatore.

Dated : 12th May, 2006.

ANNEXURE TO CLAUSE (IX)(B) TO THE AUDITORS' REPORT

Details of Disputed amounts payable in respect of Sales tax, Customs Duty, Excise Duty as at 31st March 2006.

Sl. No	Name of the Statute	Nature of The Due	Amount Rs.	Period to which the Amt relates	Forum where the dispute is pending	Remarks
1.	Tamilnadu Tax on Entry of Goods.	Entry Tax	1,765,990	Y.E 31.03.2003	Assistant Commissioner Fast Track Assessment Circle I	Company has provided for the entire amount Interim Injunction has been obtained from High Court Madras.
2.	Tamilnadu Tax on Entry of Goods.	Entry Tax	5,744,745	Y.E 31.03.2004	- do -	- do -
3.	Tamilnadu Tax on Entry of Goods.	Entry Tax	7,343,515	Y.E 31.03.2005	- do -	- do -
4.	Tamilnadu Tax on Entry of Goods.	Entry Tax	7,860,559	Y.E 31.03.2006	- do -	- do -
5.	Delhi Sales Tax Act.	CST	39,682	Y.E. 31.3.1998	Assistant Commissioner VI, New Delhi.	Deposit of Rs. 35,530 paid towards the demand. Appeal filed.
6.	Delhi Sales Tax Act.	CST	3,218	Y.E. 31.3.1999	Assistant Commissioner VI, New Delhi.	Deposit of Rs. 3,218 paid towards the demand. Appeal filed.
7.	Delhi Sales Tax Act.	DST	6,112	Y.E. 31.3.2001	Assistant Commissioner VI, New Delhi.	Deposit of Rs. 6,112 paid towards the demand. Appeal filed.
8.	Delhi Sales Tax Act.	CST	32,810	Y.E. 31.3.2001	Assistant Commissioner VI, New Delhi.	Deposit of Rs. 25,000 paid towards the demand. Appeal filed.
9.	Delhi Sales Tax Act.	DST	12,355	Y.E. 31.3.2002	Assistant Commissioner VI, New Delhi.	Deposit of Rs.700 paid towards the demand. Appeal filed.
10.	Delhi Sales Tax Act.	CST	26,480	Y.E. 31.3.2002	Assistant Commissioner VI, New Delhi.	Deposit of Rs. 5,000 has been paid under protest and Appeal filed.
11.	Tamilnadu Sales Tax Act	AST on CST	117,718	Y.E. 31.03.1999	Assistant Commissioner Fast Track Assessment Circle I Coimbatore	Tax paid under Protest and Writ Petition pending with High Court, Chennai
12.	Tamilnadu Sales Tax Act	AST on CST	104,013	Y.E. 31.03.2000	Assistant Commissioner Fast Track Assessment Circle I Coimbatore	Tax paid under Protest and Writ Petition pending with High Court, Chennai

BALANCE SHEET AS AT 31st MARCH, 2006

	Schedule	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
a) Share Capital	1	78,818,633	78,035,600
b) Reserves & Surplus	2	859,046,898	622,488,213
Total Share holders' Funds	(A)	937,865,531	700,523,813
2. Loan Funds			
a) Secured Loans :	3		
i) Debentures		17,500,000	32,500,000
ii) Term Loans		323,702,620	219,653,283
iii) Working Capital		200,000,000	140,625,387
iv) Short Term Loan		62,374,730	112,310,725
		603,577,350	
b) Unsecured Loans	4	601,060,752	44,439,274
Total Loan Funds	(B)	1,204,638,102	549,528,669
3. Deferred Tax			
Balance as per last Balance Sheet		64,467,094	
Add/Less :Transfer From/To Profit & Loss Account		33,968,483	
	(C)	98,435,577	64,467,094
TOTAL FUNDS EMPLOYED	(A+B+C)	2,240,939,210	1,314,519,576
II. APPLICATION OF FUNDS			
1. Fixed Assets			
Gross Block		1,911,792,072	1,420,497,295
Less : Depreciation		779,539,196	657,429,380
Net Block		1,132,252,876	763,067,915
Capital Work-in-progress		86,451,802	38,615,270
	5	1,218,704,678	801,683,185
2. Current Assets, Loans & Advances	6		
a) Inventories		476,420,242	432,197,193
b) Sundry Debtors		236,177,722	142,372,443
c) Cash & Bank Balances		487,008,073	78,124,792
d) Other Current Assets		3,316,521	2,362,836
e) Loans & Advances		137,128,714	94,363,933
		1,340,051,272	749,421,197
Current liabilities & provisions	7	317,816,740	236,584,806
TOTAL ASSETS		1,022,234,532	512,836,391
		2,240,939,210	1,314,519,576

Notes and Schedule 1 to 9 Form Part of Accounts.

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants
S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

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

	Schedule	For the Year Ended 31-03-2006 Rs.	For the Year Ended 31-03-2005 Rs.
I. INCOME			
Gross Turnover	8	1,842,553,427	1,385,403,187
Less : Excise Duty		219,654,972	168,272,527
Net Turnover		<u>1,622,898,455</u>	<u>1,217,130,660</u>
Others	8	1,647,566	2,289,235
		<u>1,624,546,021</u>	<u>1,219,419,895</u>
Add/(Deduct)			
Difference In Stock	8	5,392,882	89,592,681
		<u>1,629,938,903</u>	<u>1,309,012,576</u>
II. EXPENDITURE			
Material Cost	9	631,660,385	546,505,438
Labour Cost	9	132,091,085	121,728,618
Power, Fuel & Water Charges		67,167,712	61,347,364
Repairs	9	70,700,329	61,364,567
Interest Paid (Net of Receipts)	9	29,968,723	13,822,293
Administrative Expenses	9	140,290,447	101,226,040
Depreciation		127,140,372	95,755,814
		<u>1,199,019,053</u>	<u>1,001,750,134</u>
III. PROFIT FOR THE YEAR			
Less : Donations		430,919,850	307,262,442
		324,817	643,709
		<u>430,595,033</u>	<u>306,618,733</u>
Less : Provision For Taxation Current / Withholding tax		113,647,082	105,000,000
Provision for Fringe Benefit Tax		2,400,000	—
Deferred Tax		33,968,483	9,242,772
Prior year Taxes		—	1,146,537
PROFIT AFTER TAX		<u>280,579,468</u>	<u>191,229,424</u>
Add : Surplus brought forward		12,709,313	15,969,936
Profit available for appropriation		<u>293,288,781</u>	<u>207,199,360</u>
IV. APPROPRIATIONS			
Proposed Dividend		79,993,182	39,017,800
Tax on Dividend		11,219,044	5,472,247
Debenture Redemption Reserve		10,000,000	10,000,000
General Reserve		160,000,000	140,000,000
Surplus		32,076,555	12,709,313
		<u>293,288,781</u>	<u>207,199,360</u>
EARNING PER SHARE (Basic/Diluted)			
			See Note No.12 of Notes to Accounts
Basic		3.56	2.45
Diluted		3.47	2.45

Notes and Schedule 1 to 9 Form Part of Accounts.

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

SCHEDULES

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
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SCHEDULE : 1

SHARE CAPITAL

Authorised

100,000,000 Equity Shares of Re.1 each	100,000,000	100,000,000
----------------------------------------	-------------	-------------

Issued, Subscribed & Paid up

78,818,633 (78,035,600) Equity Shares of Re.1 each	78,818,633	78,035,600
----------------------------------------------------	------------	------------

- NOTE :**
1. Of the above 41,000 Equity Shares of Re.1 each are allotted as fully paid up for consideration otherwise than in cash.
 2. 17,700,000 Equity Shares of Re.1 Each are issued as fully Bonus Shares by Capitalisation of Rs.17,700,000 from General Reserve.
 3. 176,000 Equity Shares of Re.1 each has been allotted to the Members of Shanthy Non-Ferrous Castings Private Limited as per the Scheme of Amalgamation.
 4. 841,800 Equity Shares of Re.1 each has been allotted to the Members of Shanthy Precision Industries Limited as per the Scheme of Amalgamation.
 5. 39,017,800 Equity Shares of Re.1 Each has been issued as Bonus Shares by Capitalisation of Rs. 39,017,800 from Securities Premium Account.

SCHEDULE : 2

RESERVES AND SURPLUS

Capital Reserve

As per Last Balance Sheet	16,700	16,700
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General Reserve

As per Last Balance Sheet	540,000,000	
ADD : Transfer from Profit and Loss Account	160,000,000	
	700,000,000	540,000,000

Securities Premium Account

As per Last Balance Sheet	29,582,200	
ADD : Received during the year	44,906,943	
	74,489,143	29,582,200

Debenture Redemption Reserve I

As per Last Balance Sheet	40,000,000	
ADD : Transfer from Profit & Loss Account	10,000,000	
	50,000,000	40,000,000

Premium on FCCB Issue

Received during the year	2,284,500	—
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Capital Redemption Reserve

As per Last Balance Sheet	180,000	180,000
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Surplus In Profit & Loss Account	32,076,555	12,709,313
	859,046,898	622,488,213

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
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SCHEDULE : 3
SECURED LOANS
Debentures :

500 — 11.5% Secured Non-Convertible Debentures of Rs. 100,000 each	17,500,000	32,500,000
-----------------------------------------------------------------------	------------	------------

TERM LOANS

From Banks	323,702,620	219,653,283
------------	-------------	-------------

OPEN LOAN

From State Bank of India for Working Capital Requirements	200,000,000	140,625,387
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SHORT TERM LOAN

From Banks	62,374,730	112,310,725
	603,577,350	505,089,395

SCHEDULE : 4
UNSECURED LOANS

From Banks	193,838,752	34,300,274
FCCB 0.5% A Series	403,740,000	—
Fixed Deposits : From Others	3,482,000	10,139,000
	601,060,752	44,439,274

SCHEDULES (Contd..)

SCHEDULE : 5

FIXED ASSETS

(Amount in Rupees)

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK			
	Cost as on 01-04-2005	Additions made during the year	Sales/ Transfer/ Refund	Cost As on 31-03-2006	Depreciation upto 01-04-2005	For the year ended 31-03-2006	Withdrawn during the year	Depreciation as on 31-03-2006	Value as on 31-03-2006	Value as on 31-03-2005
Land	45,128,857	5,089,447	—	50,218,304	—	—	—	—	50,218,304	45,128,857
Buildings	113,064,655	14,887,685	—	127,952,340	32,965,041	3,808,233	—	36,773,274	91,179,066	80,099,614
Plant & Machinery	1,134,542,739	441,855,148	1,681,085	1,574,716,802	550,586,954	102,654,880	1,349,504	651,892,330	922,824,472	583,955,785
Tools & Equipments	30,320,488	8,625,509	264,425	38,681,572	19,633,367	4,545,922	216,840	23,962,449	14,719,123	10,687,121
Electrical Equipments	12,608,986	5,961,405	—	18,570,391	8,386,927	915,862	—	9,302,789	9,267,602	4,222,059
Furniture & Fittings	7,510,215	836,658	6,012	8,340,861	5,660,583	643,717	5,250	6,299,050	2,041,811	1,849,632
Office Equipments	10,752,679	1,583,977	369,912	11,966,744	4,004,270	1,100,254	121,519	4,983,005	6,983,739	6,748,409
Computers	48,112,743	9,301,796	3,024,145	54,390,394	24,656,674	10,358,254	2,644,131	32,370,797	22,019,597	23,456,069
Vehicles	18,455,933	9,334,097	835,366	26,954,664	11,535,564	3,113,250	693,312	13,955,502	12,999,162	6,920,369
Capital Work-in-Progress	38,615,270	69,354,946	21,518,414	86,451,802	—	—	—	—	86,451,802	38,615,270
TOTAL	1,459,112,565	566,830,668	27,699,359	1,998,243,874	657,429,380	127,140,372	5,030,556	779,539,196	1,218,704,678	801,683,185
Previous Year	1,645,18,666	315,308,717	20,714,818	1,459,112,565	575,587,633	95,755,814	13,914,067	657,429,380	801,683,185	588,931,033

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
SCHEDULE : 6		
CURRENT ASSETS, LOANS & ADVANCES		
Inventories		
As per the list Certified by the Chairman & Managing Director (For method of valuation Refer Note No. 1. b of Notes Forming part of Accounts)		
Raw Materials and Consumables	255,932,105	217,101,938
Semi Finished Goods	187,589,656	184,555,415
Finished Goods (including Goods in Transit of Rs.169,356. Previous Year – Nil)	32,898,481	30,539,840
	476,420,242	432,197,193
Sundry Debtors		
Unsecured and Considered Good		
More than Six Months	3,948,360	3,846,518
Less than Six Months	232,229,362	138,525,925
	236,177,722	142,372,443
Cash & Bank Balances		
Cash with Scheduled Banks in Current Accounts	10,023,168	2,225,715
Cash at Bank with Others in Current Accounts	970,775	49,906
Cash in Fixed Deposit Account with Scheduled Banks	324,581,055	75,000,005
Cash in Fixed Deposit Account with Other Banks	150,484,950	—
Stamps on Hand	6,563	30,541
Cash on Hand	941,562	818,625
	487,008,073	78,124,792
Other Current Assets		
Interest Accrued and Receivable	1,965,250	81,096
Income Receivable	1,351,271	2,281,740
	3,316,521	2,362,836

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
SCHEDULE : 6 (Contd..)		
LOANS & ADVANCES		
Unsecured and Considered Good Recoverable in Cash or in kind or for Value to be Received		
Advance for Purchase of Capital Goods	38,878,899	13,902,217
Advance to Others	7,233,268	7,623,710
Deposits with Central Excise, Sales Tax & Customs Authorities	75,744,300	61,569,022
Deposits with Others	14,154,083	10,348,653
Prepaid Expenses	1,118,164	920,331
	<u>137,128,714</u>	<u>94,363,933</u>
SCHEDULE : 7		
CURRENT LIABILITIES & PROVISIONS		
Current Liabilities		
Liability for Purchase of Capital Goods (Includes Dues to SSI Unit Undertakings Rs.226,475. Previous Year - NIL)	5,411,988	16,871,096
Liability for Purchases (Includes Dues to SSI Unit Undertakings Rs. 4,393,815. Previous Year Rs. NIL)	43,610,979	43,407,692
Liability for Expenses (Includes Dues to SSI Unit Undertakings Rs. 213,344. Previous Year Rs. NIL)	95,716,235	77,177,838
Liability for Other Finance	10,320,403	7,028,341
Advance from Customers	61,423,410	41,928,797
Interest accrued but not due	495,962	1,096,830
Investor Protection and Educational Fund shall be credited by the following accounts when due :		
Unpaid Dividends	1,282,735	1,126,469
Unencashed Fixed Deposits including Interest (in stale Cheques account)	129,371	174,203
Unclaimed Debenture Redemption money including Interest	206,948	289,384
	<u>218,598,031</u>	<u>189,100,650</u>
Provisions		
Provision for Taxation (Net of Advance Payment of Taxes)	7,708,985	2,994,109
Proposed Dividend	79,993,182	39,017,800
Tax on Dividend	11,219,044	5,472,247
Provision for Fringe Benefit Tax (Net of Advance Payment)	297,498	—
	<u>317,816,740</u>	<u>236,584,806</u>

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
SCHEDULE : 8		
1. GROSS TURNOVER		
Sale of Manufactured Goods	1,786,397,978	1,335,789,699
Machining Charges Receipts	56,155,449	49,613,488
	<u>1,842,553,427</u>	<u>1,385,403,187</u>
2. OTHER INCOME		
Profit on Sale of Investments	—	420,000
Miscellaneous Income	819,530	345,115
Rental Receipts (TDS Rs.60,587. Previous Year Rs.35,059)	828,036	1,524,120
	<u>1,647,566</u>	<u>2,289,235</u>
3. DIFFERENCE IN STOCKS		
Closing Stock		
Semi Finished Goods	187,589,656	184,555,415
Finished Goods	32,898,481	30,539,840
	<u>220,488,137</u>	<u>215,095,255</u>
Opening Stock		
Semi Finished Goods	184,555,415	83,129,841
Finished Goods	30,539,840	42,372,733
	<u>215,095,255</u>	<u>125,502,574</u>
	<u>5,392,882</u>	<u>89,592,681</u>
SCHEDULE : 9		
MATERIAL COST		
Opening Stock of Raw Materials & Consumables	217,101,938	162,985,496
Purchases	679,931,684	604,795,537
	<u>897,033,622</u>	<u>767,781,033</u>
LESS : Sale of Raw Materials	9,441,132	4,666,514
	<u>887,592,490</u>	<u>763,114,519</u>
LESS : Closing Stock	255,932,105	216,609,081
Materials Consumed	<u>631,660,385</u>	<u>546,505,438</u>

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
SCHEDULE : 9 (Contd..)		
LABOUR COST		
Salaries, Wages, Bonus & Gratuity	92,119,098	82,399,832
Contribution to Provident Fund	3,488,152	3,325,093
Workmen & Staff Welfare Expenses	13,103,053	12,614,675
Labour and Machining Charges	23,380,782	23,389,018
	132,091,085	121,728,618
REPAIRS		
Buildings	6,233,848	4,377,254
Machinery	50,172,560	43,419,420
General	14,293,921	13,567,893
	70,700,329	61,364,567
INTEREST		
Debentures	2,754,486	4,603,151
Bank Loans	38,541,061	18,159,331
Fixed Deposits	676,585	1,556,502
FCCB	644,863	—
	42,616,995	24,318,984
Less : Interest Receipts (TDS Rs. 2,289,931 Previous Year Rs. 2,142,763)	12,648,272	10,496,691
INTEREST PAID (NET OF RECEIPTS)	29,968,723	13,822,293

SCHEDULES (Contd..)

	As At 31-03-2006 Rs.	As At 31-03-2005 Rs.
SCHEDULE : 9 (Contd..)		
ADMINISTRATIVE EXPENSES :		
Managing Director's Remuneration	23,156,991	16,492,136
Whole Time Director's Remuneration	9,262,796	6,596,854
Postage, Telegram and Telephones	6,698,604	4,947,002
Printing & Stationery	4,322,220	4,422,343
Travelling & Maintenance of Motor Vehicles	15,509,336	12,989,640
Insurance	3,321,922	2,652,107
Taxes & Licences	14,751,653	11,040,659
Transport Charges & Selling Expenses	17,705,059	11,678,326
Commission & Discount	5,554,180	3,074,667
Advertisement	24,681,193	14,136,094
Bank Charges, Filing Fees & Subscription Etc.,	8,647,026	5,600,961
Machinery & Building Rent	36,000	36,000
Director's Sitting Fees	125,000	135,000
Auditor's Remuneration		
Audit Fees	125,000	1,00,000
Certification Fees	53,000	14,000
	<u>1,78,000</u>	
Accountancy & Legal Charges	3,964,321	5,015,476
Miscellaneous Expenses	601,477	425,079
Bad Debts Written Off	183,236	8,345
Loss on Sale of Asset	417,550	30,237
Exchange Loss (Net of Exchange Gain Rs.15,279,873. Previous Year Rs.1,569,825)	1,173,883	1,831,114
	<u>140,290,447</u>	<u>101,226,040</u>

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006

1. ACCOUNTING POLICIES

The Financial statements are prepared under the historical cost convention, on the accrual basis of accounting. The statement comply with the Accounting Standard prescribed by the ICAI and also comply with the Section 211(3)(c) of the Companies Act, 1956. The accounts are prepared as a going concern.

a. FIXED ASSETS :

- i) Tangible Assets are shown at historical cost less depreciation. The Value of Cenvat benefit eligible in respect of capital items is reduced from the value of purchase.
- ii) The Company has an internal system to assess the impairment of assets. Appropriate disclosure on material impairment of losses and their treatment in profit & loss account, classes of Assets and nature of impairment will be made in the year in which the impairment is recognized.

b. CURRENT ASSETS :

INVENTORIES

- a) Raw Materials, Components, Stock of Stores, Spares and Goods-in-transit are valued at Cost. The cost for this purpose comprise of direct cost of material and any expenses incurred for bringing them to their present condition less of Cenvat availed.
- b) Work-in-progress and finished goods are valued at the lower of the cost or net estimated realisable value whichever is less. Cost for this purpose comprises of raw material cost and appropriate overheads incurred for bringing them to their present condition.
- c) For slow/Non moving stocks necessary obsolescence has been provided for.

c. RETIREMENT BENEFITS :

- i) Gratuity
Arrangements have been made with Life Insurance Corporation to cover the Gratuity Liability to Employees.
- ii) Leave Salary
Liability for leave encashment is provided at current salary levels for the remaining leave balance standing to the credit of the employee as at the date of the balance sheet in accordance with the leave rules of the company.

d. CONTINGENT LIABILITIES :

Contingent Liabilities have not been provided for. The same will be met as and when they arise.

e. LEASE RENTALS :

Income from leases entered on or after 01.04.2001 is accounted as per Accounting Standard on Leases (AS19)

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

f. SALES :

Net Sales include sale of products manufactured exclusive of Excise Duty and Sales Tax Charged to customers.

g. DEPRECIATION :

Depreciation has been provided on Straight Line Method in the case of Building, Plant & Machinery and for other Assets on Written Down Value basis in accordance with the provisions of The Companies Act 1956.

Details of Depreciation charged are hereunder :

- a) Depreciation has been provided on Straight Line Method as laid down in Section 205(2)(b) of the Companies Act, 1956 on Plant & Machinery purchased and commissioned for the year ended 30/06/1978 to 30/11/1987 and on Buildings for the period ended 30/11/1986 and for the year ended 30/11/1987 on equated number of years.
- b) Depreciation has been provided on the Plant & Machinery and Buildings added during the accounting period ended 31/03/1989 and onwards on the Straight Line Method as per the rates prescribed under Schedule XIV of the Companies Act 1956.
- c) For other Assets Depreciation has been charged under Written Down Value method as per the rates prescribed under Schedule XIV of the Companies Act 1956.
- d) Pro-rata Depreciation has been charged to Assets purchased and sold during the accounting year ended 31/03/2006.

h. FOREIGN CURRENCY TRANSACTIONS :

Income and Expenditure in Foreign Currency is converted into Indian Rupees at the rate of exchange prevailing on the date of transactions. Adjustments are made for any change in the Sales proceeds on conversion of Indian currency upon actual receipt.

The assets & liabilities covered by forward contracts, the exchange difference is recognised over the life of the contract. Foreign Currency denominated assets & Liabilities are restated at the rate of Exchange as on the Balance sheet. The Exchange gain/loss on Foreign Currency transactions is suitably dealt in the profit & loss account.

i. DEFERRED TAX :

Deferred Tax is calculated for in respect of all timing differences on a liability method as per Accounting Standard 22 (AS22).

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd.)

2. CONTINGENT LIABILITIES :

- a) Estimated amount of contracts remaining to be executed on Capital Accounts and not provided for **Rs.3396.97 lakhs.**
- b) On account of Guarantees issued **Rs.587.00 lakhs.**
- c) Claims against Company not acknowledged as Debts **Rs.64.05 lakhs.**

3. a) 11.50% secured Non-convertible Debentures allotted to UTI Bank Limited are secured by a first charge on companies properties at Vadodara, Gujarat State and part of Land and Buildings of 'B' Unit and Hypothecation of specific items of Plant & Machinery. The same are redeemable at par @ 35%, 30% and 35% at the end of 3rd, 4th and 5th year from the date of allotment i.e., from 05.09.2001. The Company has redeemed Rs.175 Lakhs on 02.09.2004 (3rd Year) & Rs. 150 Lakhs on 02.09.2005 (4th Year).

b) The Working Capital facilities availed from State Bank of India are secured by the hypothecation of Raw Materials, Work-in-Progress, Finished Goods, Stock-in-Trade and on Book Debts of the Company. In addition, they are secured by the Hypothecation of Land and Buildings of 'A' Unit and 'C' Unit and on specific items of Plant & Machinery.

c) Term Loan availed from State Bank of India are secured by Machinery purchased against their assistance. In addition, they are secured by the hypothecation of Land and Buildings of 'A' Unit and 'C' Unit and specific items of Plant & Machinery.

d) Term Loan / Short Term Loan availed from the Bank of Nova Scotia are secured by first and exclusive charges on the part of Company's Land & Buildings in 'D' Unit, Foundry and part of 'B' Unit and specific items of Plant and Machinery.

e) Term Loan / Short Term Loan availed from HSBC are secured by First and exclusive charges on Plant and Machinery purchased from their assistance. Working capital facility availed from HSBC are secured by Second charge over the Plant and Machinery and Second charge over the Raw Materials, Work-in-Progress, Stores, Semi-finished Goods and Tools of the company.

4. a) The Chairman & Managing Director of the Company has given personal guarantee for **Rs. 5850 lakhs** for the loans secured from State Bank of India, Commercial Branch, Coimbatore - 641 018.

b) The Company has given counter guarantee to the Bank for the Guarantees issued for **Rs. 700 Lakhs.**

5. a) Details of Remuneration paid to Managing Director	Rs.
Salary	2,400,000
Perquisites	3,079
Commission	20,753,912
	<hr/>
	23,156,991
	<hr/>

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

		2005-2006	2004-2005
B. Actual Production :	Units		
i) Gear wheels and Accessories (including the production for Captive Consumption)	Nos.	533,956	393,930
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc. (including the production for Captive Consumption)	Nos.	1,772	1,534
iii) Gear Boxes and Accessories (including the production for Captive Consumption)	Nos.	27,660	23,995
iv) Geared Motors	Nos.	1,085	785
v) Carding Machines	Nos.	8	8
vi) Lathes (including the production for Captive Consumption)	Nos.	4	3
C. Stock of Finished Goods :		As at	As at
		31.03.2006	31.03.2005
i) Gear wheels and Accessories	Nos.	338,527	293,043
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc.	Nos.	213	179
iii) Gear Boxes and Accessories	Nos.	2,085	2,268
iv) Geared Motors	Nos.	51	48
D. Sale of Finished Goods :		2005-2006	2004-2005
	Qty/Nos.	Value	Value
		Rs.	Rs.
i) Gear wheels and Accessories	415,480	508,585,123	341,348 395,468,869
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc.	1,287	13,444,942	876 9,889,404
iii) Gear Boxes and Accessories	27,486	983,983,245	21,253 731,094,428
iv) Geared Motors	1,082	45,507,595	795 18,546,656
v) Carding Machines	8	7,615,000	8 7,786,000
vi) Machining Charges Receipts	—	56,155,449	— 49,641,988
vii) Others	—	7,607,101	— 4,703,315
		1,622,898,455	1,217,130,660

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

	2005-2006	2004-2005
	Rs.	Rs.
E. Value of Imports (CIF Value) :		
a) Plant & Machinery	272,379,097	172,971,580
b) Tools & Equipments	2,999,023	—
c) Computer Software	6,953,874	—
d) Raw Materials	63,440,821	63,206,306
e) Consumable Stores & Tools	9,443,303	6,299,700
f) Machinery Spares	3,405,810	4,661,132

	2005-2006		2004-2005	
	Qty/Nos. Kgs.	Value Rs.	Qty/Nos. Kgs.	Value Rs.
F. Raw Materials Consumed :				
a) Steel Rods & Steel Forgings	4,407,117	261,451,515	3,556,219	232,065,766
b) Bearings (Nos.)	139,708	90,862,515	126,494	71,454,415
c) Others		279,346,355	—	242,985,257
		<u>631,660,385</u>		<u>546,505,438</u>

(Quantitative details could not be given in respect of item "c" as their list is too large and no item individually accounts for 10% or more of the value of raw materials consumed)

G. Particulars of Consumption :	2005-2006		2004-2005	
	Value Rs.	% of Consumption	Value Rs.	% of Consumption
Raw Materials & Stores and Spares :				
Imported	78,068,544	12.36	47,496,299	8.70
Indigenous	553,591,841	87.64	499,009,139	91.30
	<u>631,660,385</u>	<u>100.00</u>	<u>546,505,438</u>	<u>100.00</u>

	2005-2006	2004-2005
	Rs.	Rs.
H. Payments made in foreign currency on account of :		
a) Interest	15,954,829	6,191,927
b) Travelling	506,200	—
c) Advertisement	4,936,586	1,839,567
d) Subscription	479,950	92,140
e) Sales Promotion Expenses	1,490,480	232,750
f) Exhibition Expenses	472,830	573,180
g) Tax & Licences	—	57,045
h) Commission	23,396	—
i) Germany Office – Liaison Office Expenses	3,721,779	—
j) Germany Office – Asset Purchase	692,416	—

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

I. Earnings in Foreign Currency	2005-2006	2004-2005
	Rs.	Rs.
FOB Value of Exports	91,171,150	62,075,303
J. Amount remitted during the year in Foreign Currencies		
i) On account of Dividends	272,480	204,360
ii) Number of Non-Resident Share Holders	258	53
iii) Number of Shares held by Non-Resident Share-Holders on which Dividends are due	1,331,944	45,408
iv) The year to which dividends related	31.03.2005	31.03.2004

11. FCCB Issue

- a) During the year Company has issued 0.5% A Series Foreign Currency Convertible Bonds (FCCBs) for US \$ 10,000,000 with an option to convert into Equity Shares. The Bondholder has converted US \$ 1,000,000 into Equity Shares before the Balance Sheet date and US \$ 1,500,000 subsequent to Balance Sheet Date. Diluted EPS has been calculated as if full value of FCCB is converted into Equity Shares as per Accounting Standard 20 (AS 20).
- b) FCCB issue expenses incurred during the year for Rs.13,757,675 has been capitalized.
- c) Provision for Dividend is made on the Paid up Capital as on the date of Board Meeting for consideration of accounts, giving effect to the conversion of Bond into Equity Shares by the Bondholder between the Balance Sheet date and the date of Board Meeting. The Equity shares are issued in Demat format and as per Stock Exchange Guidelines, Dividend has to be paid to all the Shareholders whose name appear as Beneficial owner on the Record Date.

12. Basic and diluted Earning Per Share (EPS) of Face Value of Re.1 each is calculated as under :

A. Basic EPS	As at	As at
	31.03.2006	31.03.2005
a) Total Equity Shares outstanding at the End of the year	78,818,633	78,035,600
b) Net Profit after Tax	280,579,468	191,229,424
c) Earning Per Share (Basic)	3.56	2.45
B. Diluted EPS		
(On the basis of FCCB as Potential Equity Shares)		
a) Calculation of Weighted Average number of Equity Shares Re.1 each		
i) Number of Shares at the Beginning of the year	78,035,600	—
ii) FCCB Issue Allotment Date (14/11/2005) Number of Potential Equity Shares to be allotted as per the terms of Issue	7,830,334	—
iii) Total Number of Equity Shares to be outstanding on Conversion (Potential Equity Shares)	85,865,934	—
iv) Equity Shares outstanding for 7 ½ Months	78,035,600	—
v) Equity Shares outstanding for 4 ½ Months taking into consideration Potential Equity shares	85,865,934	—
vi) Weighted Average number of Equity Shares including Potential Equity Shares	80,971,975	—

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

	As at 31.03.2006 Rs.	As at 31.03.2005 Rs.
b) Net profit after tax as per Profit & Loss account	280,579,468	—
Add : Increase in Net profit:		—
Interest on FCCB	644,863	
Less : Tax Effect at 33.66%	217,061	
	<u>427,802</u>	—
Net Profit after tax for Diluted EPS	<u>281,007,270</u>	—
c) Diluted Earning per share	3.47	—

13. The Company's main business segment is manufacturing Gears and Gear Products. Hence there are no separate reportable segment as per the Accounting Standard 17 (AS 17).

14. Deferred Tax

	As at 31.03.2006 Rs.
Opening Liability	64,467,094
Add/Deduct : Assets / Liabilities / Difference in I.T. & Book Depreciation - Liability	37,111,999
Less : 43B Liabilities/Disallowance under IT Act - Assets	3,143,516
Net Liability for the year	<u>33,968,483</u>
Closing Balance	<u>98,435,577</u>

15. Notes on Leased Assets

	Rs.
Gross value of Assets	1,827,468
Accumulated Depreciation as at 31.03.2006	223,410
WDV of Assets as at 31.03.2006	1,604,058
Depreciation for the year	12,123
Rental Receipts	474,000

16. Disclosure in respect of Related Parties pursuant to Accounting Standard 18.

Particulars	Key Management Personnel Rs.	Relative of Key Management Personnel Rs.	Total Rs.
Remuneration / Salary	32,419,787	380,854	32,800,641
Receiving of Services	18,000	1,993,606	2,011,606
Outstanding Balance as at 31.03.2006 - Payable	28,672,708	—	28,672,708

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2006 (Contd..)

List of Related Parties

1. Key Managerial Personnel

Mr. P. Subramanian, Chairman & Managing Director

Ms. S. Sangeetha, Wholetime Director

2. Relatives of Key Managerial Personnel

a) Relatives

Ms. S. Savitha — Daughter of Shri. P. Subramanian and
Sister of Ms. S. Sangeetha

Ms. S. Sathya — Daughter of Shri. P. Subramanian and
Sister of Ms. S. Sangeetha

b) Enterprises

Savitha Engineering Works (SEW) - Proprietrix - Ms.S.Savitha

17. Details of Cash and Bank Balances with Others

a) Current Account

Bank Name	Outstanding as on 31-03-2006 Rs.	Maximum amount due at any time during the year Rs.
The Bank of Nova Scotia	20,478	1,369,557
HSBC	950,297	10,623,060

b) Fixed Deposit

Bank Name	Outstanding as on 31-03-2006 Rs.	Maximum amount due at any time during the year Rs.
The Bank of Nova Scotia	100,000,000	100,693,479
HSBC	50,484,950	50,990,768

18. Figures have been rounded off to the nearest rupee. Previous year's figures have been regrouped and reclassified wherever necessary.

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

CASH FLOW STATEMENT

	As at 31-03-2006 (Rs. in Millions)	As at 31-03-2005
A. NET PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS	430.595	306.619
Adjustments for :		
Depreciation	127.140	95.756
Interest	29.969	13.822
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	587.705	416.198
Adjustments for :		
Trade and other Receivable	(137.524)	49.826
Inventories	(44.223)	(143.183)
Trade Payable	81.232	87.693
Cash Generated From Operations	487.190	410.534
Interest Paid	(29.969)	(13.822)
Direct Taxes Paid	(113.647)	(105.000)
Fringe Benefit Tax	(2.400)	—
Prior year taxes paid	—	(1.147)
Cash Flow Before Extraordinary Items (A)	341.174	290.565
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(566.831)	(315.309)
Sale of Fixed Assets	22.668	6.800
Sale of Investments	—	0.500
Net Cash Used in Investing Activities (B)	(544.163)	(308.009)
C. CASH FLOW FROM FINANCE ACTIVITIES		
Proceeds from Long Term Borrowings	148.588	96.791
Overdraft	109.439	16.054
Fixed Deposits	(6.657)	(15.674)
Dividend Paid	(79.993)	(39.018)
Tax on Dividend	(11.219)	(5.472)
FCCB Issue	451.715	—
Net Cash Used in Finance Activities (C)	611.872	52.681
Net Increase in Cash & Cash Equivalents (A+B+C)	408.884	35.238
Cash and Cash Equivalents (Opening Balance)	78.125	42.887
Cash and Cash Equivalents (Closing Balance)	487.008	78.125

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

DETAILS REQUIRED UNDER PART IV OF SCHEDULE VI

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details

Registration No.	:	181-000649	State Code	:	18
Balance Sheet Date	:	31	03	2006	
		Date	Month	Year	

II. Capital Raised during the Year (Amount in Rs. Thousands)

Public Issue (FCCB)	:	783	Rights Issue	:	NIL
Bonus Issue	:	NIL	Private Placement	:	NIL

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	:	2240939	Total Assets	:	2240939
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Sources of Funds

Paid-up Capital	:	78819	Reserves & Surplus	:	859046
Secured Loans	:	603577	Deferred Tax	:	98436
			Unsecured Loans	:	601061

Application of Funds

Net Fixed Assets	:	1218705	Investments	:	NIL
Net Current Assets	:	1022234	Misc. Expenditure	:	NIL
Accumulated Losses	:	NIL			

IV. Performance of Company (Amount in Rs. Thousands)

Total Income	:	1624546	Total Expenditure	:	1193951
Profit Before Tax	:	430595	Profit After Tax	:	280579
Earning Per Share	:	Rs. 3.56	Dividend Rate	:	100%

V. Generic Names of Three Principal Products / Services of the Company

(as per monetary terms)

Item Code No. (ITC Code)	:	848340.00
Product Description	:	Gears, Gear Boxes & Geared Motors.

As per our report of even date
For **S. Lakshminarayanan Associates**
Chartered Accountants

P. Subramanian
Chairman & Managing Director
Coimbatore
12th May, 2006

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

Shanthi Gears Limited

Registered Office : 304-A, Trichy Road, Singanallur, COIMBATORE - 641 005

PROXY FORM

I/We of
 being a Member / Members of Shanthi Gears Limited
 hereby appoint of
 or failing him
 of
 or failing him
 of
 as my / our proxy to vote for me / us and on my / our behalf, at the Thirty Third Annual General Meeting of the Company to be held on Friday, the 14th July, 2006 at 9.30 a.m. and any adjournment thereof.

Signed this day of 2006



Folio No. :
 DP ID No. :
 Client A/c No. :
 No. of Shares :

Signed by the said

Note : This form duly completed should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the meeting.



Shanthi Gears Limited

**Thirty Third Annual General Meeting
 ATTENDANCE SLIP**

Folio No. :
 DP ID No. :
 Client A/c No. :
 No. of Shares :

Please complete this attendance slip and hand it over at the entrance of the Meeting Hall. Only members or their proxies are entitled to be present at the Meeting.

Name and Address :

I hereby record my presence at Thirty Third Annual General Meeting held at

* Signature of the Member / Proxy

* Strike out whichever is not applicable.



Shanthi Gears Limited

Registered Office : 304-A, Trichy Road, Singanallur, COIMBATORE - 641 005

BANK ACCOUNT PARTICULARS / ECS MANDATE FORM

I/We
do hereby authorise Shanthi Gears Limited to

- * Print the following details on my/our dividend warrant
- * Credit my dividend amount directly to my Bank Account by ECS.

(*Strike out whichever is not applicable) My / Our Folio No.

Particulars of Bank Account : DP ID No. Client A/c.No.

- A. Bank Name :
- B. Branch Name :
- Address (for mandate only) :
- C. 9 Digit Code number of the Bank & Branch as appearing on the MICR Cheque :
- D. Account Type (Saving / Current) :
- E. Account No.as appearing on the cheque Book :
- F. STD Code & Telephone No. :

I/We shall not hold the Bank responsible if the ECS could not be implemented or the Bank discontinue(s) the ECS, for any reason.

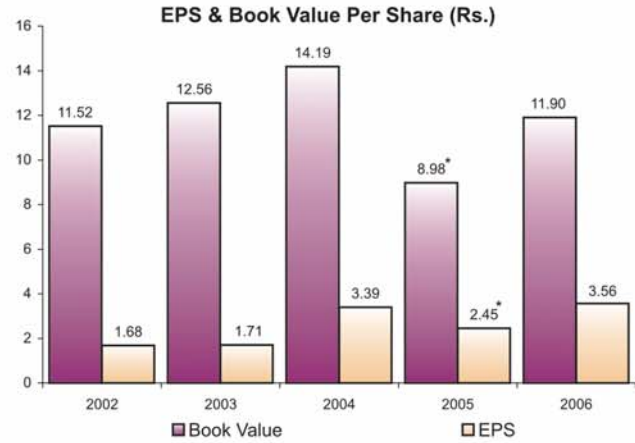
Mail To : **S.K.D.C.Consultants LTD.,
No.7 (Old No.11), Street No.1
S.N.Layout, West Power House Road
Coimbatore – 641 012.**

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Signature of the Member

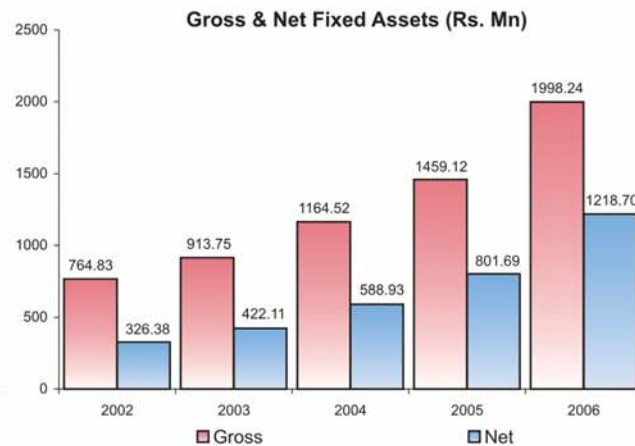
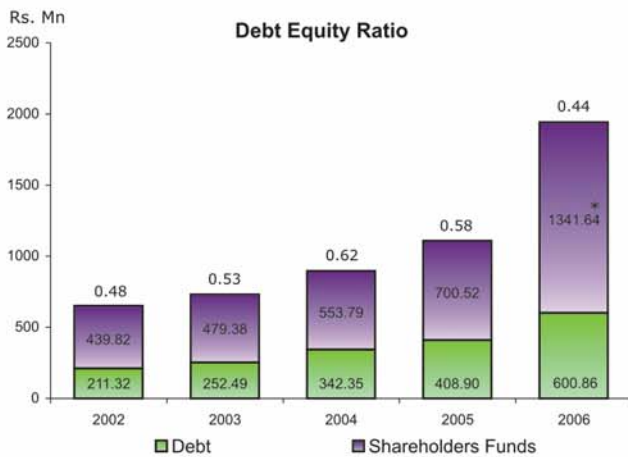
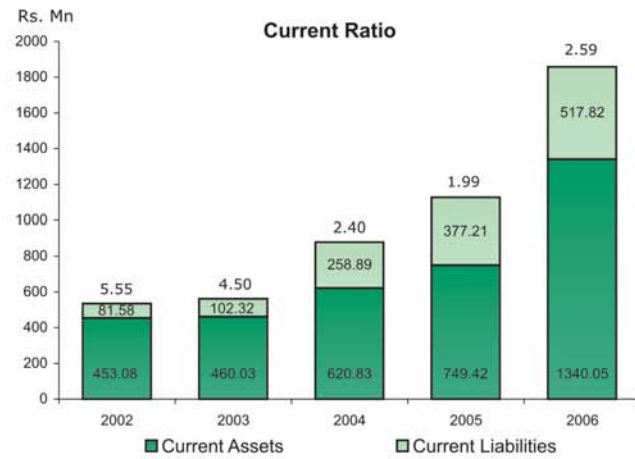
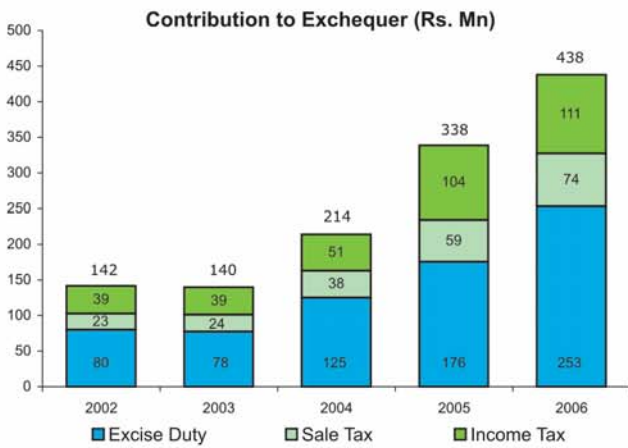
Please attach the photocopy of a cheque or a blank cancelled cheque issued by your Bank relating to your above account for verifying the accuracy of the 9 digit code number.

In case you are holding shares in demat form, kindly advise your Depository Participant to take note of your Bank account particulars / ECS mandate.

Financial Performance Indicators



* After 1:1 Bonus Issue



* Including FCCB as Potential Equity

