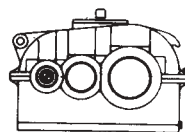
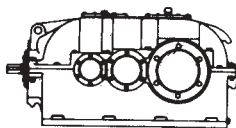
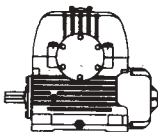
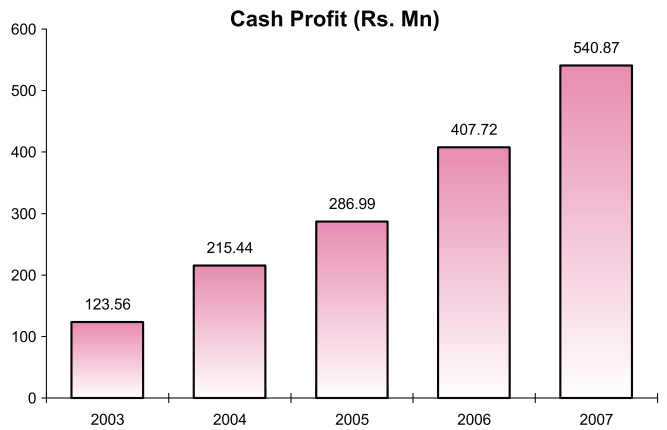
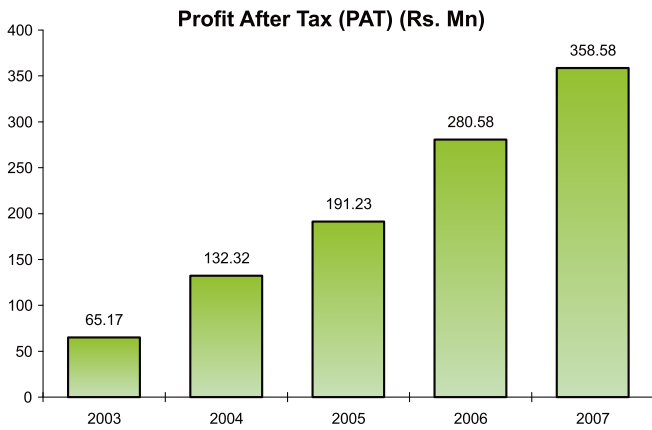
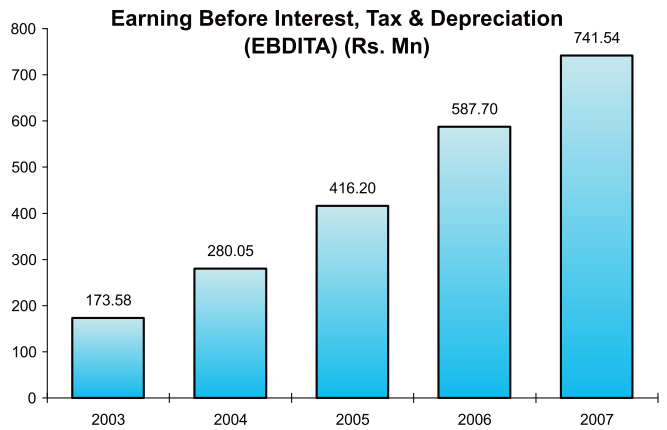
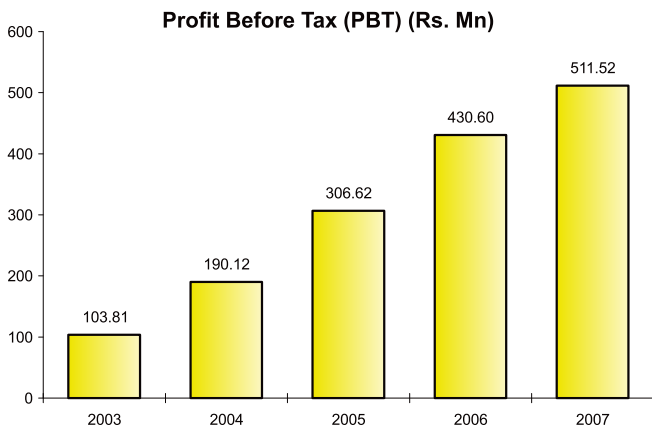
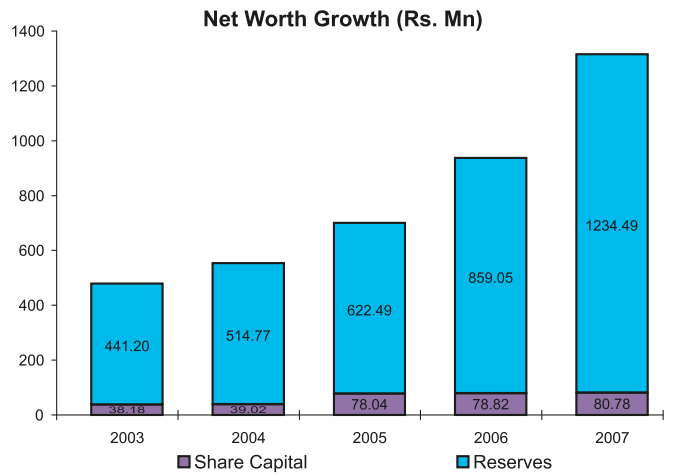
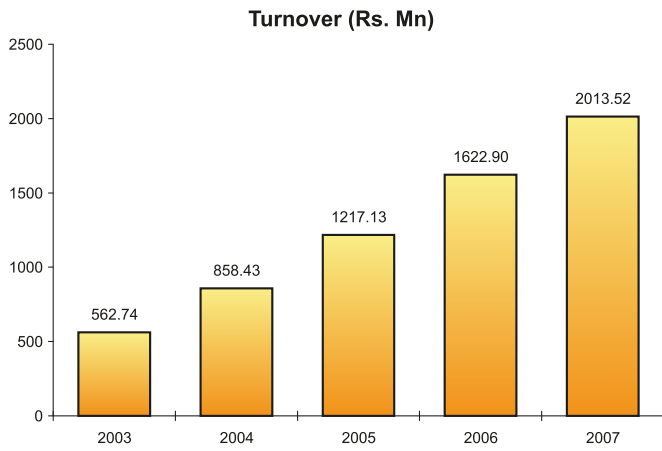


Shanthi  **Gears**

Thirty Fourth Annual Report 2007



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 TORONTO-DOMINION BANK
HDFC BANK LIMITED
STATE BANK OF HYDERABAD

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.

MANUFACTURING 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 **34th Annual General Meeting** of the Company will be held on Monday the **16th day of July, 2007** 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 2007, 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 Dr. D. Padmanaban who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in the place of Ms. S. Sangeetha who retires by rotation and being eligible, offers herself 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(s), 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 reappointment of Ms. S. Savitha, 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 (Production) with effect from 1st August 2006 on the following Terms of Remuneration

Salary : Rs. 40,000 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".

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution.

"RESOLVED that consent / approval be and is hereby accorded under Section 269, read with Schedule XIII, Section 198 and Section 309 and other applicable provisions of the Companies Act, 1956, for the reappointment of Ms. S. SANGEETHA, Wholetime Director of the Company for a period of 5 years from 24.07.2007".

Resolved further that in accordance with the provisions of Section 198, 309 read with Schedule XIII and other applicable provisions if any, of the Companies Act, 1956, and subject to such other approvals as may be necessary, Ms. S. SANGEETHA, WHOLETIME DIRECTOR be paid overall remuneration by way of Salary, Dearness Allowance, Perquisites, Commission and other allowances which shall not exceed 2% of the Net Profit of any Financial Year till the expiry period of the present appointment i.e. 23.07.2012.

Resolved further that where in any Financial Year during the currency of tenure of the Wholetime Director, the Company has no profits or its profits are inadequate, it may pay her minimum remuneration by way of Salary, Dearness Allowances, Perquisites and any other allowances not exceeding Rs.12,00,000 per annum or Rs.1,00,000 per Month.

Resolved further that for calculating minimum remuneration the following perquisites shall not be included in the computation of the ceiling on remuneration.

- i) Company's contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under Income Tax Act, 1961.
- ii) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.
- iii) Encashment of Leave at the end of the tenure.

Resolved further that the Board of Directors be and is hereby authorised to alter or vary the composition / elements of Remuneration payable to Ms.S.SANGEETHA in such a manner as agreed to between the Board of Directors and Ms.S.SANGEETHA within the overall limits as set out above.

8. To consider and if thought fit, to pass, the following resolution as a Special Resolution.

"Resolved that pursuant to Section 17 and other applicable provisions if any of the Companies Act, 1956 (including any statutory modification or re-enactment thereof for the time being in force) the Memorandum of Association of the Company be and is hereby altered by adding / inserting a New Clause in other object after the existing clause III (C) 14 as sub-clause 15".

15. To carry on the business of Property Developers, promoters and builders of flats, offices, houses, bungalows, service flats, chawls, factories, godowns, warehouses, shops, cinema theatres, multiplex complexes, trade centers and other conveniences of all kinds and properties of all kinds and description and to acquire by purchases, lease, exchange, development, construction of buildings, erection or to demolish, re-erect, alter, repair, remodel or otherwise deal in land, buildings, estates, hereditaments, road, highways, docks, bridges, canals, dams, ports, reservoirs or any other structural or architectural work of any kind whatsoever.

9. To consider and if thought fit, to pass, the following resolution as a Special Resolution.

"Resolved that pursuant to the provisions of Section 149 (2A) and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification or re-enactment thereof for the time being in force), consent of the shareholders be and is hereby accorded to commence the activities as specified in the sub-clause No.15 of the other object clause i.e., under sub-clause (C) (15) of clause III of the Memorandum of Association of the Company."

"Resolved further that the Board of Directors be and is hereby authorised to perform all such acts, deeds, things and matters as in it absolute discretion, it may consider necessary, expedient or desirable and to settle any question, or doubt that may arise in relation thereto in order to give effect to the foregoing resolution or as may be otherwise considered, if any, to be in the best interest of the Company."

Note : Resolution Nos. 8 & 9 require the consent of shareholders through Postal Ballot for which necessary steps have been taken as per the Companies (Passing of Resolution by Postal Ballot) Rules 2001.

Coimbatore
16th May, 2007

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

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 30th June 2007 to 16th July 2007 (Both days inclusive)
3. Dividend on approval will be paid on 20th July 2007 to the members whose name appear in Register of Members as on 16th July 2007. In respect of shares held on Demat Form, the Dividend will be paid to the Beneficial owners as on the closing hours of 29th June 2007 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, 1999 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
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
Final	31.03.2006	17.07.2006	21.08.2013

Members who have not encashed their Dividend Warrants in respect of the year ended 31st March 2000 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.
6. In respect of Special Resolutions as per Item Nos. 8 & 9 of the notice, these resolutions required to be passed through Postal Ballot pursuant to the provisions of Companies (Passing of the Resolution by Postal Ballot) Rules, 2001. A separate notice has been issued to the members in respect of the same. The Chairman will announce the results at the Annual General Meeting. If resolutions are assented to by the requisite majority of the shareholders in the Postal Ballot, it shall be deemed to have been passed at the said Annual General Meeting as per Sub Section (4) of Section 192A of the Companies Act, 1956.
7. Members are requested to bring their copies of report and Accounts to the Meeting.
8. 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 2007-08 in respect of the above Stock Exchanges.

9. 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.
10. Information relating to Directors who are seeking re-appointment is given in Report on Corporate Governance. 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) Dr. D. Padmanaban	Nil

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

Item No.6

Ms. S. Savitha is the daughter of Sri. P. Subramanian, Chairman & Managing Director and Sister of Ms. S. Sangeetha, Wholetime Director of the Company. She is Graduate in Engineering and also Masters Degree in Business Administration. She joined the company in the year 1994 as Production Executive. She was elevated as Vice President (Production) from 1st August 2001. It is beneficial to the company to have her services. 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.

Item No.7

Ms. S. Sangeetha, Wholetime Director of the Company was appointed for a period of 5 Years from 24.07.2002. Her appointment expires on 23.07.2007.

The Board of Directors as per Recommendation of the Remuneration Committee at the meeting held on 15.05.2007 have approved the re-appointment of Ms. S. Sangeetha for a period of 5 Years from 24.07.2007. They have also approved the remuneration and perquisites as proposed in the resolution which is in the line with Schedule XIII of the Companies Act, 1956.

The draft agreement which has been approved by the Board of Directors for being entered into with the Wholetime Director by the Company is available for inspection by the members of the Company at the Registered Office of the Company between 11.00 A.M. and 1.00 P.M. on any working day except Saturdays till the date of Annual General Meeting.

The particulars set out in the said agreement contains, interalia, apart from the remuneration and perquisites proposed, the following terms and conditions.

- a) Overall Remuneration: Not exceeding 2% of the Net Profit.
- b) In addition to Chairman & Managing Director, Wholetime Director shall be in charge of all day to day activities of the Company and the Board may entrust to her to carry out such other duties subject to its supervision and control.
- c) The Wholetime Director shall not have powers to
 - (i) make calls of share holders in respect of monies unpaid on the shares on the Company.

- (ii) power to issue Debentures and except to the extent mentioned in the resolution passed at the Board Meeting under Section 292 of the Companies Act, 1956.
- (iii) borrow money other than Debentures.
- (iv) invest the funds of the Company in shares, stocks and securities.
- (v) to make loans.

The particulars set out above can also be treated as memorandum required to be circulated to every member under section 302 of the Companies Act, 1956.

None of the Directors other than Ms. S. Sangeetha and Mr. P. Subramanian being relative of Ms. S. Sangeetha are in any manner concerned or interested in this resolution.

Item No.8

The Directors of your company felt that considering the increase in Land price and demand for land at Coimbatore, the surplus lands of the Company can be used in such way to carry the business of property development with the existing business. The same can be done in such a way that it is more beneficial to the company and can be done more economically and efficiently. The same can be advantageously combined with the existing business.

To carry on the business of property developers, an object clause has to be added to the Memorandum of Association of the Company in the other object of the Company.

Pursuant to the provision of Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules, 2001, the consent of the shareholders is sought to be obtained through Postal Ballot by way of Special Resolution.

Hence the above resolution is brought before you for your approval.

None of the Directors are deemed to be concerned or interested in above resolution.

The Board recommends that the above resolution be approved by the members.

Item No.9

As per the provision of Section 149 (2A), and other applicable provisions, if any, of Companies Act, 1956, the approval of the Shareholders is required, to commence the activities mentioned in the "Other Objects" Clause III (C) (15) of the Memorandum of Association of the Company.

Pursuant to the provision of Section 192A of the Companies Act, 1956 read with the Companies (Passing of Resolution by Postal Ballot) Rules, 2001, the consent of the shareholders is sought to be obtained through Postal Ballot by way of Special Resolution.

The Board recommends the passing of the resolution by casting their vote through the Postal Ballot Form, which is sent alongwith the Notice.

None of the Directors of the Company is concerned or interested in the said resolution.

Coimbatore
16th May, 2007

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 Fourth Annual Report, together with the audited accounts of your Company, for the year ended 31st March 2007.

FINANCIAL RESULTS

Year ended 31-03-2007 Year ended 31-03-2006

Rs. in Millions

Gross profit before interest and depreciation	741.785	588.030
Less : Interest	47.723	29.969
Depreciation	182.296	127.140
Donations	0.247	0.325
Provision for taxation / Withholding Tax	105.833	113.647
Fringe Benefit Tax	2.500	2.400
Deferred Taxes	67.329	33.969
	<hr/> 335.857	<hr/> 280.580
Add : Extra ordinary Income	22.715	-
	<hr/> 358.572	<hr/> 280.580
Add : Excess Provision no longer required	0.005	-
Surplus brought forward	32.076	12.709
	<hr/> 390.653	<hr/> 293.289
Appropriations :		
Proposed Dividend		
Previous Year	0.783	79.993
Current Year	80.776	-
Tax on Dividend		
Previous Year	0.110	11.219
Current Year	13.728	-
Debenture Redemption Reserve	-	10.000
General Reserve	250.000	160.000
Surplus in Profit & Loss Accounts	45.256	32.077
	<hr/> 390.653	<hr/> 293.289

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.2013.523** Million for the year under review as against the turnover of **Rs.1622.898** Millions of the previous year showing a growth of **24.07%**. 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

During the year under review, the Company has allotted 1,957,582 Equity Shares of Re.1 each upon conversion of FCCBs for the value of US\$ 2.5 Millions. Consequent to changes, the Issued, Subscribed and Paid up Equity Capital of the Company is 80,776,215 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. 178.55** Millions during the year and earned Rs.2.252 Millions by way of Interest Receipts. 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 to Rs.525.91 Millions.

FIXED DEPOSITS

The Company has repaid entire Fixed Deposits and does not accept deposit from Public. Further, 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

Dr. D. Padmanaban
Ms. S. Sangeetha

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 Accounts, 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
16th May, 2007

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, 2007.

S.No.	Name	Age (Years)	Designation/ Nature of duties	Remuneration Rs.	Qualification	Experience	Date of Commencement of Employment	Previous Employment
1.	Mr. P. Subramanian *	64	Chairman & Managing Director Overall Management of the affairs of the Company	27,521,848	L.M.E. P.D. Prod.E.	42 Years	01-07-1972	Managing Partner Shanthi Engg & Trading Company.
2.	Ms. S. Sangeetha *	32	Wholetime Director Day to day Management of the Company	11,008,739	B.B.M.	11 Years	05-01-1996	—

* Note : The nature of employment is contractual.

Mr. P. Subramanian and Ms. S. Sangeetha are related.

Coimbatore
16th May, 2007

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 others 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	4	Present
Dr. D. Padmanaban	Independent Director Non Executive	4	Absent
Sri. M.J. Vijayaraaghavan	Independent Director Non Executive	4	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	2	1	1
Ms. S. Sangeetha	1	- NIL -	- NIL -

d) Details of Board Meetings held during the Period from 01.04.2006 to 31.03.2007.

Sl. No.	Date of the Meeting
1	12.05.2006
2	14.07.2006
3	18.10.2006
4	22.01.2007

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	11.05.2006
2	13.07.2006
3	17.10.2006
4	20.01.2007

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, 2007.

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 01.04.2006 to 31.03.2007 paid to the Chairman & Managing Director are given below :

Salary	Rs. 2,400,000
Commission	Rs. 25,121,848
	Rs. 27,521,848

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 01.04.2006 to 31.03.2007 paid to the Wholetime Director are given below :

Salary	Rs. 1,200,000
Perquisite	Rs. 144,000
Commission	Rs. 9,664,739
	Rs.11,008,739

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. 50,000
Dr. D. Padmanaban	Rs. 40,000
Sri. M.J. Vijayaraaghavan	Rs. 50,000

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, 21 letters/complaints were received from the Investors, which were replied/resolved to the satisfaction of the investors and none of the complaints is pending. None of the Complaints required the attention of Investors Committee since they were routine in nature and it was resolved by the Company officials / RTA.

One Share Transfer for 2740 shares was pending as on 31st March, 2007 and the same was processed on 07.04.2007.

e) The Company has exclusively designated the following e-mail id for Investor Relations:
cs@shanthigears.com

7. Remuneration Committee

a) The Remuneration Committee consists of 3 Independent Directors.

b) The Details of Remuneration Committee Meeting held :

Sl. No.	Date of the Meeting
1	11.05.2006
2	13.07.2006

c) Composition of Remuneration Committee

Sl. No.	Members of Remuneration Committee
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
31.03.2004	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
31.03.2006	14.07.2006	9.30 A.M.	Registered Office of the Company 304-A, Trichy Road, Singanallur, Coimbatore – 641 005

ii) Whether Special Resolutions passed at previous 3 AGM's: - YES -

iii) Whether Special Resolution were put through postal ballot, last year : - NO -

iv) Any voting proposal to be conducted through postal ballot, this year : - YES -

9. a) Code of Conduct

The Company is adopting 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.15 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 01.04.2006 to 31.03.2007 is as under.

Year Ended/ Quarter ended	Audited / Unaudited	Approved on	Published in
31.03.2006	Audited	12.05.2006	Business Line, The Economic Times, Daily Thanthi & Dinamalar
30.06.2006	Unaudited	14.07.2006	Business Line & Dinamalar
30.09.2006	Unaudited	18.10.2006	Business Line & Dinamalar
31.12.2006	Unaudited	22.01.2007	Business Line & Dinamalar

- 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 : 16th July, 2007 - 9.30 A.M. (Monday)
- ii) Venue : Registered Office of the Company
 304-A, Trichy Road, Singanallur, Coimbatore – 641 005

b) Financial Calendar

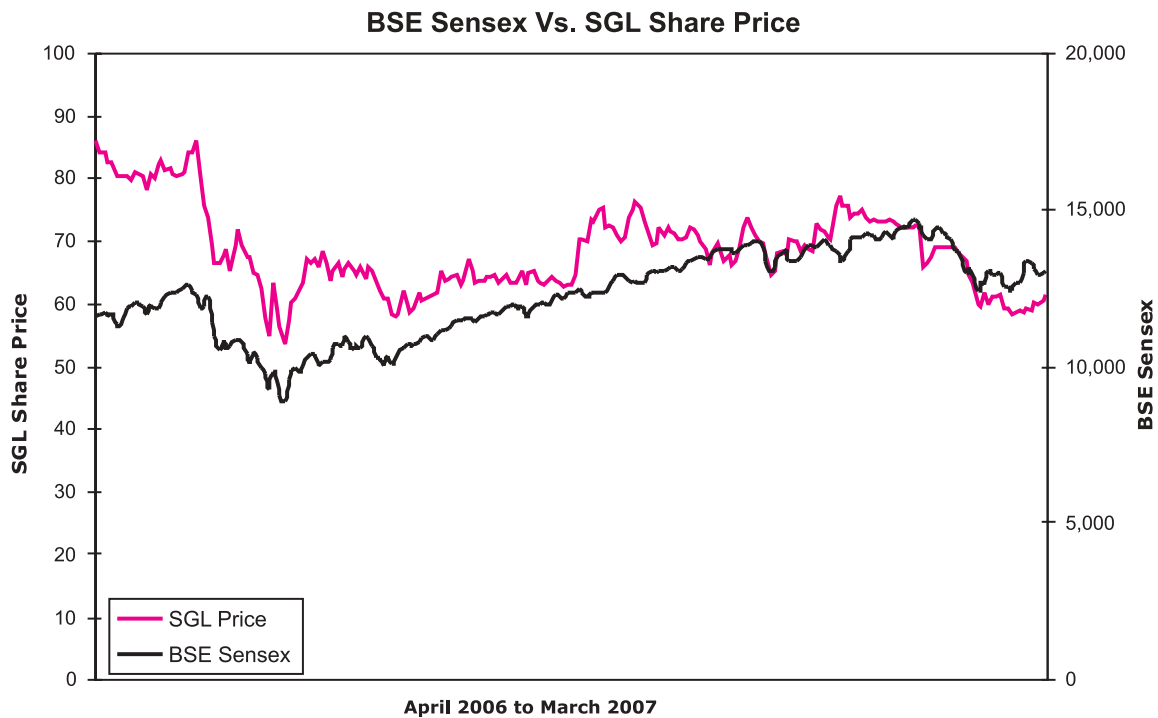
Annual General Meeting	:	16 th July, 2007
Results for the Quarter Ending 30 th June, 2007	:	Last Week of July, 2007
Results for the Quarter Ending 30 th September, 2007	:	Last Week of October, 2007
Results for the Quarter Ending 31 st December, 2007	:	Last Week of January, 2008
Results for the Year Ending 31 st March, 2008	:	Last week of June, 2008

- c) Book Closure Date : 30.06.2007 to 16.07.2007 [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 16/07/2007 and for the Beneficial owners whose name appears on the closing hours of 29/06/2007 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)
- f) Stock Code
- i) Scrip Code in Bombay Stock Exchange Limited, Mumbai 522034
Trading symbol in National Stock Exchange Limited, Mumbai SHANTIGEAR
- ii) ISIN Number in NSDL & CDSL for Equity Shares INE 631A01022
- g) Stock Market Data

Month	Bombay Stock Exchange Ltd. (BSE)		National Stock Exchange Ltd. (NSE)	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2006	87.00	76.30	86.90	73.30
May 2006	92.00	55.35	92.80	60.00
June 2006	69.75	49.90	70.90	50.00
July 2006	69.90	56.50	69.40	57.00
August 2006	69.80	57.00	69.70	58.05
September 2006	74.00	62.10	73.90	62.10
October 2006	80.00	68.70	83.80	64.05
November 2006	74.00	65.00	74.20	65.10
December 2006	76.00	62.00	75.85	64.00
January 2007	81.45	68.50	80.00	69.30
February 2007	73.90	63.10	73.90	62.10
March 2007	66.60	58.00	66.45	58.00

- h) Performance in comparison to broad based indices
SGL Share Price Performance (April 2006 to March 2007)



- 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) 6549995
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 31.03.2007

Sl.No.	Category	No. of Shares	%
1.	Promoters	36794256	45.55
2.	Mutual funds, Banks, Financial Institution, Insurance Companies	15761571	19.51
3.	Foreign Institutional Investors	226146	0.28
4.	N.R.I.'s / OCB's	1790180	2.22
5.	Private Corporate Bodies	3376229	4.18
6.	Indian Public	22827833	28.26
	Total	80776215	100.00

- l) Distribution of Share holding as on 31st March, 2007

No. of Shares held	No. of Shareholders	%	No. of Shares	%
1 to 500	11036	68.68	1889003	2.34
501 to 1000	1562	9.72	1375726	1.70
1001 to 5000	2415	15.03	6560408	8.12
5001 to 10000	692	4.30	4754306	5.89
10001 to 100000	324	2.02	7577421	9.38
100001 and above	40	0.25	58619351	72.57
Total	16069	100.00	80776215	100.00

m) Dematerialisation of Shares and Liquidity

As on 31st March, 2007, **76265549** shares were in dematerialized form representing 94.42% 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 :	
1) Converted into 783033 equity shares of Re.1 each on 24.03.2006	1,000,000
2) Converted into 391516 equity shares of Re.1 each on 20.04.2006	500,000
3) Converted into 783033 equity shares of Re.1 each on 22.04.2006	1,000,000
4) Converted into 783033 equity shares of Re.1 each on 16.05.2006	1,000,000
Outstanding FCCBs as on 31.03.2007	6,500,000

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 5,089,719 equity shares of Re.1 each.

o) Plant Location

Location and addresses 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) 6549995
Fax : (0422) 2499574
Email : info@skdc-consultants.com

q) Address for Communication to the Company :

Shanthi Gears Limited
304-A, Trichy Road, Singanallur,
Coimbatore- 641 005.
Tel : (0422) 2273722 to 34
Fax : (0422) 2273884 & 85
E-mail : cs@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 : Dr. D. Padmanaban
b. Age : 53 Years
c. Date of Appointment : 17.03.1986
d. Qualification : B.Com., M.B.A., Ph.D., MCMI (U.K.), MIMA (INDIA)
e. Directorship in other Companies : 1. GRD Enterprises Private Limited
2. Coimbatore Stock Exchange Limited
f. Others : Educationalist and Social Scientist
Managing Trustee
The GRD Trust & GRD Educational Trust
Director
Centre for Research in Social Sciences,
Technology & Culture
Chairman, Governing Council & Correspondent
Dr. G. R. Damodaran College of Science
GRD Institute of Management
GRD College of Education
GRD Academy of Management
GRD Matriculation Higher Secondary School
Chief Editor
Kalaikathir, Wide Spectrum
Committee Member
1. Member Secretary – IGNOU – Gayanvani – FM Radio
Station (Coimbatore)
2. Biotechnology Collaboration, Anna University,
Chennai
3. Science & Technology Entrepreneurship Park
(STEP), DST, Govt. of India
4. Biotechnology Collaboration, Tamilnadu Agricultural
University, Coimbatore
5. Executive Committee, Tamil Academy, Chennai
6. Biotechnology Collaboration, National Botanical
Research Institute, Lucknow
7. Planning Board, Indira Gandhi National Open
University (Visitor's Nominee)
8. Faculty Selection Committee – North Eastern Hill
University, Shillong, Meghalaya (Visitor's Nominee)
- 2 a. Name of the Director : Ms. S. Sangeetha
b. Age : 32 Years
c. Date of Appointment : 24.07.2002
d. Qualification : B.B.M.
e. Directorship in other Companies : Shanthi General Finance P Ltd

Coimbatore
16th May, 2007

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
16th May, 2007

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. Industry Structure and Developments :

Industrial activities throughout the year (2006-07) have been generally good with the demands of our products registering continuous upward trend. In order to cope up with the mounting pressure for production, Machineries worth Rs.65.14 Crores, as under among others, have been added during the year:

- (a) SHW CNC Universal Machining Centre UF6L
- (b) Reishauer CNC Gear Grinding Machine RZ400
- (c) Samputensili Gear Profile Grinding Machine S375G
- (d) Gleason Pfauter CNC Profile Grinding Machine P400G
- (e) Gleason Pfauter CNC Gear Shaping Machine PSA 500 & P800/1200 ES
- (f) Mazak Horizontal Machining Centre FH8800 and FH10800
- (g) Haas Vertical Machining Centre Model VF3-SS
- (h) Coordinate Measuring Machine & Gear Inspection Centre Leitz Model PMM-C24-16-10
- (i) Studer Internal & Face Grinding Machine Model S151
- (j) Wenzel CNC Gear Measuring Machine Model WGT 350

As indications are, the demand requirements for the year 2007-08 is also in the same scale of increase like that of 2006-07. Actions are on place to streamline and optimise the entire activities so that your Company does not fall behind in terms of the expected market requirements.

2. Opportunities and Threats :

Because of the industrial boom, there has been very good demand for our products from every user industries. Foreign buyers are also looking upon India as a major source of purchase on account of good quality, competitive prices and dependable delivery performance.

In case of industry deceleration, there are chances of demand slow down and consequent glut. Rise in prices of Steel particularly Nickel / Chromium / Molybdenum bearing Steel have been a continuous concern. Attrition and shortage of trained manpower could also cause as a serious restraining factor.

3. Outlook :

As your Company enjoys very good reputation for top quality at competitive prices with timely deliveries, we continue to be the preferred supplier (first preference) of all major customers. We have been living up to their expectations through thick and thin. As such, the prospects for the year 2007-08 are bright.

4. Risks and Concerns :

- Fierce competition from National and International Manufacturers.
- Rise in prices of Steel
- Reducing retention on account of falling sales prices and constant increase in the cost of raw material inputs
- Arrival of new entrants of foreign origin.

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 of 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. 2013.523 Million as compared to Rs. 1622.898 Million of the previous year. The Profit After Tax (PAT) of the current Financial Year adding extraordinary Income is Rs. 358.577 Million as against Rs. 280.579 Million of 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 877 employees as of 31st March, 2007.

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.

On behalf of the Board of Directors

P. Subramanian

Chairman & Managing Director

Coimbatore
16th May, 2007

**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, 2007 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 - 012024

Partner

Place : Coimbatore.
Dated : 16th May, 2007.

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, 2007 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, 2007 and taken on record by the Board of Directors, We report that none of the Directors are disqualified as of 31st March, 2007 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, 2007
 - (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 - 012024
Partner

Place : Coimbatore.
Dated : 16th May, 2007.

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. The Company has repaid all public deposits during the year under report.
- (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 of any dispute. Particulars of dues to sales tax, excise duty, customs duty as at 31st March, 2007 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 has maintained records on all transactions regarding purchase & redemption of mutual funds. Timely entries have been made in such records and the investment in mutual funds were made in company's name.
- (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.
- (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. The Company has redeemed the debentures during the year under report.
- (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

Place : Coimbatore.
Dated : 16th May, 2007.

F - 012024
Partner

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, 2007.

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.	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.
2.	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.
3.	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.
4.	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.
5.	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.
6.	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.
7.	Tamilnadu Sales Tax Act.	AST on CST	1,17,718	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.
8.	Tamilnadu Sales Tax Act.	AST on CST	1,04,013	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, 2007

	Schedule	As At 31-03-2007 Rs.	As At 31-03-2006 Rs.
I. SOURCES OF FUNDS			
1. Shareholders' Funds			
a) Share Capital	1	80,776,215	78,818,633
b) Reserves & Surplus	2	1,234,493,751	859,046,898
Total Share holders' Funds	(A)	<u>1,315,269,966</u>	<u>937,865,531</u>
2. Loan Funds			
a) Secured Loans :	3		
i) Debentures		-	17,500,000
ii) Term Loans		329,005,225	323,702,620
iii) Working Capital		400,000,000	200,000,000
iv) Short Term Loan		100,000,000	62,374,730
		<u>829,005,225</u>	
b) Unsecured Loans	4	357,753,955	601,060,752
Total Loan Funds	(B)	<u>1,186,759,180</u>	<u>1,204,638,102</u>
3. Deferred Tax			
Balance as per last Balance Sheet		98,435,577	
Add/Less :Transfer From/To Profit & Loss Account		<u>67,329,768</u>	
	(C)	<u>165,765,345</u>	<u>98,435,577</u>
TOTAL FUNDS EMPLOYED	(A+B+C)	<u><u>2,667,794,491</u></u>	<u><u>2,240,939,210</u></u>
II. APPLICATION OF FUNDS			
1. Fixed Assets			
Gross Block		2,652,040,429	1,911,792,072
Less : Depreciation		<u>958,143,444</u>	<u>779,539,196</u>
Net Block		1,693,896,985	1,132,252,876
Capital Work-in-progress		<u>131,933,431</u>	<u>86,451,802</u>
	5	<u>1,825,830,416</u>	<u>1,218,704,678</u>
2. Current Assets, Loans & Advances	6		
a) Inventories		536,508,312	476,420,242
b) Sundry Debtors		252,038,014	236,177,722
c) Cash & Bank Balances		222,605,686	487,008,073
d) Other Current Assets		2,867,735	3,316,521
e) Loans & Advances		176,308,024	137,128,714
		<u>1,190,327,771</u>	<u>1,340,051,272</u>
Less : Current liabilities & provisions	7	<u>348,363,696</u>	<u>317,816,740</u>
TOTAL ASSETS		<u><u>841,964,075</u></u>	<u><u>1,022,234,532</u></u>
		<u><u>2,667,794,491</u></u>	<u><u>2,240,939,210</u></u>

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
16th May, 2007**S. Sangeetha**
Wholetime Director
C. Subramaniam
Company Secretary**S. Lakshminarayanan**
Partner
T. Raghunathan
Internal Auditor

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH, 2007

	Schedule	For the Year Ended 31-03-2007 Rs.	For the Year Ended 31-03-2006 Rs.
I. INCOME			
Gross Turnover	8	2,279,661,583	1,842,553,427
Less : Excise Duty		266,139,029	219,654,972
Net Turnover		2,013,522,554	1,622,898,455
Other income	8	15,056,011	1,647,566
		2,028,578,565	1,624,546,021
Add/(Deduct)			
Difference In Stock	8	14,226,767	5,392,882
		2,042,805,332	1,629,938,903
II. EXPENDITURE			
Material Cost	9	834,789,900	631,660,385
Labour Cost	9	154,264,028	132,091,085
Power & Fuel		65,864,312	67,167,712
Repairs	9	92,250,596	70,700,329
Interest Paid (Net of Receipts)	9	47,723,747	29,968,723
Administrative Expenses	9	153,850,753	140,290,447
Depreciation		182,295,636	127,140,372
		1,531,038,972	1,199,019,053
III. PROFIT FOR THE YEAR			
		511,766,360	430,919,850
Less : Donations		246,750	324,817
		511,519,610	430,595,033
Less : Provision For Taxation Current / Withholding tax		105,833,447	113,647,082
Provision for Fringe Benefit Tax		2,500,000	2,400,000
Deferred Tax		67,329,768	33,968,483
Add : Excess provision no longer required		5,306	-
PROFIT AFTER TAX		335,861,701	280,579,468
Add : Extra-ordinary Income (See Note No : 18)		22,714,809	-
		358,576,510	280,579,468
Add : Surplus brought forward		32,076,555	12,709,313
Profit available for appropriation		390,653,065	293,288,781
IV. APPROPRIATIONS			
Proposed Dividend Previous Year (See Note No : 10)		783,033	
Current Year		80,776,215	79,993,182
Tax on Dividend Previous Year (See Note No :10)		109,820	
Current Year		13,727,918	11,219,044
Debenture Redemption Reserve		-	10,000,000
General Reserve		250,000,000	160,000,000
Surplus		45,256,079	32,076,555
		390,653,065	293,288,781
EARNING PER SHARE (Basic/Diluted)			
See Note No.11 of Notes to Accounts			
a) Excluding Extra-Ordinary Items			
	Basic	4.16	3.56
	Diluted	3.96	3.47
b) Including Extra-Ordinary Items			
	Basic	4.44	-
	Diluted	4.23	-

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
16th May, 2007

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

SCHEDULES

	As At 31-03-2007 Rs.	As At 31-03-2006 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

80,776,215 (78,818,633) Equity Shares of Re.1 each

80,776,215

78,818,633

- 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 Shanthi 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 Shanthi 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

General Reserve

As per Last Balance Sheet

700,000,000

ADD : Transfer from Profit and Loss Account

250,000,000

950,000,000

700,000,000

Securities Premium Account

As per Last Balance Sheet

74,489,143

ADD : Received during the year

112,267,329

186,756,472

74,489,143

Debenture Redemption Reserve

As per Last Balance Sheet

50,000,000

50,000,000

Premium on FCCB Issue

As per Last Balance Sheet

2,284,500

2,284,500

Capital Redemption Reserve

As per Last Balance Sheet

180,000

180,000

Surplus In Profit & Loss Account

45,256,079

32,076,555

1,234,493,751

859,046,898

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 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
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TERM LOANS

From Banks	329,005,225	323,702,620
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OPEN LOAN

From State Bank of India for Working Capital Requirements	400,000,000	200,000,000
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SHORT TERM LOAN

From Banks (Details of Security Refer Note No.3)	100,000,000	62,374,730
	829,005,225	603,577,350

SCHEDULE : 4
UNSECURED LOANS

From Banks	73,248,955	193,838,752
FCCB 0.5% A Series	284,505,000	403,740,000
Fixed Deposits : From Others	-	3,482,000
	357,753,955	601,060,752

SCHEDULES (Contd...)

SCHEDULE : 5

FIXED ASSETS

(Amount in Rupees)

PARTICULARS	GROSS BLOCK			DEPRECIATION			NET BLOCK		
	Cost as on 01-04-2006 Rs.	Additions during the year Rs.	Sales/ Transfer/ Refund Rs.	Cost As on 31-03-2007 Rs.	Deprecia- tion upto 01-04-2006 Rs.	For the year ended 31-03-2007 Rs.	Withdrawn during the year Rs.	Value as on 31-03-2007 Rs.	Value as on 31-03-2006 Rs.
Land	50,218,304	3,000,000	—	53,218,304	—	—	—	53,218,304	50,218,304
Buildings	127,952,340	67,119,901	—	195,072,241	36,773,274	5,329,323	—	152,969,644	91,179,066
Plant & Machinery	1,574,716,802	651,372,424	3,195,198	2,222,894,028	651,892,330	154,930,420	3,180,524	1,419,251,802	922,824,472
Tools & Equipments	38,681,572	2,184,931	359,787	40,506,716	23,962,449	4,387,232	317,341	12,474,376	14,719,123
Electrical Equipments	18,570,391	2,169,864	7,375	20,732,880	9,302,789	1,495,681	5,772	9,940,182	9,267,602
Furniture & Fittings	8,340,861	1,700,430	7,650	10,033,641	6,299,050	919,894	5,989	2,820,686	2,041,811
Office Equipments	11,966,744	8,500,857	37,288	20,430,313	4,983,005	1,452,250	22,327	14,017,385	6,983,739
Computers	54,390,394	1,794,199	72,788	56,111,805	32,370,797	9,359,266	64,845	14,446,587	22,019,597
Vehicles	26,954,664	6,200,044	114,207	33,040,501	13,955,502	4,421,570	94,590	14,758,019	12,999,162
Capital Work-in-Progress	86,451,802	123,736,713	78,255,084	131,933,431	—	—	—	131,933,431	86,451,802
TOTAL	1,998,243,874	867,779,363	82,049,377	2,783,973,860	779,539,196	182,295,636	3,691,388	1,825,830,416	1,218,704,678
Previous Year	1,459,112,565	566,830,668	27,699,359	1,998,243,874	657,429,380	127,140,372	5,030,556	1,218,704,678	801,683,185

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 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 & Consumables	301,793,408	255,932,105
Semi Finished Goods	219,318,203	187,589,656
Finished Goods (including Goods in Transit of Rs. Nil. Previous Year – Rs.169,356)	15,396,701	32,898,481
	536,508,312	476,420,242
Sundry Debtors		
Unsecured and Considered Good		
More than Six Months	6,299,836	3,948,360
Less than Six Months	245,738,178	232,229,362
	252,038,014	236,177,722
Cash & Bank Balances		
Cash with Scheduled Banks	40,218,083	10,132,627
a) in Current Accounts		
b) in Fixed Deposit	181,316,820	475,066,005
Cash at Bank with Others	59,526	861,316
a) in Current Accounts		
Stamps on Hand	20,196	6,563
Cash on Hand	991,061	941,562
	222,605,686	487,008,073
Other Current Assets		
Interest Accrued and Receivable	2,139,111	1,965,250
Income Receivable	728,624	1,351,271
	2,867,735	3,316,521

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 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	2,488,646	38,878,899
Advance for Taxes (Net of Provision)	2,361,899	—
Advance to Others	11,754,995	7,233,268
Deposits with Central Excise, Sales Tax & Customs Authorities	142,660,845	75,744,300
Deposits with Others	15,994,534	14,154,083
Prepaid Expenses	1,047,105	1,118,164
	<u>176,308,024</u>	<u>137,128,714</u>
SCHEDULE : 7		
CURRENT LIABILITIES & PROVISIONS		
Current Liabilities		
Liability for Purchase of Capital Goods (Includes Dues to SSI Unit Undertakings Rs. 207,433. Previous Year Rs. 226,475)	22,823,997	5,411,988
Liability for Purchases (Includes Dues to SSI Unit Undertakings Rs. 3,394,766. Previous Year Rs. 4,393,815)	49,796,263	43,610,979
Liability for Expenses (Includes Dues to SSI Unit Undertakings Rs. 148,946. Previous Year Rs. 213,344)	75,930,596	95,716,235
Liability for Other Finance	25,615,887	10,320,403
Advance from Customers	75,324,825	61,423,410
Interest accrued but not due	—	495,962
Investor Protection and Educational Fund shall be credited by the following accounts when due :		
Unpaid Dividends	1,627,800	1,282,735
Unencashed Fixed Deposits including Interest [in stale Cheques account]	91,433	129,371
Unclaimed Debenture Redemption money including Interest	109,933	206,948
	<u>251,320,734</u>	<u>218,598,031</u>
Provisions		
Provision for Taxation [Net of Advance Payment of Taxes]	—	7,708,985
Proposed Dividend	80,776,215	79,993,182
Tax on Dividend	13,727,918	11,219,044
Provision for Fringe Benefit Tax [Net of Advance Payment]	538,829	297,498
Provision for Warranty	2,000,000	—
	<u>348,363,696</u>	<u>317,816,740</u>

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 Rs.
SCHEDULE : 8		
1. GROSS TURNOVER		
Sale of Manufactured Goods	2,219,600,750	1,786,397,978
Machining Charges Receipts	60,060,833	56,155,449
	<u>2,279,661,583</u>	<u>1,842,553,427</u>
2. OTHER INCOME		
Profit on Sale of Assets	629,832	-
Miscellaneous Income (Including Net Exchange Gain of Rs. 8,779,187)	13,038,268	819,530
Rental Receipts (TDS Rs.95,153. Previous Year Rs.60,587)	1,387,911	828,036
	<u>15,056,011</u>	<u>1,647,566</u>
3. DIFFERENCE IN STOCKS		
Closing Stock		
Semi Finished Goods	219,318,203	187,589,656
Finished Goods	15,396,701	32,898,481
	<u>234,714,904</u>	<u>220,488,137</u>
Opening 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>
	<u>14,226,767</u>	<u>5,392,882</u>
SCHEDULE : 9		
MATERIAL COST		
Opening Stock of Raw Materials & Consumables	255,932,105	217,101,938
Purchases	892,254,780	679,931,684
	<u>1,148,186,885</u>	<u>897,033,622</u>
LESS : Sale of Raw Materials	11,603,577	9,441,132
	<u>1,136,583,308</u>	<u>887,592,490</u>
LESS : Closing Stock	301,793,408	255,932,105
Materials Consumed	<u>834,789,900</u>	<u>631,660,385</u>

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 Rs.
SCHEDULE : 9 (Contd...)		
LABOUR COST		
Salaries, Wages, Bonus & Gratuity	105,382,689	92,119,098
Contribution to Provident Fund	3,882,679	3,488,152
Workmen & Staff Welfare Expenses	17,529,684	13,103,053
Labour and Machining Charges	27,468,976	23,380,782
	<u>154,264,028</u>	<u>132,091,085</u>
REPAIRS		
Buildings	11,918,307	6,233,848
Machinery	61,837,438	50,172,560
General	18,494,851	14,293,921
	<u>92,250,596</u>	<u>70,700,329</u>
INTEREST		
Debentures	860,137	2,754,486
Bank Loans	59,839,418	38,541,061
Fixed Deposits	134,754	676,585
FCCB	1,472,857	644,863
	<u>62,307,166</u>	<u>42,616,995</u>
Less : Interest Receipts (TDS Rs. 2,665,330)		
Previous Year Rs. 2,289,931)	14,583,419	12,648,272
	<u>47,723,747</u>	<u>29,968,723</u>
INTEREST PAID (NET OF RECEIPTS)		

SCHEDULES (Contd...)

	As At 31-03-2007 Rs.	As At 31-03-2006 Rs.
SCHEDULE : 9 (Contd...)		
ADMINISTRATIVE EXPENSES :		
Managing Director's Remuneration	27,521,848	23,156,991
Whole Time Director's Remuneration	11,008,739	9,262,796
Postage, Telegram and Telephones	5,567,249	6,698,604
Printing & Stationery	4,752,598	4,322,220
Travelling & Maintenance of Motor Vehicles	15,666,981	15,509,336
Insurance	4,017,607	3,321,922
Taxes & Licences	18,359,695	14,751,653
Transport Charges & Selling Expenses	20,732,922	17,705,059
Commission & Discount	7,838,618	5,554,180
Advertisement	24,713,093	24,681,193
Bank Charges, Filing Fees & Subscription Etc.,	9,230,774	8,647,026
Machinery & Building Rent	36,000	36,000
Director's Sitting Fees	140,000	125,000
Auditor's Remuneration		
Audit Fees	150,000	125,000
Certification Fees	24,500	53,000
	174,500	
Accountancy & Legal Charges	3,318,191	3,964,321
Miscellaneous Expenses	693,583	601,477
Bad Debts Written Off	19,099	183,236
Loss on Sale of Asset	59,256	417,550
Exchange Loss [Previous Year Net of Exchange Gain Rs.15,279,873]	—	1,173,883
	153,850,753	140,290,447

Notes and Schedule 1 to 9 Form Part of Accounts.

P. Subramanian
Chairman & Managing Director
Coimbatore
16th May, 2007

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

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

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007

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. An asset is treated as impaired when the Carrying Cost of assets exceeds its recoverable value. An impairment loss is charged to the Profit and Loss account in the year in which an asset is identified as impaired. The impairment loss recognised in the prior accounting periods is reversed if there has been a change in the estimate of recoverable amount. 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 weighted average 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) Contribution to Provident Fund and Pension Funds, which are administrated by Central Government, are charged to revenue.
- ii) Gratuity
The Company has taken a group gratuity Policy for future payment of gratuity with the Life Insurance Corporation of India (LIC). Payment of contribution as per the Demand made by LIC is charged to revenue.
- iii) 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 :

- a) Provisions are recognized when the Company has a legal constructive obligation as a result of a past event, for which it is probable that a cash flow will be required and reliable estimate can be made of the amount of obligation. However, where such obligation are not likely to entail outflows in future periods and are contingent on the future outcome of events, they are disclosed as a matter of information as contingent liabilities.
- b) Provision for Warranty is made in the accounts as per estimates made by the management based on its past experiences and trends about warranty claim on sales

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd..)

e. LEASE RENTALS :

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

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 31/03/2007.

h. FOREIGN CURRENCY TRANSACTIONS :

- a) Foreign Currency Transactions are 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.
- b) The exchange difference in respect of Forward Contracts are recognized over the life of the contract.
- c) The foreign Currency monetary items consisting of loan, trade payable, trade receivable and balances in fixed deposits and current account with bank at the end of the year have been restated at the rate prevailing at the balance sheet Date. The difference arising as a result has been accounted as income / expense as per Accounting Standard 11 (Revised 2003) on "Accounting for effects of Change in Foreign Exchange Rates" issued by The Institute of Chartered Accountants of India.
- d) Fixed Assets purchased at German Liaison office in Foreign Exchange are recorded at their historical cost computed with reference to the exchange rate prevailing on the date of purchase / transfer of funds.

i. TAXATION :

- i) Provision for current tax is made with reference to taxable income computed for the Accounting Year by applying the tax rates as applicable.
- ii) Provision for Fringe Benefit Tax is made by calculating Fringe Benefit Tax payable as per the provisions of Income Tax Act.
- iii) Deferred Tax is calculated for in respect of all timing differences on a liability method as per Accounting Standard 22 (AS22).

j. INVESTMENT :

During the Year Temporary Surplus Funds of the Company has been invested in Units of Mutual Funds until they were deployed for Working Capital needs.

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd...)

2. **CONTINGENT LIABILITIES :**

- a) Estimated amount of contracts remaining to be executed on Capital Accounts and not provided for **Rs.1,204.47 Lakhs.**
 - b) On account of Guarantees issued **Rs. 637.53 Lakhs.**
3. a) The Working Capital facilities availed from State Bank of India are secured by 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.
- b) 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.
- c) Term Loan availed from HSBC are secured by First and exclusive charges on Plant and Machinery purchased from their assistance.
- d) Short Term Loan availed from HDFC Bank Limited are secured by exclusive charges on movable Plant and Machinery.
- e) Term Loan availed from State Bank of Hyderabad are secured by First and exclusive charge on the Three Wind Mills purchased from their assistance.

4. a) The Chairman & Managing Director of the Company has given personal guarantee for **Rs. 7,150 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. 1,000 Lakhs.**

5.	a) Details of Remuneration paid to Managing Director		Rs.
	Salary		2,400,000
	Commission		25,121,848
	Total		27,521,848

b)	Details of Remuneration paid to Wholetime Director		Rs.
	Salary		1,200,000
	Company's contribution to Provident Fund		144,000
	Commission		9,664,739
	Total		11,008,739

6.	a) Calculation of Director's Remuneration		Rs.
	Profit as per Profit & Loss Account		511,766,360
	ADD : Book depreciation	182,295,636	
	Managing Director's Remuneration	27,521,848	
	Directors sitting fees	140,000	
	Wholetime Director's Remuneration	11,008,739	
			220,966,223
			732,732,583
	LESS : Depreciation under Section 350		182,295,636
	Profit under Section 349		550,436,947
	10% of the above		55,043,695
	Restricted to 5% for Managing Director		27,521,848
	Restricted to 2% for Wholetime Director		11,008,739

7. Income Tax assessment is completed up to the Assessment year 2004-2005.

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd..)

8. a) Name of Small Scale Industrial (SSI's) Undertaking to whom the company owes dues more than 30 days as at 31/03/2007.
1. Navodhaya Industries
- b) The Company has circulated letters seeking information from all suppliers whether they are an enterprise under the definition of Micro, Small and Medium Enterprises Development Act, 2006. None of the suppliers have responded to its circular. In view of the above the Company is unable to furnish the necessary information as required by the said Act during the Financial Year.
9. Additional information pursuant to provisions of paragraph 3, 4C and 4D of part II of Schedule VI to the Companies Act, 1956.

A. Licensed and Installed Capacity :

Licensed Capacity	:	Not Applicable
Installed Capacity	:	Most of the Plant & Machinery being common for different Products manufactured by the Company and installed capacity being dependent on Product mix, which in turn is decided by the actual demand for various Products from time to time, and also on availing of sub-contracting facilities, it is not feasible for the Company to indicate the exact installed capacity.

		2006-2007	2005--2006
B. Actual Production :	Units		
i) Gear wheels and Accessories (including the production for Captive Consumption)	Nos.	540,112	533,956
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc. (including the production for Captive Consumption)	Nos.	2,027	1,772
iii) Gear Boxes and Accessories (including the production for Captive Consumption)	Nos.	29,425	27,660
iv) Geared Motors	Nos.	1,579	1,085
v) Carding Machines	Nos.	17	8
vi) Lathes (including the production for Captive Consumption)	Nos.	5	4
vi) Crane (including the production for Captive Consumption)	Nos.	4	0
C. Stock of Finished Goods :		As at	As at
		31.03.2007	31.03.2006
i) Gear wheels and Accessories	Nos.	321,359	338,527
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc.	Nos.	239	213
iii) Gear Boxes and Accessories	Nos.	1,927	2,085
iv) Geared Motors	Nos.	51	51

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd..)

D. Sale of Finished Goods :	2006-2007		2005-.2006	
	Qty/Nos.	Value Rs.	Qty/Nos.	Value Rs.
i) Gear wheels & Accessories	489,205	721,065,172	415,480	508,585,123
ii) Drafting Units, Conversion Brackets, Spares and complete set of Head Stock Gearing End Conversions, Coilers etc.	1,289	19,819,844	1,287	13,444,942
iii) Gear Boxes & Accessories	28,437	1,115,853,188	27,486	983,983,245
iv) Geared Motors	1,569	60,585,307	1,082	45,507,595
v) Carding Machines	17	16,374,000	8	7,615,000
vi) Machining Charges Receipts	—	60,060,833	—	56,155,449
vii) Others	—	19,764,210	—	7,607,101
		<u>2,013,522,554</u>		<u>1,622,898,455</u>

E. Value of Imports (CIF Value) :

a) Plant & Machinery	440,781,748	272,379,097
b) Tools & Equipments	1,553,754	2,999,023
c) Computer Software	—	6,953,874
d) Raw Materials	9,009,686	63,440,821
e) Consumable Stores & Tools	39,117,163	9,443,303
f) Machinery Spares	7,152,309	3,405,810

F. Raw Materials Consumed :

a) Steel Rods & Steel Forgings	5,761,754	316,918,942	4,407,117	261,451,515
b) Bearings (Nos.)	139,926	86,749,306	139,708	90,862,515
c) Others	—	431,121,652	—	279,346,355
		<u>834,789,900</u>		<u>631,660,385</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 :

	Value Rs.	% of Consumption	Value Rs.	% of Consumption
Raw Materials & Stores and Spares :				
Imported	52,120,602	6.24	78,068,544	12.36
Indigenous	782,669,298	93.76	553,591,841	87.64
	<u>834,789,900</u>	<u>100.00</u>	<u>631,660,385</u>	<u>100.00</u>

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd..)

H. Payments made in foreign currency on account of :	2006-2007	2005-2006
	Rs.	Rs.
a) Interest	17,195,529	15,954,829
b) Travelling	—	506,200
c) Advertisement	4,028,735	4,936,586
d) Subscription	513,075	479,950
e) Sales Promotion Expenses	1,040,825	1,490,480
f) Exhibition Expenses	199,000	472,830
g) FCCB Expenses	84,208	—
h) Commission	24,791	23,396
i) Professional & Consulting Charges	78,661	—
j) Germany Office – Liaison Office Expenses	5,133,080	3,721,779
k) Germany Office – Asset Purchase	—	692,416
I. Earnings in Foreign Currency		
FOB Value of Exports	178,551,072	91,171,150
Interest Receipts	2,251,532	3,777,450
J. Amount remitted during the year in Foreign Currencies		
i) On account of Dividends	—	272,480
ii) Number of Non-Resident Share Holders	268	258
iii) Number of Shares held by Non-Resident Share-Holders on which Dividends are due	1,674,408	1,331,944
iv) The year to which dividends relate	31.03.2006	31.03.2005
K. Units of Mutual Funds purchased and redeemed during the year	No. of Units	Value in Rs. (At Cost)
i) Reliance Mutual Fund	32,374,090	426,300,000
ii) HDFC Mutual Fund	10,646,127	160,000,000
iii) SBI Mutual Fund	597,004	10,000,000

10. FCCB Issue / Dividend of Previous Year

The Bondholder has converted 783,033 Equity Shares after the Board Meeting but before the Record Date for Book closure. As per the Stock exchange guidelines all the members as on the Record date are entitled for Dividend. Accordingly an amount of Rs.783,033 has been paid in excess of the provision made relating to the previous year. Consequent to the payment of Dividend, Taxes on Dividend amounting to Rs.109,820 has been paid in excess of the provision.

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

A. Basic EPS : (Excluding Extra-Ordinary Items)	As at	As at
	31.03.2007	31.03.2006
	Rs.	Rs.
a) Total Equity Shares outstanding at the End of the year	80,776,215	78,818,633
b) Net Profit after Tax	335,861,701	280,579,468
c) Earning Per Share (Basic)	4.16	3.56

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd...)

B. Diluted EPS (Excluding Extra-Ordinary Items)			
(On the basis of FCCB as Potential Equity Shares)			
a) Calculation of Weighted Average number of Equity Shares Re.1 each for the Previous Year		31.03.2006	Rs.
i) Number of Shares at the Beginning of the year		78,035,600	
ii) FCCB Issue Allotment Date Previous Year (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	
b) Calculation of Weighted Average number of Equity Shares Re.1 each for the Current Year	31.03.2007		Rs.
i) Number of Shares at the Beginning of the year	78,818,633		
ii) FCCB Issue Allotment During Current Year			
a) During April 2006	1,174,549		
b) During May 2006	783,033		
iii) Total Number of Equity Shares to be outstanding on Conversion (Potential Equity Shares)	85,865,934		
iv) a) Equity Shares outstanding for 1 Month	78,818,633		
b) Equity Shares outstanding for 0.5 Months taking into consideration Potential Equity shares	79,993,182		
v) Equity Shares outstanding for 10.5 Months taking into consideration Potential Equity shares	85,865,934		
vi) Weighted Average number of Equity Shares including Potential Equity Shares	85,033,961		
c) Net profit after tax as per Profit & Loss account	335,861,701	280,579,468	
Add : Increase in Net profit			—
Interest on FCCB	1,472,857		644,863
Less : Tax Effect at 33.66%	495,764		217,061
	977,093		427,802
Net Profit after tax for Diluted EPS	336,838,794	281,007,270	
d) Diluted Earning per share	3.96	3.47	
II. A. BASIC EPS : (Including Extra-Ordinary Items)	31.03.2007	31.03.2006	
a) Total Equity Shares outstanding at the End of the year	80,776,215	—	
b) Net Profit after Tax including Extra Ordinary Items	358,576,510	—	
c) Earning Per Share (Basic)	4.44	—	
B. DILUTED EPS : (Including Extra-Ordinary Items)			
i) Weighted Average Equity Shares	85,033,961	—	
ii) Net Profit After Tax for Diluted EPS including Extra-ordinary Items.	359,553,603	—	
iii) Diluted Earning per share	4.23	—	

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (Contd..)

12. 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).

13. Deferred Tax	As at 31.03.2007 Rs.	As at 31.03.2006 Rs.
Opening Liability	98,435,577	64,467,094
Add/Deduct : Assets / Liabilities / Difference in I.T. & Book Depreciation - Liability	68,643,901	37,111,999
Less : 43B Liabilities/Disallowance under IT Act - Assets	1,314,133	3,143,516
Net Liability for the year	<u>67,329,768</u>	<u>33,968,483</u>
Closing Balance	<u>165,765,345</u>	<u>98,435,577</u>

14. Notes on Leased Assets

1) Gross value of Assets		
a) Land	1,934,621	1,439,066
b) Buildings	5,478,846	362,967
c) Plant & Machinery	25,435	25,435
2) Accumulated Depreciation at the end of the Year		
a) Land	-	-
b) Buildings	215,939	199,247
c) Plant & Machinery	24,163	24,163
3) WDV of Assets at the end of the Year		
a) Land	1,934,621	1,439,066
b) Buildings	5,262,907	163,720
c) Plant & Machinery	1,272	1,272
4) Depreciation for the Year		
a) Land	-	-
b) Buildings	16,692	12,123
c) Plant & Machinery	-	-
5) Rental Receipts		
a) Land	330,000	270,000
b) Buildings	347,032	168,000
c) Plant & Machinery	36,000	36,000

15. 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 (Previous Year)	38,530,587 (32,419,787)	949,940 (380,854)	39,480,527 (32,800,641)
Receiving of Services (Previous Year)	18,000 (18,000)	2,734,635 (1,993,606)	2,752,635 (2,011,606)
Outstanding Balance as at 31.03.2007 - Payable (Previous Year)	34,786,587 (28,672,708)	— —	34,786,587 (28,672,708)

Notes to Balance Sheet and Profit and Loss Account as at 31st March, 2007 (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

16. Details of Cash and Bank Balance	31.03.2007	31.03.2006
a) Cash with Schedule Bank in Current account includes:		
i) Unpaid Dividend Warrant A/c	1,627,800	1,282,735
ii) Unclaimed Debenture Redemption Account	109,933	206,948
b) Cash with other Banks in Current account :		
HSBC Dusseldorf		
i) Balance at the end of the Year	59,256	861,316
ii) Maximum amount at any time during the Year	1,280,491	2,121,958
17. Miscellaneous Income Includes		
Income from Redemption of Investments in Mutual Fund	1,822,144	
Dividend From Mutual Fund	19,518	
Total	1,841,662	
	=====	

18. The Honorable High Court of Madras has held that the Demand and Collection of Entry Tax under Tamilnadu Tax on Entry of Goods into Local Areas Act, 2001 is illegal, unauthorized and violative of Article 301 of the Constitution and levy of entry tax is being discriminatory and quashed demand notices. Hence no provision has been made for the Current Year on account of Entry Tax. Further, provision made in the Earlier Years have been reversed and shown as Extra-Ordinary income for the current year.

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

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
16th May, 2007

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

S. Lakshminarayanan
Partner
T. Raghunathan
Internal Auditor

CASH FLOW STATEMENT

	As at 31-03-2007	As at 31-03-2006
	(Rs. in Millions)	
A. NET PROFIT BEFORE TAX AND EXTRA-ORDINARY ITEMS	511.520	430.595
Adjustments for :		
Depreciation	182.296	127.140
Interest	47.724	29.969
Income From Mutual Fund	(1.842)	—
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	739.697	587.704
Adjustments for :		
Trade and other Receivable	(54.591)	(137.524)
Inventories	(60.088)	(44.223)
Trade Payable	30.547	81.232
Cash Generated From Operations	655.565	487.189
Interest Paid	(47.724)	(29.969)
Direct Taxes Paid	(105.833)	(113.647)
Fringe Benefit Tax	(2.500)	(2.400)
Excess provision no longer required	0.005	—
Cash Flow Before Extra-Ordinary Items	499.513	341.173
Extra-Ordinary Item		
Reversal of Provision Made in Earlier Years	22.714	—
Net Cash From Operating Activities (A)	522.227	341.173
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(867.779)	(566.831)
Sale of Fixed Assets	78.358	22.668
Income from Mutual Fund	1.842	—
Net Cash Used in Investing Activities (B)	(787.579)	(544.163)
C. CASH FLOW FROM FINANCE ACTIVITIES		
Proceeds from Long Term Borrowings	(132.787)	148.588
Overdraft	237.625	109.439
Fixed Deposits	(3.482)	(6.657)
Dividend Paid	(81.559)	(79.993)
Tax on Dividend	(13.838)	(11.219)
FCCB Reduction in Liability due to Exchange Gain	(5.010)	—
FCCB Issue	—	451.715
Net Cash from Finance Activities (C)	0.949	611.872
Net Increase in Cash & Cash Equivalents (A+B+C)	(264.403)	408.884
Cash and Cash Equivalents (Opening Balance)	487.008	78.124
Cash and Cash Equivalents (Closing Balance)	222.605	487.008

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
16th May, 2007

S. Sangeetha
Wholetime Director
C. Subramaniam
Company Secretary

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 2007		
	Date	Month	Year

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

Public Issue (FCCB)	: 1958	Rights Issue	: NIL
Bonus Issue	: NIL	Private Placement	: NIL

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

Total Liabilities	: 2667795	Total Assets	: 2667795
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Sources of Funds

Paid-up Capital	: 80776	Reserves & Surplus	: 1234494
Secured Loans	: 829005	Deferred Tax	: 165766
		Unsecured Loans	: 357754

Application of Funds

Net Fixed Assets	: 1825831	Investments	: NIL
Net Current Assets	: 841964	Misc. Expenditure	: NIL
Accumulated Losses	: NIL		

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

Total Income	: 2013523	Total Expenditure	: 1502003
Profit Before Tax	: 511520	Profit After Tax	: 358577
Earning Per Share	: Rs. 4.44	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.

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
16th May, 2007

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 Fourth Annual General Meeting of the Company to be held on Monday, the 16th July, 2007 at 9.30 a.m. and any adjournment thereof.

Signed this day of 2007



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 Fourth 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.

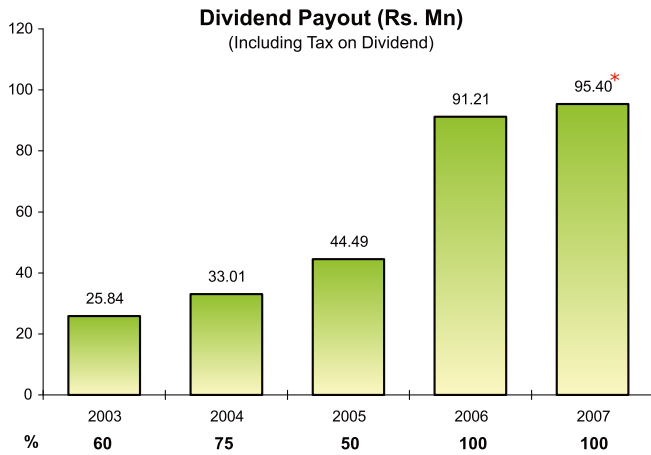
Name and Address :

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

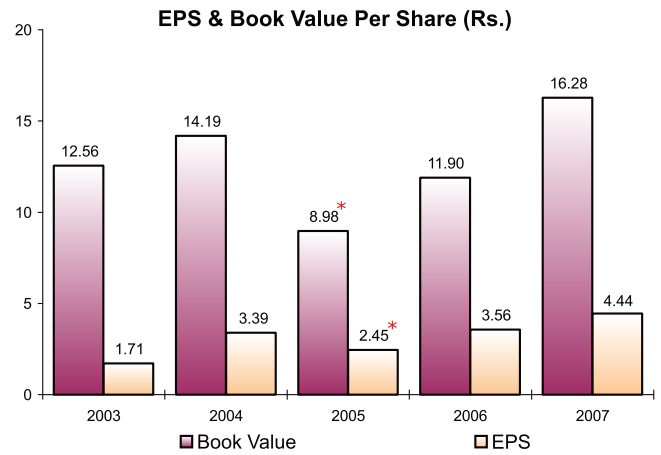
* Signature of the Member / Proxy

* Strike out whichever is not applicable.

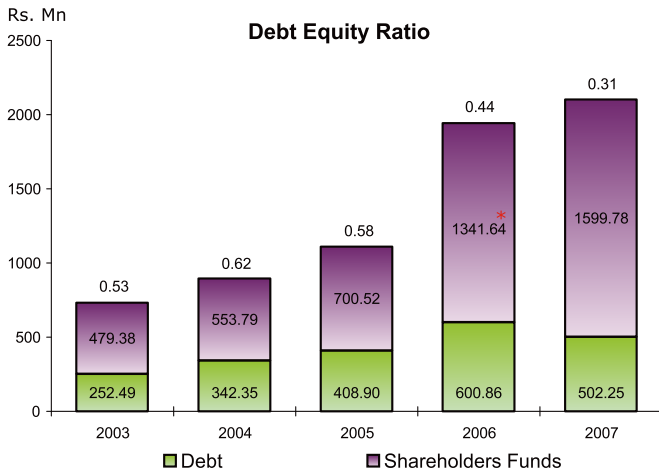
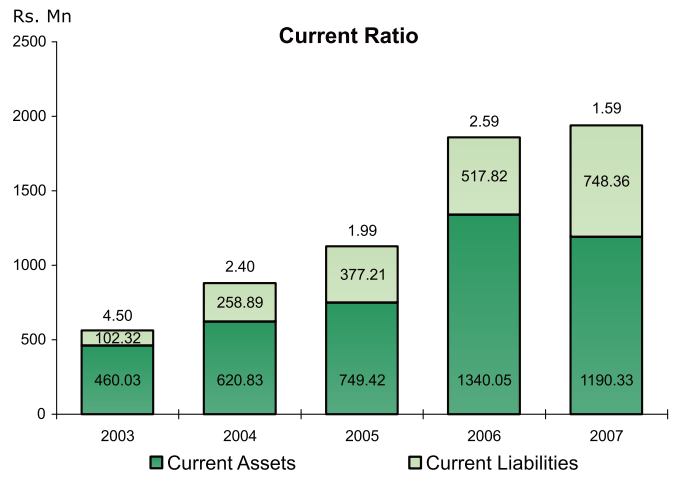
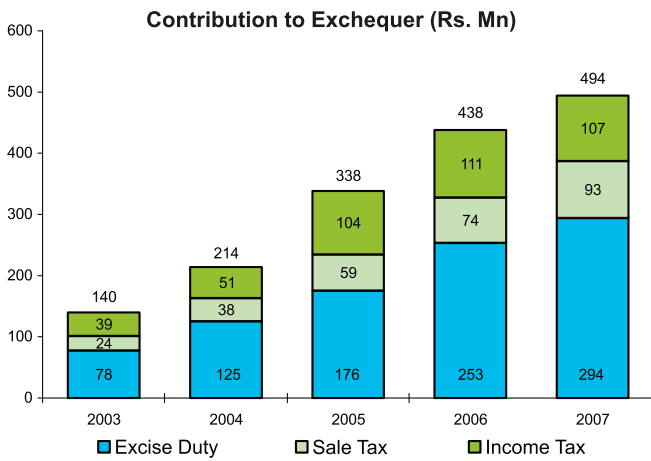
Financial Performance Indicators



* Includes Previous Year Dividend Payout due to conversion of FCCB



* After 1:1 Bonus Issue



* Including FCCB as Potential Equity

