

NATURAL PRODUCTS LIMITED

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20th Annual Report
2005-2006



Company has won the CNBC - TV18's Emerging India Award "SME of the Year" in the "FMCG, Food and Agri-Business" category for the year 2006. The Award is powered by CRISIL and ICICI Bank.

AVT NATURAL PRODUCTS LIMITED

BOARD OF DIRECTORS

Mr. Ajit Thomas, *Chairman*
 Field Marshal Sam Manekshaw, MC - upto 29.07.2006
 Mr. M.A. Alagappan
 Mr. Shyam B. Ghia
 Mr. Habib Hussain
 Mr. M.S.A. Kumar, *Managing Director*

AUDIT COMMITTEE

Mr. M.A. Alagappan, *Chairman*
 Mr. Shyam B. Ghia
 Mr. Habib Hussain

COMPANY SECRETARY

Mr. Manu P. Sam

AUDITORS

M/s. Suri & Co.,
 Chartered Accountants

BANKERS

Bank of Baroda
 State Bank of India
 South Indian Bank Ltd.

PLANT LOCATIONS

SF. No. 234/1, Mysore Trunk Road,
 Pudukadavalli,
 Sathyamangalam - 638 401.

SF. No. 123/2, Nayanapalli Cross,
 Bisibamanepalli (Vil), Lapakshi (Mdl.),
 Hindupur - 515 331.

HL No. 1182, Harikura Village,
 Honavally Hobli, Tiptur Taluk,
 Tumkur Dist., Karnataka - 572 202.

C/o Mahesh Industries,
 Plot No.17-18-19-20,
 Haveri Dist., Bydagi - 581 106
 Karnataka.

Vazhakulam, Marampilly P.O.,
 Ernakulam District,
 Aluva, Kerala - 683 107.

REGISTERED OFFICE

64, Rukmani Lakshmipathy Salai,
 Egmore, Chennai 600 008.
 Tel: 044-28584147 Tele fax: 044-28584147
 E-Mail: avtsec@md4.vsnl.net.in

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NOTICE TO THE SHAREHOLDERS

NOTICE is hereby given that the Twentieth Annual General Meeting of the Company will be held at **11.00 AM on Wednesday the 6th September 2006 at Hotel Ambassador Pallava, No.30, Montieth Road, Egmore, Chennai - 600 008** to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as at and the Profit & Loss Account for the year ended 31.03.2006 and the Reports of the Directors and Auditors thereon.
2. To declare dividend.
3. To appoint a Director in the place of Mr. Shyam B. Ghia, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Mr. Habib Hussain, who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

6. Increase of Authorised Share Capital

To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

RESOLVED THAT pursuant to the provisions of Section 94 and other applicable provisions, if any, of the Companies Act, 1956, the Authorised Share Capital of the Company be increased from Rs. 7,00,00,000 divided into 39,90,000 Equity Shares of Re. 10/- each, 1000 12% Redeemable Cumulative Preference Shares of Rs.100/-each and 30,00,000 7% Redeemable Cumulative Preference Shares of Rs.10/- each to Rs.11,00,00,000 divided into 79,90,000 Equity Shares of Re. 10/- each, 1000 12% Redeemable Cumulative Preference Shares of Rs.100/-each and 30,00,000 7% Redeemable Cumulative Preference Shares of Rs.10/- each.

7. Alteration of Memorandum of Association

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

RESOLVED THAT the existing first 3 lines of the Clause V of the Memorandum of Association of the Company be substituted by the following

“The Authorised Share Capital of the Company is Rs.11,00,00,000 (Rupees Eleven Crores only)

divided into 79,90,000 equity shares of Rs.10/- each, 1000 12% Redeemable Cumulative Preference Shares”

8. Alteration of the Articles of Association of the Company

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

RESOLVED that pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, first two lines of Article 3 (a) of the Articles of Association of the Company be substituted by the following Article:

“The present Authorised Share Capital of the Company is Rs. 11,00,00,000 (Rupees Eleven Crores only) divided into 79,90,000 Equity Shares of Rs. 10/- ”

9. Issue of Bonus Shares

To consider and if thought fit, to pass with or without modification, the following resolution as an Ordinary Resolution:

RESOLVED that:

- (a) In accordance with the provisions of Articles 150 of the Articles of Association of the Company and subject to such consents and approvals as may be required, and such conditions and modifications, as may be considered necessary and agreed to by the Board of Directors of the Company, (hereinafter referred to as the “Board” which expression shall also include a Committee thereof) a sum not exceeding Rs. 380.71 lakhs, Rs. 266.82 lakhs out of the Share Premium Account and the balance Rs. 113.89 lakhs out of the General Reserves Account as at 31st March 2006, be capitalized and transferred to Share Capital Account and that the aforesaid sum of Rs.380.71 lakhs be applied for allotment of 38,07,100 fully paid Bonus Shares of Rs.10/- each to and amongst the holders of the equity shares on a date to be hereafter fixed by the Board (“the Record Date”) in the proportion of 1 (One) new Equity Share for every 1 (One) existing Equity Share held by them and that the new equity shares so issued shall be treated for all purposes as an increase in the nominal amount of the capital of the Company held by each such member and not as income;

- (b) the New Equity Shares of Re.10/- each to be allotted as Bonus Shares shall be subject to the Memorandum and Articles of Association of the Company and shall rank pari passu in all respects with and carry the same rights as the existing Equity Shares and shall be entitled to participate in full in any dividends to be declared after the Bonus Shares are allotted;
- (c) no letter of Allotment shall be issued to the allottees of the Bonus Shares and the Bonus Share Certificates in respect of the New Equity Shares shall be issued and despatched to the allottees thereof within the period prescribed or that may be prescribed in this behalf from time to time, except that the Bonus Shares will be credited to the demat accounts of the allottees who are holding the existing Equity Shares in electronic form;
- (d) the allotment and issue of Bonus Shares to the extent that they relate to non-resident members of the Company, shall be subject to necessary compliance of the regulations of the Reserve Bank of India under Foreign Exchange Management Act, 1999 if necessary;
- (e) for the purpose of giving effect to the Resolution, the Board be and is hereby authorized to do all such acts and things and give such directions as may be necessary or desirable and to settle all questions or difficulties whatsoever that may arise with regard to the issue, allotment and distribution of the Bonus Shares”.

By order of the Board
For **AVT Natural Products Ltd.**,

Place : Chennai
Date : 29th July 2006

Manu P. Sam
Company Secretary

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to vote instead of himself and such proxy need not be a member. Proxy forms, complete in all respects, should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the meeting. Form of proxy is enclosed.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from 01.09.2006 to 06.09.2006 (both days inclusive).
3. The dividend as recommended by the Board, if approved at the meeting, will be payable to those members whose names appear in the Register of Members as on 6th September 2006.
4. Members are requested to intimate changes, if any, in their registered address to the Company immediately.
5. It may please be noted that Dividends which remain unclaimed/unencashed over a period of 7 years have

to be transferred by the Company to “Investor Education and Protection Fund” maintained with Central Government and the shareholders cannot make any claim for the dividends once the unclaimed dividends are transferred to such Fund.

6. The shareholders are, therefore, advised to claim the unclaimed dividend, if any, immediately.
7. In terms of clause 49 of the Listing Agreement with Stock Exchanges, a brief resume of the directors who are proposed to be re-appointed at this meeting is given below.

a) **Mr. Shyam B.Ghia**

Mr. Shyam B.Ghia, aged 59 years, is an Industrialist with interest in a variety of fields including Chemicals, Fibres, Polymers and Software. Mr. Ghia has a Bachelor of Science Degree in Chemistry and an MBA from Bowling Green University, USA. He is currently the Chairman and Managing Director of Futura Polyesters Ltd and Chairman of Sonata Software Ltd and Innovasynth Technologies Ltd.,

Other Directorships

Name of the Company	
Futura Polyesters Ltd.	Chairman & Managing Director
Sonata Software Ltd.	Chairman
Alkyl Amines Ltd.	Director
Brahmasonic Sound Production Pvt. Ltd.	Chairman
Chika Pvt. Ltd	Chairman
Chika Overseas Pvt. Ltd.	Chairman & Managing Director
Innovasynth Technologies Ltd.	Chairman
Futura Polymers Ltd.	Director
G.P.Electronics Ltd.	Director
Kika Investments & Finance Pvt. Ltd.	Chairman
Viraj Investments Pvt. Ltd.	Chairman

Committee Memberships/Chairmanships

Name of the Company	Name of the Committee
Futura Polyesters Ltd	Investors Grievance Committee (Member)
Sonata Software Ltd.	Remuneration Committee (Chairman)
	Investors Grievance Committee (Chairman)
	Audit Committee (Member)
Alkyl Amines Ltd	Audit Sub Committee (Member)
	Investors Grievance Committee (Member)
	Remuneration Committee (Chairman)

He is a Member of the Audit Committee and Remuneration Committee of the Company.

b) Mr. Habib Hussain

Mr. Habib Hussain, aged 53 years holds Degree in Electronics Engineering and has a vast experience. He joined AVT group in 1974 and rose to become a Director of this company in 1995. He is the Chief Executive of A.V.Thomas Leather & Allied Products Ltd. and has expertise in business administration.

He is a member of the Audit Committee and the Shareholders and Investors Grievance Committee of the Company.

Other Directorships

Name of the Company	
A.V.Thomas Investments Company Ltd.	Director
Neelamalai Agro Industries Ltd.	Director
AVT Infotech Private Ltd.	Director
Consortium of Shoe Manufacturers Pvt. Ltd.	Chairman
The Nelliampathy Tea & Produce Company Ltd.	Director
Alina Private Ltd.	Director

EXPLANATORY STATEMENT

(Pursuant to Sec.173 (2) of the Companies Act, 1956)

Item Nos. 6, 7 & 8

The Authorised Capital of the Company is being increased from Rs.7,00,00,000 divided into 39,90,000 Equity Shares of Re. 10/- each, 1000 12% Redeemable Cumulative Preference Shares of Rs.100/-each and 30,00,000 7% Redeemable Cumulative Preference Shares of Rs.100/- each to Rs.11,00,00,000 divided into 79,90,000 Equity Shares of Re. 10/- each, 1000 12% Redeemable Cumulative Preference Shares of Rs.100/-each and 30,00,000 7% Redeemable Cumulative Preference Shares of Rs. 10/- each to facilitate the capitalization of the Reserves through issue of Bonus Shares as set out in Item No. 9 of the Notice.

Consequently, Clause V of the Memorandum of Association and Article 3 of the Articles of Association of the Company will require alterations so as to reflect the increase in Authorised Capital.

Hence these Resolutions have been placed before the Members and the Board recommends the passing of the same.

A copy of the Memorandum and Articles of Association of the Company together with the proposed alterations is available for inspection by the Members of the Company at its Registered Office between 11:00 am and 1:00 pm on any working day of the Company prior to the date of the meeting.

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

Item No.9

The present paid-up equity capital of the company is Rs.380.71 lakhs and as on 31st March 2006 the Reserves & Surplus is Rs.2533.90 lakhs.

The Directors have pleasure in recommending the Bonus Issue of Equity Shares in the ratio of 1 new fully paid Bonus equity share for every share held by the equity shareholders on a date to be decided and fixed later by them. For this purpose, it is proposed to capitalize a sum of Rs.380.71 lakhs out of the Reserves aforesaid.

As per Article No.150 of the Articles of Association of the Company, it is necessary to obtain the approval of the Members for the Issue of Bonus Shares.

The proposed Bonus Issue is in conformity with the guidelines issued by the Securities and Exchange Board of India in this regard. The said Bonus shares shall rank pari passu in all respects with the existing equity shares of the Company from the date of allotment.

It is also necessary to authorize the Board of Directors of the Company to complete all the regulatory formalities in connection with the issue of Bonus Shares that may be prescribed by SEBI, the Stock exchanges on which the Company's securities are listed and / or any other regulatory authority.

Hence this resolution is placed before the Shareholders for approval.

Interest of Directors

The Directors of the Company may be deemed to be concerned or interested in this resolution to the extent of their entitlement to the Bonus Shares.

By Order of the Board
For AVT Natural Products Ltd.

Place : Chennai
Date : 29th July, 2006

Manu P. Sam
Company Secretary

DIRECTORS' REPORT

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

FINANCIAL RESULTS

	(Rs. In lakhs)	
	05-06	04-05
Turnover	7164.43	5728.87
Other Income	121.04	88.13
Total Income	7285.47	5817.00
Profit before tax for the year	1284.89	684.71
Less - Provision for taxation		
- Current Tax	470.00	60.00
- Deferred Tax	39.30	142.00
- Fringe Benefit Tax	22.50	-
Profit after tax	753.10	482.71
Add: Surplus brought forward	45.42	59.16
Total amount available for Appropriation	798.52	541.87
Appropriations		
Transfer to General Reserve	400.00	100.00
Capital Redemption Reserve	-	200.00
Preference Dividend and Tax thereon Redemption	7.52	-
Proposed Dividend on		
- on Preference Shares @7%	-	20.00
- Equity Shares @ 50%	190.35	152.29
Provision for tax on Dividends	26.69	24.16
Surplus carried Forward	173.95	45.42

DIVIDEND

Your Directors are pleased to recommend a dividend of 50% on Equity Share capital for the year ended 31.03.2006.

OPERATIONS

During 2005-06, your company's Sales and Profit Before Tax (PBT) recorded all time high figures of Rs 71.64 Crores and Rs 12.85 Crores respectively. Compared to last year, this represents an increase of 25% in Sales and 88% in PBT. However, due to the higher Income Tax outflow, the Profit After Tax (PAT) increased by 56% only from Rs 4.83 Crores in 2004-05 to Rs 7.53 Crores in 2005-06.

Apart from an improved product mix of Marigold Oleo, Spice Oleo, and Value Added Teas, the significant cost reduction and efficiency improvement initiatives

have contributed substantially to the bottom line. The capacity utilization of the Extraction Plant in Kerala in terms of raw materials processed increased by 46% from 6162 MT in 2004-05 to 9015 MT in 2005-06. Spices and Marigold Oleoresin finished goods increased from 651 MT (2004-05) to 794 MT (2005-06).

FUTURE PROSPECTS

The encouraging order book for Marigold, Spices and Tea coupled with good summer showers in Tamil Nadu point to further improvement in sales and profits in 2006-07 fiscal. Your company continues its focus on a **"Broad basing /Product Diversification"** strategy to reduce the dependency on Marigold. Sales and Profits from Spice Oleoresins and Value added Teas segment will continue to grow in future. The company is currently in the process of strengthening its R & D efforts to develop new products and improve processing technologies to reduce costs.

Our next move is to **"Go Global"**. As part of the Global expansion programme, your company is investing in Marigold project in China. For this purpose, AVT Natural Pte.Ltd, Singapore, a wholly owned subsidiary of AVT Natural Products Ltd, India is incorporated. Through this investment holding company in Singapore, your company has a 100% Wholly Owned Foreign Enterprise in the Heilongjiang Province in North East China - Tonghe AVT Natural Ltd. 2006 will be the first year of Marigold growing in China.

Recognizing your company's strengths in Marigold Farming, Kemin USA, our strategic alliance partner, has handed over the management of their wholly owned subsidiary, Siagra Company Ltd, Chiang Mai, Thailand with effect from 1 April, 2006.

INCREASE OF AUTHORISED SHARE CAPITAL

In order to facilitate issue of Bonus Shares as per the Resolution placed before you, the Authorised Share Capital of the Company is being increased from Rs.700,00,000 to Rs. 11,00,00,000 by creation of 40,00,000 equity shares of Rs. 10/- each.

BONUS SHARES

Your Directors are pleased to recommend a Bonus Issue of one Equity Share for every share held by the Shareholders of the Company on a Record Date to be decided by the Board after the proposal is approved at the Annual General Meeting of the Company. Necessary resolution to this effect has been placed for your approval.

AWARDS

Your Directors are happy to inform that the Company won the following awards for its performance during the year.

1. SME of the Year Emerging India Award in fiercely competitive category of "FMCG, Food and Agri-Business" sponsored by CNBC TV 18, powered by CRISIL and ICICI Bank for significant value created by it for all its stakeholders.
2. Kerala State Productivity Council Award for overall performance of the Company. The Company has bagged this award for the second time.
3. Kerala State Pollution Control Board Award for SMEs for being environment friendly.

LISTING ON NATIONAL STOCK EXCHANGE OF INDIA LTD.,

The Company has applied to the National Stock Exchange of India for listing of shares and the same is under processing.

FIXED DEPOSITS

As on 31.03.2006, a total sum of Rs. 4,99,000 due to 15 fixed deposit holders remained unclaimed. Out of this, deposits for a sum of Rs. 4,34,000 were renewed/repaid subsequently.

DIRECTORS

Field Marshal Sam Manekshaw, MC Director resigned from the Board of the Company due to ill health. The Board accepted the resignation with deep regret and placed on record its appreciation and gratitude for the valuable guidance and support extended by him during his tenure as Director.

In accordance with the provisions of Companies Act, 1956 and the Articles of Association of the Company Mr. Shyam B. Ghia and Mr. Habib Hussain, Directors, retire by rotation at the 20th Annual General Meeting and being eligible, offer themselves for re-appointment.

RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, ENERGY CONSERVATION ETC.

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules 1988 relating to Conservation of Energy, Technology Absorption, Foreign Exchange are furnished in the Annexure-I to this Report.

PARTICULARS OF EMPLOYEES

Particulars of employees in terms of the requirements of Sec 217(2A) of the Companies Act, 1956 have been given in Annexure II forming part of this Report.

AUDITORS

M/s. Suri & Co., Chartered Accountants, Chennai 600 034, Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and being eligible, offer themselves for reappointment. They have confirmed that their re-appointment, if made, will be within the limits specified under Sec. 224 (1-B) of the Companies Act, 1956.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion & Analysis Report, Report on Corporate Governance with Auditors' Certificate on compliance with conditions of Corporate Governance have been annexed to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

1. That in the preparation of the accounts for the financial year ended 31st March 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors have prepared the accounts for the financial year ended 31st March 2006 on a 'going concern' basis.

ACKNOWLEDGEMENT

Your Directors wish to express their sincere thanks to the Industrial Development Bank of India, Bank of Baroda, State Bank of India and South Indian Bank Ltd., Farmers and Valuable Customers for their continued and positive support to the Company.

The Directors also wish to thank all the employees for their contribution, support and continued co-operation throughout the year.

For and On behalf of the Board

Place : Chennai
Date : 29th July, 2006

Ajit Thomas
Chairman

A N N E X U R E - I

To the Directors' Report

FORM-A

Disclosure of particulars with respect to conservation of energy

A	Power and fuel consumption	Not Applicable
B	Consumption per unit of Production	Not Applicable

FORM-B

Disclosure of particulars with respect to absorption

Research and Development (R & D)

Specific areas of Research and Development	The Company is focussing on two areas of R & D - a) Seeds and b) New products
Benefits of R & D	Seed research will benefit farmers by way of increased yield, thereby improving the net farm returns. The Company will be benefited by higher active ingredients concentration resulting in lower costs and global competitiveness.
Future Plan of action	The focus will be on developing processes for natural extracts for application in food colouring and health food segments. Seed research will concentrate on developing new varieties of Marigold suitable for Indian weather conditions.
Expenditure on R & D	
a) Capital	Nil
b) Recurring	Rs.20,05,393
c) Total	Rs.20,05,393

Foreign Exchange Earnings / Outgo	The Company's operations during the year under review has resulted in a foreign exchange inflow of Rs.58.69 Crores and outflow of Rs.6.37 Crores.
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A N N E X U R E - II

To the Directors' Report

Information pursuant of Section 217(2A) of Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Employed throughout the year under review and were in receipt of remuneration in the aggregate of not less than Rs. 24,00,000/- per annum.

Name	Age	Designation	Remuneration (Rs.)	Qualifications	Total Experience (years)	Date of commencement of Employment	Previous Employment
Mr. Suresh Menon	41	CEO China Operations	28,29,647	B.S.c PGDM (IIM-A)	15	27-09-2004	General Manager Asia Bioenergy (India) Limited

Notes:

1. Remuneration includes Salary, allowances and contribution to Provident and other Funds.
2. The Nature of Employment is contractual.
3. The above employee is not related to any Director of the Company.

A N N E X U R E - III

Management Discussion and Analysis Report

Business Profile

The Company is in the business of "Solvent Extraction" comprising of Marigold Oleoresins, Food/Spice Oleoresins and Value added Teas. While Marigold and Tea operate based on long term supply agreements through strategic alliances, Spice Oleo has a well diversified product portfolio of 21 and a customer base of 60 across the globe.

Industry Scenario and Developments:

Marigold Oleoresin for the Feed Industry is growing at 3 to 5% per annum with China dominating the supplies. Growth of Marigold Oleoresin for the Nutraceuticals Industry is at 20% per annum. We have an estimated 30 Mio people in the world affected with Age related Macular Degeneration (AMD) of the eye, for which Lutein, the extract from Marigold flowers is used as a prophylactic measure. By 2030, the population affected with AMD is expected to double to 60 Mio. The growth will be mainly from the Western countries.

To align with "Two Country" sourcing policy of our strategic partner, Kemin USA, the Company has invested in Marigold Project in China through a wholly owned subsidiary in Singapore. China Operations will enable the company to take advantage of ideal climatic conditions, government support, and lower costs prevalent in China.

As a part of diversification and broad basing the products, the company is investing in efforts and infrastructure in R&D. The above moves are well aligned with the company's vision of becoming "a global leader in enriching lives through nature's own ingredients as food, nutrition and medicine for mankind."

Financial Performance of the Company for the year 2005-06:

The Profit Before Tax (PBT) in 2005-06 recorded Rs. 12.85 Crores. The PBT almost doubled as compared to Rs. 6.85 Crores in 2004-05. After providing for current tax of Rs 4.70 Crores and Deferred tax liability of Rs 39.30 Lakhs, the Profit After Tax (PAT) is at Rs. 7.53 Crores in 2005-06, as compared to Rs 4.83 Crores in 2004-05. Better product mix, improved cost structure through better seeds & efficiency improvements and tighter control on fixed costs enabled the company to record a significantly improved financial performance in 2005-06.

Risk Mitigation Strategy:

The Company faces three kinds of operational risks.

- Customer Concentration
- Dependency on vagaries of nature - Monsoon Rains
- Competitive Risks

Customer Concentration: From a situation of single customer dominance in Marigold 5 years ago, the Company now has a well diversified product and

customer portfolio. Only 65% of the total sales is from Marigold. In the case of Marigold Oleoresin, we have a Long term Strategic Alliance Agreement with Kemin Industries, USA with well defined supply arrangements.

Monsoon Dependency: The agricultural risk has been mitigated through growing and processing diversification in 3 States of Tamil Nadu, Andhra Pradesh and Karnataka. Further with the introduction of the first generation Marigold Hybrid Seeds, the percentage of area under irrigation has gone up substantially, thereby reducing the risk of monsoon. As a result, we have high acreage of Marigold growing in Summer Season. Diversification of growing in China is another key element in Monsoon Risk Mitigation Strategy.

Competitive Risk: China continues to improve its cost structure of Marigold Oleoresins, thus pushing down the prices of the finished products for the Poultry pigmentation. The Company with the planting material from Pan American seeds, USA, has further improved the cost structure of Marigold Oleoresin during 2005-06. This development has enabled the company to have a competitive position in the Global Marigold market.

Outlook

Order book position for 2006-07 fiscal is encouraging with stable price levels. The good summer showers with a favourable South west monsoon has already pushed up the flower arrival in 2006 summer season to record levels. A normal rainfall in the growing areas of Karnataka, Andhra will consolidate and improve the company's overall performance in 2006-07.

Internal control systems and their adequacy

The company believes in the statement - *what is measured is what will be improved*. The measurement systems are in place to monitor the important cost drivers and processes. The internal audits and other monitoring systems are in place. They are reviewed in the Quarterly Audit committee meetings.

Material Developments in Human Resources

The company takes pride in providing the customers optimum purchase value and in fostering an enabling and empowered environment for its employees. In view of the continuously upward moving benchmarks in the fiercely competitive global market, the company has imbibed a culture of a "Learning Organization" with a high performance and result orientation. For this purpose, the company implemented a scientific setting of "SMART + ABC" goals for each individual. "SMART + ABC" goals refer to Specific, Measurable, Actionable, Reviewable, and Time bound + Aligned to the organizational goals, Benchmarked with competition, and Customer focused.