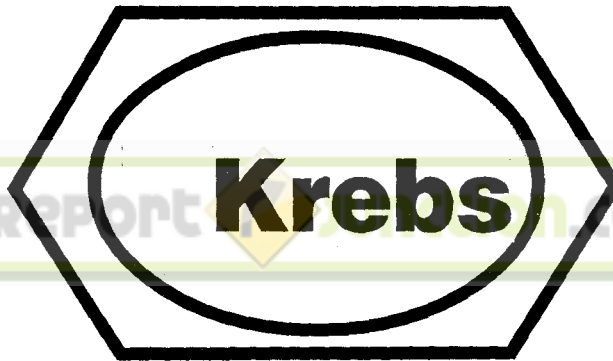


KREBS BIOCHEMICALS AND INDUSTRIES LIMITED



**14th Annual Report
2005 - 2006**

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KREBS OVER THE LAST FIVE YEARS					
	<i>(Rs. in Lakhs)</i>				
	2001 - 02	2002 - 03	2003 - 04	2004 - 05	2005 - 06
Sales	7,298.00	10,150.00	10,124.00	7,575.00	3,189.00
Exports	6,389.00	5,203.00	4,447.00	4,942.00	1,352.00
Gross Profit	1,766.00	1,919.00	1,833.00	1,257.00	(1,538.00)
Profit after tax	1,488.00	1,487.00	1,351.00	743.00	(1,424.00)
Divident	450.00	480.00	480.00	180.00	—
Dividend %	75.00	80.00	80.00	30.00	—
E P S (Rs.)	24.13	24.79	22.52	12.39	(23.74)
Share Capital	600.00	600.00	600.00	600.00	600.00
Gross Block	8,059.00	8,988.00	13,130.00	17,236.00	17,601.00
Net Block	6,189.00	6,553.00	10,063.00	13,341.00	12,677.00
Net Current Assets	4,696.00	6,940.00	8,582.00	9,521.00	7,323.00
New Worth	7,979.00	8,880.00	9,709.00	10,247.00	8,842.00
Book Value per share	132.98	148.00	161.82	170.78	147.37

KREBS BIOCHEMICALS AND INDUSTRIES LIMITED**Board of Directors****Chairman :**

Dr.M.VENKATARATNAM. IAS (Retd)

IDBI Nominees :Mr.S.RAMACHANDRAN (upto 20th Dec. 2005)Dr.B.BRAHMAIAH (from 20th Dec. 2005)**EXIM BANK Nominee :**Mrs.SANGEETHA SHARMA (from 22nd June 2005)**APIDC Nominee :**Thomas Alva Edison (upto 30th July 2005)Mr.M.VENKATESWARA RAO (from 30th July 2005)**Other Independent Directors :**

Dr.T.KUCHROO

Mr.G.V.L.PRASAD

Mr.K.S.S.PRASAD (Small Shareholders Director)

Managing director:

Dr. R T Ravi

Company Secretary :J.JAWAHARLAL (from 29th July 2006)**BANKERS :**Andhra Bank
Somajiguda Branch,
Hyderabad – 500 082.The Jammu & Kashmir Bank Limited
J.N.Road Branch,
Hyderabad – 500 001.United Bank of India
Secunderabad Branch,
Secunderabad.HDFC Bank Limited,
Lakdikapool Branch,
Hyderabad – 500 004.UCO Bank,
Nellore.**Auditors :**M/s.G.P.Associates,
Chartered Accountants,
603, 6th Floor, Plot No.:13,
Cyber Heights,
Banjara Hills, Road No.:2,
Hyderabad – 500 033.**REGISTERED OFFICE****Krebs Biochemicals & Industries Limited,**401 – 402, 4th Floor, Plot No.:13,

Cyber Heights,

Banjara Hills, Road No.:2,

Hyderabad – 500 033.

Tel : 040 – 23540415, 23540416, 55593175

Fax: 040 – 23540320

E-mail : krebsho@krebsbiochem.comWebsite: <http://www.krebsbiochem.com>**REGISTRAR AND SHARE TRANSFER AGENT**

M/s.Sathguru Management Consultants Pvt. Ltd.,

Plot No.:15, Hindi Nagar, Panjagutta,

Hyderabad – 500 034.

Phone Nos.: 23356507, 23350586, 23356975

Fax No.:+91-40-23354042

E-mail : sta@sathguru.com



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G. P. ASSOCIATES

CHARTERED ACCOUNTANTS

TO WHOMSOEVER IT MAY CONCERN

This is to certify that the issue of Convertible Share Warrants and equity shares on preferential basis proposed by M/s Krebs Biochemicals & Industries Ltd., having its registered office at 401/402, Cyber Heights, Road No.2, Banjara Hills, Hyderabad - 500 033, is in accordance with Chapter 13 of the SEBI (DIP) Guidelines, 2000.

Place : Hyderabad
Date : 26.08.2006

For G.P. Associates
Chartered Accountants

Sd/-
(P.A.RAMAIAH)
Partner
M.No.203300



KREBS BIOCHEMICALS AND INDUSTRIES LIMITED



Director's Report

Dear members,

Your Directors are pleased to present the 14th Annual Report of your Company for the year ended 31st March 2006.

Financial Highlights of performance during the year are as follows:

(Rs. In Lakhs)

Sl.No.	PARTICULARS	For the year ended	
		31st March 2006	31st March 2005
1	Sales & Other Income	3,297.01	7,992.37
2	Opening Profit before interest, Dep. & Tax	233.26	2,768.96
3	Less : Interest	861.23	682.89
	Depreciation	910.48	828.59
4	Profit before Tax	(1,538.45)	1,257.48
5	Add : Differed Tax asset	117.48	0
	Less: Provision for Tax		100.00
	Deferred Tax	0	412.36
	Fringe Benefit Tax	3.23	
	Earlier Years		1.65
6	Net Profit	(1,424.19)	743.47
7	Earlier year written back	18.35	-
8	Add : Profit brought forward		
	from previous year	194.87	156.64
9	Profit Available for Appropriations	(1,210.98)	900.11
	Appropriations Suggested :		
10	General Reserve		500.00
11	Proposed Dividend on Equity Share Capital		180.00
12	Dividend Tax		25.25
13	Balance Carried to Balance Sheet	(1,210.98)	194.86

The sales of the company during the year fell to 41% of sales during the preceding year, resulting in a significant loss of Rs.12.11 Crores for the first time in the history of your company. The carry forward of this loss restricts your Board of Directors from considering any dividend payment. Your company which has an excellent track record of paying substantial dividends right from the first year of operations had to skip dividend payment for this

year. Your directors are confident that the various measures being taken will result in profits at the earliest to enable payment of dividends possibly in the year 2006-07.

OPERATIONS :

The adverse conditions that developed in the market during the previous year continued to be in play during this year also and more



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vigorously so. Consequently the sales income during the year was only Rs. 3297.01 lakhs as against Rs. 7992.37 lakhs in the year 2004-2005. This resulted in a loss of 1538.45 lakhs against a gross profit of Rs. 1257.49 lakhs for the year 2004-2005. After making financial adjustments the net loss was Rs. 1210.98 lakhs against net profit of Rs. 194.68 lakhs for the preceding year.

While the sales fell due to abrupt withdrawal of Ephedrine and Pseudoephedrine in the market, the increase in the price of raw materials and other manufacturing expenses resulted in increase in cost of production. Because of the larger capacity built in and also the improvements made in the production process your company is assured of advantage in meeting the competitors in the market. We are also successful in trial production of the other products so that demand for new products would only open new avenues for the company, particularly at Unit-I.

The company is trying to control and reduce costs in the production process. The captive thermal power plant setup at Vizag unit resulted in cost advantages as captive production is found to be less costly than the public supply, which can be observed from the report given in Form-A attached to this report. The power generated at Vizag is being arranged to meet the requirements of the Nellore Unit also, by introducing energy saving measures.

Nellore Plant:

Ephedrine & Pseudoephedrine the major products in Unit I at Nellore which are anti-asthmatics are also precursors for and used illegally in the manufacture of banned street drugs. The US government had imposed stringent controls to restrict the availability of the products containing Ephedrine & Pseudoephedrine. Further this year their status as over the counter products was stripped. All major companies using the product have shifted to the alternative products or closed down. This resulted in a huge drop in the sales of these products.

In order to overcome the lack of plant utilization at the beginning of the financial year, we started exploring contract manufacturing opportunities with large pharmaceutical companies. We have so far successfully implemented three products that can be manufactured in our Nellore plant

for two different customers. The off-take of these products can start after the registration formalities are completed with the US FDA for the new products. This will start bearing fruits from 2006-07.

We also developed the process for Sucralose in the Nellore Plant, a Zero Calorie Sugar substitute at a cost of Rs.4 Crores which has a huge international market. However the patent protection problem in the US & Europe has restricted any sales. We are presently working with a few companies to avoid the patent infringement.

Vizag Plant

The expansion on the Lovastatin & Simvastatin capacity and also the USFDA requirements is completed. Also the good news is that Lovastatin & Simvastatin have received European Certificate of Suitability in January 2006, opening the European Market. However the requirement of customers to qualify the company as a supplier means that the rewards for this can be achieved only in the financial year 2006-2007. This is also one of the reasons for the slow growth in Lovastatin & Simvastatin sales. We are expecting a substantial growth for these products in the financial year 2005-2006, and subsequently also.

Also the US market will open up in December 2006 from patent protection and we hope to tap that market on time and record further growth for these products in the coming years.

We are also working with a multinational corporation in developing a fermentation product in the Vizag plant and we expect a long term tie up in the financial year 2006-2007.

The overall condition of the pharma business is as follows:

1. Increased Global competition is seen.
2. Severe pricing pressures.
3. Longer time to market due to the huge number of approvals required to sell in the regulated markets.

To overcome the constraints, your company proposes to :

1. Build strong relationships & have long term interests with major customers.
2. Innovate & Benchmark to be globally price competitive.

KREBS BIOCHEMICALS AND INDUSTRIES LIMITED

3. Work jointly with customers to speed up the approval process.

Your company has contractual agreements with leading pharmaceutical companies to undertake production of specific products and some of them have been completed successfully. The company has also undertaken conversion of raw materials supplied by customers into final marketable products. This involved transfer of technology which was successfully absorbed by your company and is in a position to enter into contract as independent manufacturer of the product.

The installed capacity for fermentation process is under utilized at present and is to be used better by taking up new products which would commence shortly in the third quarter of the current financial year.

SUGAR FACTORY:

Special Leave Petitions made by the company before the Hon'ble Supreme Court contesting the decision of the Hon'ble A.P. High Court are still pending. But later the State Government withdrew their petitions. The petitions are yet to reach the Bench for hearing. The withdrawal of petitions by the State Government shall not affect the legal status of the petitions of your company.

FOOD DIVISION:

Our stackable potato chips plant is fully established and now tied up with major distribution firms to manufacture on their private labels.

U.K.

Srilanka

India

The product has been well accepted and the volumes are growing slowly but surely.

We are also in the process of tying up with other private label operations in India and Middle East.

OUT LOOK FOR THE FUTURE:

The foundations of the company are in the field of biotechnology. Unfortunately the markets are closed for the primary products – Ephedrine and Pseudoephedrine. By that time, the company has already diversified into other products –

mainly statins which are also based on biotechnology process. Because of the present market conditions, the company is not able to make full use of the capacity installed. But the production facilities are capable of being used to make any product by industrial application of biotechnology. Most of the new pharmaceuticals are products of biotechnology involving fermentation process. In spite of the present drawbacks, the management envisages a bright future to the company as a major player in the pharmaceutical field because of their expertise in fermentation process and substantial capacities already installed.

Added to this, the possibility of getting back the sugar unit inspires confidence for the future. It could form the basis for expansion into many other organic products based on industrial biotechnology. The demand for bio fuels has enhanced importance of biochemicals which are the outcome of sugar industry. It will increase the turnover and profitability of the company substantially.

RESEARCH & DEVELOPMENT:

During the year, in order to obtain better process integration, R & D unit is shifted from ICICI Knowledge Park to the Nellore Unit. This resulted in synergy in new process and product development. This shifting resulted in reduction of expenditure on R & D which is Rs.26.12 Lakhs compared to Rs.60.84 lakhs in 2004-05. It is necessary to see that patent rights do not stand in the way of the company's operations. For this purposes attempts are being made to obtain licenses from the patent holders to manufacture the patented products and also to obtain technology from them for the purpose. Your company is quite capable of absorbing the sophisticated technologies and has already started the process. This kind of relationship with patent holders would be of value even after the patent period is concluded. Attempts are being made to improve the processes involved in the products which would reduce cost and benefits the company and also the patent holder.

Board of directors:

There have been some changes in the Board of Directors after the previous AGM held on 28th September 2005. In that meeting members were informed that EXIM Bank nominated Mrs.Sangeeta Sharma as a Director with effect



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from 28-06-2005 and she is continuing in her position.

In the place of Mr.S.Ramachandran, IDBI nominated Dr.B.Brahmaiah with effect from January 2006 and he is continuing on the Board as IDBI nominee.

Mr.M.Venkateswara Rao continues as nominee of APIDC.

In terms of section 256 of the Companies Act 1956, Mr.G.V.L.Prasad is proposed to retire at this meeting. As he is eligible and willing, the Board suggests re-appointment of Mr.G.V.L.Prasad. Details of his experience and Bio-data are separately enclosed to the notice for general meeting.

AUDITORS:

M/s.G.P.Associates, Chartered Accountants are the statutory auditors to the company and they retire at this AGM. They are eligible and willing for reappointment as per the Companies Act 1956 and their reappointment is also suggested by the Audit Committee. M/s.G.P.Associates is now proposed for reappointment as Auditors to hold office until expiry of the next AGM in 2007.

EMPLOYEE RELATIONS:

The Directors are happy to report that the company has cordial relations with its employees. In spite of many difficulties, the employees have been cooperating with the management and enthusiastically offering their services as required by the management. We feel that such employees are the most valuable

assets to the company and we are confident that their services would be available continuously in the future also and help the company tide over the present impasse.

Statement of Directors responsibilities.

Your Directors confirm in terms of section 217 (2AA) of the Companies Act 1956 on the basis of the documents and information available to them that

- There has been no material departure from the accepted accounting standards in the preparation of financial statements presented to you.
- The Directors have chosen only accepted accounting policies and apply them consistently. The judgments and estimates made by them are prudent and reasonable to give a true and fair view of the state of affairs of the Company as on 31st March 2006 and of the results of operation for the financial year.
- The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the requirements of the Companies Act 1956 and to safeguard the assets of the company and to prevent and detect any irregularities and frauds.
- The accounts presented are prepared on a running concern basis. The properties and assets of your company are adequately covered by insurance policies.

Particulars of employees required to be disclosed in terms of 217 (2A) of the Companies Act 1956 are given below:

Name, Age, Designation, Qualification and Nature of Duties	Date of Appointment	Experience in years	Remuneration	Previous Employment
Dr.R.T.Ravi, Managing Director, Age 56 Years. Ph.D (Biochemistry)	12-10-1992	33 Years	Rs.16,50,000/-	Managing Partner M/s.Bhavani Fertilizers

There are no other employees in the company holding 2% of equity shares and hence Sn.217 (2A)(a)(iii) is not applicable.

KREBS BIOCHEMICALS AND INDUSTRIES LIMITED**Foreign Exchange:**

The details regarding earning and expenditure in foreign exchange are as follows:

Particulars	Rupees in lakhs	
	For the year 2005-2006	for the year 2004-2005
(a) Value of imports on CIF basis:		
Import of raw materials –	36.98	860.98
Capital goods –	117.35	119.03
(b) Expenditure :		
Traveling –	7.85	5.77
(c) Earnings in foreign exchange:		
FOB value of exports –	1206.40	4542.58

Form A enclosed herewith gives information regarding consumption of energy and the results of the steps taken to conserve energy.

The details of expenditure on Research & Development are given in Form B enclosed.

ENVIRONMENT:

Pollution treatment plants at Unit I & Unit II are installed at heavy capital cost and they are functioning to the full satisfaction and helping the company to comply with the statutory requirement of pollution control legislation. No capital costs were incurred during the year. The recurring expenditure of Rs.3.5 lakhs was spent on control measures.

SOCIAL RESPONSIBILITY:

As a responsible partner of society your company participates in social welfare activities in the villages within the vicinity of its operating units. Financial support is offered to welfare activities like education, Public Health and eradication of child labour. The company contributes to provide for qualified teachers in village schools thus improving the quality of primary education in neighborhood schools.

STOCK EXCHANGES:

The equity shares of the company are listed on Hyderabad Stock Exchange Ltd., The National Stock Exchange Ltd. and the Stock Exchange – Mumbai. Trading in the shares of the company is suspended on the National Stock Exchange since 9th April 2002 alleging that the company declined to effect transfer of some shares. The matter is still pending in the Civil Court regarding the title of the shares. The court has not yet given any final date for judgment.

ACKNOWLEDGEMENT:

Your directors would like to place on record their appreciation of the support and assistance

extended by the IDBI, Andhra Bank, United Bank, J & K Bank, Syndicate Bank and EXIM Bank of India.

We are also thankful to the Officers in various departments of Government concerned with regulations of corporate activities. They helped us by guiding in complying with the various regulations so that the operations go on smoothly without objections.

The suppliers of various raw materials and components helped us by making timely supplies of quality materials on reasonable terms to the advantage of both. We seek continued cooperation of all of them in future also.

The devoted services of the officers and staff of the company cannot go unacknowledged. It is their effort and cooperation in execution of the policies of the management that sustains the organization.

This is a company belonging to the shareholders. We are happy to note that a substantial number of shareholders are continuing with the company for over the last decade. The management strives hard to satisfy the short term and long term interests of members and acknowledges their support in this regard.

For and on behalf of the Board

Hyderabad
2-9-2006

Dr. M. Venkataratnam
Chairman