

13th ANNUAL REPORT

2005 . 2006

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Medinova

Diagnostic Services Limited

Board of Directors

A Raghava Reddy - Chairman

P K Reddy

S Basu Thakur

D A Srinivas

A Sailaja

Chief General Manager

Lt. Col. (Rtd.) Dr. K Bhaskara Reddy

Auditors

M/s. J B Reddy & Co.

Chartered Accountants

Legal Advisor

K Krishnamoorthy

Registered Office
6-3-652, "Kautilya"
Somaiiouda. Hyderabad - 500 082.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirteenth Annual General Meeting of the Members of Medinova Diagnostic Services Limited will be held on 28th September, 2006 at 11.30 a.m at Hotel Green Park, Greenlands, Begumpet, Hyderabad - 500 016 to transact the following business:

ORDINARY BUSINESS:

01. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 31st March, 2006 and the Balance Sheet as at that date together with the Reports of the Directors and Auditors thereon.
02. To appoint a Director in the place of Sri P K Reddy who retires by rotation and being eligible, offers himself for re-appointment.
03. To appoint a Director in the place of Sri D A Srinivas who retires by rotation and being eligible, offers himself for re-appointment.
04. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS:

05. To consider and if thought fit, to pass the following resolution, with or without modifications as an Ordinary Resolution.

RESOLVED THAT Smt. A Sailaja who was appointed as an additional Director of the Company by the Board of Directors and who holds office upto the date of Annual General Meeting, under Section 260 of the Companies Act 1956, be and is hereby appointed as a Director of the Company".

By order of the Board

Place : Hyderabad
Date : 31st July, 2006

A. Raghava Reddy
Chairman

NOTES:

01. A Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote on a poll in his stead and the Proxy need not be a Member. The Proxy Forms should be lodged with the Company not less than 48 hours before the time for holding the meeting.
02. The Register of Members and the Share Transfer Books of the Company will be closed from Wednesday the 27th September, 2006 to Thursday the 28th September, 2006 (both days inclusive).
03. The Members are requested to send their correspondence, if any, to M/s. XL Softech Systems Limited, the Registrar and Share Transfer Agent.

EXPLANATORY STATEMENT

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

ITEM NO.05

Smt. A Sailaja was appointed as an additional Director of the Company at the Board Meeting held on 31st October, 2005. According to the provisions of the Section 260 of the Companies Act, 1956, she holds office as Director upto the date of the ensuing Annual General Meeting. As required under Section 257 of the Act, a notice has been received from a member along with requisite deposit, signifying his intention to propose the appointment of Smt. A Sailaja as a Director. Smt. A Sailaja holds Master Degree in Commerce and is an experienced person with finance background.

The Board Considers it desirable that the Company should continue to avail itself of her services and therefore commends passing of the Resolution.

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

By order of the Board

Place : Hyderabad
Date : 31st July, 2006

A. Raghava Reddy
Chairman



DIRECTORS' REPORT

To

The Members of
Medinova Diagnostic Services Ltd,

Your Directors have pleasure in presenting the Thirteenth Annual Report of your Company together with the audited accounts for the period ended 31st March 2006 and Report of the Auditors thereon.

FINANCIAL & OPERATIONAL RESULTS

A statement of the financial and operational results of your Company for the year under review, is furnished hereunder:

| (Rupees in Lakhs) | | |
|-----------------------------------------------------------------------------------------|-----------|-----------|
| Particulars | 2005-2006 | 2004-2005 |
| Total Income | 1450.74 | 1490.42 |
| Total Expenditure | 1241.91 | 1304.63 |
| Interest | 14.36 | 51.42 |
| Depreciation | 100.66 | 99.10 |
| Profit before Extraordinary/ prior period adjustments | 93.81 | 35.27 |
| Prior year adjustments/ extraordinary items | 67.83 | 3.21 |
| Provision for Tax: | | |
| Income Tax | 2.19 | 3.22 |
| Fringe Benefit Tax | 1.70 | --- |
| Deferred Tax | 20.69 | (28.71) |
| Net Profit | 1.40 | 57.55 |
| Add: Balance in Profit & Loss A/c Brought forward From Previous year (1005.97) | | (1063.52) |
| | (1004.57) | (1005.97) |
| Balance in Profit & Loss Account | (1004.57) | (1005.97) |

DIRECTORS' RESPONSIBILITY STATEMENT:

Your Directors hereby confirm that

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

- they 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 or loss of the Company for the year under review;
- they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- they have prepared the accounts for the financial year ended 31st March 2006 on a 'going concern' basis.

OPERATIONS:

During the year 2005-06 a total Business Income of Rs. 1450.74 lacs and a profit (before prior year's adjustments and tax) of Rs. 93.81 lacs were achieved. During the year, MRI Machine at Bangalore was down for a considerable period which effected the revenue income. However, Corporate business has shown improvement during the year. A new Auto Analyser for Biochemistry Department has been installed during the year at Kolkata centre.

DIRECTORS:

Shri D A Srinivas and Sri P K Reddy, Directors retire by rotation and being eligible offer themselves for re-appointment.

AUDIT COMMITTEE:

The Audit Committee consisted of Sri A Raghava Reddy, Sri P K Reddy and Smt. A. Sailaja. The Committee met 3 times during the financial year 2005-06 and reviewed the financial results and statements, internal control procedures, accounting procedures etc. Sri P K Reddy is the Chairman of the Audit Committee.

AUDITORS:

M/s. J B Reddy & Co., Auditors of your Company, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.



With regard to the Auditors' observation on delays in making payments towards Incomes Tax dues and Provident Fund contributions, necessary corrective steps have been taken to remit the amount regularly.

Part of the Income Tax dues, as observed by the Auditors, have already been cleared and necessary steps are being taken to pay off the balance dues.

With regard to the Auditors' observation on dues to a Scheduled Bank representing the balance amount of the liability takeover by the company from M/s. Standard Medical & Pharmaceuticals Ltd., a one time settlement proposal is pending for clearance with the said Bank.

PARTICULARS OF EMPLOYEES

None of the Employees is in receipt of remuneration exceeding the limits as prescribed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

PARTICULARS RELATING TO CONSERVATION OF ENERGY ETC.

The particulars of conservation of energy and technology absorption as required to be furnished under Sec.217(1)(e) of the Companies Act, 1956 read with relevant rules thereunder, are not applicable to your Company.

The Company has not earned any foreign exchange during the year. Also, during the year, there was no foreign exchange used.

CORPORATE GOVERNANCE:

A report on the Corporate Governance together with the Management discussion & Analysis and the Auditor's Certificate on compliance with the conditions of Corporate Governance under clause 49 of listing agreement, is given in the Annexure.

ACKNOWLEDGMENTS:

Your Directors express their gratitude to all the Banks, various Government Agencies and the Investors of the Company, for their support and cooperation. Your Directors also place on record appreciation for all the employees of your Company for their contribution.

for and on behalf of the Board

Hyderabad
31st July, 2006

A Raghava Reddy
Chairman



ANNEXURE TO DIRECTORS' REPORT

MANAGEMENT DISCUSSION & ANALYSIS

Industry Overview :

The Global Health Care services Industry has grown considerably during the period 2001-2006. The industry is expected to carry its strong performance into the next few years, buoyed by the rapid economic progression within the Asia-Pacific region.

Likewise, the growth of Indian Health Care Services Industry has also been substantial over the last five years. While it is true that the demands for various Diagnostic Tests are increasing, the profitability of the Laboratories is remaining at the low level and it is mainly on account of intense competition. Therefore, most of the Indian Corporate players are trying to differentiate themselves by offering specialised tests such as drug screening, extended lipid profile and therapeutic drug monitoring etc.;

In India, the diagnostic industry over the past few years, has undergone a significant change. Renowned diagnostic Centres are in the process of developing national network. The infrastructure is being developed in such a way that one centre should not only cater to the needs of a particular region, it should reach at the doorsteps of the people across the Country. India's emergence as a preferred R & D hub, expansion of Clinical trials market, consolidation amongst corporate players in the diagnostic market are some of the reasons for expansion of the diagnostic services industry in India.

Company's Performance :

To take the advantage of the growing market, your company has taken a proactive approach and has tied up with many Corporates for providing health care services to their employees in terms of Pre-employment checkups, on site check ups and regular Executive health check-ups. Medinova has also entered into the agreement with various Insurance Companies to render services to their customers. With all the trend setting activities, Medinova is still considered as one of front runners in this industry. The turnover and profit (before prior year's adjustments and tax) during the year was Rs. 1450.74 lacs and Rs. 93.81 lacs respectively.

Risk Management:

Risk of Company has been identified and thoroughly analyzed. It is a continuous practice of the Company to scan the environment internal as well as external to deal with various risks and uncertainties, such as coming up of small Diagnostic Services and Corporate Hospitals attached to in-house Diagnostic Centers. In the competitive market, price realisation is a big factor and your Company is able to take timely measures to mitigate them. The main goal of your Company is to retain the top slot in the Diagnostic field. In order to achieve the said goal, the management of the Company has been exploring the various market segments like Corporate business, Insurance Companies' business, Clinical trials etc;

Apart from the above, your Company has been trying to create more awareness to the common people, so that in turn they remain friendly customers to the Company.

Future outlook:

Efforts will be put to improve the quality of services to meet the demands and needs of various segments of our Customers in order to maintain our position in the present competitive market. Your Company has plans to explore the business opportunities in the corporate customers segments with new strategies.

SWOT:

1. Efficient infrastructure, experienced man power with upgraded technology in Diagnostic Services under one roof.
2. Suitable health schemes under different packages are being designed to suit the people of different categories and segments.
3. The threat to the business of the Company is that many more Diagnostic Centers and the Hospitals attached with Diagnostic Services are coming up. However, the Company is having its own plans and strategies to combat the same.

CORPORATE GOVERNANCE

The Company's philosophy on Code of Governance :-

The Company believes in fair business and Corporate Practices while dealing with all the shareholders, customers and others. The Company believes in discharging its statutory obligations and duties to its best ability.

Board of Directors :

The Board of the Company consists of 5 Directors.

Composition of Directors is as follows :-

| | |
|---------------------|------------|
| Sri A Raghava Reddy | : Chairman |
| Sri P K Reddy | : Director |
| Sri S Basu Thakur | : Director |
| Sri D A Srinivas | : Director |
| Smt. A Sailaja | : Director |

Board Procedure :

During the Financial Year 2005-06, 4 meetings of the Board were held. The maximum time gap between any two meetings was not more than three months. The details of Board, Audit Committee and Share Transfer Committee Meetings held during the year 2005-06 are given below :

| | Date of the Meeting | Total Members | Total Members Attended |
|------------------|---------------------|---------------|------------------------|
| 1. Board Meeting | 30.06.2005 } | 4 | 3 |
| | 30.07.2005 } | 4 | 3 |
| | 31.10.2005 } | 5 | 4 |
| | 31.01.2006 } | 5 | 4 |



| | | | | | |
|--------------------|--------------|---|---|-----------|------------------------------------------------------------|
| 2. Audit Committee | 25.06.2005 } | 3 | 3 | 2003-2004 | Hotel Green Park, 29th Sept., 11.30 A.M. |
| | 29.10.2005 } | 3 | 3 | | Greenlands, 2004 |
| | 31.01.2006 } | 3 | 3 | | Begumpet, Hyderabad. |
| 3. Share Transfer | 20.07.2005 } | | | 2004-2005 | Hotel Green Park, 28th Sept., 11.30 A.M. |
| | 16.08.2005 } | | | | Greenlands, 2005 |
| | 31.08.2005 } | | | | Begumpet, Hyderabad. |
| | 30.09.2005 } | 2 | 2 | | There was no special resolution put through postal ballot. |
| | 30.11.2005 } | | | | |
| | 31.01.2006 } | | | | |
| | 28.03.2006 } | | | | |

The details of the attendance of each Director at the Board Meetings and the last AGM held during the year 2005-06 are given below :

| Name of the Director | Attendance at Board Meeting | AGM Yes/No |
|----------------------|-----------------------------|------------|
| A Raghava Reddy | 4 | Yes |
| P K Reddy | 4 | Yes |
| S Basu Thakur | 4 | Yes |
| D A Srinivas | 0 | No |
| A Sailaja | 2 | No |

Audit Committee :

The Committee consisted of Sri A Raghava Reddy, Director, Sri P K Reddy, Director and Smt. A Sailaja, Director. Sri P K Reddy is the chairman of the Committee.

The Audit Committee met 3 times during the year.

Remuneration Committee :

No separate remuneration committee was formed. None of the Directors is paid any remuneration other than sitting fees for the Board meetings attended.

Share Transfer Committee :

The Share Transfer Committee consists of Sri A Raghava Reddy, Chairman and Sri S Basu Thakur, Director. The Committee met 7 number of times during the year. There are no complaints outstanding as on 31.03.2006. Lt.Col.(Retd) Dr K Bhaskara Reddy, Chief General Manager is a compliance officer.

General Body Meeting :

The details of location and time of last 3 Annual General Meetings are given below :

| Year | Location | Date | Time |
|-----------|----------------------------------------------------|------------------|------------|
| 2002-2003 | Hotel Green Park, Greenlands, Begumpet, Hyderabad. | 25th Sept., 2003 | 11.30 A.M. |

Disclosures :

- No transaction of material nature has been entered into by the Company with its promoters, Directors or the Management, their successors, relatives etc., that may have potential conflict with the interest of the Company at large. For the details of other transactions and past transactions with deemed related parties, the members attention is invited to Note no. 8 in the notes on accounts.
- The details of Non-compliance by the Company :- Except for suspension of the trading in the shares of the Company by the Stock Exchange, Mumbai due to delay in payment of Annual Listing Fees, there were no instances of Non-compliance or penalty, strictures passed on the Company by the Stock Exchange or SEBI or any Statutory Authority on any matter related to the Capital Markets during the last 3 years.

Means of Communication :

The quarterly and half yearly results of the Company were published during the Financial Year under review in the News Papers namely, Business Standard & Andhra Bhoomi.

General Shareholders Information :

The Thirteenth Annual General Meeting will be held on Thursday, the 28th September, 2006 at HOTEL GREEN PARK, GREEN LANDS, BEGUMPET, HYDERABAD - 500 016.

Date of Book Closure :

The Company's Transfer Books will remain closed from Wednesday, the 27th September, 2006 to Thursday, the 28th September, 2006 (both days inclusive) for purpose of Annual General Meeting for the Financial Year ended 31st March, 2006.

Listing on Stock Exchanges :-

The Company's shares are presently listed on the Stock Exchanges at Mumbai and Hyderabad. The members approved the proposal for delisting of securities from The Hyderabad Stock Exchange and the application is still under process and the management of the Company is expecting to complete it in this year. The addresses of the Stock Exchanges are given below: