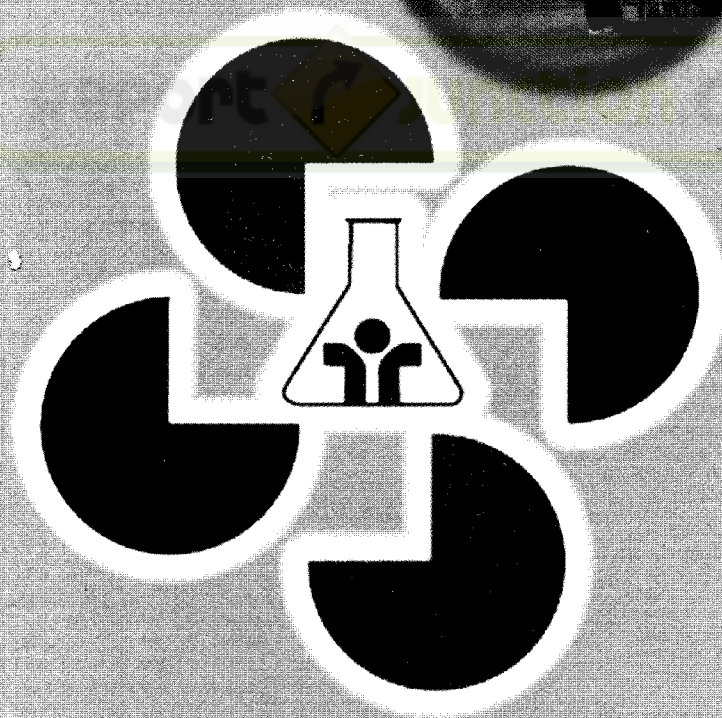


**12th ANNUAL REPORT
2003-2005**

**"WE ARE IN
QUALITY BUSINESS"**



SS ORGANICS LIMITED

Board of Directors

Dr. G. Subramanyam	Director
Mr. P. Ramachandra Gupta	Director
Mr. B. Subba Reddy	Director
Mr. E. Prabhakara Reddy	Director
Mr. E. Ramasubba Reddy	Director
Mr. G. Chandramouliswar Reddy	Director
Mr. G. Raghunandan	Director (Nominee- APIDC)
Mr. P. Santosh Kumar	Director - Finance
Mr. K. Srinivas Reddy	Director - Marketing
Mr. Y. Ramachandra Reddy	Joint Managing Director
Mr. V. N. Sunanda Reddy	Managing Director

Company Secretary

A. Mohan Rami Reddy

Statutory Auditors

M/s. K. Nagaraju & Associates
1-8-197
Chikkadapally
Hyderabad - 500 020.

Internal Auditors

Deva & Co.,
303, Siddhu Residency, Street No. 4,
Hill Fort, 5-9-42/2, Basheer Bagh,
Hyderabad - 500 063.

Regd. Office & Factory

Survey No. 252/1,
Aroor Village,
Sadasivapet Mandal,
Medak Dist.
Andhra Pradesh.

Corporate Office

B-23, II Floor, Madhura Nagar ,
S.R. Nagar Post,
Hyderabad - 500 038.
Tel. No: (040) -23815363, 23815255
Fax. No: (040) - 23815000
e-mail : ssorganicslimited@msn.com

Demat Registrars

M/s Venture Capital & Corporate Investments Limited
6-2-913/914, IIIrd Floor
Progressive Towers, Khairatabad, Hyderabad.
Tel. No.. 23322264/62, Fax : 23324803.

NOTICE

NOTICE is hereby given that the 12th Annual General Meeting of the Members of S S ORGANICS LIMITED will be held on Thursday, the 29th day of September, 2005, at 11.00 a.m. at its registered office at Survey No. 252/1, Aroor Village, Sadasivapet Mandal, Medak District, A.P., to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Profit & Loss Account for the eighteen months period ended 31st March, 2005 and the Audited Balance Sheet as at that date together with the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Mr.B.Subba Reddy, who retires by rotation and being eligible, offers him self for re-appointment.
3. To appoint a Director in place of Dr.G.Subramanyam who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. K. Nagaraju & Associates., Chartered Accountants, Hyderabad as Statutory Auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS:

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

"RESOLVED THAT Mr.E.Prabhakara Reddy, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED THAT Mr.E.Ramasubba Reddy, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED THAT Mr.G.Chandramouliswar Reddy, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED THAT Mr.G.Ragunandan, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions of the Companies Act, 1956 and as recommended by the Remuneration Committee and subject to the approval

of the Central Government and such other approvals as may be necessary, the consent of the Company be and is here by accorded to the revised remuneration payable to Mr.Y.Ramachandra Reddy, Joint Managing Director of the Company with effect from 1st November, 2004 for the residual period of his tenure as mentioned below:

Salary: Rs. 60,000/- per Month (including all Perquisites).

The following perquisites be paid which are not included in the salary:

1. Contribution to Provident Fund, Superannuation fund or annuity fund as per Company's Rules.
2. Payment of Gratuity at the end of the tenure.
3. Encashment of Leave at the end of the tenure.

"FURTHER RESOLVED THAT Mr.Y.Ramachandra Reddy, be paid the aforesaid remuneration even in the case of inadequacy of profits in any financial year during his tenure as Joint Managing Director of the Company."

"RESOLVED FURTHER THAT the terms and conditions of the appointment of Mr. Y.Ramachandra Reddy as stated above can be altered and varied from time to time by the Board of Directors, so as not to exceed the limits specified in Schedule XIII of the Companies Act, 1956 or any amendment made thereto."

- 10.To Consider and if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT Mr.P. Santosh Kumar be and is hereby appointed as a Director of the Company, liable to retire by rotation."

- 11.To Consider and if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution:

"RESOLVED THAT subject to the provisions of Sections 198, 269, 309, 310, 311, Schedule XIII and other applicable provisions of the Companies Act, 1956 and as recommended by the Remuneration Committee and subject to the approval of the Central Government and such other approvals as may be necessary, the consent of the Company be and is hereby accorded to the appointment of Mr. P. Santosh Kumar as Director- Finance of the Company for a term of three years with effect from 27th August,2005 at a remuneration of Rs.40,000/- per Month (Including all Perquisites)".

The following perquisites be paid which are not included in the salary:

1. Contribution to Provident Fund, Superannuation fund or annuity fund as per Company's Rules.
2. Payment of Gratuity at the end of the tenure.
3. Encashment of Leave at the end of the tenure.

"RESOLVED FURTHER THAT pursuant to Section 198 and other applicable provisions, if any, of the Companies Act,1956 Mr. P Santosh Kumar be paid the aforesaid remuneration as minimum remuneration even in case of inadequacy of profits in any financial year during his term as Director- Finance of the Company."

"RESOLVED FURTHER THAT the terms and conditions of the appointment of Mr. P. Santosh Kumar as stated above can be altered and varied from time to time by the Board of Directors, so as not to exceed the limits specified in Schedule XIII of the Companies Act, 1956 or any amendment made thereto."

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

"RESOLVED THAT Mr. K. Venu Gopala Reddy, be and is hereby appointed as a Director of the Company, liable to retire by rotation".

By order of the Board
for S S ORGANICS LIMITED

Place : Hyderabad

V. N. Sunanda Reddy

Date : 27th August, 2005

Managing Director

NOTES:

1. A MEMBER ELIGIBLE TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXY FORMS IN ORDER TO BE EFFECTIVE MUST BE RECEIVED NOT LESS THAN 48 HOURS BEFORE THE MEETING AT THE REGISTERED OFFICE/CORPORATE OFFICE OF THE COMPANY.
2. An Explanatory Statement pursuant to Sec 173 (2) of the Companies Act, 1956 with regard to special business is annexed hereto.
3. The Register of Members and Share Transfer books of the Company will be closed from 22nd September, 2005 to 29th September, 2005 (both days inclusive)

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item no: 5 to 8

Mr.E.Prabhakara Reddy, Mr.E.Ramasubba Reddy and Mr.G.Chandramouliswar Reddy were appointed as Additional Directors of the Company at the Board Meeting held on 30th October, 2004. Mr. G. Raghunandan was appointed as Additional Director of the Company at the Board Meeting held on 29th April, 2005 as a nominee of Andhra Pradesh Industrial Development Corporation Limited. They hold office up to the ensuing Annual General Meeting.

In terms of Section 257 of the Companies Act, 1956 the Company has received notices in writing from the members along with requisite deposit of Rs.500/- each proposing the candidature(s) of Mr.E.Prabhakara Reddy, Mr.E.Ramasubba Reddy, Mr.G.Chandramouliswar Reddy and Mr. G. Raghunandan for their respective appointments as Independent Director(s), liable to retire by rotation. The particulars about the proposed Directors are given in the Report on Corporate Governance.

The Board recommends passing of the proposed resolution(s) for approval of the Members.

None of the Directors of the Company except Mr.E.Prabhakara Reddy, Mr.E.Ramasubba Reddy, Mr.G.Chandramouliswar Reddy and Mr. G. Raghunandan are concerned/interested in their respective resolution(s).

Item no: 9

Mr. Y. Ramachandra Reddy was appointed as Technical Director of the Company w.e.f. 1st November, 2001 for a period of five years at the Annual General Meeting of the Company held on 28th December, 2001. The remuneration payable to Mr. Y. Ramachandra Reddy was revised at the Annual General Meeting of the Company held on 29th March, 2004. Keeping in view of his valuable contribution, the Board has elevated him as Joint Managing Director of the Company effective from 1st November, 2004 and on the recommendations of the Remuneration Committee, the Board also revised the remuneration payable to Mr. Y. Ramachandra Reddy, from Rs.50, 000/- p.m. to 60,000/- p.m. as set out in the resolution. The Board recommends passing of the proposed resolution for approval of the Members.

None of the Directors of the Company except Mr. Y. Ramachandra Reddy is in any way, concerned/interested in the resolution.

Item No. 10 & 11

Mr. P. Santosh Kumar was appointed as Additional Director of the Company at the Board Meeting held on 27th August, 2005. He will hold the office up to the date of ensuing Annual General Meeting. The Board has also appointed Mr. P. Santosh Kumar as Director- Finance for a period of three years w.e.f. 27th August, 2005, subject to the approval of the Share holders.

In terms of Section 257 of the Companies Act, 1956 the Company has received notice in writing from a member along with requisite deposit of Rs.500/- proposing the candidature of Mr.P. Santosh Kumar, for appointment as Director of the Company, liable to retire by rotation.

Mr. P. Santosh Kumar aged about 30 years holds a B.Com. (Hons) degree with more than ten years of experience in the business of Investments, Power, Distilleries etc., The Directors are of the view that the appointment of Mr. P. Santosh Kumar as Director-Finance will be beneficial to the operations of the Company and the remuneration payable to him is commensurate with his ability and experience and recommends passing of the proposed resolution for approval of the Members. Mr. P. Santosh Kumar is the son of Mr. P. Ramachandra Gupta, Director. None of the Directors of the Company except Mr. P. Ramachandra Gupta and Mr. P. Santosh Kumar is in any way, concerned/interested in the resolution.

Item No. 12

In terms of Section 257 of the Companies Act, 1956 the Company has received a notice in writing from Mr. B.Subba Reddy, Director and a member of the Company along with requisite deposit of Rs. 500/- proposing the candidature of Mr. K.Venu Gopala Reddy, for appointment as a Director of the Company.

Mr. K. Venu Gopala Reddy aged 58 years, Occupation business, holds B.Sc. (Ag.) and worked as Regional Manager of A.P. State Agro Industries Development Corporation Limited (Agro Chemicals Division) for more than 20 years. He is a director of Jala Shakti Limited.

None of the Directors of the Company except Mr. B.Subba Reddy, who has proposed the appointment, are concerned/interested in the resolution.

By order of the Board
for S S ORGANICS LIMITED

Place : Hyderabad

V. N. Sunanda Reddy

Date : 27th August, 2005

Managing Director

DIRECTORS' REPORT

To
The Members
S S ORGANICS LIMITED

Your Directors hereby present their 12th Annual Report together with the Audited Financial Statements for the eighteen months period ending 31st March, 2005.

FINANCIAL RESULTS

	For the period ending 31-03-2005 (18 Months)	(Rs. in lacs) Previous period 30-09-2003 (18 Months)
Total Income	2724.61	1660.69
Profit before Financial		
Expenses and Depreciation	248.51	269.45
Profit after Financial		
Expenses and Depreciation	87.59	137.12
Extraordinary Items:		
Add: Interest of Financial		
Institutions/Banks Written off:		
As per OTS with IDBI	12.20	193.84
As per OTS with SBI	—	356.63
	99.79	687.59
Less: Prior Year Adjustments	3.10	6.18
Profit for the year before taxation.	96.69	681.41
Less: Deferred Tax Liability	33.43	27.31
Profit after Tax	63.26	654.10

OPERATIONS

The Financial Year has been extended by six months up to 31st March, 2005 thus making it for a period of 18 months. The Hon'ble Board for Industrial and Financial Reconstruction (BIFR) has sanctioned a Modified Rehabilitation Scheme on 27th January, 2005. Under OTS arrangement reached with Industrial Development Bank of India (IDBI), the entire liabilities have been settled much ahead of the schedule envisaged in the scheme by the Company and now it is DEBT FREE Company.

During the period the major source of revenue is through job work. The Company is slowly and steadily consolidating its operations by improving own production apart from doing job works. However, the dependence on job work continues till the working capital facilities are available to the Company.

The Company is making all categories of anti-ulcerative products and supplying to all major Pharmaceutical Companies in India. The Company is planning to manufacture anti-viral Products. The management is confident of registering good turnovers and profits in coming periods by having strategic alliances for marketing and improving the operations.

DIRECTORS

During the year, Andhra Pradesh Industrial Development Corporation Limited (APIDC) has nominated Mr.S.Venkata Reddy as a Director of the Company in place of Mr. P.V. Subrahmanyam w.e.f. 28th April, 2004. Mr. P.V. Subrahmanyam was appointed by the Board as Additional Director w.e.f. 28th April, 2004. He has resigned as a Director of the Company

w.e.f. 30th October, 2004. The APIDC has withdrawn the nomination of Mr. S. Venkata Reddy as a Director of the Company w.e.f. 30th October, 2004.

The Board places on record its appreciation for the valuable services rendered by the above Directors.

Mr. Y. Ramachandra Reddy, the Director-Technical was re-designated by the Board as Joint Managing Director w.e.f. 1st November, 2004.

Mr.E.Prabhakara Reddy, Mr.E.Ramasubba Reddy and Mr.G.Chandramouliswar Reddy were appointed as Additional Directors of the Company at the Board Meeting held on 30th October, 2004. Mr. P. Santosh Kumar was appointed as Director – Finance of the Company at the Board Meeting held on 27th August, 2005. They hold office up to the ensuing Annual General Meeting. APIDC vide their letter dated 17th January, 2005 has nominated Mr. G. Raghunandan as a Director of the Company. The Board has taken note of the same and appointed him as a Director w.e.f. 29th April, 2005.

In terms of Section 257 of the Companies Act, 1956 the Company has received notices in writing from the member(s) proposing the candidature(s) of Mr.E.Prabhakara Reddy, Mr.E.Ramasubba Reddy, Mr.G.Chandramouliswar Reddy, Mr. G. Raghunandan and Mr. P. Santosh Kumar for their respective appointments as Director(s) of the Company, liable to retire by rotation. Dr. S. Pitchi Reddy was appointed as an Alternate Director to Mr. B. Subba Reddy, NRI Director w.e.f. 30th October, 2004 and he ceased to be Director w.e.f. 28th January, 2005 consequent to the attendance of Mr. B. Subba Reddy Director at the Board Meeting held on 28th January, 2005.

A brief profile of the Directors together with the list of Companies, in which they hold Directorships, has been provided in the report on Corporate Governance.

DIRECTORS RESPONSIBILITY STATEMENT

Directors responsibility statement pursuant to section 217 (2AA) is given here under.

- that in preparation of Annual Accounts applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that 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 or loss of the company for that period;
- that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- that the directors had prepared the annual accounts on a going concern basis.

CHANGES IN CAPITAL STRUCTURE

Consequent to the sanction of Modified Rehabilitation Scheme (MRS) dated 27th January, 2005 by the Hon'ble BIFR, the

Company on 28th March, 2005 has allotted 1,50,000 Equity Shares of Rs.10/- each to IDBI against their interest dues and 25,00,000 Equity Shares of Rs.10/- each by conversion of unsecured loans. However, Mr. B. Subba Reddy, Director of the Company has filed an appeal before Hon'ble Appellate Authority for Industrial & Financial Reconstruction (AAIFR) challenging certain clauses of the sanctioned MRS. In the said appeal the Hon'ble AAIFR declared the allotment of said 25,00,000 shares as null and void. The Company is contesting the said appeal. The capital structure of the Company may change depending on the final outcome of this dispute.

AUDITORS

M/s K. Nagaraju & Associates, Chartered Accountants, Statutory Auditors of the Company who retire at this Annual General Meeting, are eligible for reappointment. They have signified their willingness for reappointment and have confirmed their eligibility under Section 224 (1B) of the Companies Act, 1956.

REPLIES TO AUDITORS' REPORT

With reference to observations made in the Auditors Report regarding-

- i) Remuneration paid to The Managing Director and other Whole time Directors, Note no.5 of the Notes to Accounts in Schedule-O are self explanatory.
- ii) Allotment of 25, 00,000 Equity Shares of Rs.10/- each on 28th March, 2005, Note no.7 of the Notes to Accounts in Schedule-O are self explanatory.
- iii) Applicability of Section 58A, 58AA of the Companies Act, 1956 and Fixed Deposit Rules there under for the outstanding unsecured loans, Note no.22 of the Notes to Accounts in Schedule-O is self explanatory.
- iv) Transfer of Rs. 2,73,18,000/- funds from the Company's Account to the personal Account of the Managing Director for the purpose of the Company, Note no.23 of the Notes to Accounts in Schedule-O are self explanatory.
- v) Non recoverability of certain debts included under sundry debtors to the extent not ascertained and not provided for, Note no.24 of the Notes to Accounts in Schedule-O is self explanatory.
- vi) Verification of Fixed Assets, considering the size of the Company and other facts and circumstances, the Company is having programme of verification of the Fixed Assets. This program of the Company is considered adequate.
- vii) Non maintenance of Cost Records, as the Company is a sick industrial Company, there was no competent person to maintain the cost records as per the Act. The Company was not prescribed for cost audit and most of the Company's operations were through Job Work only. Even though the Company has not maintained the cost records in the prescribed format, but the information is always available to the auditor's of the Company. The Company is making all our efforts to maintain the cost records as per the Act from the present financial year.
- viii) With reference to other observations made in the Auditors Report, the notes to the Accounts are self explanatory and, therefore, do not call for any further explanation under section 217(3) of the Companies Act, 1956.

FIXED DEPOSITS

The Company has not raised any fixed deposits as on 31st March 2005 so as to attract the provisions of Section 58A of the Companies Act, 1956 read with the Companies (Acceptance of Deposits) Rules, 1975 as amended from time to time. There is no amount outstanding or due to any deposit holder. The interest free unsecured loans brought in by the Company during the year pursuant to compliance with the BIFR scheme has been considered as exempted deposits.

PARTICULARS OF EMPLOYEES

In Pursuance of Section 217 (2A) of the Companies Act, 1956 none of the employees of the company was drawing remuneration exceeding Rs. 24,00,000/- per annum or Rs. 2,00,000/- per month or part thereof.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE OUT GO

Details pursuant to Sec.217 (1) (e) read with companies (Disclosure of particulars in the report of Board of Directors) rules 1988 is annexed forming part of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis report of the Company is annexed forming part of this report.

LISTING DETAILS

The Shares of the Company are listed at Hyderabad and Mumbai stock exchanges. The formalities in regard to delisting of Shares on Madras Stock Exchange Limited, Chennai are in progress.

DEMATERIALISATION OF SHARES

The Shares of the Company have been admitted with CDSL Depository system under ISIN NO: INE 102E01018. NSDL has not yet admitted the same on technical reasons. However, with the improvement in the net worth, the Company is confident that NSDL will consider the Company's request in the interest of the Investors.

CORPORATE GOVERNANCE

The detailed report on the Corporate Governance forms part of this report and is enclosed.

ACKNOWLEDGEMENTS

Your Directors take this opportunity to place on record their sincere appreciation and gratitude to the Companies Clients, M/s Aurobindo Pharma Limited, M/s Orchid Chemicals & Pharmaceuticals Limited, Industrial Development Bank of India and Shareholders for their continued support and faith in the Company. Yours Directors also wish to appreciate the hard work and commitment exhibited by the employees to the growth of the Company

For and on behalf of the Board of Directors
for S S ORGANICS LIMITED

Y. Ramachandra Reddy
Jt. Managing Director

V.N. Sunanda Reddy
Managing Director

Place : Hyderabad.
Date : 27-08-2005

ANNEXURE TO THE DIRECTORS' REPORT

Information required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

FORM 'A'

Conservation of Energy	2003-2005 (18 Months)	2002-2003 (18 Months)
POWER AND FUEL		
Number of Units Consumed (Nos. in Lakhs)	37.54	47.04
Unit Rate (Rs.)	3.81	3.88
Total Amount (Rs. in Lakhs)	143.07	182.59
OWN GENERATION (THROUGH D.G.SET)		
Number of Units Consumed (Nos. in Lakhs)	1.51	2.62
Unit Rate (Rs.)	8.59	5.33
Total Amount (Rs. in Lakhs)	12.97	13.97
COAL		
Quantity (MT)	3427.85	5286.11
Total Cost (Rs. in Lakhs)	82.17	111.69
Average Rate (M.T in Rs.)	2397.00	2112.89

FORM 'B'**01. RESEARCH & DEVELOPMENT**

The Company is carrying out Research and Development in Process Development to achieve required yields and to make the price competitive in the market.

02. TECHNOLOGY ABSORPTION

The Company has not acquired any specific technology for its operations. The process technologies are acquired indigenously. The Plant & Machinery are installed keeping in view the present process requirements.

03. CONSERVATION OF ENERGY

The Company has already implemented energy conservation measures to conserve and optimise the use of energy through improved operation methods and other means will continue.

04. FOREIGN EXCHANGE EARNINGS AND OUT GO

There is no foreign exchange earning/outflow during the year.

MANAGEMENT DISCUSSION AND ANALYSIS:**1. OVER VIEW**

The Company is basically engaged in the manufacture of Omerazole, Lansoprazole, Esomeprazole and Rabeprazole apart from undertaking Job work of 7 ADCA (Intermediate of Cephalosporins) for reputed Companies. The overall production capacity has been increased by adding more reactors and balancing equipments so as to meet the market challenges.

2. INDUSTRY REVIEW

Indian Pharmaceutical Industry is aggressively availing the opportunity in the post -2005 with the large number of patents

going off patent. However, the challenges would pose a rough road ahead for many. The management is confident and committed to overcome these road blocks by adhering to quality processing, proper systems and controls.

3. RISKS AND THREATS

The Company is no exception to the competition from the market, new technologies and stringent patent laws. The Company has already identified such risks and trying to counter them over a period of time.

4. INTERNAL CONTROLS AND SYSTEMS

The management has realized the importance of internal controls and systems, while improving the operations during the period under review. Accordingly strict systems have been laid down which are checked and audited periodically by the Internal Auditors and the same is being monitored by the members of the Audited Committee from time to time.

The Company has obtained ISO-9000-2001 Certificate for Systems implementation.

5. DISPUTES

There are certain ongoing disputes between the present management and one of the Directors of the Company. As a result of these disputes there is a delay in obtaining Working Capital facilities affecting the operations of the Company in regard to own production. However, the present management's credibility in the market is enabling the Company to continue its operations. The status of the disputes is as under.

- Petition No.22/2005 before the Hon'ble Company Law Board - Mr. B. Subba Reddy, Director has filed a petition before the Hon'ble Company Law Board, Additional Principal Bench, Chennai alleging oppression and mismanagement and other violations under the Companies Act, 1956 and challenging the allotment of 20 lac equity shares on 25-04-2003 as per the sanctioned Hon'ble BIFR Scheme.

The Company is contesting all the allegations in the said petition.

- Appeal No. 48/2005 before the Hon'ble Appellate Authority for Industrial & Financial Reconstruction (AAIFR), New Delhi - Mr. B. Subba Reddy, Director of the Company has filed an appeal before Hon'ble Appellate Authority for Industrial & Financial Reconstruction (AAIFR) challenging certain clauses of the sanctioned Modified Rehabilitation Scheme (MRS) dated 27th January, 2005 by the Hon'ble BIFR. In the said appeal the Hon'ble AAIFR declared the allotment of 25 lac equity shares by the Company on 28-03-2005 as null and void.

The Company is contesting the said appeal.

- Civil Suit O.S.No. 3286/2004 in the Hon'ble Court of IInd Senior Civil Judge, City Civil Court, Hyderabad - Mr.B.Subba Reddy, Director of the Company has initiated a Civil Suit in the month of July. 2004 alleging non-compliance of section 255 of the Companies Act, 1956 with regard to the composition of the Board.

The Company is contesting the said suit.

CORPORATE GOVERNANCE

Company's philosophy

The Company believes that good Corporate Governance brings about sustained corporate growth and long time benefits to the Stakeholders.

The Company's philosophy on Corporate Governance is to adopt standard Corporate Governance practices through continual improvement of internal systems, transparency and disclosure.

In accordance with clause 49 of the listing agreement with the Stock Exchanges on Corporate Governance, a report is given below:

1. Board of Directors

As at 31st March, 2005, the Board comprised of nine Directors out of whom three are Executive Directors and six are Non- Executive Directors. The Company has a Non –Executive Chairman and the number of Independent Directors is more than one-third of the total number of Directors. The composition of the Board is in conformity with clause 49 of the listing agreement.

None of the Directors on the Board is a Member on more than ten Committees and Chairman of more than five Committees (as specified in Clause 49), across all the Companies in which he is a Director. The necessary disclosures regarding Committee positions have been made by the Directors.

During the financial year October, 2003 to March, 2005 the Board of Directors met Eight times on the following dates; October 31, 2003, January 31, February 13, April 28, July 28, October 30, 2004 and January 28, March 28, 2005. The gap between two meetings did not exceed four months. Leave of absence was granted by the Board to the Directors, who were absent at the respective Board Meeting(s).

The composition of the Board as on 31st March, 2005, number of outside directorships/ committee memberships/ committee chairmanship/ summary of the board meetings held vis-à-vis the meetings attended and the attendance at the last AGM of each of the Directors was as under:

Name of the Director	Category of Directorship	Number of Other Directorships*	Number of Other Committee memberships held		Number of Board Meetings attended	Attendance at the last AGM held on 29 th March, 2004
			Chairman	Member		
Dr .G Subramanyam	Independent, Non-Executive	1	-	-	6	No
P. Ramachandra Gupta	Independent, Non-Executive	-	-	-	8	Yes
B. Subba Reddy	Promoter, Non-Executive	-	-	-	1	No
E. Prabhakara Reddy	Independent, Non-Executive	-	-	-	3	NA
E. Ramasubba Reddy	Independent, Non-Executive	-	-	-	3	NA
G. Chandramouliswar Reddy	Independent, Non-Executive	-	-	-	3	NA
K. Srinivas Reddy	Executive**	1	-	-	6	Yes
Y. Ramachandra Reddy	Executive	-	-	-	8	Yes
V. N. Sunanda Reddy	Executive	-	-	-	7	Yes

* Directorships in private limited companies are excluded.

** Appointed as whole time Director w.e.f. 1st January, 2004 and prior to this, he was Alternate Director to Mr. B. Subba Reddy.

- Mr. K. Srinivas Reddy has attended one Board Meeting held during his tenure as Alternate Director to Mr. B. Subba Reddy.
- Dr. S. Pitchi Reddy has attended one Board Meeting held during his tenure as Alternate Director to Mr. B. Subba Reddy.
- Mr.P.V.Subrahmanyam Director, who resigned effective from 30th October, 2004 has attended all the six Board Meetings held during his tenure and also attended the Annual General Meeting.
- Mr. S. Venkata Reddy has attended two meetings held during his tenure.

Changes in the Board Since the last Annual General Meeting:

- Mr. S. Venkata Reddy was appointed as Director - APIDC nominee w.e.f. 28th April, 2004 and he resigned w.e.f. 30th October, 2004.
- Mr. P.V. Subrahmanyam, nomination as Director was withdrawn by APIDC w.e.f. 28th April, 2004. He was appointed as an Additional Director w.e.f. 28th April, 2004 and he resigned w.e.f. 30th October, 2004.



- c) Mr. Y. Ramachandra Reddy, the Director-Technical was re designated by the Board as Joint Managing Director w.e.f. 1st November, 2004.
- d) Dr. S. Pitchi Reddy was appointed as an Alternate Director to Mr. B. Subba Reddy, NRI Director w.e.f. 30th October, 2004 and he ceased to be Director w.e.f. 28th January, 2005.
- e) Mr. E. Prabhakara Reddy joined the Board on 30th October, 2004.
- f) Mr. E. Ramasubba Reddy joined the Board on 30th October, 2004.
- g) Mr. G. Chandramouliswar Reddy joined the Board on 30th October, 2004.
- h) Mr. G. Raghunandan was appointed as a Director- APIDC Nominee w.e.f. 29th April, 2005.
- i) Mr. P. Santosh Kumar was appointed as Director-Finance w.e.f. 27th August, 2005

2. Board Meetings and Procedures

The Board Meetings are generally held at least once in a quarter, amongst others for the consideration of the un-audited quarterly financial results. Besides this, additional Board meetings are convened as and when the need arises. The Board may also approve permitted urgent matters by passing resolutions by circulation.

The Company Secretary in consultation with the Managing Director finalises the Agenda papers of the Board Meetings and with the approval of the Chairman, circulates the agenda along with minutes of the previous Meeting in advance to the Board Members. The Board at the next Meeting confirms the minutes.

The information regularly supplied to the Board includes:

- Annual operating plans and budgets.
- Quarterly results of the company.
- Minutes of the committee meetings.
- Share transfers effected.
- Contracts in which directors are interested.
- Information on recruitment of senior officers.
- Action taken report on pending matters.
- Quarterly report on compliance of various laws.
- Status report on materially important litigations.
- Strategic business plans.

3. Committees of Directors

1) Audit Committee

Your Board reiterates the necessity of providing accurate and transparent financial reporting. The Audit Committee has been constituted of only Independent Directors.

The Audit Committee shall have the powers and perform the functions as mentioned in Clause 49 of the Listing Agreement read with Section 292A of the Companies Act, 1956.

Consequent to resignation of Mr. P.V. Subrahmanyam, the Audit Committee was reconstituted on 30th October, 2004 with P. Ramachandra Gupta as Chairman of the Committee, Dr. G. Subramanyam and Mr. E. Prabhakara Reddy all Independent Directors as the members.

During the period, the Audit Committee met six times on October 31, December 22, 2003, January 31, February 13, July 27, 2004, January 27, 2005. The attendance of the members of the Audit Committee was as under.

Name of the Director	Status	Number of Meetings held	Number of Meetings attended
Mr. P. Ramachandra Gupta	Chairman	6	6
Mr. P.V. Subrahmanyam	Member	5	5
Dr. G. Subramanyam	Member	6	4
Mr. E. Prabhakara Reddy	Member	1	1

The Board defined the role of the Audit Committee as under:

- Overseeing the Company's financial reporting process and the disclosure of its financial information, to ensure that the financial statement is correct, sufficient and credible;
- Recommending the appointment/removal of external auditors, fixing audit fees and approving payments for any other services;
- Reviewing with the Management the annual financial statements before submission to the Board;
- Reviewing with the Management, external and internal auditors, the adequacy of internal control systems;
- Reviewing the adequacy of internal function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit;
- Discussing with internal auditors of any significant findings and follow-up thereon;
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is a suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board;
- Discussing with external auditors before the audit commences, the nature and scope of audit as well as have post-audit discussions to ascertain any area of concern;
- Reviewing the Company's financial and risk management policies;
- To look into the reasons for substantial defaults in the payments to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

Further, the Audit Committee shall have functions as may be specifically delegated to it by the Board.

The head of finance, representatives of the internal auditors and statutory auditors, as required, attend the meetings of the Audit Committee as invitees. The Audit Committee reviews the quarterly and audited financial statements of the Company before consideration and approval by the Board.

2) Investors' Grievance Committee

The Share holders' / Investors' Grievance Committee of the Board is empowered to oversee the redressal of shareholders/investor complaints/ grievances pertaining to share transfers/non-receipt of annual reports, share certificates, issue of duplicate certificates, transmissions of shares and other complaints. The Committee also reviews and recommends the measures for overall improvement in the quality of investor services.

The Share holders'/Grievance Committee was reconstituted on 31st January, 2004 with Mr. K. Srinivas Reddy , Mr. P. Ramachandra Gupta and Mr. P.V. Subrahmanyam as the members. Consequent to resignation of Mr. P.V. Subrahmanyam the Committee was reconstituted on 30th October, 2004 with Mr. K. Srinivas Reddy, Mr.P. Ramachandra Gupta and Mr. E. Prabhakara Reddy as the members. The chairman for the committee meeting(s) was elected by the members present at the meeting.

During the period, the Share Holders Grievance Committee met two times on August 11 and December 20, 2004. The attendance of the members of the Share Holders Grievance Committee was as under.

Name of the Director	Status	Number of Meetings held	Number of Meetings attended
Mr. K. Srinivas Reddy	Member	2	2
Mr. P. Ramachandra Gupta	Member	2	2
Mr. P.V. Subrahmanyam	Member	1	1
Mr. E. Prabhakara Reddy	Member	1	1

The Board has authorised Mr. K. Srinivas Reddy, Director-Marketing of the Company to approve physical share transfers and confirmation of Demat requests.

Ms. I.V.Rajya Lakshmi, Asst. Company Secretary was the Compliance Officer as on 31st March, 2005.

3) Remuneration Committee

The Board believes that it is essential to have an independent committee of Directors who will recommend to the Board on the compensation package to each of the Whole Time Directors.