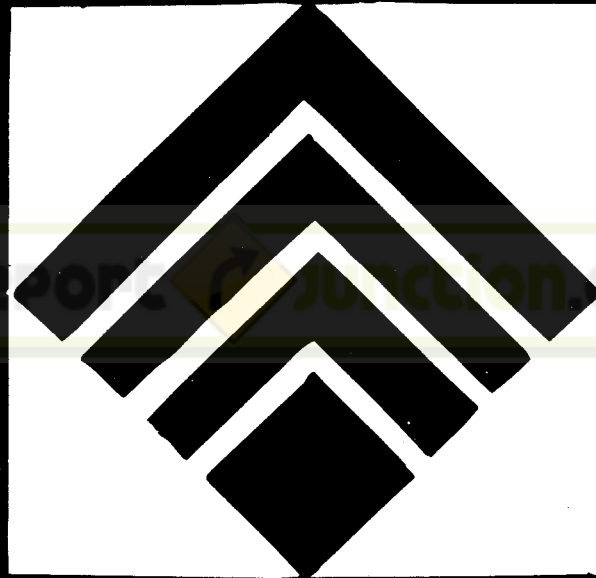


19th Annual Report



SPARTEK
Ceramics India Limited

**BOARD OF DIRECTORS**

Sadanand A. Shetty
M.N.Rao
P.S.Prasad (Nominee of ICICI)
Vatsala Krishnakumar (Nominee of IDBI)
T.Venkateswara Rao
Krishna Prasad Tripuraneni, Managing Director

**GROUP D.G.M. (LEGAL) AND
COMPANY SECRETARY**

R. Jayaraman

AUDITORS

Brahmayya & Co.,
Chartered Accountants
Chennai

LEGAL ADVISERS

T. Raghavan and
R. Murari
Advocates
Chennai

BANKERS

Central Bank of India
Indian Bank
State Bank of India
Andhra Bank

REGISTERED OFFICE

Mittapalem, Narasingapuram P.O.
Chandragiri Taluk
Chittoor District
Andhra Pradesh,
Pin - 517 102

HEAD OFFICE

No.15, Cenotaph Road, 2nd Lane
Teynampet, Chennai - 600 018.

CERAMIC DIVISION

Mittapalem, Narasingapuram P.O.
Chandragiri Taluk, Chittoor District
Andhra Pradesh
Pin - 517 102

GRANITE DIVISION

Gudapakkam Village
Puduchatiram (Post)
Tiruvallur District
Tamilnadu - 602 107

REGISTRAR & SHARE TRANSFER AGENTS

M/s.Integrated Enterprises (India) Ltd.
Kences Towers, 2nd Floor
No.1, Ramakrishna Street
North Usman Road, T.Nagar
Chennai - 600 017.

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BOARD OF DIRECTORS - BRIEF PROFILE

S.No	Name of the Director	Profile
1)	Mr.Sadanand A. Shetty (73 years) Director	Mr.Sadanand A. Shetty is the Chairman of Fouress Engineering (India) Limited, Mumbai and he is also Chairman and Director in many other Companies. He is an Industrialist having reputation in the business circle. He has vast experience in Industrial Management including Marketing and Finance. He was also visiting professor of Business Management at the Bajaj Institute of Management, University of Mumbai. He has Bachelors degree in Economics with LL.B and M.B.A. (U.S.A.).
2)	Mr.M.N.Rao (66 years) Director	Mr.M.N.Rao is presently a reputed Industrial Project Consultant at Hyderabad. He had totally about 38 years of experience in various industries including Finance and Design Engineering. For about 14 years he worked for IDBI in a Senior Management position. He is also Director in six other companies. He is a Bachelor of Science with B.E. from Osmania University, Andhra Pradesh.
3)	Mr.P.S.Prasad (49 years) (ICICI Nominee) (Appointed w.e.f 25.09.2003)	Mr.P.S.Prasad is presently working with ICICI Bank Ltd., as Deputy General Manager and is having about 25 years of experience in Industrial Finance and Banking. He is B.Sc.(Hons.) and B.E., from Indian Institute of Science, Bangalore.
4)	Mrs. Vatsala Krishnakumar (48 years) (IDBI Nominee) (Appointed w.e.f 20.10.2003)	Mrs.Vatsala Krishnakumar is presently working with Industrial Development Bank of India as Deputy General Manager. She is also Director on the Board of ITCOT Ltd., and Nelcast Ltd. She is having 25 years of experience in Industrial Finance and Restructuring. She has Masters degree in Mathematical Economics
5)	Mr.T.Venkateswara Rao (73 years) Director	Mr.T.Venkateswara Rao is a graduate in Science and is having an experience of about 40 years in clay mining and contract business. He is the Founder Director of Spartek Ceramics India Limited. He is also the Chairman and Managing Director of subsidiary company, M/s.Neycer India Limited.
6)	Mr.Krishna Prasad Tripuraneni (47 years) Managing Director	Mr.Krishna Prasad Tripuraneni is the Promoter of Spartek Ceramics India Limited and presently is the Managing Director of the Company. He is also a Director on the Board of subsidiary company viz., M/s.Neycer India Limited. He has a Bachelors degree in Engineering from Andhra University and M.S. in Electrical Engineering from the Illinois Institute of Technology, USA.

NOTICE TO MEMBERS

NOTICE is hereby given that the Nineteenth Annual General Meeting of the Members of Spartek Ceramics India Limited will be held at 11:00 A.M. on Monday, the 29th December 2003 at Hotel Mayura, T.P.Area, Tirupati - 517 501, A.P. to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Profit and Loss Account for six months period ended 31.03.2003 and the Balance Sheet as on that date and the Report of the Auditors thereon and Directors' Report.
2. To appoint a Director in place of Mr.T.Venkateswara Rao who retires by rotation and being eligible offers himself for reappointment.
3. To appoint Auditors and fix their remuneration. M/s. Brahmayya & Co., Chartered Accountants, Chennai retire at this Annual General Meeting and are eligible for reappointment.

SPECIAL BUSINESS

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

"RESOLVED THAT in accordance with the applicable provisions of the Companies Act, 1956, the Securities Contracts (Regulations) Act, 1956, the Listing Agreement with the Stock Exchanges and the provisions of the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, or any amendment or any modification thereof, and subject to such other approvals, permissions and sanctions as may be necessary, and such conditions and modifications as may be prescribed or imposed by any Authority while granting such approvals, permissions or sanctions which may be agreed to by the Board of Directors of the Company ("the Board") or any Committee, person(s) authorised by the Board, consent be and is hereby accorded to delist the Equity Shares of the Company from the Stock Exchanges at Hyderabad and Chennai."

"RESOLVED FURTHER THAT Authority be and is hereby accorded to the Board or any Committee / Person(s) authorised by the Board, to settle all questions, difficulties or doubts that may arise in this regard and to do all such acts, deeds and things as may be necessary, expedient and desirable, for the purpose of giving effect to this resolution."

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

"RESOLVED THAT in terms of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and subject to such guidelines, approvals and consents of the Government of India, Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and/or any other authority as may be applicable or required and subject to such terms, conditions and modifications, as may be considered necessary, proper by the Board of Directors (Board) of the Company and/or as may be imposed or prescribed by the Government of India, RBI, SEBI and/or other authority for granting such approvals and consents, the consent of the Company be and is hereby accorded to the Board to offer, issue and allot Equity Shares of Rs.10/- each for cash at par on preferential basis for an aggregate value of Rupees Ten Crores i.e., one crore equity shares of Rs.10/- each to Mr.Krishna Prasad Tripuraneni and M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters') which include 'Foreign Investors' (which term shall include NRIs, OCBs and Companies incorporated outside India) in one or more tranches, however, the issue price shall not be less than the minimum issue price as prescribed by SEBI's guidelines, if any."

"RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to apply for listing the above Equity Shares upon allotment at the Stock Exchanges where the shares of the Company are presently listed."

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

"RESOLVED THAT in terms of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and of the Articles of Association of the Company and subject to such approvals, permissions and/or sanctions of Financial Institutions, SEBI, RBI and other authorities, and subject to the Guidelines of SEBI issued from time to time the consent of the Company be and is hereby accorded to the Board of Directors of the Company (hereinafter called "Board" which term shall be deemed to include any Committee which the Board may have constituted or hereinafter constitute to exercise its powers including the powers conferred by this resolution) to offer such number of Equity Warrants at Rs.10/- each to Mr.Krishna Prasad Tripuraneni and M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters'),

which include 'Foreign Investors' (which term shall include NRIs, OCBs and Companies incorporated outside India) entitling them to subscribe upto Rs.5 crores i.e., Fifty Lakhs Equity Shares of Rs.10/- each in the Company in such manner and upon such terms and conditions as are hereinafter contained:

i) The Equity Warrants as aforesaid, may be offered with an option permitting them to refuse/subscribe in cash for Fifty Lakhs Equity Shares of Rs.10/- each (hereinafter referred to as "Warrant").

ii) The holders of each warrant shall be entitled to apply for and obtain at their sole discretion One Equity Share of Rs.10/- at par or at such price as determined by SEBI pricing formula for warrants as existing and applicable on the date of conversion of warrant into equity shares and also subject to all other applicable guidelines including lock-in period for transferability.

If such option is not exercised in the manner prescribed within the period in accordance with SEBI guidelines, the warrants shall lapse to the extent of the shares not so taken up or paid for.

iii) The option attached to the warrants shall not be transferred or otherwise disposed off to any other party save and except to a party within the above persons and the option may be exercised in such manner and in such proportion as the above persons may at their absolute discretion decide.

iv) The above persons shall be entitled to exercise their option in full or in part or may decline to exercise their right in which case offer shall be deemed to have lapsed.

v) The new equity shares issued in pursuance of the exercise of the warrants shall be subject to the Memorandum and Articles of Association of the Company and shall rank paripassu in all respects with the existing issued and subscribed equity shares of the Company save and except that they shall qualify for dividends, if any, that may be declared for the financial year in which such equity shares are issued and allotted pro-rata for the period during which such capital is paid-up.

vi) In the event that prior to the allotment of Equity Shares to the above persons on exchange with the warrants, any Equity Shares are issued and allotted by the Company to the holders of its existing shares as Right Shares (hereinafter referred to as "the said Right Shares") and/or

as Bonus Shares, the above persons holding the Warrants shall be issued by the Board such additional warrants (hereinafter referred to as "the Additional Warrants") entitling the holders, to the extent of and subject to their taking up and paying for the Shares offered under the warrants to further equity shares in the proportion and subject to the same conditions including conditions as to the price and the payment thereof mutatis mutandis as the Right Shares are offered and allotted to the holders of the existing shares of the Company and/or shall be allotted the said Bonus Shares in the same proportion as the holders of the existing equity shares of the Company and this resolution shall be deemed to have approval, in terms of Section 81(1A) of the Companies Act, 1956 to offer and/or issue and/or allot as many Equity Shares of Rs.10/- each of the Company as are required to satisfy the allotment of Equity Shares in respect of the Additional Warrants over and above Fifty Lakhs Equity Shares comprised in the promoters issue and all such Equity Shares rank paripassu in all respects with the existing Equity Shares of the Company except that with respect to dividends declared for the financial year of the Company in which the said Equity Shares are allotted, they shall qualify for dividends only on a pro-rata basis from the date of such allotment.

vii) In the event of any new/fresh equity issue by the Company to persons other than the Members as on that date (not a Right issue), the above persons shall be issued by the Board such Additional Warrants (hereinafter referred to as "the Additional Warrants") entitling the holders, to the extent of and subject to their taking up and paying for the shares offered under the Warrants, to further Equity Shares in the same proportion and subject to the same conditions at a price as per the then prevailing guidelines for such warrants and the payment thereof mutatis mutandis as the fresh shares are offered and allotted to such persons and this resolution shall be deemed to have the approval, in terms of Section 81(1A) of the Companies Act, 1956, to offer and/or issue and/or allot as may be required to satisfy the allotment of Equity Shares in respect of the Additional Warrants as referred to in clause (vi) above.

viii) The Board of Directors be and are hereby authorised to alter, amend or modify any of the terms and conditions of the above including

tenure, conversion of the Warrants subject to the approval of the concerned authorities such as SEBI as may be necessary in this regard."

- ix) For the purpose of giving effect to this resolution the Board be and is hereby authorised to take all necessary steps and give such directions as may be necessary to settle any questions or difficulty which may arise in regard thereto in such manner as it may deem expedient.

The Register of Members of the Company shall remain closed for two days on 26.12.2003 and 27.12.2003.

By Order of the Board

R. JAYARAMAN

Place : Chennai
Date : 30.11.2003

Group D.G.M. (Legal) &
Company Secretary

NOTES:

1. A member entitled to attend and vote is entitled to appoint a Proxy to attend and vote instead of himself and THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy Form is enclosed herewith. Proxies in order to be effective should be duly stamped, completed, signed and deposited at the Registered Office of the Company or at its Head Office at No.15, Cenotaph Road, 2nd Lane, Teynampet, Chennai - 600 018 not later than 48 hours before the Meeting.
2. Members are requested to intimate to the Company any change in the address clearly quoting their Ledger Folio numbers.
3. The transfer deeds in the case of shares held in physical form should be lodged on or before 25.12.2003 with the Company or with the Registrar of the Company viz., M/s. Integrated Enterprises (India) Limited. The above details in respect of shares held in electronic / demat form should be sent to the respective depository participant of the shareholder.
5. An Explanatory Statement in pursuant to Section 173(2) of the Companies Act, 1956 in respect of Special Business is annexed hereto.

Explanatory Statement in pursuant to Section 173(2) of the Companies Act, 1956

Item No. 2 of the Notice :

As per the provisions of Section 256 of the Companies Act, 1956 Mr.T.Venkateswara Rao is retiring by rotation and is seeking re-appointment at the ensuing Annual General Meeting.

Mr.T.Venkateswara Rao is a graduate in Science and is having an experience of about 40 years of Industrial experience. He is the Founder Director of Spartek Ceramics India Ltd., He is also Chairman and Managing Director of Neycer India Limited.

None of the Directors other than Mr.T.Venkateswara Rao and Mr.Krishna Prasad Triipuraneni are interested in this resolution.

Item No. 4 of the Notice:

The Equity Shares of Rs.10/- each of the Company are presently listed on the following three Stock Exchanges in India:

- a) The Stock Exchange, Mumbai (BSE)
- b) The Hyderabad Stock Exchange Ltd., Hyderabad (HSE) and
- c) Madras Stock Exchange Ltd., Chennai (MSE)

Data on trading volumes indicates that the Company's shares, which are required to be compulsorily traded in the dematerialised form, are not traded in material volumes at Stock Exchanges other than BSE. BSE account for more than 95% of the traded volumes of the Company's shares and BSE have extensive networking of the trading terminals, which facilitates trading by members / investors across the country.

The trading volumes in the Company's shares on HSE and MSE are either nil or insignificant. Continued listing on these two Stock Exchanges neither serves the interest of the members / investors nor that of the Company.

The Board of Directors of your Company ("the Board") at its Meeting held on 28.11.2003 accordingly recommended for the approval of the Members the proposal to voluntarily delist the Company's shares from the Stock Exchanges at Hyderabad and Chennai. The Company's shares will however continued to be listed on the BSE.

The delisting of the Company's shares from the aforesaid Stock Exchanges would result in administrative convenience and savings in costs on account of listing fees, etc.,

In accordance with the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, consent of the Members by way of Special Resolution is required for delisting of the Company's shares from the aforesaid Stock Exchanges.

None of the Directors of your Company is interested in this Special Resolution.

The Board recommends this Special Resolution for approval.

Item No. 5 of the Notice:

In terms of CDR package approved by the Financial Institutions further funds need to be raised by the Promoters. For this purpose, the Company proposes to issue Equity Shares of Rs.10/- each at par to the extent of Rs.10 crores. The shares will be issued to Mr.Krishna Prasad Tripuraneni and M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters') which may include 'Foreign Investors' (which term shall include NRIs, OCBs and Companies incorporated outside India) for an aggregate value of Rs.10 Crores. The Promoters have indicated their willingness to subscribe these shares. After subscription of these shares by the Promoters their shareholding in terms of percentage will proportionately increase to the extent of actual allotment of shares.

Any issue of Equity Shares to persons other than the existing Members of the Company needs approval of the Members by means of Special Resolution under Section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

None of the Directors of the Company except Mr.Krishna Prasad Tripuraneni is concerned or interested in this resolution.

Item No. 6 of the Notice:

In terms of CDR package approved by the Financial Institutions further funds need to be raised by the

Promoters. For this purpose, the Board has ascertained the willingness of the Promoters and Foreign Investors to make further investments. It is proposed to issue Equity Warrants to the extent of Rs.5 crores i.e., Fifty Lakhs Equity Warrants of Rs.10/- each at par to Mr.Krishna Prasad Tripuraneni and M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters') which may include 'Foreign Investors' (which term shall include NRIs, OCBs and Companies incorporated outside India) by way of issue of Equity Warrants. On conversion of warrants and allotment of equity shares to the Promoters their shareholding in terms of percentage will proportionately increase to the extent of actual allotment of shares.

Any issue of equity warrants / shares to persons other than the existing Members of the Company need approval of the Members by means of Special Resolution under Section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

None of the Directors of the Company except Mr.Krishna Prasad Tripuraneni is concerned or interested in the resolution.

By Order of the Board

R. JAYARAMAN

Group D.G.M. (Legal) &
Company Secretary

Place : Chennai
Date : 30.11.2003

DIRECTORS' REPORT

To

The Members of Spartek Ceramics India Limited

Your Directors are pleased to present the Nineteenth Report and Audited Accounts of the Company for six months period ended 31.03.2003.

FINANCIAL RESULTS

Particulars	(Rs. in lakhs)	
	2002 - 2003 (6 months)	2001 - 2002 (12 months)
Gross Income	3048.63	5941.85
EBDLIT-before provisions & write offs	391.91	568.39
Extra-ordinary items (CDR Write Back)	2282.63	—
Provisions & Write offs	2238.61	292.81
Profit / (Loss) before taxation (after Extra-ordinary items)	20.57	(944.18)
Provision for taxation	—	—
Profit / (Loss) after tax	20.57	(944.18)
Net Profit	20.57	(944.18)
Surplus / (Deficit) brought forward from previous year	(4113.00)	(3168.82)
Net Profit / (Loss) for the year available for appropriation	(4092.42)	(4113.00)

APPROPRIATIONS

Dividends	—	—
General Reserve	—	—
Debenture Redemption Reserve	—	—
Surplus/(Deficit) transferred to Balance sheet	(4092.42)	(4113.00)

CERAMIC DIVISION

The Ceramic Tiles Division continued its good performance though partly affected by working capital constraints. The Division produced 9.01 lac Sq.mtrs. during the six months period under review and this works out on an annualised basis of 8% more than the production achieved during the last year (2001 - 02).

Markets have responded well to all the new products that were introduced during the period under review and this had a positive impact on the net realisation per sq.mtr. Concerted efforts are on to increase the share of higher value products like Top Gloss, (40 cm x 40 cm) etc., While there is still large demand for the plain varieties in some of the markets, the Company is making conscious efforts to slowly phase out the less profitable plain varieties.

The performance of the Division on the whole would have been better but for lower sales during March 2003, due to apprehension of trade circles on the introduction of VAT System. Due to non-availability of working capital, the Ceramic Tiles plant at Stiles (subsidiary) remained closed and therefore your company could not undertake large export orders, during the period under review.

The fuel prices during quarter ended 31st March, 2003 went up considerably due to Iraq war and this had an unfavourable impact on the bottomline of the Division. However, the fuel prices have now stabilised.

GRANITE DIVISION

The performance of the Vitrified (Granites) Tiles division in all parameters have been improving steadily and the division for the first time came close to post a positive monthly EBDT. Average realisation per sq.mtr has also been going up steadily and with higher capacity utilisation, the gross performance of the Vitrified Tiles Division also improved. The Capacity Utilisation has now increased by more than 20%. Here again, non availability of working capital affected the plant and not able to meet its growing demand from all the regions in the country and thereby content with servicing only south and western regions in the country.

The plant efficiency in general has vastly improved and with continuous ongoing efforts and cost saving measures especially in the polishing line, the profitability levels have also gone up nearly by 25% during the last 6 to 9 months.

Your Company has demonstrated that improvement in the performance of the Vitrified Tiles Division is sustainable and you will be pleased to note that this division has posted on a monthly basis cash profits for the first time during the current year (2003 - 04).

FINANCE

Your Company has achieved higher levels of production / sales during the period under review without any additional working capital funding from banks. However, in order to find a long-term solution to the Company's financial constraints, a restructuring proposal under CDR was submitted.

Your Company CDR proposal has finally been approved and implementation process has already started. With this, the Company is hopeful of mustering additional working capital support from banks, which should take the Company to much higher levels of achievement.

EXPORTS

During the six months period (October 02 to March 2003) the Company has achieved an export turnover of Rs. NIL as compared to Rs.72 lakhs during the previous year. The Company really could not tap the opportunities available in the export market due to the shortage of adequate working capital.

NEYCER INDIA LIMITED

Neycer India's performance in general improved only during last quarter of the year ending 31.03.2003. Though the Sanitaryware business posted profits, it was more than offset by the losses made in the Tiles Division. However, the performance of the Neycer India Limited has vastly improved during the last 3 to 4 months.

The Sanitaryware Division is poised for a significant growth and reach in the domestic and international markets with the proposed tie up with a strategic investor of international repute. As far as Tiles Division is concerned, a comprehensive modernisation programme has been planned to be implemented during the current year. With this Neycer Tiles Plant will be able to perform almost similar to the levels of Spartek's Tirupathi Plant.

In the Sanitaryware Division the production / sales is steadily going up and large number of new products are being introduced in the market, thereby taking up the average net realisation per ton. Neycer's Sanitaryware brand is very strong in the market and conscious efforts will be made to further boost the brand image in the coming months.

As per AAIFR / BIFR Order Neycer has already made the first instalment payment of OTS and necessary funds are being tied up to make the second and final instalment of OTS payments.

Neycer India Limited's Balance Sheet as at 31.03.2003, Profit and Loss Account, Auditors' Report and Directors' Report for the year ended 31.03.2003 are attached to this report for information.

STILES INDIA LIMITED

As mentioned in the foregoing paragraphs, Stiles Ceramic Tiles plant could not be operated due to non-availability of working capital. The Company has already started negotiating with the various lenders for quick settlement of dues and hopes to repay the OTS amount by 31st March 2004. The Company is also working with a few banks for tying up with working capital requirements. The plant is expected to restart in the next two months.

Stiles India Limited's Balance Sheet as at 31.03.2003, Profit and Loss Account, Auditors' Report and Directors' Report for the year ended 31.03.2003 are attached to this report for information.

FUTURE PROSPECTS

With the underlying business showing vibrancy and with sustained levels of profitability trends your company will do better during the current year. In the post CDR scenario, the much capital expenditure, product promotion and infusion of working capital should all happen consummating into Spartek regaining its past glory. The Company is also realigning its distribution strategies to achieve better presence in the Domestic and International markets.

HUMAN RESOURCES DEVELOPMENT

Your Company considers Human Resources as vital to the Company's performance and future. Therefore a holistic approach is in place to keep up the employees performance to meet the increasing new challenges that the Company is facing in the markets. Employees are being imparted on job and off job training. The Company also helps by offering internal growth opportunities for the employees. The Human Resource Development is getting increasingly oriented towards internal and external customers.

FIXED DEPOSITS

Your Company has not accepted and renewed any deposits during the year under review.

INDUSTRIAL RELATIONS

During the year under review, the industrial relations remained stable and cordial.

DIRECTORS

Mr.T.Venkateswara Rao, Director retires by rotation and being eligible offer himself for reappointment.

AUDITORS

M/s. Brahmayya & Co., Chartered Accountants, Chennai the Company's Auditors retire at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

DEPOSITORY SYSTEM

The Company's shares are traded compulsorily in dematerialised form. In this connection Company has already entered into agreements with NSDL and CDSL and about 12.38% of the shareholders have already availed this facility.

The other shareholders are also requested to demat their shares in view of the advantages in holding shares in the electronic form.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND RESEARCH AND DEVELOPMENT

The progress made and details on energy conservation, technology absorption and research and development are furnished in Annexure A to this Report.

PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report is given in the Annexure B to this report.

CORPORATE GOVERNANCE

Pursuant to the provisions contained in the Listing Agreement, a Management Discussion and Analysis Report (Annexure C) and a report on Corporate Governance together with the Auditors' Certificate on the compliance of conditions of Corporate Governance (Annexure D) is furnished as Annexures forming part of this Directors' Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors report:

- i) that in the preparation of Annual Accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) that the directors had 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;
- iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- iv) that the directors had prepared the annual accounts on a going concern basis.

AUDITORS' REPORT

In respect of observations made by the Auditors in their Report pertaining to point Nos in.

- 1) Para 4 (f) : In respect of loans given to companies, those companies are in the final stages of Financial

& Business restructuring and we are confident of recovering the dues from them on implementation of their restructuring programmes.

- 2) Para 4 (g) : As mentioned under point 9 of Notes on Accounts, the CDR package is under implementation. The company has so far complied with all terms including the first payment and is confident of meeting the conditions and obligations relating to future as stated in the CDR approval letter.
- 3) Para 4 (h): In view of non-availability of profits for appropriation, transfer of Debenture Redemption Reserve could not be effected. However the debenture holders have agreed to a revised redemption schedule and part waiver of interest with repayment in 4 equal annual instalments starting from April 2004.
- 4) Para 4 (i): The non-compliance of provisions of section 372A of the Companies Act, 1956, had arisen out of changes in the law coupled with reduction in the net worth of the company and not due to further borrowing or investment after changes in law. The company had made an application seeking permission from the Lead Institution, IDBI and expects approvals in this regard.
- 5) Para 4 (j): A major part of old Debtors accounts have already been reconciled and steps are underway in the field for collecting the dues. A similar exercise has been started to on the reconciliation of the Creditors accounts which is expected to be completed by March 2004. As regards inter-company loans also the necessary reconciliation and squaring up of balances will be completed during the current year.

ACKNOWLEDGEMENT

The Directors acknowledge the support received from various Government Departments, Financial Institutions, Banks, Shareholders, Debenture holders, Customers, Dealers and Employees.

For and on behalf of the Board

KRISHNA PRASAD TRIPURANENI
Managing Director

M.N.RAO
Director

Place : Chennai
Date : 30.11.2003