



SPARTEK

20th Annual Report



RESURGENCE
300/06

**BOARD OF DIRECTORS**

Sadanand A. Shetty, Chairman
M.N.Rao
P. Ananda Krishna Kumar (Nominee of ICICI Bank)
Vatsala Krishnakumar (Nominee of IDBI)
R.S. Bakkannavar (Nominee of UTI)
T.Venkateswara Rao
Krishna Prasad Tripuraneni,
Vice Chairman & Managing Director

AUDIT COMMITTEE

M.N. Rao, Chairman
Vatsala Krishnakumar, Member
P. Ananda Krishna Kumar, Member.
R.S. Bakkannavar, Member

INVESTORS' GRIEVANCE COMMITTEE

Krishna Prasad Tripuraneni
T. Venkateswara Rao
M.N. Rao

**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
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 (74 years) Chairman	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 (67 years) Director	Mr.M.N.Rao is 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 has Bachelors degree in Science with B.E. from Osmania University, Andhra Pradesh.
3)	Mr.P.Ananda Krishna Kumar (50 years) (ICICI Bank Nominee Director)	Mr.P.Ananda Krishna Kumar is presently working with ICICI Bank, Chennai as Assistant General Manager, handling the legal department of Chennai and Bangalore Regional Offices. He has wide experience in corporate legal matters and before joining erstwhile ICICI, practiced as a Lawyer dealing mainly with corporate legal matters. He is also Nominee Director on the Boards of three other Companies. He is a Graduate in Science with B.L.
4)	Mrs. Vatsala Krishnakumar (49 years) (IDBI Nominee Director)	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. She is having 26 years of experience in Industrial Finance and Restructuring. She has Masters degree in Mathematical Economics.
5)	Mr.R.S.Bakkannavar (64 years) (UTI Nominee Director)	Mr.R.S.Bakkannavar, former Regional Director of Reserve Bank of India, Hyderabad. He has wide experience in Industrial Finance and Corporate Affairs. He is a Post Graduate in Commerce.
6)	Mr.T.Venkateswara Rao (74 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.
7)	Mr.Krishna Prasad Tripuraneni (48 years) Vice Chairman & Managing Director	Mr.Krishna Prasad Tripuraneni is the Promoter of Spartek Ceramics India Limited and presently he is the Vice Chairman & Managing Director of the Company. He is also Director on the Board of subsidiary company viz., M/s.Neycer India Limited. He has 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 20th Annual General Meeting of the Members of Spartek Ceramics India Limited will be held at 11.45 A.M. on Wednesday, the 29th December 2004 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 the year ended 31.03.2004 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.Sadanand A Shetty 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 with or without modification(s) 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 Zero percent Dividend Convertible Preference Shares of Rs.10/- each at par for cash and also for consideration other than cash on preferential basis for an aggregate value upto Rupees Forty Crores i.e., four crores Zero percent Dividend Convertible Preference Shares of Rs.10/- each or at a price determined based on the pricing norms provided in the SEBI guidelines for preferential issues with reference to the relevant date (i.e., 30 days prior to the date of AGM) to Mr.Krishna Prasad Tripuraneni and /or M/s.Varun Finance Private Limited and/or its/their Associates

(hereinafter referred as 'Promoters') which include 'Foreign Investors' and Suppliers of machinery and other equipments (which term shall include NRIs, OCBs, Investment Funds, Mutual Funds, Foreign Institutional Investors and Companies incorporated outside India) in one or more tranches."

"RESOLVED FURTHER THAT the above four crores Zero Percent Dividend Convertible Preference Shares of Rs.10/- each shall be convertible into equity shares of Rs.10/- each at the rate of one equity share at par for every one preference share on or before expiry of 18 months from the date of allotment."

"RESOLVED FURTHER THAT the Board of Directors are hereby authorized to make necessary applications to SEBI, Government and other authorities to seek exemption from applicable provisions of Guidelines, Rules and Regulations as and when required on issues like takeover code/ open offer, exemption etc."

5. To consider and if thought fit to pass with or without modification(s) 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 Rs.40 crores value of Equity Warrants i.e., 4 crores equity warrants of Rs.10/- each at a price determined based on the pricing norms provided in the SEBI guidelines for preferential issues with reference to the relevant date (i.e., 30 days prior to the date of AGM) 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' and Suppliers of machinery and other equipments (which term shall include NRIs, OCBs, Investment Funds, Mutual Funds, Foreign Institutional Investors and

Companies incorporated outside India) in one or more tranches, entitling them to subscribe upto Four Crores equity shares of Rs.10/- each in the Company in exchange of equity warrants 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 or for consideration other than cash for Four Crores 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 such price determined by SEBI guidelines, if any, applicable.

If such option is not exercised in the manner prescribed within the period fixed by the Board in accordance with guidelines, if any, 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 Four Crores 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 Government, 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.

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

"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 or expedient 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 upto Fifty lakhs, 9% Cumulative Optionally Convertible Preference Shares (COCPS) of Rs.10/- each at par for cash on preferential basis for an aggregate value of upto Rupees Five Crores in one or more lots to Dealers, Suppliers, High Networth individuals Friends and Associates of Promoters, Mutual Fund, NRIs, OCBs, FIIs, Foreign Companies and such other persons, entities, firms, private companies as may be decided by the Board of Directors from time to time.

"RESOLVED FURTHER THAT the above said COCPS are to be converted into equity shares at the rate of One equity share of Rs.10/- for every One COCPS on or before the expiry of 18 months from the date of allotment."

"RESOLVED FURTHER THAT 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.

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

"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 or expedient 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 upto Thirty lakhs, 9% Cumulative Redeemable Preference Shares (CRPS) of Rs.10/- each at par for a consideration other than cash on preferential basis for an aggregate value of upto Rupees Three Crores in one or more lots to the Suppliers and all others to whom it owes amounts as may be decided by the Board of Directors from time to time.

"RESOLVED FURTHER THAT the above said CRPS be redeemed par and paid along with accumulated dividend, if any on or before the expiry of 18 months from the date of allotment."

"RESOLVED FURTHER THAT 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."

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

"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, 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 or expedient by the Board of Directors (Board) of the Company and/or as may be imposed or prescribed by the Government of India, SEBI and/or other authority for granting such approvals and consents, the consent of the Company be and

is hereby accorded to issue and grant Equity Shares under the Stock Option Scheme to the eligible employees and Directors of the Company upto 2% of the issued capital (excluding outstanding equity warrants as on date of issue of options) at a price as may be decided by the Board of Directors by creating a Trust for this purpose and subject to such terms and conditions as may be decided and imposed from time to time by the Board."

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to carry out the modalities of giving of such stock options to the eligible employees and Directors of the Company and decide all other related and incidental matters which will be binding and final."

The Register of Members of the Company shall remain closed for one day on 28.12.2004.

By Order of the Board

R. JAYARAMAN

Place : Chennai

Group D.G.M. (Legal) &

Date : 30.11.2004

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 to be effective should be 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. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of special business mentioned above is annexed hereto.
3. Members are requested to intimate to the Company any change in the address clearly quoting their Ledger Folio numbers.
4. The transfer deeds in the case of shares held in physical form should be lodged on or before 27.12.2004 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. Members are requested to intimate to the Company any change in the address quoting their Ledger Folio numbers.

Explanatory Statement 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.Sadanand A Shetty is retiring by rotation and is seeking re-appointment at the ensuing Annual General Meeting.

Mr.Sadanand A Shetty is the Chairman of Fouress Engineering (India) Limited, Mumbai and he is also the Chairman and Director in many other Companies. He is a reputed Industrialist and is well known 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.).

None of the Directors other than Mr.Sadanand A Shetty is concerned or interested in this resolution.

Item No. 4 of the Notice to Members

In terms of CDR package and revised plan of restructuring the Company is required to raise funds by equity or equity related investments or unsecured loans or otherwise. The Company has also undertaken detailed engineering and market review of all its plants and products. The Company has developed a detailed turn around plan which involves capital expenditure including upgradation, capacity expansion and modernisation. For the purpose of funding all these ambitious plans of the Company it is necessary to raise funds from the Investors.

The proposed turnaround plan will greatly enhance the profitability of the Company due to introduction of value added products and cost savings. The Company will be able to leverage its existing capabilities and attain a threefold increase in its capacity at an optimal capital cost.

Promoters and their Associates have agreed to bring in funds by accepting Zero Percent Dividend Convertible Preference Shares of Rs.10/- each. The price of the conversion will be determined based on applicable SEBI guidelines for preferential issues with reference to the relevant date (i.e., 30 days prior to the date of AGM). The Promoters have already tied up with certain Investors a part of the above amount and is in the process of tying up the balance amount also. However, depending upon the preference of the Investors, the Investors will be issued either Zero Percent Dividend Convertible Preference Shares or Equity Warrants (stated in Item No.5) or a combination of both.



The shares will be issued both for cash and also for consideration other than cash to Mr.Krishna Prasad Tripuraneni and / or M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters') which may include 'Foreign Investors' and Suppliers of machinery and other equipments (which term shall include NRIs, OCBs, Investment Funds, Mutual Funds, FII's and Companies incorporated outside India) upto an aggregate value of Rs.40 Crores. The Promoters and their Associates have indicated their willingness to subscribe these shares.

After subscription of these shares by the Promoters and their Associates their shareholding in terms of percentage will proportionately increase to the extent of actual allotment of shares.

Any issue of 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 and Mr.T.Venkateswara Rao is concerned or interested in this resolution.

Item No. 5 of the Notice to Members

In terms of CDR package and revised plan of restructuring Company is required to raise funds by equity or equity related investments or unsecured loans or otherwise. The Promoters and their Associates have agreed to bring in funds by subscribing to Equity Warrants to be converted into equity shares. The Promoters have already tied up with the Investors a part of the above amount and is in the process of tying up the balance amount also. These equity warrants will be converted into equity shares at the rate of one equity shares at the rate of one equity share for every equity warrant at par or at a price determined based on the pricing norms provided in the SEBI guidelines for preferential issues with reference to the relevant date (i.e. 30 days prior to the date of AGM).

The Investors will be issued either whole or in part equity warrants and / or Zero Percent Dividend Convertible Preference Shares (stated in Item No.4) or combination of both depending upon the preference of the Investors subject to the approval of the shareholders and in compliance with the SEBI Guidelines and other applicable provisions. The warrants will be issued both for cash and also for consideration other than cash to Mr.Krishna Prasad Tripuraneni and / or M/s.Varun Finance Private Limited and/or its/their Associates (hereinafter referred as 'Promoters') which may include 'Foreign Investors' and Suppliers of machinery and

other equipments (which term shall include NRIs, OCBs, Investment Funds, Mutual Funds, FII's and Companies incorporated outside India) upto an aggregate value of Rs.40 Crores. The Promoters and their Associates have indicated their willingness to subscribe these warrants.

After subscription of these warrants and after converting into equity, the shareholding by the Promoters and their Associates in terms of percentage will proportionately increase to the extent of actual allotment of shares.

Any issue of Equity Warrants to be converted into equity shares to the 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 and Mr.T.Venkateswara Rao is concerned or interested in this resolution.

It may be noted that though the approval is received for Rs.40 crores investment under Item No.4 and another Rs.40 crores under Item No.5, the actual investment from the Investors will be only upto Rs.50 crores. Depending upon the preference of the Investors for the investment we propose to issue both Zero Percent Dividend Convertible Preference Shares and / or Equity Warrants or a combination of both the instruments.

Item No. 6 of the Notice to Members

In terms of Corporate Debt Restructuring (CDR) package approved by the Financial Institutions further funds by way of equity need to be raised by the Promoters. For this purpose the Company proposes to issue 9% Cumulative Optionally Convertible Preference Shares (COCPS) of Rs.10/- each at par upto Rupees five Crores. These shares will be issued to dealers, suppliers, High Networth Individuals, Mutual Funds, NRIs, OCBs, FII's, Foreign Companies etc., who have evinced interest in subscribing these shares. These COCPS will be converted into equity shares on or before the expiry of 18 months from the date of allotment at the rate of one equity share of the Company at par for every COCPS held.

After subscription of these shares by the Dealers and others their shareholding in terms of percentage will proportionately increased to the extent of actual allotment of shares.

Any issue of convertible instrument which will be ultimately converted into equity shares to persons other than the existing Members of the Company needs approval of the Members by way of Special Resolution

under section 81(1A) of the Companies Act, 1956. Hence the proposed resolution.

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

Item No. 7 of the Notice:

The Company has received supplies from various sources over a period of time and due to funds constraints the payments could not be made in time and it resulted in accumulation of dues to the suppliers and others. The Company at present could not find any immediate source for paying and settling their dues. These suppliers and others to whom the Company owes amounts have agreed to receive shares in settlement / part settlement of their dues. In view of this, the Company proposes to issue 9% Cumulative Redeemable Preference Shares (CRPS) of Rs.10/- each at par upto an aggregate value of Rupees three Crores. These CRPS will be redeemed at par and paid along with accumulated dividends, if any on or before the expiry of 18 months from the date of allotment.

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

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

Item No.8 of the Notice:

The Company proposes to issue shares to its eligible employees and Directors for consideration other than cash as may be decided by the Board of Directors from time to time and for this purpose a Trust is proposed to be formed and a Scheme is to be framed. The number of shares to be allotted and the list of eligible employees and Directors to whom such Stock Option has to be given will be decided by the Board upon such terms and conditions as it may deem fit and proper.

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

None of the Directors of the Company is deemed to be concerned or interested in this resolution unless they are eligible for the stock option.

By Order of the Board

R. JAYARAMAN

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

Place : Chennai
Date : 30.11.2004

DIRECTORS' REPORT

To

The Members of Spartek Ceramics India Limited

Your Directors present the Twentieth Report and Audited Accounts of the Company for the year ended 31.03.2004.

FINANCIAL RESULTS

Particulars	(Rs. in lakhs)	
	2003 - 2004 (12 months)	2002 - 2003 (6 months)
Gross Income	6308.50	3048.63
EBDIT - before provisions & write offs	724.99	391.91
Add Extra-ordinary items	96.74	2282.63
Less Provisions & Write offs	35.86	2238.61
Profit / (Loss) before taxation (after Extra-ordinary items)	178.15	20.57
Provision for taxation	---	---
Profit / (Loss) after tax	178.15	20.57
Net Profit	178.15	20.57
Surplus / (Deficit) brought forward from previous year	(4092.42)	(4113.00)
Net Profit / (Loss) for the year available for appropriation	(3914.27)	(4092.42)

APPROPRIATIONS

Dividends	---	---
General Reserve	---	---
Debenture Redemption Reserve	---	---
Surplus / (Deficit) transferred to Balance Sheet	(3914.27)	(4092.42)

CERAMIC DIVISION

This Division produced an output of 17.76 lac sq mtrs during the year. The first half of the year witnessed good performance, but the latter half production suffered due to the tremendous insufficiency of working capital. Added to this was the market dynamics which saw the onslaught of low quality low priced Chinese origin products coupled with enhanced capacity output from competitors. The market also saw an emerging segment of high quality imports from Italy and Spain positioned as niche products.

The original plan of introducing new designs (eg. Mediterranean Series etc.) and more value added products like 40cm x 40cm could not fructify, pending completion of capital expenditure programme for modernization / de-bottlenecking.

A well structured and comprehensive capex program will be implemented soon thereby enabling the Company to achieve the revised business / turnaround plan with a definite reduction in costs.

GRANITE DIVISION

This division achieved an output of 4.52 lac sq mtrs during the year. This segment of vitrified tiles, which is the growing segment of the industry witnessed the following.

- The Chinese, here too, dumped the markets with their low priced low quality products in large numbers in not a straightforward legal manner as has been widely reported in the Press. Large volumes of antidumping duties were evaded. In fact a large representation of manufacturers have protested against this dumping.
- A few new entrants also resorted to the low quality - low price game thus leading to market disturbances.

However your Company stayed clear out of this price / commodity game and stuck to its positioning of offering high quality products albeit at right prices.

In this market war, the consumer has now become wary of the Chinese quality and output. This, added to the rising costs in China, has started having a dampening effect on the Chinese imports. It seems reasonably clear that Brands with a tested legacy of reliability with service providing capabilities will emerge as winners in the long run.

Even here, our Company has planned a significant capital expansion program to enable the division to offer large format, sophisticated designs of polished tiles as well as variants in the glazed vitrified tiles. Once these products are made available, your company is confident of leveraging on the brand strength and outlast competition. Basically your company is in the process of moving up the value chain.

The Company continues to enjoy tremendous brand loyalty and independent studies have confirmed that we are recognized as the benchmark on all quality parameters. The Company currently has a huge order backlog position from very reputed buyers and is confident that once the working capital issues are resolved, can bounce back to its original days of profitability and performance.

FINANCE

During the year, a significant feature was the Corporate Debt Restructuring (CDR). This CDR package which was offered brought the overall debt to reasonable levels. The operations picked up momentum during early part of the year with the company reporting