



[re]structuring

Steps in the right direction



**BOARD OF DIRECTORS**

CHAIRMAN : SHRI Y.S. CHOWDARY

MANAGING DIRECTOR : SHRI R.K.BIRLA

DIRECTORS : SHRI G.SRINIVASA RAJU
SHRI S.HANUMANTHA RAO
SHRI J. RAMAKRISHNAN*
Dr. K.SRINIVASA RAO*
Dr. V.MALAKONDA REDDY*
SHRI K.KAMESWARA RAO*
* Independent, Non-Executive Directors

MANAGEMENT COMMITTEE : SHRI Y.S.CHOWDARY
SHRI G.SRINIVASA RAJU
SHRI R.K.BIRLA
SHRI S.HANUMANTHA RAO

AUDIT COMMITTEE : SHRI S.HANUMANTHA RAO
DR.K.SRINIVASA RAO
DR.V.MALAKONDA REDDY
SHRI K.KAMESWARA RAO

SHARE TRANSFER COMMITTEE : SHRI Y.S.CHOWDARY
SHRI G.SRINIVASA RAJU
SHRI R.K.BIRLA

SHAREHOLDERS GRIEVANCES COMMITTEE : SHRI S.HANUMANTHA RAO
SHRI Y.S.CHOWDARY
SHRI G.SRINIVASA RAJU

REMUNERATION COMMITTEE : DR.K.SRINIVASA RAO
SHRI J.RAMAKRISHNAN
SHRI S.HANUMANTHA RAO

COMPANY SECRETARY : SMT.SHAIK RAZIA

AUDITOR : SHRI G.V.SURYANARAYANA MURTHI
CHARTERED ACCOUNTANT
B-166, SANJEEVA REDDY NAGAR,
HYDERABAD.

BANKERS : BANK OF BARODA
BANK OF RAJASTHAN LTD
INDUSIND BANK LIMITED

SUJANA METAL PRODUCTS LIMITED

FINANCIAL INSTITUTIONS

: IFCI LIMITED,
IDBI LIMITED,

REGISTERED OFFICE

: SURVEY NOS.296/7/9, IDA BOLLARAM,
JINNARAM MANDAL, MEDAK DIST, A.P.

WORKS

: (i) SURVEY Nos.296/7/9,
(ii) PLOT NO.159B & C
(iii) PLOT NO.128/A,
I.D.A.BOLLARAM,
JINNARAM MANDAL,
MEDAK DIST, A.P.

LISTING

: HYDERABAD STOCK EXCHANGE LTD
6-3-654, ADJACENT TO
ERRAMANZIL BUS STOP,
SOMAJIGUDA, HYDERABAD - 500 082.

BOMBAY STOCK EXCHANGE LIMITED
PHIROZE JEEJEEBHOY TOWERS,
DALAL STREET,
MUMBAI - 400 001

THE MADRAS STOCK EXCHANGE LTD
EXCHANGE BUILDING, P.BOX 183
11, 2ND LINE BEACH, CHENNAI - 600 001.

**REGISTRAR & SHARE TRANSFER
AGENTS**

: M/S BIGSHARE SERVICES PVT. LTD.
G-10, LEFT WING, AMRUTHA VILLE,
OPP: YASHODA HOSPITAL,
RAJ BHAVAN ROAD, SOMAJIGUDA,
HYDERABAD - 500 082.



NOTICE

NOTICE is hereby given that the Seventeenth Annual General Meeting of the members of the Company will be held on Thursday, 28th December 2006 at Survey No.296/7/9, IDA Bollaram, Jinnaram Mandal, Medak District, Andhra Pradesh at 11.30 A.M. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited balance sheet of the Company as at 30th June, 2006 and the profit and loss account for the period ended 30th June, 2006 and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Shri J. Ramakrishnan, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri G. Srinivasa Raju, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint Auditor of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and to fix his remuneration. The retiring Auditor Shri G.V.Suryanarayana Murthi, Hyderabad is eligible for re-appointment.

SPECIAL BUSINESS

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

“RESOLVED THAT Shri. K. Kameswara Rao who was appointed as an Additional Director of the Company with effect from 30.01.2006 and holds office upto the date of this Annual General Meeting of the Company, be and is hereby appointed as a Director of the Company under Section 257 of the Companies Act, 1956 who shall be liable to retire by rotation.”

BY ORDER OF THE BOARD

PLACE : HYDERABAD

DATE : 20.11.2006

Y.S. CHOWDARY

CHAIRMAN

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. PROXIES DULY STAMPED AND SIGNED MUST BE DEPOSITED AT THE COMPANY'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING.
2. Members/Proxies are requested to bring along with them Annual Reports being sent to them.
3. The Share transfer books and Register of Members of the Company will remain closed during the period from 27.12.2006 to 28.12.2006 (both days inclusive).
4. The Register of Directors' Shareholding maintained under Section 307 of the Companies Act, 1956, will be available for inspection at the venue of the Annual General Meeting of the Company during the Annual General Meeting. The Register of Directors' Shareholding is also available for inspection of the Members at the registered office of the Company, fourteen days before and three days after, the date of the Annual General Meeting of the Company.
5. The registration of share transfers and other related correspondence will be dealt with by the Company at M/s. Bigshare Services Private Limited of Mumbai, having its branch office at G-10, Left Wing, Amruta Ville, Opp: Yashoda Hospital, Raj Bhavan Road, Somajiguda, Hyderabad - 500 082.
6. Explanatory Statement pursuant to the provisions of Section 173(2) of the Companies Act, 1956 is enclosed.

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

Item No.5.

Shri K.Kameswara Rao was appointed as an Additional Director of the Company at the meeting of the Board of Directors of the Company held on 30th January, 2006, who holds office up to the date of the ensuing Annual General Meeting of the Company.

Shri Kameswara Rao Kothuri is a First Class Post Graduate in M.Sc from Presidency College, Madras and a Certified Associate of Indian Institute of Bankers.

SUJANA METAL PRODUCTS LIMITED

Shri Kameswara Rao Kothuri had banking experience of 38 years at various senior levels. He joined as a Probationary Officer in SBI and retired as Chief General Manager. Held various responsible positions in the fields of General Banking, Credit, Treasury etc. Thus, his presence on the Board will be highly beneficial to the Company.

Notice required under Section 257 of the Companies Act, 1956 together with the requisite deposit has been received from a member proposing the appointment of Shri. K.Kameswara Rao as Director. The said notice and the Memorandum and Articles of Association of the Company are available for inspection at the Registered Office of the Company on any working day.

Therefore, your Directors recommend the resolution for your approval.

None of the Directors of the Company except Shri K.Kameswara Rao is concerned or interested in the aforesaid resolution.

BY ORDER OF THE BOARD

PLACE : HYDERABAD

Y.S. CHOWDARY

DATE : 20.11.2006

CHAIRMAN

Additional Information

- Brief profile of Shri J.Ramakrishnan, Director, who retires by rotation and is eligible for re-election.

Shri J.Ramakrishnan has been on the Board of Directors since 25th July, 1995.

Shri J.Ramakrishnan, retired as Principal Collector, Central Excise and Customs Department. He is having over 30 years of experience in Central Excise and Customs Department.

Shri J.Ramakrishnan, presently holding the position of Director in Sujana Universal Industries Limited.

- Brief profile of Shri G.Srinivasa Raju, Director, who retires by rotation and is eligible for re-election.

Shri G.Srinivasa Raju has been on the Board since 18th August, 1999.

Shri G.Srinivasa Raju is a Post Graduate in Mechanical Engineering.

Shri G.Srinivasa Raju, presently holding the position of Managing Director in Sujana Universal Industries Limited and Director in Sujana Steels Limited, Sujana Projects Limited, Sujana Towers Limited and Foster Infinit & Trading Private Limited.

DIRECTORS' REPORT

To the Members of
Sujana Metal Products Limited.

Your Directors hereby present the Seventeenth Annual Report together with the Audited Accounts for the financial year 2005-2006 comprising of Twelve (12) months from 01.07.2005 to 30.06.2006.

1. Company's Performance:

Your Directors hereby report that the Company has achieved a turnover of Rs.72624.14 lakhs upto 30.06.2006, as against the turnover of Rs. 70037.2 lakhs for the previous year ended 30.06.2005

The highlights of the financial results are as follows:

| | (Rupees in Lakhs) | |
|---|--------------------------|--------------------------|
| | 2005-2006 (12 Months) | 2004-2005 (12 Months) |
| Profit before Depreciation & Interest | 6017.07 | 4686.52 |
| Interest | 1223.30 | 1438.96 |
| Depreciation | 1147.53 | 998.99 |
| Profit before tax | 3646.87 | 2248.57 |
| Provision for | | |
| - Current tax | 306.88 | 189.22 |
| - Deferred tax | 495.13 | 538.28 |
| - Fringe Benefit tax | 22.20 | Nil |
| Profit after tax | 2822.66 | 1521.07 |
| Prior year adjustments | 1573.11 | 1499.95 |
| Profit after tax & Prior year Adjustments | 4395.77 | 3021.02 |
| Profit brought forward | 4254.61 | 1233.59 |
| Profit available for appropriation | 8650.38 | 4254.61 |
| Appropriations: | | |
| Proposed Dividend: | | |
| - Equity | — | — |
| - Preference | 5.22 | — |
| General Reserve | 500.00 | — |
| Balance carried forward | 8145.16 | 4254.61 |

2. Operations:

Your Company has achieved a turnover of Rs. 72624.14 lakhs earning profit before tax of Rs.3646.87 lakhs. The gross block as on 30.06.2006 stood at Rs. 24084.85 lakhs and the Net Block as on 30.06.2006 stood at Rs.18012.66 lakhs.



3. **Allotment of equity and preference shares under Debt Restructuring :**

As per the sanction of restructuring of term loans of the Company by Stressed Assets Stabilization Fund (SASF), Mumbai, your Company had allotted (1) 5,93,735 Equity Shares of Rs.10/- each at a premium of Rs.73/- per share to "Stressed Assets Stabilization Fund", (SASF), Chennai (a trust established by the Government of India for transferring certain Non Performing Assets of the Industrial Development Bank of India Limited) against the sanction of debt restructuring vide SASF letter Nos. 2592/SASF/CBO and 5938/SASF/CBO dated: 28th June, 2005 and 29th October, 2005 respectively, in respect of the loans availed by the Company from IDBI, basing on the resolution passed by the members of the company at the Extra-Ordinary General Meeting of the Company held on 31.03.2006 through private placement as preferential allotment in accordance with the Preferential Issue guidelines under SEBI (Disclosure and Investor Protection) Guidelines, 2000 as amended from time to time (2) 17,90,160 (Seventeen Lakhs Ninety Thousand One Hundred and Sixty Only) 1% 'Cumulative Redeemable Preference Shares' (CRPS) of Rs.100/- each to 'Stressed Assets Stabilisation Fund', (SASF) Chennai on exercise of option by IDBI Limited for converting 50% of Funded Interest Term Loan (FITL) into 1% 'Cumulative Redeemable Preference Shares' (CRPS) of the Company.

As per the letters issued by 'IFCI Limited, Hyderabad, vide its letter Nos.(1) HRO.E.130/206-591, dated 25.04.2006 (2) HRO.E.130/2006/693 dated 21.07.2006 and (3) HRO.E.130/2006/814 dated 04.08.2006, sanctioning One Time Settlement (OTS) of dues in respect of the loans availed by the Company from IFCI Limited, Hyderabad, an amount of Rs.800 Lakhs is to be payable by the Company by way of allotment of Optionally Fully Convertible Debentures (OFCDs) redeemable in 18 months and carrying coupon rate of 9% p.a. each payable quarterly with effect from 01.04.2006 in lieu of conversion of a part of principal into equity. After expiry of 18 months period, OFCDs if not redeemed shall stand converted into equity.

This amount of Rs. 800 Lakhs is proposed to be transferred to M/s. Sujana Towers Limited as per the Scheme of Arrangement between your Company and M/s Sujana Towers Limited wherein it is provided that the Optionally Fully Convertible Debentures worth Rs. 800 Lakhs will be allotted by M/s. Sujana Towers Limited. Therefore, the allotment of OFCDs to IFCI Limited has not been made by your Company.

4. **Industrial Relations:**

Your directors are happy to report that the Industrial Relations have been extremely cordial at all levels throughout the year.

5. **Directors:**

Shri J.Ramakrishnan and Shri G.Srinivasa Raju, Directors of the Company, are liable to retire by rotation in the forthcoming Annual General Meeting of the Members of the Company and being eligible offers themselves for reappointment.

Shri. K. Kameswara Rao was appointed as an additional director of the Company at the meeting of the Board of Directors of the Company held on 30.01.2006, who hold office up to the date of this Annual General Meeting of the Company.

6. **Directors' Responsibility Statement:**

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating management, confirm that-

- in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- that they have selected such accounting policies and applied them consistently and made judgements 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 they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- that they have prepared the annual accounts on a going concern basis.

7. **Auditor:**

The Company's Auditor, Shri G.V.Suryanarayana Murthi, Chartered Accountant, will retire at the ensuing Annual General Meeting of the company and being eligible offers himself for re-appointment.

8. **Personnel:**

Information in accordance with Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is not applicable.

SUJANA METAL PRODUCTS LIMITED

9. *Human Resource Management:*

The key resource for your Company is its employees. Your Company has been able to create a favourable work environment that encourages innovation and meritocracy. Your Company has put in place a scalable recruitment and human resource management. The efforts of your Company in the area of employee management and HR practices have been proved effective in Human Resource Management.

10. *Listing of Company's Securities:*

Your Company's shares are currently listed on Hyderabad, Bombay and Madras Stock Exchanges.

11. *Delisting of Securities:*

Delisting of equity shares of the Company from the Hyderabad and Madras Stock Exchanges is in process.

12. *Dematerialization of Shares:*

Your Company shares have been made available for dematerialization through the National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

13. *Fixed Deposits:*

The company has not accepted any fixed deposits and the provisions of Section 58A of the Companies Act, 1956 are not applicable.

14. *Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo:*

The details regarding Energy Conservation, Technology Absorption, Foreign Exchange Earnings and Outgo as required by section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of the particulars in the report of the Board of Directors) Rules, 1988 are given in the Annexure-I and forms part of this report.

15. *Corporate Governance:*

A detailed report on Corporate Governance has been included separately in the Annual Report. A report on Management Discussion and Analysis prepared and attached to the Directors' Report also forms part of this Annual Report.

16. *Issue of equity shares by way of preferential allotment*

(a) Pursuant to the Special Resolution passed by the members of the Company in the Extraordinary General Meeting held on 22nd September, 2005, your company had successfully completed the issue and allotment of 1,35,00,000 equity shares of Rs.10/- each at a premium of Rs.52/- per share aggregating to Rs.83,70,00,000/- to promoters and others and utilized the proceeds of the issue for

(1) To meet the capital expenditure on expansion and modernization of existing structural mill at Bollaram, Medak Dist, Andhra Pradesh (2) To meet the capital expenditure on expansion of towers division at Bollaram, Medak Dist, Andhra Pradesh and (3) To meet working capital requirements.

Originally the Company planned to expand towers capacity at Hyderabad by 32,000 TPA and set up new towers division of 24,000 TPA at Chennai. To avail the economies of scale, the Board has decided to set up a new towers division at Hyderabad itself with an increased capacity of 1,00,000 TPA instead of two locations (i.e at Chennai and Hyderabad). Post Expansion, Company would have an installed capacity of 1,28,125 TPA.

(b) Pursuant to the Special Resolution passed by the members of the Company in their Extraordinary General Meeting held on 31st March 2006, your Company had allotted 5,93,735 equity shares to 'Stressed Assets Stabilisation Fund' (SASF), Chennai (a trust established by Government of India for transferring certain Non Performing Assets of The Industrial Development Bank of India Limited) by way of preferential allotment since the Industrial Development Bank of India Limited has exercised the option for converting Rs.492.80 Lakhs being discounted value of Funded Interest Term Loan (FITL) into equity pursuant to the loan agreements entered into with the Industrial Development Bank of India Limited by the Company.

17. *Status on Scheme of Arrangement for demerging the Towers Division with "M/s Sujana Towers Limited" and amalgamation of "M/s Sujana Steels Limited" with your Company (SMPL).*

Your Directors approved to scheme of arrangement for transfer of Towers Division of your Company to M/s. Sujana Towers Limited and Amalgamation of M/s. Sujana Steels Limited with your Company.

Necessary approval from the Bombay Stock Exchange Limited has been obtained vide their Letter No.DCS/SJK/RCG/HKK/2006/513414-3, dated October 27, 2006. The Company Law Board, Southern Region Bench, Chennai has approved the shifting of registered office of "Sujana Steels Limited", from Chennai to Hyderabad (which is proposed to be merged with your Company (SMPL)) for enabling to file the petition with the Hon'ble High Court of Andhra Pradesh. Necessary steps are being taken for filing the application before Hon'ble High Court of Andhra Pradesh.

**18. Increase in authorized share capital**

During the year the Authorized Share Capital of the Company has been increased from Rs.30,00,00,000/- (Rupees Thirty Crores only) divided into 2,50,00,000 (Two Crores Fifty Lakhs only) Equity Shares of Rs. 10/- (Rupees Ten only) each and 5,00,000 (Five Lakhs only) Preference Shares of Rs.100/- (Rupees One Hundred only) each to Rs.65,00,00,000/- (Rupees Sixty Five Crores only) divided into 4,00,00,000 (Four Crores only) Equity Shares of Rs.10/-(Rupees Ten only) each and 25,00,000 (Twenty Five Lakhs only) Preference Shares of Rs.100/- (Rupees One Hundred only) each.

19. Explanations to any qualifications in Auditors' Report:

There are no adverse remarks in the Auditors' Report dated 07.08.2006.

20. Registered Office of the Company

The petition made by the Company before the Company Law Board, Southern Region Bench, Chennai for change of Registered Office from Hyderabad to Chennai was withdrawn by the Company.

21. Acknowledgment:

The Board of Directors of the Company extends their sincere appreciation to the Government, Bankers, Financial Institutions and others for their kind support. On behalf of the company, the Board of Directors thank the Employees for their valuable efforts and the shareholders for their undaunted faith in the company.

BY ORDER OF THE BOARD

PLACE : HYDERABAD

Y.S. CHOWDARY

DATE : 20.11.2006

CHAIRMAN

ANNEXURE - 1

Information as per Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

A. CONSERVATION OF ENERGY:

- a) *Energy Conservation:* To achieve the savings in energy consumption, the Company has taken steps to minimize the heat loss.
- b) *Additional investment and proposals if any, being implemented for reduction of consumption of energy:*
NIL

c) *Impact of the measures at (a) and (b) above for reduction of energy and consequent impact on cost of production:* Not Applicable.

d) *Total energy consumption and energy consumption per unit of production:* As per Form A.

B. TECHNOLOGY ABSORPTION:

e) *Efforts made in technology absorption:* As per Form B.

C. FOREIGN EXCHANGE EARNINGS & OUTGO:

f) *Activities relating to export initiatives taken to increase exports, development of new export markets for products and services and export plans:* Making efforts for exports growth.

g) *Total foreign exchange earned and used:* Earned: Rs.1,136,769,802/- and Used : Rs. 50,05,031/-

FORM A

(See Rule 2)

A. PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY:**1. Electricity - purchased for manufacture of ingots and re-rolled products:**

| | 2005-2006 | 2004-2005 |
|--------------------|-------------|-------------|
| Units (KWH) | 5432363 | 3248109 |
| Total amount (Rs.) | 2,38,94,613 | 1,61,43,102 |
| Rate/units (Rs.) | 4.40 | 4.97 |

2. Coal

| | | |
|--------------------|-----------|-----------|
| Quantity (Tonnes) | 2476.545 | 3171.715 |
| Total Cost (Rs.) | 60,66,083 | 74,88,545 |
| Average Rate (Rs.) | 2449.41 | 2361.04 |

B. CONSUMPTION PER TONNE OF PRODUCTION OF RE-ROLLED PRODUCTS:

| | | |
|----------------------|--------|--------|
| Electricity (KWH) | 146.44 | 105.37 |
| Coal (Tonnes) | 0.204 | 0.230 |
| Furnace Oil (Liters) | 7.72 | 8.72 |

SUJANA METAL PRODUCTS LIMITED

FORM - B

Form for disclosure of particulars with respect to Technology Absorption, Research and Development (R&D)

1. Specific areas in which R&D carried out by the Company:

In view of the changing business / market conditions for the re-rolling industry products and the growing potential for Galvanised Products, we had undertaken an exercise for product re-orientation by extensive profitable product development.

2. Benefits derived as a result of the above R&D:

In order to minimise the losses, the Company has initiated necessary steps to increase the sales volumes and improve the profitability by taking up development of wider range of value added products. Towards realisation of these corporate goals we have undertaken extensive profitable product development activity by carrying out the minimum required modifications in the existing production facilities and has developed anti-corrosive steel, epoxy coated structural steel products, pre-fabricated structurals and galvanised pipes and tubes.

3. Future plan of Action:

Re-Rolling Unit I

The products under development are construction steel with anti-corrosive treatment for coastal areas and re-rolled alloy steel products.

Re-Rolling Unit II

The products under development are Epoxy Coated Structured Steel Products, Ornamental Steel Sections and Pre-Fabricated Structurals.

Towers Division

The products under development are Galvanized Components for Engineering applications, Pipes, Tubes for Chemical Industry.

4. Technology Absorption, Adaption and Innovation:

1. Efforts in brief made towards technology absorption, adaption and innovation : NIL

2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution : NIL

3. In case of imported technology (imported during the last five years reckoned from the beginning of the financial year) following information may be furnished : NIL

a) Technology imported

b) Year of import

c) Has technology been fully absorbed :

If not fully absorbed, areas where this has not been taken place, reasons there of and future plans of action.

BY ORDER OF THE BOARD

PLACE : HYDERABAD
DATE : 20.11.2006

Y.S. CHOWDARY
CHAIRMAN

MANAGEMENT DISCUSSION AND ANALYSIS

1. Industry structure and development:

Globally the average capacity utilization of steel has increased significantly during the year. The bulk of the increase in steel demand was contributed by China. China accounted for 30% of global steel demand in the year 2005. The industrial sector registered a strong growth during the year, primarily due to the growth of the manufacturing sector. During the year under review demand in the domestic steel market was strong, with double-digit growth in the automobiles, capital goods and consumer durable segments. Domestic steel prices moved in tandem with the international prices showing a downward trend as compared to the previous year. The latest National Steel Policy aims at hiking steel production to 110 million tones by 2019-20. The long-term goal is that India should become self-reliant and globally competitive in the steel sector in terms of cost, quality and product mix.

The Company deals in re-rolled long iron and steel products and power transmission & telecom towers. Your Company has recorded a turnover of Rs.72624.14 Lakhs during the year under review as compared to Rs.70037.20 Lakhs during the previous year. However your company is under the process of expansion and modernization of the existing structural mill and expansion of Towers Division at Bollaram, Medak Dist.

2. Opportunities and Strengths:

The demand for iron & steel long products is expected to be higher on account of the huge investments being planned on infrastructure projects. Your Company has capabilities to quickly adapt to the changing market conditions and sustain the projected growth in sales and profits.

3. Threats and Risks:

There is severe competition from the other secondary re-rolling manufacturers and the prices are expected to be volatile.

4. Business Outlook:

The International Iron and Steel Institute (IISI) forecasts that the total use of finished steel products continues to show strong growth in all regions of the World. While the main focus of the growth will be in China, total world steel demand is predicted to grow by 7.3% to 1,087 million metric tones in 2006. Data for 2005 highlights the influence of inventory reduction by steel industry customers, which will turn positive in 2006 as steel companies replenish stocks. However, with a



predicted growth of 5.8% to 1,150 million metric tones in 2007, the global outlook for steel demand remains positive. The largest factor in this growth is the influence of China. Even with a slowing of Chinese steel demand, double-digit growth in China is still predicted in 2006 and 2007. This continued growth demonstrates the essential role that steel plays in the functioning of modern society.

5. Internal control systems and their adequacy:

The Company has in place adequate internal control systems and procedures commensurate with the size and nature of business. These procedures are designed to ensure that:

- All assets and resources are acquired economically, used efficiently and are adequately protected;
- Significant financial, managerial and operating information is accurate, reliable and is provided timely; and
- All internal policies and statutory guidelines are complied with.

The effectiveness of internal control is continuously monitored by the Audit Committee of the Company. The Company has an Audit Committee which regularly reviews the reports submitted. All significant audit observations and follow-up actions thereon are reported to the Audit Committee. The Committee also met the Company's Statutory Auditors to ascertain their views on the adequacy of internal control systems in the Company and their observations on financial reports. The Audit Committee observations are acted upon by the Management. The Company has implemented the corporate governance requirements and the Audit Committee periodically reviews the systems and procedures of the Company.

6. Financial Performance:

The Gross Block as on 30.06.2006 stood at Rs.24084.85 lakhs and the Net Block as on 30.06.2006 stood at Rs.18012.66 lakhs. The Company has allocated Rs.769.50 Lakhs to meet the capital expenditure on expansion and modernization of existing structural mill at

Bollaram, Medak Dist, Andhra Pradesh and an amount of Rs.7209.00 Lakhs to meet the capital expenditure on expansion of towers division at Bollaram, Medak Dist, Andhra Pradesh

The deferred tax liability has been provided in accordance with the requirements of Accounting Standard 22 - Accounting of Taxes on Income, issued by the Institute of Chartered Accountants of India and the Provision for Fringe Benefit tax was created as per Income-Tax Act, 1961

7. Operational Performance:

Your Company has achieved a turnover of Rs.72624.14 Lakhs and a PBDIT of Rs.6017.07 Lakhs against Rs.4686.52. Lakhs during the previous year.

8. Segment Wise Performance & Geographical Information:

The Company operates predominantly only in one Business Segment viz: Iron & Steel Products. The sale of the Company is mostly in India and there are no reportable geographical segments.

9. Material developments in Human Resources:

- The development of Human Resources is a key strategic challenge in order to prepare people for future responsibilities in terms of professional skills as well as business skills. Sujana Metal Products Limited has conducted training programmes to it's employees enabling them to improve / upgrade their skills.