



SdF *Industries Limited*

16th
Annual Report
2005-2006

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SDF Industries Limited**Board of Directors**

Mr. K.V. Mohan Menon Chairman
 Dr. G.S. Keshavamurthy
 Mr. Ranjit Ramjee
 Mr. M.P. Gopalakrishnan
 Mr. S. Sankar -Nominee of State Bank of Travancore

Management

Mr. K. Chandrabhanu
 General Manager (Commercial & Productivity)
 Mr. A. Gopikrishnan
 Manager (Admn. & Corporate Affairs)
 Maj. P.G. Nair (Retd.)
 Adviser

Bankers

State Bank of Travancore
 The Federal Bank Ltd.
 The Catholic Syrian Bank Ltd.
 Union Bank of India

**Registered Office :**

"SDF House",
 7/352, NH Bypass Road
 Chandranagar
 Palakkad - 678 007
 Kerala.

Factory :

"SDF Industrial Complex"
 7/628, Pampadi
 Thiruvilwamala
 Thrissur - 680 597
 Kerala.

Statutory Auditors

M/s. Varma & Varma
 Chartered Accountants
 Calicut.

Internal Auditors

M/s. Mohan & Venkataramanan
 Chartered Accountants
 Coimbatore.

Registrar & Share Transfer Agent

M/s. Intime Spectrum Registry Ltd.
 C-13, Pannalal Silk Mills Compound
 LBS Marg, Bhandup West
 Mumbai - 400 078

Branch Office

M/s. Intime Spectrum Registry Ltd.
 "Surya", 35, Mayflower Avenue
 Behind Senthil Nagar
 Sowripalayam Road
 Coimbatore - 641 028.

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SDF Industries Limited**NOTICE OF THE ANNUAL GENERAL MEETING**

To all Members,

Notice is hereby given that the 16th Annual General Meeting of the Members of the Company will be held on Friday the 29th September 2006 at 10.00 A.M. at the Conference Hall of Rotary Paul Harris Hall, N.H. Bypass Road, Karingarapully Post, Palakkad - 678 559 to transact the following businesses.

AGENDA**ORDINARY BUSINESS :**

1. To consider and adopt the Audited Profit and Loss Account for the year ended 31.03.2006 and the Balance Sheet as at that date and the Report of the Directors and Auditors thereon.
2. To appoint a Director in place of Dr. G.S. Keshavamurthy who retires by rotation and is eligible for reappointment.
3. To appoint a Director in place of Mr. Ranjit Ramjee who retires by rotation and is eligible for reappointment.
4. To appoint Statutory Auditors and fix their Remuneration.

SPECIAL BUSINESS :

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

RESOLVED that in accordance with the provisions of Section 257 and all other applicable provisions, if any the Companies Act, 1956 Sri. S. Sankar, who was appointed as an Additional Director and who ceases to hold office as per the provisions of Section 260 of the Companies Act, 1956 at the ensuing Annual General meeting and in respect of whom the Company has received a notice in writing proposing his candidature for the office of Director as per the provisions of Section 257 of the Companies Act, 1956, be and is hereby appointed as Director of the Company.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.**Item No.5**

Mr. S. Sankar, Asst. General Manager, State Bank of Travancore, Ernakulam has been nominated as Director on the Board of our Company by State Bank of Travancore, Industrial Rehabilitation Department, Head Office, Thiruvananthapuram. Accordingly the Board at their meeting held on 31.01.2006 appointed Mr. S. Sankar as Additional Director.

Pursuant to the provisions of section 260 of the Companies Act, 1956, Mr. S. Sankar hold office up to the next Annual General meeting. The Company has received a notice from a member under section 257 of the Companies Act, 1956, proposing his candidature for the office of Director.

Your Directors recommend his appointment.

None of the Directors of the Company, except Mr. S. Sankar is interested in the said resolution.

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.
2. The instrument appointing a proxy must be deposited with the Company at its Registered Office not less than 48 hours before the time for holding the meeting.
3. Pursuant to Rule 4A of the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978 the members are informed that the Company has not declared any dividend in the past and hence transfer of unclaimed dividends to Government account does not arise.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from 26.09.2006 to 29.09.2006 (both days inclusive).
5. Reappointment of Directors
The information required by Corporate Governance Code is given below.

1. Name : Dr. G.S. Keshavamurthy
Age : 73
Qualifications : B.Sc., B.Sc.(Tech), D.Sc.(UK), C.Engg., FIE, FIICHE, FIMA-Technocrat.
Expertise : 42 years of experience in Large Chemical & Man made fibre Industries.

Other Directorships :

- | | |
|---|---------------|
| Name of the Company | Position held |
| The Arya Vaidya Pharmacy (Coimbatore) Ltd. | Director |
| No. of shares held in the company : | Nil |
| Dr. G.S. Keshavamurthy is a member of the Audit Committee | |
2. Name : Mr. Ranjit Ramjee
Age : 56
Qualifications : B.Com.
Expertise : 29 Years of Business & Managerial experience.

Other Directorships :

- | | |
|--|---------------|
| Name of the Company | Position held |
| 1. Garibdasji Pvt. Ltd., Coimbatore | Director |
| No. of shares held in the company : | 61,200 |
| Mr. Ranjit Ramjee is a member of the Audit Committee | |
3. Name : Mr. S. Sankar
Age : 46
Qualifications : B.Sc., CAIIB
Expertise : Banking
- Other Directorships : Nil
No. of shares held in the company : Nil

By the order of the Board

Palakkad
26. 08. 2006

Sd/-
Ranjit Ramjee
Director

SDF Industries Limited

DIRECTORS' REPORT - 2005 - 2006

TO THE MEMBERS OF SDF INDUSTRIES LIMITED

The Directors present their Sixteenth Annual Report and the Audited Statement of Accounts for the year ended March 31, 2006.

I. PERFORMANCE :

| | Financial Year | |
|--|----------------------------|--------------------------|
| | 2005 - 2006 (Rs. Lakhs) | 2004-2005 (Rs. Lakhs) |
| (i) Total Income | 238 | 339 |
| (ii) Total Expenditure | 185 | 293 |
| (iii) Profit before Interest, Depreciation and extra ordinary items | 53 | 46 |

IMFL DIVISION :

The Company continued to expand the IMFL bottling activity, on a contract basis, for customers apart from own products for their sales in the State of Kerala. During the year 2005-2006, the Company manufactured 9.96 lakhs cases. The stepping up of activities of IMFL division continued during the current year also by launching own products in the lower segment as well as in the premium segment named Old Mascot XXX Rum and Le Rhum de Malabaricus XXX Special Reserve Rum. The company's premium product Le Rhum de Malabaricus XXX Special Reserve Rum is first of this kind in the world is with spices and rare herbs. This unique Rum comes packed in designer unbreakable food grade pet bottles. The package design reflects the global packaging standards and company is exploring the possibility to export to various countries in Europe and the Middle East. During the last four months company has packed 303630 cases. A higher production level is expected in the coming months due to the sales increase in both domestic and international market.

DISTILLERY DIVISION :

The Company's untiring efforts in reviving the Distillery Division have produced an opening for starting this Division. The Kerala High Court has given their favourable Verdict in favour of the Company to include molasses as raw material for Distillery operations. The necessary permission from the Kerala Government is awaited. As reported in the last year, the market prices for Molasses and Extra Neutral Alcohol are still very high. As per market indications, the price of Extra Neutral Alcohol will continue at this level and this can help the Company to start operations of the Distillery after commercial considerations are evaluated and finalized. However, additional funds will be required for purchase of balancing equipments and pollution control systems and also for working capital. The Directors of the Company are already working in this direction and results can be expected by the end of the current year.

II. PROFITABILITY :

IMFL division has resulted in good profit before interest and depreciation to the extent of Rs. 53 lakhs. This has helped the Company to pay an additional amount of Rs. 83 lakhs to the Banks. The profits of the Company before interest and depreciation are expected to increase further in the years to come, especially if the rehabilitation scheme as envisaged is implemented.

III. BIFR CASE

The Company's case for a compromise and rehabilitation settlement already submitted is still with BIFR. Company has paid Rs. 154 lakhs as on 31.03.2005 and Rs. 83 lakhs as on 31.03.2006 as against the settlement amount of Rs. 837 lakhs and also an additional amount of Rs. 300 lakhs from the sale of surplus assets of the company. The company has approached the Banks with a request to extend the repayment period for the balance amount payable and waiver of additional amount of 300 lakhs by submitting a revised DRS. With reference to the above DRS submitted the Consortium of Bankers appointed a Chartered Accountant to study the feasibility of the proposal. Based on feasibility report Consortium will refer the case to the BIFR for final approval which is expected in any time. We are of the opinion that once the rehabilitation scheme is implemented with a lower interest rate and other concessions, the company can turn around immediately.

IV. CORPORATE GOVERNANCE

The requirement of compliance with Code of Corporate Governance as per clause 49 of the Listing Agreement has been duly complied with. The Company has an "Audit Committee" of Directors with Mr. M.P. Gopalakrishnan (Chairman), Mr. Ranjit Ramjee and Dr. G.S. Keshavamurthy as members and a report showing the details of Corporate Governance is enclosed.

V. PERSONNEL

There are no employees drawing more than Rs. 2,00,000/- per month. Directors are not paid any remuneration or sitting fees for the Board Meetings.

VI. CONSERVATION OF ENERGY

When the main distillery unit becomes operative, necessary energy conservation measures will be introduced. Consumption of power in respect of IMFL operations is not considerable.

VII. LISTING PARTICULARS

The shares of the Company are listed at the Stock Exchanges at Kochi, Mumbai, Chennai and Ahmedabad. However, trading in the shares takes place only in the Bombay Stock Exchange Ltd. Due to financial constraints, the Company has paid the listing fee only to Bombay Stock Exchange Ltd.

SDF Industries Limited**VIII. REPLY TO AUDITORS OBSERVATIONS**

With regard to the observations made by the Statutory Auditors in their Report, suitable explanations have been included in the Notes forming part of Accounts.

IX. DIRECTORS

Dr. G.S. Keshavamurthy and Mr. Ranjit Ramjee retire by rotation and are eligible for reappointment. Mr. S. Sankar was appointed as additional Director representing State Bank of Travancore, Trivandrum in the place of Mr. N. Krishnan Nair, He holds office upto the conclusion of the Annual General Meeting and is eligible for reappointment.

The Board performs its functions by regular meetings and monitoring all the activities purely on honorary basis and in the best interest of the Company.

X. AUDITORS

The Statutory Auditors M/s. Varma & Varma, Chartered Accountants, retires at the ensuing Annual General Meeting and are eligible for reappointment.

XI. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors hereby state :

- i. that in the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures.
- ii. that they have selected such accounting policies, consulted the Statutory Auditors and have 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 on 31.03.2006 and of the Loss of the Company for that period.
- iii. that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- iv. that they have prepared the annual accounts on a going concern basis.

APPRECIATION

The Directors wish to convey their appreciation to all the Company's employees for their enormous personal efforts as well as their collective contribution to the Company's better performance. The Directors would also like to thank all the Central and State Government Agencies including KSBC, KSEB, Local Panchayat Officials and Banks for the continuous support given by them to the Company and their confidence reposed in its management.

On behalf of the Board of Directors

Sd/

Chairman

Palakkad
26.08.2006

SDF Industries Limited**ANNUAL REPORT 2005 - 2006****CORPORATE GOVERNANCE****1. Company's Philosophy on Code of Governance :**

Your Company firmly believes in transparency in all its dealings and lays emphasis on integrity and regulatory compliance. The Company considers Corporate Governance as a prerequisite for meeting the needs and aspirations of its share holders and other stake holders in the company. With this in view, this year's Annual Report has made necessary disclosures on the activities of the company.

2. Board of Directors :

The Board is headed by the Non-Executive Chairman Mr. K.V. Mohan Menon, and is composed of eminent persons with considerable professional experience in varied fields and comprises of Non-Executive Directors, with majority being independent directors.

During the year the Board of Directors of the Company have Approved and laid down a Code of Conduct applicable for all the Board Members and the Senior Employees of the Company.

The composition of the directors and their attendance at the Board Meeting during the year and at the last Annual General Meeting, and also the number of the other directorships are as follows.

| Name of the Director | Category of Directorship | No. of Board Meetings attended | Attendance at the last AGM | No. of other Directorship held in Public Companies | No. of membership in other Committees member / Chairman |
|---------------------------------------|---------------------------------------|--------------------------------|----------------------------|--|---|
| Mr. K.V. Mohan Menon | Chairman - Promoter / Non - Executive | 5 | No | Nil | Nil |
| Mr. Ranjit Ramjee | Independent Non - Executive | 5 | Yes | Nil | 2 / - |
| Mr. M.P. Gopalakrishnan | Independent Non - Executive | 5 | Yes | Nil | 2 / 2 |
| Dr. G.S. Keshavamurthy | Independent Non - Executive | Nil | No | 1 | 2 / - |
| Mr. N.Krishnan Nair* (SBT Nominee) | Nominee Director | Nil | No | Nil | Nil |
| Mr. S. Sankar* (SBT Nominee) | Nominee Director | Nil | No | Nil | Nil |

* Mr. S.Sankar appointed as Nominee Director in the place of Mr.N.Krishnan Nair with effect from 31.01.2006

During the year under review, 5 Board Meetings were held, the dates being 29th April 2005, 30th July 2005, 18th August 2005, 27th October 2005, and 31st January 2006.

The Annual General Meeting was held on 29th September, 2005.

SDF Industries Limited**Shareholdings of Directors**

| Name of the Director | No. of Shares | Percentage |
|-------------------------|---------------|------------|
| Mr. K.V. Mohan Menon | 28,91,400 | 24.740 |
| Mr. Ranjit Ramjee | 61,200 | 0.520 |
| Mr. M.P. Gopalakrishnan | 900 | 0.008 |

3. Audit Committee :

The Audit Committee consists of the following 3 Non-Executive Independent Directors :

| Name of the Member | Status | No. of Meetings attended |
|-------------------------|-------------------------------|--------------------------|
| Mr. M.P. Gopalakrishnan | Non - Executive - Independent | 5 |
| Mr. Ranjit Ramjee | Non - Executive - Independent | 5 |
| Dr. G.S. Keshavamurthy | Non - Executive - Independent | Nil |

The Chairman of the Audit committee is Mr. M.P. Gopalakrishnan, Chartered Accountant.

Terms of reference of this Committee are as required by SEBI under clause 49 of the Listing Agreement. Besides having access to all the required information from within the company, the committee can obtain external professional advice whenever required. The committee acts as a link between the statutory and internal auditors and the Board of Directors of the Company. It is authorised to select and establish accounting policies, review reports of the Statutory and Internal Auditors and meet with them to discuss their finding, suggestions and other related matters. The Committee is empowered to recommend the appointment and remuneration payable to the Statutory Auditors.

During the year under review, five Meetings of the Audit Committee were held the dates being 29th April 2005, 30th July 2005, 18th August 2005, 27th October 2005 and 31st January 2006.

4. Remuneration Committee :

No remuneration is paid to any director of the company. No remuneration committee has been formed as the same is not mandatory.

5. Share Transfer & Shareholder's / Investor's Grievance Committee :

This Committee (i) approves and monitors transfers, transmission, splitting and consolidation of securities and issue of duplicate Certificates by the Company, and (ii) looks into various issues relating to shareholders including redressal of complaints from shareholders relating to transfer of shares, non-receipt of Balance Sheets, etc. The Committee consists of three Non-Executive independent Directors namely.

| | | |
|-------------------------|---|-------------------------------------|
| Mr. M.P. Gopalakrishnan | - | Non - Executive Director - Chairman |
| Mr. Ranjit Ramjee | - | Non - Executive Director |
| Dr. G.S. Keshavamurthy | - | Non - Executive Director |

The Committee met 20 times during the year.

SDF Industries Limited**Name and Designation of Compliance Officer :**

Mr. A. Gopikrishnan, Manager (Admn. & Corp. Affairs)

The minutes of the Investor Grievance Committee were placed at the Board Meeting.

No. of shareholders' complaints received during the year : 1

No. of complaints not resolved to the satisfaction of shareholders : Nil

No. of pending share transfers : Nil

6. General Body Meetings :

(a) The last three Annual General Meetings were held as under :

| Financial Year | Date | Location | Time |
|----------------|--------------|--|-------------|
| 2002-03 | 30. 09. 2003 | Rotary Paul Harris Hall N.H. Bypass Road, Palakkad. | 10. 30 A.M. |
| 2003-04 | 23. 12. 2004 | Rotary Paul Harris Hall N.H. Bypass Road, Palakkad. | 10. 00 A.M. |
| 2004-05 | 29. 09. 2005 | Rotary Paul Harris Hall N.H. Bypass Road, Palakkad. | 10. 00 A.M. |

(b) Whether any Special Resolutions were passed at the previous 3 AGMs : Yes.

A Special Resolution for delisting of the shares of the company from the Ahmedabad Stock Exchange Ltd. and The Madras Stock Exchange Limited was passed at the AGM held on 30.09.2003. Other than this no other special resolutions were passed in the previous 3 AGMs.

(c) No Special resolutions were put through postal ballot last year and there is no proposal for this year.

(d) No Extra Ordinary General Meeting was held during the year 2005-06

7. Other Disclosures :

(a) Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interest of the Company at large :

The company has no transactions with any related parties that may have potential conflict with the interest of the company at large.

(b) Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

The company has paid the listing fees due to Bombay Stock Exchange Limited.

Company being a sick company has not paid the listing fees payable to the other Stock Exchanges.

(c) The company does not have any Whistle Blower Policy. However no personnel has been denied access to the Audit Committee of the Company.

(d) The Company has complied with all the mandatory requirements of Corporate Governance Norms as enumerated in Clause 49 of the Listing Agreement with Stock Exchanges. The non-mandatory requirements have not been adopted by the Company.

SDF Industries Limited**8. Means of Communication :**

- (a) Whether half-yearly report sent to each household of shareholders : No.
- (b) Quarterly results :
- (i) Which newspapers normally published in : The Hindu & Kerala Kaumudhi (Local Edition)
- (ii) Any Website displayed : No
- (c) Whether presentations made to institutional investors or to the analysts.
No presentations were made institutional investors or to the analysts.
- (d) Whether Management Discussion & Analysis Report is a part of Annual Report or not : Yes

Code of Conduct

The Company has framed a code of conduct for prevention of Insider Trading based on SEBI (Insider trading) Regulations, 1992. This code is applicable to all Directors / Officers / Designated employees. The code ensures prevention of dealing in shares by persons having access to unpublished price sensitive information.

9. General Shareholder information

- (a) AGM : Date, time and venue : 29.09.2006, 10.00 A.M., Rotary Paul Harris Hall, N H Bypass Road, Palakkad.
- (b) Financial calendar (tentative) : Financial Year "1st April to 31st March"
- | | | |
|---|---|---------------------|
| Financial reporting for the quarter ending June 30, 2006 | : | End of July, '06 |
| Financial reporting for the quarter ending September 30, 2006 | : | End of October, '06 |
| Financial reporting for the quarter ending December 31, 2006 | : | End of January, '07 |
| Financial reporting for the quarter ending March 31, 2007 | : | End of April, '07 |
- (c) Book closure period : 26.09.2006 to 29.09.2006 (both days inclusive.)
- (d) Dividend payment date : Not applicable
- (e) Listing on Stock Exchanges : The Company's securities are listed at :
1. Bombay Stock Exchange Ltd.
 2. The Ahmedabad Stock Exchange Ltd.
 3. The Cochin Stock Exchange Ltd.
 4. Madras Stock Exchange Ltd.
- (f) Stock Code : SUPDF -507518
- (g) Stock Market Data : Shares not traded in BSE since July, 2001. The last quotation on BSE was on 6.7.2001. Rate :Rs. 1.80
- (h) Share Registrar for Physical :

The Company has appointed M/s. Intime Spectrum Registry Limited, C-13, Pannalal Silk Mills Compound, Bhandup (West), Mumbai - 400 078, to act as Registrar and Transfer Agents to handle all investor services relating to shares held in physical form as well as in electronic mode. The address of their Branch Office at Coimbatore is given below.

Intime Spectrum Registry Limited, Coimbatore Branch Office "Surya" 35, Mayflower Avenue

Behind Senthil Nagar, Sowripalayam Road, Coimbatore - 641 028 Ph : 0422 - 2316755 / 0422 - 2314792

- (i) Share Transfer System :
- Share Transfers in physical form are registered and returned within a period of 15 days from the date of receipt in case documents are complete in all respects. The Share Transfer Committee normally meets twice in a month.
- (j) Dematerialisation of shares and liquidity : As on 31st March 2006, out of 11687300 equity shares, only 1,07,000 shares were demated through Central Depository Services (I) Ltd.
- (k) Outstanding GDRs/ ADR/ Warrants, Convertible Bonds, conversion date and likely impact on equity : Nil.

SDF Industries Limited

(i) (i) Distribution of shareholding as on 31st March, 2006.

| Group of shares | No. of shareholders | No. of shares held | Percentage to Total Shares |
|------------------|---------------------|--------------------|----------------------------|
| Upto - 500 | 12602 | 28,39,380 | 24.29 |
| 501 - 1,000 | 1385 | 11,19,450 | 9.58 |
| 1,001 - 2,000 | 449 | 7,16,300 | 6.13 |
| 2,001 - 3,000 | 130 | 3,35,110 | 2.87 |
| 3,001 - 4,000 | 66 | 2,40,700 | 2.06 |
| 4,001 - 5,000 | 55 | 2,68,900 | 2.30 |
| 5,001 - 10,000 | 60 | 5,08,800 | 4.35 |
| 10,001 and above | 61 | 56,58,660 | 48.42 |
| TOTAL | 14808 | 1,16,87,300 | 100.00 |

(ii) Shareholding pattern as at 31st March, 2006.

| Sf. No. | Category | No. of shares held | Percentage |
|---------|----------------------------------|--------------------|---------------|
| 1. | Promoters, Directors & Relatives | 57,96,690 | 49.60 |
| 2. | Mutual Funds and UTI | 22,400 | 0.19 |
| 3. | Banks & Financial Institutions | 12,100 | 0.10 |
| 4. | Private Corporate Bodies | 6,91,500 | 5.92 |
| 5. | Indian Public | 47,33,310 | 40.50 |
| 6. | NRIs | 4,31,300 | 3.69 |
| | TOTAL | 1,16,87,300 | 100.00 |

(m) Plant Location :

SDF Industrial Complex, 7/628, Pampadi, Thiruvilwamala, Trichur Dist., Kerala - 680 597.

Tel : No. 0488 - 4282703, Fax No. : 0488 - 4282184.

(n) Address for Communications :

For Annual Report, Transfer of Physical Shares, Change of Address and any other query relating to the shares of the Company.

Intime Spectrum Registry Limited, Coimbatore Branch Office, "Surya" 35, Mayflower Avenue, Behind Senthil Nagar, Sowripalayam Road, Coimbatore - 641 028, Tamilnadu.

Contact Address for shareholder / Analyst : The Manager (Admn. & Corp. Affairs),

SDF Industries Limited, SDF House, 7/352, N H Bypass Road, Chandranagar,

Palakkad, Kerala - 678 007. Tel : 0491 - 2572629, Tele Fax : 0491 - 2572421.

DECLARATION

It is hereby declared that all the Board Members, Senior Management and Employees of the Company have affirmed to and compliance with the 'Code of Conduct' laid down by the Company, as on 31st March 2006.

For and on behalf of the BoardPalakkad
26.08.2006Sd/-
Chairman