

16th ANNUAL REPORT 2008-2009



AVON
ORGANICS LTD.

In Tune with Technology

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BOARD OF DIRECTORS

Board of Directors Mr. Ajit Kamath, *Non Executive Chairman & Managing Director*
Mr. Manoj Jain, *Director*
Mr. V. S. Soma, *Executive Director & Company Secretary*
Mr. Sudhir Ghate, *Director*
Dr. Shantilal Jain, *Director*
Mr. Ashit Shah, *Director*

Company Secretary Mr. V. S. Soma

Registered Office Survey No. 18, Yawapur, Sadasivpet (M),
Medak Dist., Andhra Pradesh

Corporate Office 6-3-865, 4th Floor, Madhupala Towers,
Opp. Greenlands Apts., Ameerpet,
Hyderabad.
Phone: 040 – 23414432 /23405042
Fax: 040 – 23404438

Auditors M/s. Shyam Sharma & Co., Chartered Accountants,
1-10-5, Ashok Nagar, Hyderabad-500 020

Plant Locations - Survey No. 18, Yawapur, Sadasivpet (M),
Medak Dist., Andhra Pradesh
- Plot No. E-2, MIDC,
Chincholi Industrial Area, Solapur, Maharashtra

Bankers State Bank of India
AXIS Bank Limited
Punjab National Bank

Registrars & Share Transfer Agents M/s. XL Softech Limited, 3, Sagar Society,
Road No. 2, Banjara Hills, Hyderabad -500 034.
Phone No. : 040 - 23545913/ 14/ 15.



NOTICE

NOTICE IS HEREBY GIVEN THAT the 16th Annual General Meeting of Avon Organics Limited will be held on Tuesday, the 29th day of September, 2009 at 3.00 p.m at the Registered Office of the Company, at Survey No.18, Yawapur Village, Sadasivpet Mandal, Medak District, Andhra Pradesh to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2009 and the Profit and Loss Account for the financial year ended 31st March, 2009 alongwith the Report of the Directors and Auditors thereon.
2. To appoint M/s. Mukesh Mehta & Associates, Chartered Accountants, in place of the retiring Auditors, M/s. Shyam Sharma & Co., Chartered Accountants, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on remuneration to be decided by the Board of Directors of the Company.

SPECIAL BUSINESS

3. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution:**

"RESOLVED THAT Mr. Ajit Kamath, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), on 31st day of January, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Act, be and is hereby appointed as a Director of the Company.

RESOLVED FURTHER THAT pursuant to the change in the management of the Company and resignation by Dr.P.M.Bhargava, erstwhile Chairman and Mr. P. R. Agarwal, erstwhile Managing Director of the Company from the Board, Mr. Ajit Kamath be and is hereby appointed as Non-Executive Chairman & Managing Director of the Company for a period of 5(five) years with effect from 1st August, 2009, without drawing any remuneration, allowances and perquisites of any kind - monetary or non monetary, from the Company, in accordance with the provisions of Section 198, 269, 309, 316 and Schedule XIII and applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) and re-enactment thereof and/or any rules or regulations there under).

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to vary the

terms of his appointment as specified above, to the extent the Board of Directors may consider appropriate and as may be permitted or authorised by the Companies Act, 1956 or schedules appended thereto for the time being in force or any statutory modification or re-enactment thereof and/or any rules or regulations there under."

4. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution:**

"RESOLVED THAT Mr. Manoj Jain, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), on 31st day of January, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act, be and is hereby appointed as a Director of the Company."

5. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution:**

"RESOLVED THAT Mr. V. S. Soma, Company Secretary of the Company, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), effective from 1st day of August, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act, be and is hereby appointed as a Director of the Company.

RESOLVED FURTHER THAT in accordance with the provisions of Sections 198, 269, 309 and Schedule XIII and applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) and re-enactment thereof and/or any rules or regulations there under), Mr. V. S. Soma, Company Secretary, be and is hereby appointed as the Whole-time Director of the Company designated as Executive Director for a period of 3 (three) years, effective from 1st August 2009 on such terms of appointment and remuneration payable to him as stated below:

- I. Remuneration
 - 1) Salary: Rs. 1,25,000/- (Rupees One Lakh Twenty five Thousand only) per month, which include perquisites, allowances and reimbursements, as per Company rules.

The Board or any committee thereof, in its absolute discretion and based on merit and taking into account the Company's performance for the year, from time to time, may revise the terms and conditions of the appointment including remuneration details .

- 2) The following perquisites are included in the above salary :
- Medical reimbursement: Actual expenses incurred for self.
 - Contribution to Provident Fund, Superannuation fund or Annuity Fund will not be included in the computation of the ceiling on perquisites to the extent that these either singly or put together, are not taxable under the Income Tax Act, 1961.
 - Gratuity payable shall be calculated as per the provisions of the Gratuity Act, 1972.
 - Encashment of Leave at the end of the tenure will not be included in the computation of the ceiling on perquisites.
- II. The following are the other terms of the appointment:
- Provision of Company's car, which will not be considered as perquisites.
 - Reimbursement of entertainment expenses, traveling and all other expenses, traveling and all other expenses actually and properly incurred for the purpose of Company's business.
 - No sitting fees shall be paid for attending the meeting of the Board of Directors or committee thereof.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorised to vary the terms of his appointment and vary or increase the remuneration and perquisites including the monetary value thereof to the extent the Board of Directors may consider appropriate and as may be permitted or authorised by the Companies Act, 1956, or schedules appended thereto, for the time being in force or any statutory modification(s) or re-enactment thereof and/ or any rules or regulations there under."

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

"RESOLVED THAT Mr. Sudhir Ghate, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), effective from 1st day of August, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act be and is hereby appointed as a Director of the Company"

7. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT Dr. Shantilal Jain, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), effective from 1st day of August, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act be and is hereby appointed as a Director of the Company".

8. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT Mr. Ashit Shah, who was inducted into the Board as an Additional Director of the Company in accordance with the provisions of Section 260 of the Companies Act, 1956 (the "Act"), effective from 1st day of August, 2009, holding office upto the conclusion of this Annual General Meeting and in respect of whom the Company has received notice under Section 257 of the Act be and is hereby appointed as a Director of the Company."

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

"RESOLVED THAT in accordance with the provisions of Section 31, and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s), or redeemed-enactment thereof, for the time being in force), and the provisions of other statutes as applicable and subject to such approvals, consents, permissions and sanctions as may be necessary from authorities or bodies, the Articles of Association of the Company be and are hereby altered in the following manner:

- Article no. 53 stating "Sri P. R. Agarwal shall be permanent Director on the Board for life and shall not be liable to retire by rotation." be and is hereby deleted in view of his resignation from the Board effective from 1st August, 2009.
- Article no. 67 be and is hereby replaced and it shall be read as follows:

"Subject to the applicable provisions of the Companies Act, 1956 and subject to such approvals as may be necessary, the Board may from time to time appoint one or more of their body to the office of Managing Director and or

Manager or Whole time Director(s) for such term and on such remuneration (whether by way of salary and/or commission or partly in one and partly in another), with or without bonus and any other and/or all allowances as they think fit and a Director so appointed shall be considered as a Director retiring by rotation for the purposes of Sections 255 and 256 of the Companies Act, 1956 and his or her appointment shall be subject to determination ipso facto if he or she ceases from any cause to be a Director, or if the Company in general meeting resolves that his or her term of office as Managing Director or Manager or Whole time Director to be determined."

- (iii) Article no. 68 be and is hereby replaced and shall be read as follows:

"Any Director may from time to time upon the request of any other Director, shall convene the meeting of the Board. All meetings of the Board of the Company shall unless otherwise determined by the Board, be held at the Registered Office of the Company. The quorum for a meeting shall be two directors or one third of the total strength (any fraction contained in one third being round off as one) whichever is higher. The Board shall meet at least once in every three months and at least four meetings shall be held in each calendar year."

10. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution**:

"**RESOLVED THAT** in supercession of all the earlier resolutions passed by the Company, pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956, including any statutory modification(s), or redeemed enactment thereof, for the time being in force and as amended from time to time, consent of the Members be and is hereby accorded to the creation of such mortgages and/or charges and also for modification or varying the terms of any existing mortgages and/or charges on all or any of the immovable or movable properties of the Company, wheresoever situated, present and/or future, including the whole of the undertaking(s) of the Company (save and except the current assets that are or may be hypothecated and/or pledged in favour of the Company's bankers for securing borrowings for working capital requirements) to secure the repayments of any borrowings made or loan availed of, or debentures issued and/or to be made/availed of/issued by the

Company and to secure the payment of interest thereon or any charges or expenses relating thereto or arising from the borrowings or availing of loans or issue of debentures and that the said debentures or charges be created in favour of the trustees of debenture holders, if any, and in any manner as may be thought fit by the Board of Directors of the Company.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to execute trust deeds and/or such other documents for creating mortgages and resolve and settle any difficulties that may arise in the proposed issue and allotment of the debentures and to do all such acts and deeds, and things in connection therewith and incidental thereto as the Board of Directors, in its absolute discretion may deem fit."

11. To consider and if thought fit, to pass with or without modification the following resolution as an **Ordinary Resolution**:

"**RESOLVED THAT** in supercession of all the earlier resolutions passed by the Company, pursuant to the provisions of Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956, including any statutory modification(s), or redeemed enactment thereof, for the time being in force and as amended from time to time, consent of the Members be and is hereby accorded to the Board of Directors of the Company, for borrowing from time to time, all such sums of money for the purpose of business of the Company, notwithstanding that the moneys borrowed together with moneys already borrowed by the Company (apart from the temporary loans obtained or to be obtained from the Company's Bankers in the ordinary course of business) will exceed the aggregate of the paid up capital of the Company and its free reserves, i.e. to say, reserves not set apart for any specific purpose, provided that the total amount of money so borrowed and outstanding shall not at any time exceed the sum of Rs.500.00 Crores (Rupees Five Hundred Crores only).

RESOLVED FURTHER THAT the consent of the Members be and is hereby accorded to the Board of Directors, of the Company for issuing non-convertible debentures, whether to public or to specified individuals, bodies corporate, Banks, Financial Institutions, Mutual Funds or other lenders, of such nominal value and on such terms and conditions as to the duration and the manner of redemption of debentures, the interest payable and as to the security, as may be decided by the Board of Directors of the Company in the best interest of the Company."

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

“RESOLVED THAT in accordance with the provisions of Section 31, and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s), or redeemed-enactment thereof, for the time being in force), and the provisions of other statutes as applicable and subject to such approvals, consents, permissions and sanctions as may be necessary from authorities or bodies, the Articles of Association of the Company be and are hereby altered in the following manner:

- (i) Article no. 35 (b) of the Articles of Association, be and is hereby replaced and it shall be read as follows:

“The Board of Directors may from time to time but with such consent of the Company in General Meeting as may be required under Section 293 raise any moneys or sums of money for the purpose of the Company provided that the moneys to be borrowed by the Company apart from temporary loans obtained from the Company's bankers in the ordinary course of business shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid up capital of the Company and its free reserves that is to say reserves not set apart for any specific purpose and in particular. The Board may from time to time, at their discretion raise or borrow or secure the payment of any such sum of money for the purpose of the Company by the issue of debentures, perpetual or otherwise, as per the provisions of Section 292 of the Companies Act, 1956. As security for any such money so borrowed, raised or received, the Board is authorised to mortgage, pledge or charge the whole or any part of the property assets or revenue of the Company present or future including its uncalled capital by special assignment or otherwise or to transfer or convey the same absolutely or in trust and to give the lenders powers of sale and other powers as may be expedient and to purchase, redeem or pay off any such securities.

Provided, that every resolution passed by the Company in General Meeting in relation to the exercise of the power to borrow as stated above shall specify the total amount upto which moneys may be borrowed by the Board of Directors.”

- (ii) The following Articles be and are hereby inserted after Article 35 (b) as 35 (c) & 35 (d):

Article 35 (c) shall be read as follows:

“The Directors may by a resolution at a meeting of the Board of Directors delegate the above power to borrow money otherwise than on

debentures to a Committee of Directors or to any Director or the Managing Director, if any, within the limits prescribed.”

Article 35 (d) shall be read as follows:

“Subject to the provision of the above sub-clause the Directors may from time to time at their discretion raise or borrow or secure the repayment of any sum or sums of money for the purpose of the Company at such time and in such manner and upon such terms and conditions in all respects as they think fit, and in particular by promissory notes or by opening current accounts or by receiving deposits and advances with or without security or by the Issue of bonds, perpetual or redeemable debentures or debenture-stock of the Company (both present and future) including its uncalled capital for the time being or by mortgaging or charging or pledging any lands, buildings, goods or other properties or securities of the Company or by such other means as to them may seem expedient.”

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

“RESOLVED THAT in accordance with the provisions of Section 31, and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s), or redeemed-enactment thereof, for the time being in force), and the provisions of other statutes as applicable and subject to such approvals, consents, permissions and sanctions as may be necessary from authorities or bodies, the Articles of Association of the Company be and are hereby altered as follows:

Existing Article No. 82 of the Articles of Association, be and is hereby replaced and it shall be read as follows:

Article No. 82

“The Common Seal shall not be affixed to any instrument except by the authority of a resolution of the Board or of a Committee of the Board, authorised by it in that behalf and unless the Board otherwise determines, every deed or other instrument to which the seal is required to be affixed shall, unless the same is executed by a duly constituted attorney for the Company, be signed by “any two Directors” or “any one Director and the Company Secretary”- or “any one Director and any other person as may be authorised by the Board”, in whose presence the seal shall have been affixed, provided nevertheless that any instrument bearing the seal of the Company and issued for valuable consideration shall be binding on the Company notwithstanding any irregularity touching the authority to issue the same.”

By Order of the Board
For Avon Organics Limited

V. S. Soma
Executive Director
& Company Secretary

Place : Hyderabad
Date : 27.08.2009

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. Instrument of proxies in order to be effective must be deposited at the Company's registered office not less than 48 hours before the time fixed for the meeting.
2. The Register of Members and the Share Transfer Books of the Company will remain closed from Friday, the 25th day of September, 2009 to Tuesday, the 29th day of September, 2009 (both days inclusive).
3. Members are requested to inform any change, with their registered address to the registered/corporate office of the company.
4. Member/Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
5. The shares of the Company are presently listed on the Hyderabad, Mumbai and Calcutta Stock Exchanges and the company has paid the listing fees to all the above Stock Exchanges.
6. Pick up coach facility:
For the convenience of members who are desirous of attending the Company's Annual General Meeting scheduled on Tuesday, 29th day of September, 2009 at 3.00 p.m., the Company will provide transport facility from Corporate Office to Sadasivpet (Factory) and back. The pick up coach will leave from Madhupala Towers, Ameerpet, Hyderabad at 1.00 p.m. on the date of the AGM to reach the venue of the AGM in time for the meeting and leave for Hyderabad after the meeting.
Members wishing to avail of this facility may kindly intimate two days in advance and be present in time at the pick-up point at the corporate office in Hyderabad.
7. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year 2001-02, which remains unclaimed for a period of 7 years will be transferred by the company to the Investor Education and Protection Fund (IEPF), established by the Central Government pursuant to Section 205C of the Companies Act, 1956.
Shareholders who have not encashed the dividend warrant(s) so far for the financial year 2001-02, are requested to make their claim to the company at its Registered Office. It may also be noted that once the unclaimed dividend is transferred to the Investor Education and Protection Fund (IEPF), no claim shall lie in respect thereof.

EXPLANATORY STATEMENTS PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.**Item No.3**

Pursuant to the acquisition of substantial stake in Avon Organics Limited by Arch Pharmed Labs Limited, Avon Organics Limited has become a subsidiary of Arch Pharmed Labs Limited. Further, a change in management was effected since February, 2009.

Mr. Ajit Kamath, Promoter, designated as Chairman and Managing Director in Arch Pharmed Labs Limited, was appointed as an Additional Director of the Company, at the meeting of the Board of Directors held on 31st January, 2009. He was further appointed as a Non-Executive Chairman and Managing Director of the Company for a period of 5 years with effect from 1st August, 2009, by way of unanimous approval at the meeting of the Board of Directors held on 31st July, 2009, pursuant to Sections 198, 269, 309, 316 and Schedule XIII and applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) and re-enactment thereof and/or any rules or regulations there under) and subject to the approval of shareholders, without drawing any remuneration, allowances and perquisites of any kind - monetary or non monetary, from the Company.

Mr. Ajit Kamath is a Commerce Graduate and possesses an extensive experience of more than 12 years in the Pharmaceutical industry. In Arch Pharmed Labs Limited, his contribution spans across all levels, starting from grass root level to organizational development. His pioneering efforts have led to Arch Pharmed Labs Limited being one of the leaders in the bulk drugs industry today.

A brief profile of Mr. Ajit Kamath is included in a separate Annexure after the Notice, forming part of this Annual Report.

Hence, the Board recommends the resolution for the approval of the shareholders as Ordinary resolution.

None of the Directors of the Company, except Mr. Ajit Kamath and Mr. Manoj Jain being the Promoter Director of the holding Company, are interested in this resolution.

Item No.4

Pursuant to the acquisition of substantial stake in Avon Organics Limited by Arch Pharmed Labs Limited, Avon Organics Limited has become a subsidiary of Arch Pharmed Labs Limited. Further, a change in management was effected since February, 2009.

Mr. Manoj Jain, Promoter, designated as Deputy Managing

Director in Arch Pharmalabs Limited, was appointed as an Additional Director of the Company, at the meeting of the Board of Directors held on 31st January, 2009. As per the provisions of Section 260 of the Companies Act, 1956, Mr. Manoj Jain will hold office of a director upto the conclusion of Annual General Meeting. The Company has received a notice in writing under Section 257 of the Companies Act, 1956, proposing the candidature of Mr. Manoj Jain for the office of the Director.

A brief profile of Mr. Manoj Jain is included in a separate Annexure after the Notice, forming part of this Annual Report.

Hence, the Board recommends the resolution for the approval of the shareholders as Ordinary resolution.

None of the Directors of the Company, except Mr. Manoj Jain and Mr. Ajit Kamath being the Promoter Director of the holding Company, are interested in this resolution.

Item No. 5

Mr.V.S.Soma, Company Secretary of the Company, was inducted into the Board of the Company as an Additional Director of the Company by the Board of Directors in their meeting held on 31st July, 2009. He was further appointed as a Whole-time Director designated as an Executive Director of the Company for a period of 3 years with effect from 1st August, 2009 pursuant to Sections 198, 269, 309 and Schedule XIII and applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) and re-enactment thereof and/or any rules or regulations there under) and subject to the approval of shareholders, at the terms and conditions, decided by the Board.

Mr.V.S.Soma is a Fellow Member of the Institute of Chartered Accountants of India and an Associate Member of the Institute of Company Secretaries of India. He has two and a half decades of experience spanning diverse industries, majority being in the pharmaceutical space. Mr. Soma has been associated with the Company as a Company Secretary and Compliance Officer, since April, 2008.

A brief profile of Mr. V. S. Soma is included in a separate Annexure after the Notice, forming part of this Annual Report.

Hence, the Board recommends the resolution for the approval of the shareholders as Ordinary resolution.

None of the Directors of the Company, except Mr.V.S.Soma, are interested in this resolution.

Item No. 6, 7 & 8

Pursuant to the acquisition of substantial stake in Avon

Organics Limited by Arch Pharmalabs Limited, Avon Organics Limited has become a subsidiary of Arch Pharmalabs Limited. Further, a change in management was effected since February, 2009.

Mr. Sudhir Ghate, Dr. Shantilal Jain and Mr. Ashit Shah have been appointed as Additional Directors of the Company at the meeting of the Board of Directors held on 31st July, 2009. As per the provisions of Section 260 of the Companies Act, 1956, the abovementioned Directors will hold office of a Director up to the conclusion of Annual General Meeting. The Company has received notices in writing under Section 257 of the Companies Act, 1956, proposing their candidature for the office of the Director.

Brief profiles of Mr. Sudhir Ghate, Dr. Shantilal Jain and Mr. Ashit Shah are included in a separate Annexure after the Notice, forming part of this Annual Report.

Hence, the Board recommends resolutions for the approval of the shareholders as Ordinary resolutions.

None of the Directors of the Company, except Mr. Sudhir Ghate, Dr. Shantilal Jain and Mr. Ashit Shah, are interested in this resolution.

Item No. 9

In accordance with the provisions of Section 31, and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s), or redeemed-enactment thereof, for the time being in force), the articles are proposed to be replaced:

- (i) Pursuant to the change in management of the Company and in view of resignation of Mr. P.R. Agarwal as Managing Director and also as a Director from the Company, approval of the shareholders is being sought to delete Article 53 of the Articles of Association pertaining to his permanent directorship.
- (ii) The restriction in the Articles, for the Managing Director, Manager and Whole-time Director appointed as per the provisions of the Companies Act, 1956, to be considered as rotational directors, is proposed to be removed. Consequently, Article 67 of the Articles of Association is proposed to be altered in order to include the Managing Director, Manager and Whole-time Director so appointed as per the provisions of the Companies Act, 1956, while determining the number of Directors retiring by rotation at the time of Annual General Meeting for the purposes of Sections 255 and 256 of the Companies Act, 1956.
- (iii) The approval of shareholders is being sought to remove

words "Commercial Director or Technical Director" from Article 68 of the Articles of Association of the Company due to the reconstitution of the Board.

Hence, the Board recommends the resolution for the approval of the shareholders as *Special resolution*.

None of the Directors are interested in this resolution.

Item Nos. 10 & 11

This is to inform the members of the Company that under Section 293(1)(d) of the Companies Act, 1956, the Board of Directors cannot, except with the consent of the Company in a general meeting, borrow moneys apart from temporary loans obtained from the Company's bankers in the ordinary course of business, in excess of the aggregate of the paid-up capital and free reserves of the Company, that is to say, reserves not set apart for any specific purpose.

The Company is pursuing a growth trajectory which would involve capital expenditure to upgrade the manufacturing facilities and also to upgrade the EHS standards. The Company would require funds from banks / financial institutions / other lending bodies for this purpose. Hence, it is proposed to enhance the borrowing powers of the Board from Rs. 150 Crores to Rs. 500 Crores.

Accordingly, the sanction of the shareholders under Section 293(1)(d) of the Act is being sought to enable the Board of Directors to borrow moneys upto the limit of Rs.500 Crores in supersession of all the earlier resolutions passed.

The Company may be required to secure such borrowings by creation or modification of mortgages, hypothecation and/ or encumbrances/ charges. Accordingly, the sanction of the shareholders, under Section 293(1)(a) is being sought to enable the Board of Director to take the necessary steps for creation or modification of mortgages, hypothecation and/ or encumbrances/ charges for the borrowings.

Hence, the Board recommends the resolutions for the approval of the shareholders as Ordinary resolutions.

None of the Directors are interested in resolutions.

Item No. 12

In view of the increase in the borrowing powers of the Board of Directors of the Company by way of abovementioned resolutions, the approval of the shareholders is being sought to change the provisions in the Articles of Association in respect of the same.

Consequently, it is proposed to substitute Article 35(b) by adopting new Article No. 35(b) and it is also proposed to

insert new Article nos. 35(c) and 35(d).

Hence, the Board recommends the resolution for the approval of the shareholders as *Special resolution*.

None of the Directors are interested in this resolution.

Item No. 13

The Articles of Association of the Company are required to be altered to enable the affixation of Common Seal of the Company on any instrument in the presence of two Directors or any one Director and Company Secretary or any one Director and any other person authorised in this behalf.

Consequently, it is proposed to substitute Article 82 by adopting new Article No. 82.

Hence, the Board recommends the resolution for the approval of the shareholders as *Special resolution*.

None of the Directors are interested in this resolution.

By Order of the Board
For Avon Organics Limited

V. S. Soma
Executive Director
& Company Secretary

Place : Hyderabad
Date : 27.08.2009



Details of Directors seeking appointment/re-appointment in forthcoming Annual General Meeting :
(In pursuance with Clause 49 of the Listing Agreement)

Name	Mr. Ajit Kamath	Mr. Manoj Jain	Mr. V. S. Soma	Mr. Ashit Shah	Mr. Sudhir Ghate	Dr. Shantilal Jain
Date of Birth	12/12/1969	20/03/1970	02/02/1957	15/05/1969	12/11/1957	30/07/1961
Date of Appointment	31/01/2009	31/01/2009	01/08/2009	01/08/2009	01/08/2009	01/08/2009
Nationality	Indian	Indian	Indian	Indian	Indian	Indian
Category	Promoter	Promoter	Professional	Independent	Independent	Independent
Designation	Non-Executive Chairman & Managing Director	Non-Executive Additional Director	Whole-time Director designated as Executive Director & Company Secretary	Non-Executive Additional Director	Non-Executive Additional Director	Non-Executive Additional Director
Expertise in Specific Functional Areas	Mr. Ajit Kamath is a Commerce Graduate and possesses an extensive experience of more than 12 years in the Pharmaceutical Industry. Mr. Kamath is a Promoter Director and holds the position of Chairman & Managing Director in the holding company, Arch Phamalabs Limited.	Mr. Manoj Jain is a Chartered Accountant by qualification and possesses an experience of more than 12 years in the Pharmaceutical Industry. Mr. Jain is a Promoter Director and holds the position of Deputy Managing Director in the holding company, Arch Phamalabs Limited.	Mr. V. S. Soma by profession is a Chartered Accountant & Company Secretary. Mr. Soma has two and half decades of experience spanning diverse industries, majority being in the Pharmaceutical industries. He has been associated with the Company as a Company Secretary & Compliance Officer since April, 2008.	Mr. Ashit Shah is a practicing Chartered Accountant & proprietor of Ashit Shah & Co. He has vast experience of more than 15 years in the industry during which he has effectively handled cases related to Direct Taxes, Indirect Taxes and Audit. He has also authored many books on subjects related to his profession.	Mr. Sudhir Ghate is a renowned businessman having experience in various commercial and Industrial matters. Mr. Ghate also owns and manages a premier education institute called 'The Academy' at Mangalore for over a decade.	Dr. Shantilal Jain, (MD), (Internal Medicine), is a whole time Practicing Medical Professional in Mumbai. He has an extensive experience in the field of Gastroenterology, Nephrology, Internal Medicine and Endocrinology. He is also a medical advisor in various medical institutions in Mumbai.

Occupation	Business	Business	Service	Professional	Business	Professional
Other Directorships/ Directorships held in other companies	1. Arch Pharmed Labs Limited. 2. Arch Pharmachem Limited. 3. Arch Pharmed Labs (USA) Inc 4. Arch Finechemicals Limited. 5. Arch Life Sciences Limited. 6. Arch Herbals Private Limited. 7. Arch Impex Private Limited. 8. Arch Investments Private Limited. 9. Arch Phytochemicals Private Limited. 10. Avant Capital Services Private Limited. 11. Accenture Hospitality Private Limited. 12. A M R Investments Private Limited. 13. Marm Realty Private Limited. 14. Benzochem Lifesciences Private Limited. 15. Exela Holdings Inc. 16. Tube Glass Containers Limited.	1. Arch Pharmed Labs Limited. 2. Arch Herbals Private Limited. 3. Arch Impex Private Limited. 4. Tubeglass Containers Limited. 5. Arch Investments Private Limited. 6. Arch Phytochemicals Private Limited. 7. Arch Pharmachem Limited. 8. Arch Finechemicals Limited. 9. Arch Life Sciences Limited. 10. Avant Capital Services Private Limited. 11. Accenture Hospitality Private Limited. 12. A M R Investments Private Limited. 13. Benzochem Lifesciences Private Limited.	NIL	NIL	1. Magnum Intergrafics Private Limited. 2. Trichur Heart Hospital Limited. 3. Mangalore Infotech Solutions Private Limited. 4. Vijayanand Roadlines Limited. 5. URL Logistics Limited.	1. Medichem India Private Limited. 2. Whitespoke India Private Limited.
Membership/ Chairmanship of Committees of other companies (includes only Audit Committees and Shareholders' / Investor Grievance Committee)	NIL	NIL	NA	NA	1. Chairman of Audit Committee of URL Logistics Limited. 2. Membership of Remuneration Committee of URL Logistics Limited. 3. Chairman of Audit Committee of Trichur Heart Hospital Limited.	NIL
Shareholding in the Company	NIL	NIL	NIL	NIL	NIL	NIL
Relationship between directors inter-se	Promoter Director of the holding Company, Arch Pharmed Labs Limited.	Promoter Director of the holding Company, Arch Pharmed Labs Limited.	NIL	NIL	NIL	NIL

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217 (2AA) of the Companies Act, 1956, the Directors confirm that:

- a) In the preparation of the annual accounts for the year ended 31st March, 2009, the applicable accounting standards have been followed;
- b) Your Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at 31st March, 2009 and of the Profit and Loss Account for the year ended on that date;
- c) Your Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the Assets of the company and preventing and detecting fraud and other irregularities; and
- d) The accounts for the year ended 31st March, 2009 have been prepared on a going concern basis.

CORPORATE GOVERNANCE

Your company has complied with all the mandatory provisions of Corporate Governance as prescribed in the Listing Agreement with the Stock Exchanges. A detailed report on Corporate Governance together with the Certificate from the Statutory Auditors of the Company regarding compliance of the Corporate Governance, forms part of the Annual Report.

ACQUISITION OF MAJORITY STAKE BY ARCH PHARMALABS LIMITED AND CONSEQUENT CHANGE IN MANAGEMENT

Pursuant to the preferential issue of 98,09,100 equity shares [43.60% of the total paid-up equity share capital] of the Company to Arch Pharmalabs Limited in November, 2007, the SEBI [Substantial Acquisition of Shares and Takeovers] Regulations, 1997 were attracted and accordingly Arch Pharmalabs Limited, a Mumbai based Company engaged in the business of manufacturing Pharmaceutical Intermediates and Active Pharmaceutical Ingredients, was obligated to give an open offer to acquire upto 45,00,000 equity shares of Rs.10/- each representing 20% of the share capital of Avon Organics Limited.

Further, on receipt of SEBI approval for the Open Offer vide SEBI letter dated 11th November, 2008, the Open Offer continued from 3rd December, 2008 till 22nd December, 2008. Pursuant to the closure of the Offer, 45,00,000 equity shares were accepted in the Open Offer at an offer price of Rs. 21.85 for each equity share and have been subsequently transferred to Arch Pharmalabs Limited, pursuant to the Board meeting held in Avon Organics Limited on 31st January, 2009.

Post-transfer, the shareholding of Arch Pharmalabs Limited in Avon Organics Limited is 1,43,09,100 equity shares comprising 63.60% of the total equity capital of the Company. Pursuant to Arch Pharmalabs Limited acquiring a majority stake of 63.60% in the Company, the Company has become a

To
The Members,
Your Directors have pleasure in presenting their Sixteenth Annual Report on the business and operations of the Company and the Audited Financial Accounts for the year ended 31st March, 2009.

FINANCIAL RESULTS

(Rs. In Lakhs)

Particulars	2008-09	2007-08
Sales & Operational Income	12531.68	7039.95
Gross Profit /(Loss) before Interest, Depreciation and Tax (PBDIT)	2111.94	603.70
Less : Depreciation	552.00	470.63
Gross Profit before Interest and Tax (PBIT)	1559.94	133.07
Less : Financial charges	994.66	976.00
Profit / (Loss) before Tax (PBT)	565.28	(842.93)
Less Provision for Taxation :		
Fringe Benefit Tax	7.00	7.50
Net Profit / (Loss) after tax (PAT)	558.28	(850.43)

The figures of the previous year have been re-classified to conform to the current classification.

DIVIDEND

The Company although reported profit of Rs. 558.28 Lakhs, during the year 2008-09, however, the losses brought forward from earlier years have resulted in a negative balance being carried forward to the Balance Sheet for this year as well. Hence, the Directors do not propose to recommend any dividend for the year under review. The Directors propose to utilize such internal accruals for the envisaged capex plans.

PERFORMANCE REVIEW

During the year the Company has achieved Net Sales and Operational income of Rs. 12531.68 Lakhs as against Rs.7039.95 Lakhs in the previous year, registering an increase in sales by 78%. During the year the Company has achieved a Net profit of Rs. 558.28 Lakhs as against loss of Rs. 850.43 lakhs, during the corresponding period in the previous year, resulting in turnaround from a loss making concern to a profit making concern.

CAPITAL EXPENDITURE

During the year under review, the Company has incurred capital expenditure amounting to Rs.1558.52 Lakhs, which includes capital work-in progress and capital advances made to parties. The Company has incurred capital expenditure towards upgradation and extension of facilities in order to enhance the value of products and relationship with the customers.

QUALITY SYSTEMS

The Company's certificate for quality systems under ISO 9001:2000 continues to be valid.

subsidiary of Arch Pharmed Labs Limited.

A consequent change in management has followed the above mentioned acquisition, which has been stated in detail subsequently in this report.

DIRECTORS

Pursuant to the Company becoming a subsidiary of Arch Pharmed Labs Limited and consequent change in management of the Company, Dr. P.M.Bhargava, Chairman in Non-Executive and Independent capacity, Mr. P.R. Agarwal, Managing Director, Mr. Rajesh Agarwal, Whole-time Director designated as Executive Director, Mr. Umesh Agarwal, Whole-time Director designated as Director-Marketing, Mr. T. Krishna, Mr. T. V. Krishna Rao [Alternate Director to Mr. T. Krishna] and Mr. CKC Gupta, Non-Executive Independent Directors, resigned from the Board with effect from 1st August, 2009.

Mr. Ajit Kamath, Additional Director was re-designated as Non-Executive Chairman and Managing Director for a period of five years with effect from 1st August, 2009, without drawing any remuneration, perquisites or allowances whether monetary or non-monetary, from the Company.

Mr. V.S. Soma, Company Secretary was inducted into the Board as Whole-time Director designated as Executive Director for a period of three years with effect from 1st August, 2009, on terms and conditions, decided by the Board, subject to the approval of Shareholders.

Mr. Sudhir Ghate, Dr. Shantilal Jain and Mr. Ashit Shah were inducted into the Board as Additional Directors in Non-Executive and Independent capacity with effect from 1st August, 2009.

Brief profiles of the abovementioned Directors are included in a separate Annexure after the Notice, forming part of this Annual Report.

CHANGE IN AUDITORS

The Company has received a letter from M/s. Shyam Sharma & Co., Chartered Accountants, expressing their unwillingness to be re-appointed as the Statutory Auditors of the Company at the Annual General Meeting of the Company for conducting audit for the financial year ended 31st March, 2010.

Hence, the Board of Directors of the Company have proposed to appoint M/s. Mukesh Mehta & Associates, Chartered Accountants as the Statutory Auditors of the Company upto the conclusion of the next Annual General Meeting to conduct audit for the year ended 31st March, 2010.

A certificate pursuant to the provisions of Section 224 (1B) of the Companies Act, 1956 has been received from M/s. Mukesh Mehta & Associates, Chartered Accountants, stating their eligibility and consent for being appointed as the Statutory Auditor of the Company.

CONSERVATION OF ENERGY, FOREIGN EXCHANGE ETC.

Information as required under Section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo is given in Annexure –A attached hereto, which forms part of this report.

PUBLIC DEPOSITS

During the year under review, the company has neither invited nor received any deposits from the public.

ACKNOWLEDGEMENTS

The Board of Directors would like to place on record their gratitude for the assistance and co-operation received from the Banks, Financial Institutions, and various departments of the Central and State Governments.

The newly constituted Board of Directors look forward to the continued support of shareholders, customers, suppliers and employees of the Company in order to help the Management in steering towards the growth trajectory.

Your Directors also express their appreciation for the dedicated and sincere efforts put in by the Company's employees at all levels.

By Order of the Board
For **Avon Organics Limited**

Ajit Kamath
Chairman &
Managing Director

Place : Hyderabad
Date : 27.08.2009

ANNEXURE – 'A' TO THE DIRECTORS' REPORT

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988

A. Conservation of Energy :

- a. Energy Conservation Measures taken : > Reduced transmission losses by increasing the power factor from 0.95 to 0.99
> The secondary circuit motor in the Chilling Plant was reduced from 60 HP to 30 HP, there by reducing substantially the power consumption
- b. Total energy consumption per unit of Production : Details are furnished in Form A

B. Technology absorption : Details are furnished in Form B

C. Foreign Exchange Earnings and Outgo

(Rs. In Lacs)

	2008-09	2007-08
1. Foreign Exchange Earnings	2257.46	2943.75
2. Foreign Exchange outgo	623.82	953.60
3. Net Foreign Exchange Earnings	1633.64	1990.15

FORM A

Form for disclosure of particulars with respect to conservation of energy.

	2008-09	2007-08
A. POWER AND FUEL CONSUMPTION :		
1. ELECTRICITY		
a. Purchased Units :	8614986	8551777
Amount (Rs. In lacs)	340.20	392.69
Rate/Unit (Rs.)	3.95	4.59
b. Own Generation :		
Through D.G.Set Units	993390	722085
Amount (Rs. In lacs)	137.45	95.73
Rate/Units (Rs.)	13.84	13.26
2. FURNACE & BOILER (Rs. In lacs)	503.90	290.01
B. CONSUMPTION FPER UNIT OF PRODUCTION.		
Electricity (Unit/MT) (Rs.)	24794	28032
Furnace & Boiler (Unit/MT) (Rs.)	26156	16645

FORM B

A. RESEARCH AND DEVELOPMENT :

1. Specific areas in which R & D was carried out :
R&D actions consist of product improvement and process optimization with a view to reduce cost and overall improvement in efficiency of the products.
2. Benefits derived from above R & D:
The improved products and processes cater to the needs of the customer base with an overall aim to reduce costs and enhance efficiency. Development of improved processes results in less quantity of effluent and emission, enabling the company to contribute to the green environment.
3. Future plan of action:
R&D will continue to focus on projects leading to further cost reduction and reduced load on environment
4. Expenditure on R & D :

	(Rs. In Lacs)	
	2008-09	2007-08
Revenue Expenditure	11.03	26.82
% to Turnover	0.09	0.34

B. TECHNOLOGY ABSORPTION

1. Efforts in brief made towards technology absorption

The technology imported in 1995 for manufacture of Diketene and its derivatives was fully absorbed. The Technology for manufacture of Ephedrine and its derivatives obtained from CDRI was also fully absorbed. The Company further strives to enhance its technology base in the following manner:

 - Interaction with external agencies / technology partners for exposure to the latest products / designs, manufacturing technologies, processes, analytical techniques and engineering protocols.
 - Participating in national / international conferences, seminars and exhibitions.
2. Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.

Benefits derived from these efforts include process rationalisation, product quality improvement, import substitution and overall cost reduction.
3. In case of imported technology (import during the last 5 years reckoned from the beginning of the year); following information may be furnished

a Technology imported	Nil
b Year of import	Not Applicable
c Has technology been fully absorbed	Not Applicable

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Global Industry Structure and Development

The year under review has seen tremendous global economic slowdown with its effect on all markets, be it commodities, crude, financial or currency, manufacturing, services and all ancillary industries, as well. However the Indian Pharmaceutical Industry has remained less affected, although it has also borne impacts of the economic meltdown, albeit lesser than other sectors.

The global pharmaceutical growth in 2009 is expected to range between 2.5% - 3.5% on a constant – dollar basis, reflecting the deterioration in the global economic environment, according to IMS Global Pharmaceutical Market Forecast. The forecast includes an expectation of global pharmaceutical sales to reach \$750 billion.

This year, the market will contend with a number of anti-growth forces which would include a slowdown in innovative launches and hurdles in market access and acceptance. The pharmaceutical industry, though not immune to recession, is greatly insulated, compared to other industries where spending is largely discretionary.

However, the seven emerging markets in the pharmaceutical industry are expected to contribute more than half of global market growth in 2009 and sustain an average 40 percent contribution through 2013. The emerging markets are expected to experience some volatility due to the economic variances, and local responses are also expected to vary accordingly.

In contrast, pharmaceutical growth in the established markets has reduced by 3.4% reflecting the impact of the economic slowdown. In US for example, the growth line is expected to hit an all time low, the decline hovering between 1% – 2% in the year 2009. The decline can be attributed to various reasons, mainly, shifting of cost of medicine to patients and reduction in state support in medication expenses and various price cuts in response to budgetary constraints.

Indian Scenario

India is the world's fourth largest pharmaceutical market in terms of volume and the 15th largest in terms of value. The Indian Pharmaceutical Industry has recorded a CAGR of 13.5% over past five years. However, over the past two years, growth slowed to 12.6%.

The Indian Pharmaceutical Industry remained less affected compared to other sectors and according to ORG – IMS, registered a growth of more than 10%. While exports grew by more than 30% due to depreciating rupee (as per figures compiled by Pharmexcil), there were challenges like falling liquidity in the global market, adverse fluctuations and increasing competition in various markets, including USA.

During the last couple of years, Indian companies are strongly competing with their western counter parts for outsourcing business of innovator companies. Indian Companies offer low cost manufacturing without compromising on quality, strong chemistry and regulatory skills, trained manpower and IPR protection etc.

Contract research and contract manufacturing of pharmaceutical products is growing due to outsourcing from big pharma players in the west. Many innovator companies have already declared their intention to outsource majority of their APIs and part of the research activities to control the costs and focus on their core activity. Indian Players are in a better position to grab these opportunities due to low cost manufacturing capabilities, strong chemistry and regulatory skills. The key catalyst for the boosting outsourcing was implementation of product patents from 2005.

Contract manufacturing of APIs is increasing due to pressure on margins due to patent expiries, rising R&D costs and EHS issues etc. APIs account for about 3 -5% of total revenue of innovator companies.

PERFORMANCE

In continuance with the successful strategies adopted by the Management, the Company, during the period under review, has achieved an operating profit of Rs. 2111.95 Lakhs as against operating profit of Rs. 603.69 Lakhs in the previous year. The Company has also succeeded in achieving the net profit of Rs. 558.28 Lakhs as against the loss of Rs. 850.43 Lakhs incurred in the previous year, making a significant shift from its earlier operating efficiencies/capabilities.

Risks and Concerns

Your company lays emphasis on risk management and has an enterprise-wide approach to risk management, which lays emphasis on identifying and managing key operational and strategic risks.

Some of the obvious and identifiable risks include the following:

- Competition from other Indian Companies operating in similar segments.
- Competition from countries that offer low cost manufacturing base such as China, Korea and other emerging markets.
- Other key risks related to our business include loss of key personnel, interest rate, foreign exchange and regulatory changes.

The company constantly reviews its policies and procedures to adhere to conformity to the various regulatory approvals for its

manufacturing facilities. The company has a review mechanism to monitor foreign exchange and various other business risks and take appropriate measures. The company's current and fixed assets are adequately insured against various risks. The company's risk management and control procedures involve prioritization and assessment of the risks and devise appropriate controls, evaluating and reviewing the control mechanism and redesigning it from time to time in the light of its effectiveness.

However, the Company is confident of managing the above risks by taking appropriate measures, i.e. controlling costs, improving efficiency leading to increased productivity, etc.

Finance

a. Financial Performance

- **Net-worth:** The net-worth of the Company has increased to Rs. 4791.23 Lakhs from Rs.4232.94 Lakhs during the previous year. The increase has been primarily on account of profits earned by the company during the year under review.
- **Net Working Capital:** The Net Current Assets of the Company have increased to Rs. 5724.62 Lakhs from Rs. 3570.44 Lakhs in the previous year.
- **Fixed Assets:** During the Company has incurred capital expenditure of Rs.1558.52 Lakhs towards plant and machinery and other fixed assets.

b. Operational Performance

- **Sales:** During the year under review the Company has achieved sales and operational income of Rs.12531.68 Lakhs as against Rs.7039.94 Lakhs during the year 2007-08 registering an increase of 78%. The increase has primarily been on account of increased capacity utilization and new product offerings.
- **Net Profit :** The Net profit stood at Rs.558.28 Lakhs as compared to the Net Loss of Rs.850.42 Lakhs during the previous year. The contributors to the profit are strategic initiatives involving change in the product offerings, improved operational efficiencies, improved capacity utilisation and decrease in other manufacturing costs.

Internal Control Systems

The Company maintains a system of well established policies and procedures for internal control of operations and activities, and these are continually reviewed for effectiveness. The internal control systems are supported by qualified personnel and a continuous program of internal audit.

The prime objective of the audit is to test the adequacy and effectiveness of all internal control systems laid down by the Management and to suggest improvement. The company encourages and recognizes improvements in work practices. The internal control system of the company is also reviewed by the Audit Committee periodically.

Human Resource Development and Industrial Relations

The Company continues to focus on its core values of Quality, Integrity, Respect for People, Leadership and Collaboration. The relationship with all the employees in the Company continues to remain cordial.

Avon presently has employee strength of about 447. The Company aims to encourage and assist in the training, retraining and career advancement of employees and regularly conducts training programs for an overall development.

Cautionary Statement

The management of Avon has prepared and is responsible for the financial statements that appear in this report. These financial statements are in conformity with accounting principles generally accepted in India and therefore include amounts based on informed judgments and estimates. The management also accepts responsibility for the preparation of other financial information that is included in this report. This write-up includes some forward-looking statements. The management has based these forward-looking statements on its current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. These factors include, but are not limited to, changes in local and global economic conditions, the Company's ability to successfully implement its strategy, the market's acceptance of and demand for its products, growth and expansion, technological change and exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

REPORT ON CORPORATE GOVERNANCE

At Avon, we believe that Corporate Governance is not just complying with the provisions of Clause 49 of the listing agreement or making timely disclosures. It is a mode of conveying to creditors, bankers, shareholders being the real owners of the Company, government and other regulatory authorities and the public at large, the Company's vision and plans, policies and procedures followed by the Company to achieve its goals.

It is all about making a structure that is economically, socially and environmentally viable and there by enhancing the value of the Company to its creditors, bankers, shareholders and the society it operates in. The values of the Company are honesty, integrity, transparency, accountability and simplicity. Corporate Governance, here, reflects the morals and business ethics of the Company, which enables the stakeholders and public at large to understand their company in a better way.

The report sets out some of the insights of Company's policies and practices relating to Corporate Governance.

1. COMPANY'S PHILOSOPHY

- To adopt internal and external measures to increase the level of transparency and accountability.
- To respect the laws of the land and rights of all stakeholders.
- To lead the company towards high growth path in terms of profits and revenues.

2. BOARD OF DIRECTORS

a. Composition of the Board

As on 31st March, 2009, the Board comprised of 10 Directors in all. The composition of the Board was as follows:

Sl. No.	Names of Directors	Designations
1.	Dr. P. M. Bhargava	Non-Executive Chairman [Independent]
2.	Mr P. R. Agarwal	Managing Director
3.	Mr. Rajesh Agarwal	Executive Director
4.	Mr. Umesh Agarwal	Director – Marketing
5.	Mr. T. Krishna	Non-Executive Director [Independent]
6.	Mr. T.V. Krishna Rao	Alternate Director to T. Krishna [Independent]
7.	Mr. C.K. C Gupta	Non-Executive Director [Independent]
8.	Mr. Ajit Kamath	Additional Director
9.	Mr. Manoj Jain	Additional Director
10.	Mr. Rajendra Kaimal	Additional Director

Pursuant to the completion of Open Offer given by Arch Pharmalabs Limited to the shareholders of Avon Organics Limited, Arch Pharmalabs Limited currently has a stake of 63.60% of the Paid-up Share Capital of Avon Organics Limited. As per the provisions of relevant Acts and Regulations in force, Avon Organics Limited is now a subsidiary of Arch Pharmalabs Limited.

In this scenario, Mr. Ajit Kamath, Mr. Manoj Jain and Mr. Rajendra Kaimal, the Promoter Directors of Arch Pharmalabs Limited i.e. the Holding Company, were appointed as Additional Directors in Avon Organics Limited on 31st January, 2009.

A change in management was effected in the Company and subsequently at the Board Meeting held on 31st July, 2009, Dr. P. M. Bhargava, Mr P. R. Agarwal, Mr. Rajesh Agarwal, Mr. Umesh Agarwal, Mr. T. Krishna, Mr. T. V. Krishna Rao [Alternate Director to Mr. T. Krishna], Mr. C.K. C Gupta and Mr. Rajendra Kaimal resigned from the Board.

REPORT ON CORPORATE GOVERNANCE

Mr. Ajit Kamath was re-designated as Non-Executive Chairman and Managing Director for a period of 5 years with effect from 1st August, 2009, without drawing any remuneration from the Company. Mr. V. S. Soma, Company Secretary was appointed as Whole-time Director designated as Executive Director for a period of 3 years with effect from 1st August, 2009. Mr. Sudhir Ghate, Dr. Shantilal Jain and Mr. Ashit Shah were inducted into the Board as Additional Directors in Non-Executive and Independent capacity.

The appointment of the Directors made at the Board Meeting held on 31st July, 2009 is subject to the approval of shareholders to be accorded at the ensuing Annual General Meeting.

The Board has an optimum combination of Executive and Non-Executive Directors with fifty percent of the Board comprising of Non-Executive Directors as per the requirements of Clause 49 of Listing Agreement.

Further, the Non-Executive Chairman of the Company being a Promoter Director of the holding Company, 50% of the Board comprises of Independent Directors, in compliance with Clause 49 of the Listing Agreement.

Presently, the Board of Avon Organics Limited consists of six Directors, detailed in the following table:

Sl. No.	Names of Directors	Designations
1.	Mr. Ajit Kamath	Non-Executive Chairman & Managing Director
2.	Mr. Manoj Jain	Non-Executive Director
3.	Mr. V. S. Soma	Executive Director & Company Secretary
4.	Mr. Sudhir Ghate	Non-Executive Director (Independent)
5.	Dr. Shantilal Jain	Non-Executive Director (Independent)
6.	Mr. Ashit Shah	Non-Executive Director (Independent)

The Board of the Company meets at regular intervals for planning, assessing and evaluating all important businesses. The Board has constituted an Audit Committee, Shareholders and Investors Grievances Committee, Remuneration Committee and Finance Committee.

The attendance of the Board of Directors at the various meetings of the Board and Annual General Meeting (AGM) during the year 2008-09 and the details of directorships and committee memberships held by them are furnished below:

Name of Directors	Category	Attendance at the Board Meetings	No. of Directorships of other Companies	No. of Membership of Board Sub-Committees in other Companies	Attendance At AGM
Dr. P. M. Bhargava@	Independent, Non-Executive	4	NIL	NIL	Yes
Mr. P. R. Agarwal@	Executive, Promoter	5	NIL	1	Yes
Mr. Rajesh Agarwal@	Executive, Promoter	5	NIL	1	Yes
Mr. Umesh Agarwal@	Whole-Time, Executive	5	1	1	No
Mr. T. Krishna@	Independent, Non-Executive	NIL	NIL	NIL	No
Dr. T. V. Krishna Rao@	Independent, Non-Executive [Alternate to Mr. T. Krishna]	5	NIL	3	No
Mr. CKC Gupta@	Independent, Non-Executive	5	NIL	3	Yes
Mr. Ajit Kamath#	Non-Executive, Promoter	1	16^	1	No
Mr. Manoj Jain**	Non-Executive, Promoter	1	13	3	No
Mr. Rajendra Kaimal@@	Non-Executive, Promoter	1	8	1	No
Mr. Sudhir Ghate+	Non-Executive, Independent	NIL	5	3	No
Dr. Shantilal Jain+	Non-Executive, Independent	NIL	2	NIL	No
Mr. Ashit Shah+	Non-Executive, Independent	NIL	NIL	NIL	No
Mr. V. S. Soma##	Whole-time Director & Company Secretary	NIL	NIL	NIL	Yes

@ Resigned from the Board with effect from 01.08.2009.

@@ Appointed as Additional Director with effect from 31.01.2009 and resigned with effect from 01.08.2009.

Appointed as Additional Director on 31.01.2009 and re-designated as Non-Executive Chairman & Managing Director with effect from 01.08.2009 for a period of 5 years without drawing any remuneration.

^ Includes 9 Private Limited Companies and 2 Foreign Companies.

Appointed as Whole-time Director designated as Executive Director with effect from 01.08.2009 for a period of 3 years as per terms and conditions, approved by the Board.

** Appointed as Additional Director in Non-Executive Non-Independent capacity with effect from 31.01.2009.

+ Appointed as Additional Directors in Non-Executive Independent capacity with effect from 01.08.2009.

Brief profiles of the Directors to be appointed or re-appointed at the Annual General Meeting are included in a separate Annexure after the Notice, forming part of this Annual Report.

b. Board Meetings

To review the performance of the Company and to take suitable remedial actions and to take on record the working of its various committees, the Board of Directors meets at least 4 times a year. The Board reviews all the compliance reports prepared by the Company as well as the measures taken by the Company to comply with requirements of relevant statutory regulations and all laws applicable to Company.

The Board of Directors of the Company met 5 times during the financial year 2008-09 on the following dates: 29th April, 2008, 30th June, 2008, 31st July, 2008, 31st October, 2008 and 31st January, 2009.

c. Code of Conduct

To consistently maintain the values and beliefs, the Company has laid down a Code of Conduct for all its Board Members and Senior Management Personnel. It lays down the code of conduct for Confidentiality of Interest, Protection of Assets, Honesty & Integrity, Gifts & Donations, Prevention of Insider Trading, and Compliance of various applicable laws and the same has been posted on the website of the Company. The said members will be affirming compliance with the Code on annual basis.

3. BOARD COMMITTEES:

To enable effective and timely completion of task, certain committees of board have been formed.

A. AUDIT COMMITTEE

a) Brief description of terms of reference

- 1) It shall have authority to investigate into any matter in relation to the items specified in Section 292A of the Companies Act, 1956 or referred to it by the Board and for this purpose, shall have full access to information contained in the records of the Company and external professional advice, if any.
- 2) To seek information from any employee and obtain outside legal or professional advice.
- 3) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- 4) Reviewing with the management the annual financial statements before submission to the Board, internal and external auditors and the adequacy of the internal control systems.
- 5) Reviewing the Company's financial and risk management policies and compliance with internal control systems.

(b) Composition, Names of Members and Chairperson

As per the requirements of Clause 49, audit committee should comprise of 3 members with minimum two independent directors and an Independent Chairman. As on 31st March, 2009, the constitution of Audit Committee and attendance thereat was as follows:

Name of the Member	Category	No. of meetings attended
Mr. C. K. C. Gupta	Chairman	5
Dr. T V Krishna Rao	Member	5
Mr. P R Agarwal	Member	5

Pursuant to change in management, the constitution of Audit Committee has also been changed with effect from 1st August, 2009.

The new constitution in compliance with Clause 49 and consequent upon changes in management is as follows:

Name of the Member	Category
Mr. Sudhir Ghate [Non-Executive and Independent]	Chairman
Mr. Ashit Shah [Non-Executive and Independent]	Member
Mr. Manoj Jain [Non-Executive]	Member

All the members of Audit Committee are equipped to have a thorough understanding of the financial matters and issues related thereto.

Mr. V. S. Soma, Executive Director and Company Secretary acts as Secretary to the Audit Committee.

B. REMUNERATION COMMITTEE

The Remuneration Committee as on 31st March, 2009, consisted of two Non-Executive Independent Directors i.e. Mr. C.K.C. Gupta and Mr. T. V. Krishna Rao.

Pursuant to the change in management with effect from 1st August, 2009, the constitution of the Committee has been changed. The committee currently comprises of three members with all non-executive directors, with an Independent Chairman, as per the requirements of Clause 49 of the Listing Agreement. The constitution of the Committee is as follows:

Name of the Member	Category
Dr. Shantilal Jain [Non-Executive Independent]	Chairman
Mr. Sudhir Ghate [Non-Executive Independent]	Member
Mr. Manoj Jain [Non-Executive Non-Independent]	Member

Presently, the Non-Executive Directors do not receive any remuneration/commission and are paid sitting fees for attending the meetings of the Board and Committee. The Non-Executive Chairman and Managing Director does not draw any remuneration from the Company. Remuneration payable to the Whole-time Director is governed by the agreement executed between him and the Company, which is approved by the Board and is subject to the approval of the shareholders.

The details of remuneration paid to the Whole time Directors during the financial year 2008-09 are given below:

Executive Directors	All elements of remuneration package i.e. salary, benefits, bonus etc. (In Rs.)
Mr. P.R. Agarwal	NIL
Mr. Rajesh Agarwal	15,00,000
Mr. Umesh Agarwal	2,33,334

Note: Directors' remuneration is in accordance with Part II of Schedule XIII of the Companies Act, 1956.

C. SHAREHOLDERS' / INVESTOR GRIEVANCE COMMITTEE MEETING

(a) Brief description of terms of reference

The Company has constituted a Committee, responsible for facilitating continuous interaction between the shareholders and the Company. The Committee oversees the performance of the Registrar and Share Transfer Agents and recommends measures for overall improvement in the quality of investor services. The Committee is responsible for redressal of all shareholder related matters such as:

- Issuing duplicate share certificates
- Resolving Shareholders' grievances
- Non - receipt of declared Dividend
- Change in shareholders' address
- Non - receipt of Annual Reports

(b) Composition, Names of Members and Chairperson:

As on 31st March, 2009 the committee comprised of –

Name of the Member	Category
Mr. C K C Gupta [Non-Executive and Independent]	Chairman
Dr. T V Krishna Rao [Non-Executive and Independent]	Member

The constitution of the committee was changed consequent upon change in management of the Company with effect from 1st August, 2009. The Committee functions under the guidance of Board of Directors and under the Chairmanship of Mr. Ashit Shah, Non-Executive Independent Director of the Company, in compliance with Clause 49 of the Listing Agreement.

The Committee presently has the following structure –

Name of the Member	Category
Mr. Ashit Shah [Non-Executive and Independent]	Chairman
Dr. Shantilal Jain [Non-Executive and Independent]	Member

The Committee met 4 times during the year under review on:

30.06.2008, 31.07.2008, 31.10.2008 and 31.01.2009.

(c) Name and role of Compliance Officer

Mr.V.S.Soma, Executive Director & Company Secretary of the Company is the Compliance Officer of the Company, responsible for monitoring the share transfer process and report to the Company's Board in each meeting. He is further responsible for directly liaisoning with the authorities such as Securities Exchange Board of India [SEBI], stock exchanges, Registrar of Companies, etc., and investors with respect to implementation of various clauses, rules, regulations and other directives of such authorities and investor service and complaints of related matter.

Name of the Compliance officer	Mr. V. S. Soma
Designation	Executive Director & Company Secretary
Contact Details:	
Address	C/o. Avon Organics Limited 6-3-695, Madhupala Towers, Opp. Greenlands apts., Ameerpet, Hyderabad. Tel No : 040 - 23414432 Fax No : 040 - 23404438 E-mail : cs_1@avonorganicsltd.com

Details of number of requests / complaints received and resolved are as under:

Sr. No.	Nature of Correspondence	Received	Replied / Resolved	Pending
1.	No. of requests for change of Address & Bank Mandate	Nil	Nil	Nil
2.	Requests for stop transfer	Nil	Nil	Nil
3.	Request for revalidation of dividend warrants	Nil	Nil	Nil
4.	Investors request for Information/ Annual Report	1	1	Nil
	TOTAL	1	1	Nil

D. SHARE TRANSFER SYSTEM

Mr.V.S.Soma, Executive Director & Company Secretary, who is also the Compliance Officer of the Company, is responsible for monitoring the share transfer process and reporting in respect of the same to the Company's Board in each meeting.

To expedite the process of share transfers, split, consolidation, rematerialisation and dematerialization etc. of securities of the Company, the Board of Directors has delegated the power of approving the same to the Company's Registrar & Share Transfer Agent [RTA] namely, M/s. X. L. Softech Systems Limited, under the supervision and control of the Executive Director & Company Secretary, Mr. V. S. Soma, who is placing a summary statement of transfers, transmissions, etc. of securities of the Company at the meetings of the said Committee.

There were no share transfers pending as at the end of the financial year.

4. GENERAL BODY MEETINGS

A. Details of last three Annual General Meetings held are as follows:

Year	Day, Date and Time of the Meeting	Venue
2008	Tuesday, 30 th September, 2008, 3.00 p.m.	Registered Office
2007	Saturday, 22 nd September, 2007, 3.00 p.m.	Registered Office
2006	Friday, 29 th September, 2006, 3.00 p.m.	Registered Office

All the resolutions set out in the Notices were passed by the shareholders. There is no proposal for any special resolution to be passed by postal ballot.

5. INFORMATION IN RESPECT OF DIRECTORS SEEKING APPOINTMENT / RE-APPOINTMENT AS REQUIRED UNDER CLAUSE 49 VI (A) OF THE LISTING AGREEMENT

Details of Directors' seeking appointment / re-appointment are annexed in a table to the Notice for the Annual General Meeting, which forms a part of this Annual Report.

6. 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.**

Details given in Notes to Accounts that form part of the Balance Sheet.

b. **Details of non-compliance by the company, penalties, and strictures imposed on the company by Stock Exchange or SEBI or any Statutory Authorities on any matter related to capital markets during the last three years.**

There were no instances of non compliance of any matter related to capital markets during the last three years.

7. MEANS OF COMMUNICATION

The Company's shares have been listed on Hyderabad, Mumbai and Calcutta Stock Exchanges and the Financial results on quarterly basis are being submitted to the Stock Exchanges, they are put on EDIFAR website and have been published in the newspapers.

The quarterly financial results of the company are generally published in National & Regional Newspapers like Financial Express and Andhra Prabha.

Management Discussion & Analysis Report forms part of the Annual Report.

8. GENERAL SHAREHOLDERS' INFORMATION

- | | |
|--|---|
| 1. Date, Time and Venue of AGM: | 29 th September, 2009 at 3.00 p.m.
Survey No.18, Yawapur Village,
Sadasivpet, Medak dist, A.P. |
| 2. Financial Calender | April to March |
| <ul style="list-style-type: none"> • Quarter ending June 30, 2009 • Quarter ending September 30, 2009 • Quarter ending December 31, 2009 • Quarter ending March 31, 2010 | <ul style="list-style-type: none"> - End of July 2009 - End of October 2009 - End of January 2010 - End of April 2010 |
| 3. Book Closure dates | 25.09.2009 to 29.09.2009 (both days inclusive) |
| 4. Dividend Payment | Nil |
| 5. Listing on the stock exchanges | The Bombay Stock Exchange Limited
The Calcutta Stock Exchange Limited
The Hyderabad Stock Exchange Limited |
| 6. Listing fees | The listing fees has been paid as per the requirements of Listing Agreement |

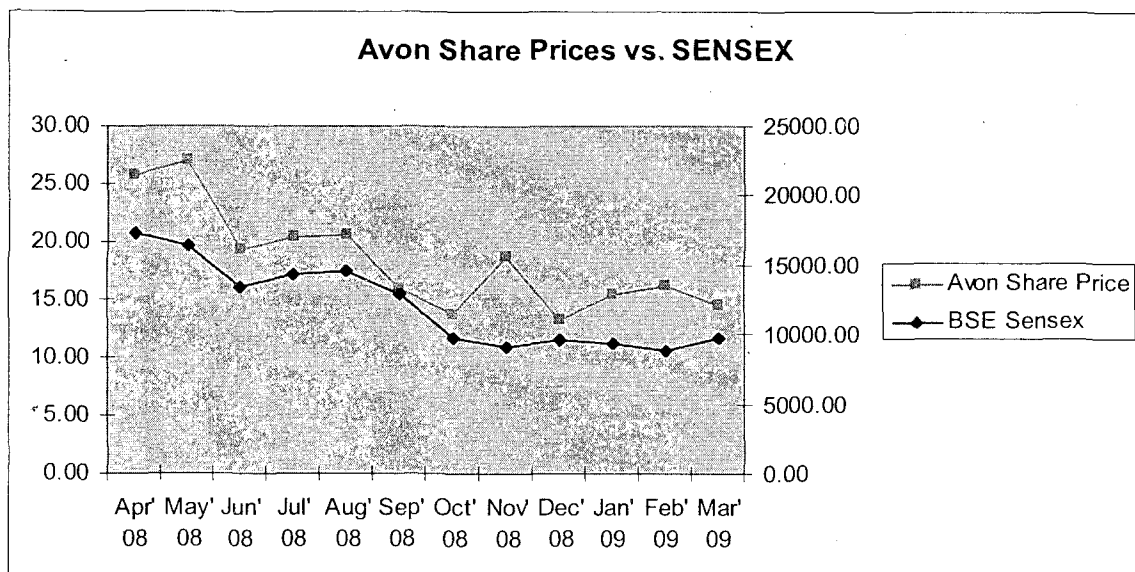
7. ISIN	INE881A01015
8. Corporate Identification Number	L24110AP1993PLC016112
9. <u>Stock Code:</u>	
BSE	531541
HSE	AVN
10. Registered Office	Survey No.18, Yawapur Village, Sadasivpet, Medak Dist., A.P.
11. Corporate Office	6-3-865, 4th Floor, Madhupala Towers, Opp. Greenlands Apts., Ameerpet, Hyderabad.
12. Registrars and Share Transfer Agents	XL Softech Systems Limited, 3, Sagar Society, Road.No. 2, Banjara Hills, Hyderabad- 500 034. Phone no. 040-23545913, 14, 15.
13. Share Transfer System	Shares sent for physical transfer or dematerialization requests are generally registered and returned within a period of 15 days from the date of receipt of completed and validly executed documents. Bad deliveries are promptly returned to Depository Participants (DPs) under advice to the shareholders.
14. Plant Locations	<ul style="list-style-type: none"> - Survey No.18, Yawapur Village, Sadasivpet, Medak Dist., Andhra Pradesh - Plot No. E-2, Chincholi Industrial Area, Solapur, Maharashtra.
15. Address for Correspondence	Shareholder correspondence should be addressed to the Company's R & T Agent or to the secretarial department of the Company.
16. Dematerialisation of shares and liquidity:	Trading in equity shares of the Company became mandatory from July, 2001. As on 31 st March, 2009, 22341084 Equity shares equivalent to 99.29 % of the paid up share capital of the company are in dematerialized form. The Company's shares are currently traded in S group on BSE, Mumbai.

17. Stock Market data relating to shares listed

Monthly High and low quotations at the Mumbai Stock Exchange for the year 2008-09

Month	Mumbai Stock Exchange (In Rs.)	
	High	Low
April 2008	31.20	21.50
May 2008	31.75	24.85
June 2008	27.65	19.05
July 2008	21.00	16.20
August 2008	23.10	19.60
September 2008	22.65	14.50
October 2008	18.10	12.25
November 2008	19.25	12.85
December 2008	20.25	13.35
January 2009	17.02	12.69
February 2009	17.95	14.75
March 2009	16.10	13.00

Chart showing comparison of Avon Share Price (closing – monthly) with BSE SENSEX (closing – monthly):



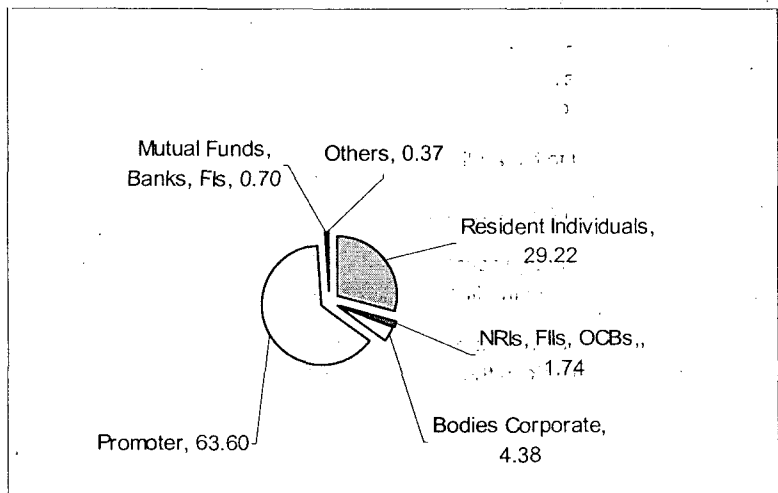
17. Distribution of Shareholding as on 31st March, 2009

No. of Equity shares	Shareholders		No. of Shares	
	Number	% of Holders	Number	% of shares
Upto - 5000	4717	75.46	979249	4.35
5001 - 10000	753	12.05	661160	2.94
10001 - 20000	343	5.49	565415	2.51
20001 - 30000	120	1.92	317384	1.41
30001 - 40000	45	0.72	163610	0.73
40001 - 50000	95	1.52	457448	2.03
50001 - 100000	91	1.46	724693	3.22
100001 and Above	87	1.39	18631041	82.80
Total	6251	100.00	22500000	100.00

18. Categories of shareholders as on 31st March, 2009

Categories	No. of shareholders	% of Shareholders	No. of shares held	% of shares
Resident Individuals	5951	95.20	6575401	29.22
NRI's, FII's, OCB's	55	0.88	390708	1.74
Bodies Corporate	230	3.68	984767	4.38
Promoters, Directors & Associates	1	0.02	14309100	63.60
Mutual funds, Banks, FI's	2	0.03	157600	0.70
Others	12	0.19	82424	0.37
Total	6251	100.00	22500000	100.00

Categories of Shareholders as on 31st March, 2009



CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT

CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT

To

The Members,

I hereby declare that all the Board Members and the senior management personnels have affirmed compliance with the code of conduct adopted by the company and have submitted declarations in this behalf for the year ended 31st March, 2009.

Place : Hyderabad

Date : 27.08.2009

Ajit Kamath

Chairman & Managing Director

CERTIFICATE FROM CHAIRMAN & MANAGING DIRECTOR

I, Ajit Kamath, Chairman & Managing Director of Avon Organics Limited, to the best of my knowledge and belief, certify that:

- a. I have reviewed the financial statements and the cash flow statement for the year under review and certify that:
 - i. these statements do not contain any materially untrue statement or omit any material facts or contain statements that might be misleading.
 - ii. these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- b. To the best of my knowledge and belief, no transactions entered into by the company during the year are fraudulent, illegal or violate of the company's code of conduct.
- c. I am responsible for establishing and maintaining internal controls for financing reporting and have evaluated the effectiveness and disclosed to the auditors and audit committee, the deficiencies in the design and operation of such internal controls and the steps taken to rectify these deficiencies.
- d. I have indicated to the auditors and audit committee that -
 - i. there are no significant changes in internal control over financial reporting during the year.
 - ii. there are no significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements.
 - iii. there are no frauds of which I was aware, that involves management or other employees who have a significant role in the company's internal control system.

Place : Hyderabad

Date : 27.08.2009

Ajit Kamath

Chairman & Managing Director

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To

The Members of **Avon Organics Limited**

1. We have examined the compliance of conditions of Corporate Governance by AVON ORGANICS LIMITED for the year ended 31st March, 2009, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges in India.
2. The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statement of the Company.
3. In our opinion, and the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.
4. We state that in respect of investor grievances received during the year ended 31st March, 2009, no investor grievances are pending for a period more than one month against the Company as per the records maintained by the Company and presented to the Investor Grievance Committee.
5. We further state that such compliance is neither an assurance as to future viability of the Company nor the efficiency with which the management has conducted the affairs of the company.

For **Shyam Sharma & Co.**
Chartered Accountants

Place : Hyderabad
Date : 27.08.2009

Humayun S
Partner
Membership No. 217227

AUDITORS' REPORT

To
The Members of **AVON ORGANICS LIMITED**

We have audited the attached Balance Sheet of Avon Organics Limited, as at 31st March, 2009, and also the Profit and Loss Account and the Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditors Report Order 2003) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to above, we report that:

- (i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- (iii) The Balance Sheet, Profit and Loss Account and Cash flow statement dealt with by this report are in agreement with the books of account.
- (iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
- (v) On the basis of written representations received from the directors as on 31st March 2009 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2009 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- (vi) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (a) in the case of the balance sheet, of the state of affairs of the company as at 31st March 2009.
 - (b) in the case of the profit and loss account, of the profit for the year ended on that date and
 - (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For **Shyam Sharma & Co.**
Chartered Accountants.

Humayn S
Partner

Membership No.217227

Place : Hyderabad,
Date : 27.08.2009

ANNEXURE TO AUDIT REPORT

- 1.1 The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- 1.2 Some of the fixed assets have been physically verified by the management at reasonable intervals as per a regular programmer of verification which, in our opinion, is reasonable having regard to the size of the company and nature of its assets. No material discrepancies were noticed on such verification.
- 1.3 During the year, the company has not disposed of any substantial part of its fixed assets, affecting the going concern.
- 2.1 The inventory has been physically verified during the year by the management at reasonable intervals. In our opinion, the frequency of verification is reasonable.
- 2.2 The procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business.
- 2.3 On the basis of our examination of records of inventory, we are of the opinion that the company is maintaining proper records of inventory. The discrepancies noticed on physical verification between the physical stocks and the book stocks were not material.
- 3.1 The company had taken interest free unsecured loans from holding company covered in the register maintained under Section 301 of the Companies Act, 1956.
- 3.2 The loans taken by the company do not have any stipulation for payment of principle and interest; hence no amounts outstanding as at the end of the year and is considered as over due.
- 3.3 The company has not granted any loans or advances in the nature of loans to the companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- 4 In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business, for the purchase of inventory, fixed assets and for the sale of goods. During the course of our audit, no major weakness has been noticed in the internal controls and there is no continuing failure to correct any major weakness in internal control.
- 5.1 Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions that need to be entered in the register maintained under Section 301 of the Act have been so entered.
- 5.2 In our opinion and according to the information and explanations given to us the transactions made in pursuance of contracts or arrangements entered in the registers maintained under Section 301 of the Act and exceeding value of Rs. five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- 6 Based on our audit procedures and according to the information and explanations given to us the company has not accepted any deposits from the public and hence complying with the provisions of Section 58A and 58AA of the Companies Act, 1956 and the rules framed there under is not applicable.
- 7 In our opinion the company has an internal audit system commensurate with its size and nature of its business.
- 8 The Central Government has prescribed maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 to the Diketene division of the company and such accounts and records have been made and maintained.
- 9.1 According to the records of the company, apart from certain instances of delays, the company is regular in depositing the undisputed statutory dues including provident fund, Employees' State Insurance, Income tax, Sales-tax, Wealth-tax, Customs duty, Excise-duty, Service tax, Cess and any other statutory dues with the appropriate authorities, and there are no arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable.
- 9.2 According to the records of the company, there are no dues of Sales tax, Income tax, Customs duty, Wealth tax, Excise duty, Cess which have not been deposited on account of any dispute, except for the following:

Name of the statute	Amount (Rs. in Lakhs)	Period to which the amount relates	Forum where the pending dispute is
Income tax	69.39 (Against which paid Rs.20 Lakhs)	2005-06	Commissioner of Income tax (Appeals) – III.

AUDITORS' REPORT

- 10 During the year the company has earned profits. However the company had incurred cash loss of Rs.372.30 Lakhs in the previous financial year. The company has accumulated losses amounting to Rs.1807.28 Lakhs in the Balance Sheet as on 31st March, 2009.
- 11 Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the company has not defaulted in repayment of dues to any financial institution or bank as at the end of the financial year.
- 12 In our opinion and according to the information and explanation given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares and debentures and other securities. Accordingly, the provisions of para 4(xii) of the CARO, 2003 are not applicable to the company.
- 13 Based on our examination of documents and record, we are of the opinion that the company has not granted any loans and advances on the basis of the security by way of pledge of shares, debentures and the securities.
- 14 Based on our audit procedures and on the information and explanations given by the management, we are of the opinion that the provisions of any special statute applicable to chit fund are not applicable to this company and the company is not a nidhi / mutual benefit fund / society and hence compliance with the requirements of the order in this regard are not applicable to this company.
- 15 Based on our examination of the records and evaluation of the related internal control, we are of the opinion that the company has not dealt or traded in shares, securities, debentures and other investments during the year. The company's long-term investments in shares / bonds have been held by the Company in its own name.
- 16 According to the records of the company and information and explanations given to us, the company has not given any guarantee for loans taken by others from banks or financial institutions.
- 17 According to the records of the company and information and explanations given to us, during the year the company has availed term loans from Bank / Financial institution and have been applied for the purpose for which they have been obtained.
- 18 Based on the audit procedures applied and according to the information and explanations furnished to us, the funds raised on short term basis have not been used for long term investment and vice versa.
- 19 The company has not made preferential allotment of shares / share warrants to parties and companies covered in the register maintained under Section 301 of the Act.
- 20 According to the information and explanations furnished to us and based on the records verified by us, during the period covered by our audit report the company has not issued any long term debentures and hence creation of securities for the same is not applicable.
- 21 According to the information and explanations furnished to us and based on the records verified by us, the company has not raised any money through public issues during the period covered under audit and hence disclosure by the management on the end usage of money raised by public issues and our verification of the same is not applicable.
- 22 Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the company has been noticed or reported during the year.

For Shyam Sharma & Co.
Chartered Accountants.

Humayun S
Partner

Place : Hyderabad
Date : 27.08.2009

Membership No.217227



BALANCE SHEET

BALANCE SHEET AS AT 31.03.2009

Particulars	Sch. Ref	As at 31.03.2009		As at 31.03.2008	
		(Rs.)	(Rs.)	(Rs.)	(Rs.)
SOURCES OF FUNDS					
1 SHAREHOLDERS' FUNDS:					
a. Share Capital	1	225,000,000		225,000,000	
b. Reserves & Surplus	2	254,122,648	479,122,648	198,294,326	423,294,326
2 LOAN FUNDS:					
a. Secured Loans	3	800,610,682		570,245,481	
b. Unsecured Loans	4	341,083,608	1,141,694,290	186,495,656	756,741,137
3 DEFERRED TAX			14,064,610		14,064,610
TOTAL			1,634,881,548		1,194,100,073
APPLICATION OF FUNDS					
1 FIXED ASSETS	5				
Gross Block		960,252,412		953,481,108	
Less: Depreciation		468,545,310		413,345,040	
Net Block			491,707,102		540,136,068
Capital Work in Progres including Capital Advances			175,496,687		26,415,835
2 INVESTMENTS	6		519,200		519,200
3 CURRENT ASSETS, LOANS & ADVANCES					
a. Inventories	7	562,369,442		406,198,857	
b. Sundry Debtors	8	440,193,699		158,146,228	
c. Cash & Bank Balances	9	23,936,790		25,371,268	
d. Other Current Assets	10	81,293,584		57,199,132	
e. Loans & Advances	11	98,921,471		69,559,260	
		1,206,714,986		716,474,745	
Less: Current Liabilities & Provisions	12				
a. Current Liabilities		239,206,427		89,095,774	
b. Provisions		350,000		350,000	
Net Current Assets			967,158,559		627,028,970
TOTAL			1,634,881,548		1,194,100,073
Significant Accounting Policies & Notes to Accounts	20				

The Schedules referred to above form an integral part of the Balance Sheet

As per our report of even date

For and on behalf of the Board

For **Shyam Sharma & Co,**
Chartered Accountants

Humayun S
Partner
M. No. 217227

Ajit Kamath
Chairman & Managing Director

Manoj Jain
Director

Place: Hyderabad
Date : 27.08.2009

V S Soma
Executive Director
& Company Secretary

PROFIT AND LOSS ACCOUNT

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2009

Particulars	Sch. Ref	For the Year ended 31.03.2009 (Rs.)	For the Year ended 31.03.2008 (Rs.)
1 INCOME			
a. Sales		1,253,168,435	703,994,921
b. Other Income	13	3,146,789	2,623,738
TOTAL		1,256,315,224	706,618,659
2 EXPENDITURE			
a. (Increase)/ Decrease in Stocks	14	9,866,081	(23,470,916)
b. Cost of Materials Consumed	15	732,758,417	395,923,798
c. Power & Fuel		98,154,722	77,843,203
d. Payments & benefits to employees	16	83,285,096	64,389,542
e. Manufacturing Expenses	17	40,043,842	38,278,816
f. Administrative & Selling Expenses	18	81,012,481	93,284,811
g. Financial charges	19	99,465,992	97,599,560
h. Depreciation	5	55,200,271	47,062,841
TOTAL		1,199,786,902	790,911,655
Profit/(loss) before tax		56,528,322	(84,292,996)
Less:Fringe Benefit Tax		700,000	750,000
Profit/(loss) after tax		55,828,322	(85,042,996)
Surplus in P&L Account b/f from last year		(236,557,074)	(151,514,078)
Balance available for appropriation		(180,728,752)	(236,557,074)
Appropriations			
Balance carried to Balance Sheet		(180,728,752)	(236,557,074)
TOTAL		(180,728,752)	(236,557,074)
Significant Accounting Policies & Notes to Accounts	20		
COMPUTATION OF EARNING PER SHARE			
a) Net profit / loss for the year (Rs.)		55,828,322	(85,042,996)
b) No. of shares outstanding during the year		22,500,000	22,500,000
c) Basic and diluted EPS (Rs.)		2.48	(3.78)
d) Nominal Value of Share (Fully paid-up)		Rs. 10/- each	Rs. 10/- each

The Schedules referred to above form an integral part of the Balance Sheet

As per our report of even date

For and on behalf of the Board

For **Shyam Sharma & Co,**
Chartered Accountants

Humayun S
Partner
M. No. 217227

Ajit Kamath
Chairman & Managing Director

Manoj Jain
Director

Place : Hyderabad
Date : 27.08.2009

V S Soma
Executive Director
& Company Secretary

SCHEDULES TO BALANCE SHEET

	As at 31.03.2009 (Rs.)	As at 31.03.2008 (Rs.)
SCHEDULE - 1		
Share Capital:		
Authorised Share Capital:	250,000,000	250,000,000
2,50,00,000 Equity Shares of Rs. 10/- each (Previous year 250,00,000 Equity Shares of Rs. 10/- each)		
ISSUED, SUBSCRIBED AND PAID-UP CAPITAL	225,000,000	225,000,000
2,25,00,000 Equity Shares of Rs. 10/- each		
(Previous year 2,25,00,000 Equity Shares of Rs. 10/- each.)	225,000,000	225,000,000
SCHEDULE - 2		
RESERVES & SURPLUS		
State Investment Subsidy	2,000,000	2,000,000
Capital Reserve	7,000,000	7,000,000
Share Premium	295,851,400	295,851,400
General Reserve	130,000,000	130,000,000
Surplus/(Deficit) in Profit & Loss Account	(180,728,752)	(236,557,074)
TOTAL	254,122,648	198,294,326
SCHEDULE - 3		
SECURED LOANS		
Term Loans from Bank	404,416,439	300,000,000
Working Capital Loans from Banks	394,697,241	269,984,874
Vehicle Loans under Hire Purchase	1,497,002	260,607
TOTAL	800,610,682	570,245,481
SCHEDULE - 4		
UNSECURED LOANS:		
Deferred Sales Tax Loan from State Governments	154,982,608	150,394,656
From Body Corporates	186,101,000	36,101,000
TOTAL	341,083,608	186,495,656
SCHEDULE - 6		
INVESTMENTS		
Equity Shares - fully Paid-up-Quoted-Longterm-at Cost		
1600 shares of Rs. 10/- each in UCO Bank	19,200	19,200
100 Bonds of Rs. 5000/- each in IDBI	500,000	500,000
TOTAL	519,200	519,200
Aggregate market value of quoted Investments	38,400	59,520
Aggregate market value of Un quoted Investments	500,000	500,000
SCHEDULE - 7		
INVENTORIES		
(As valued and certified by Management)		
a. Raw Materials	257,315,829	113,559,812
b. Stores, Consumables & Packing Material	50,849,579	26,484,440
c. Work-in-progress	182,006,101	223,374,957
d. Finished Goods	72,197,933	40,695,107
e. Raw material at Port	-	2,084,541
TOTAL	562,369,442	406,198,857



SCHEDULE - 5
FIXED ASSETS

Particulars	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 01.04.2008	Additions	Deletions	As at 31.03.2009	As at 01.04.2008	Depreciation For the year	On Deletions	As at 31.03.2009	As at 31.03.2009	As at 31.03.2008
Land & Site Development	12,332,901	0	0	12,332,901	0	0	0	0	12,332,901	12,332,901
Buildings :										
- Non-Factory	4,294,381	1,433,066	0	5,727,447	1,486,110	140,414	0	1,626,524	4,100,924	2,808,271
- Factory	106,406,831	0	0	106,406,831	38,490,197	4,069,834	0	42,560,031	63,846,800	67,916,634
Plant & Machinery	766,173,752	0	0	766,173,752	335,055,855	46,715,744	0	381,771,599	384,402,153	431,117,897
Electrical Installation	47,744,862	0	0	47,744,862	26,753,163	2,508,917	0	29,262,080	18,482,782	20,991,699
Furniture	5,220,502	601,060	0	5,821,562	3,681,894	262,574	0	3,944,468	1,877,094	1,538,608
Office Equipment	3,520,476	1,319,348	0	4,839,824	1,740,831	351,429	0	2,092,260	2,747,564	1,779,645
Computers	4,714,844	971,010	0	5,685,854	3,978,537	453,082	0	4,431,619	1,254,235	736,307
Vehicles	3,061,310	2,458,069	0	5,519,379	2,158,452	698,278	0	2,856,730	2,662,649	902,858
Live Stock	11,250	0	11,250	0	0	0	0	0	0	11,250
TOTAL	953,481,109	6,782,553	11,250	960,252,412	413,345,039	55,200,271	0	468,545,310	491,707,102	540,136,070
Previous Year	868,230,392	85,250,716	2,368,988	953,481,108	367,942,753	47,062,841	1,660,554	413,345,040	540,136,068	500,287,639

SCHEDULES TO BALANCE SHEET

	As at 31.03.2009 (Rs.)	As at 31.03.2008 (Rs.)
SCHEDULE - 8		
SUNDRY DEBTORS		
(Unsecured, Considered good and certified by Management)		
Due over six months	16,260,304	13,983,111
Others	423,933,395	144,163,117
TOTAL	440,193,699	158,146,228
SCHEDULE - 9		
CASH & BANK BALANCES		
Cash on hand	1,332,674	2,375,933
Balance with Scheduled Banks		
a. in Current Accounts	819,077	3,078,375
b. in Deposits Accounts	21,733,922	19,865,843
c. in Unclaimed Dividend a/c	51,117	51,117
TOTAL	23,936,790	25,371,268
SCHEDULE - 10		
OTHER CURRENT ASSETS		
1. Deposits	11,114,976	10,847,256
2. Accrued Interest on Deposits	3,886,620	3,943,335
3. Balance with Govt. Departments	53,984,318	28,169,659
4. Prepaid expenses	2,085,409	6,986,971
5. Income Tax paid	10,222,261	7,251,911
TOTAL	81,293,584	57,199,132
SCHEDULE - 11		
LOANS & ADVANCES		
(Unsecured, considered good recoverable in cash or in kind or for value to be received)		
1. Advance for Suppliers and expenses	22,499,063	12,801,261
2. Advances to employees	661,718	842,431
3. Other Advances	75,760,690	55,915,568
TOTAL	98,921,471	69,559,260

SCHEDULES TO BALANCE SHEET

	As at 31.03.2009 (Rs.)	As at 31.03.2008 (Rs.)
SCHEDULE - 12		
CURRENT LIABILITIES & PROVISIONS		
a. Current Liabilities		
Sundry Creditors for Capital Goods	1,968,973	8,040,560
Raw Materials	198,378,688	41,886,823
Stores & Services	31,215,392	29,033,955
Other Liabilities	7,592,257	10,083,319
Un-claimed Dividend	51,117	51,117
(A)	<u>239,206,427</u>	<u>89,095,774</u>
b. Provisions		
Provision for FBT	(B) 350,000	350,000
TOTAL (A+B)	<u>239,556,427</u>	<u>89,445,774</u>
SCHEDULE - 13		
OTHER INCOME		
Interest Received	3,146,789	2,622,138
Misc. Income	-	1,600
TOTAL	<u>3,146,789</u>	<u>2,623,738</u>
SCHEDULE - 14		
INCREASE/(DECREASE) IN STOCKS		
	As at 31.03.2009 (Rs.)	As at 31.03.2008 (Rs.)
Opening Stock		
Work-in-progress	223,375,003	190,557,741
Finished Goods	40,695,111	264,070,114
	<u>264,070,114</u>	<u>50,041,407</u>
Closing Stock		
Work-in-progress	182,006,100	223,374,957
Finished Goods	72,197,933	40,695,107
	<u>254,204,033</u>	<u>264,070,064</u>
TOTAL	<u>(9,866,081)</u>	<u>23,470,916</u>
SCHEDULE - 15		
Cost of Materials Consumed		
Opening Stock		113,559,749
Add: Purchases		876,514,497
		<u>990,074,246</u>
Less: Closing Stock		257,315,829
		<u>113,559,812</u>
TOTAL		<u>732,758,417</u>
SCHEDULE - 16		
PAYMENTS & BENEFITS TO EMPLOYEES		
Salaries & Wages		72,561,061
Staff Welfare Expenses		5,315,949
Contributions to Funds		5,408,086
		<u>83,285,096</u>
TOTAL		<u>55,209,179</u>
		<u>5,665,915</u>
		<u>3,514,448</u>
		<u>64,389,542</u>

SCHEDULES TO BALANCE SHEET

	As at 31.03.2009 (Rs.)	As at 31.03.2008 (Rs.)
SCHEDULE - 17		
MANUFACTURING EXPENSES		
Packing Material consumed	4,906,132	6,790,515
Stores and spares consumed	11,539,783	10,661,531
Repairs & Maintenance	12,711,374	11,111,984
Factory Expenses	8,523,323	6,103,610
Insurance	2,363,230	3,611,176
TOTAL	40,043,842	38,278,816
 SCHEDULE - 18		
ADMINISTRATIVE AND SELLING EXPENSES		
Rent, Rates & Taxes	3,761,488	3,051,732
Printing & Stationary	974,291	1,426,724
Postage, Telegrams & Telephones	1,931,859	1,674,403
Professional Charges	1,276,803	2,521,273
Travelling & Conveyance	6,387,787	3,892,455
Directors Remuneration	1,733,334	4,380,000
Auditors' Fees	172,500	205,000
Vehicle Maintenance	393,343	2,667,004
Vehicle Hire charges	3,133,325	2,247,210
General Expenses	3,169,409	5,114,219
Bank Charges	6,106,949	6,265,079
Export Expenses	1,053,385	5,409,405
ECCG Premium	787,950	1,642,760
Sales tax	30,325,169	12,124,756
Discounts	3,011,447	19,903,674
Outward Freight	14,460,073	16,110,458
Sales Promotion & Advertisement	2,333,369	4,648,659
TOTAL	81,012,481	93,284,811
 SCHEDULE - 19		
INTEREST AND FINANCIAL CHARGES		
Interest on Term Loans	37,618,917	23,899,553
Interest on Working Capital	42,589,744	58,756,656
Other Financial Charges	19,257,331	14,943,351
TOTAL	99,465,992	97,599,560

SCHEDULE -20

Significant Accounting Policies and Notes to Accounts

1 ACCOUNTING POLICIES:

A. Basis of Preparation of Financial Statements:

- a) The financial statements are prepared under the historical cost convention in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956 as adopted consistently by the Company.
- b) The Company follows mercantile system of accounting and recognizes all significant items of income and expenditure on accrual basis.

B. Fixed Assets:

All fixed assets are stated at Historical Cost less Depreciation except in the case of Land and Site Development whereas it is stated at Cost Plus Development expenditure. The expenses incurred in setting up the project are capitalised and apportioned to the assets procured for that project in proportion to the value of each of the asset.

C. Depreciation:

The depreciation on fixed assets has been provided on Written Down Value method for Assets in Diketene Division and common assets at Corporate Office and on Straight Line Method for Assets in Bio-Tech Division in accordance with the rates prescribed in Schedule XIV of the Companies Act, 1956. Depreciation is not provided on Land.

Depreciation on Assets acquired for the project are provided on commercialisation and depreciation on other assets if put into use is provided accordingly. Further, depreciation on additions during the year is provided on prorata basis.

D. Employees' Benefits

Contribution to defined schemes such as Provident Fund, ESI are charged as incurred on accrual basis. The Company contributed to LIC Gratuity Funds as per Section 4 of the Gratuity Act, 1972.

E. Foreign Currency Transactions:

Assets and Liabilities relating to foreign currency transactions remaining unsettled at the end of the year are taken "at the contracted rates" when covered by Foreign Exchange Contracts. Monetary assets and liabilities related to Foreign Currency transactions remaining unsettled at the end of the year are translated at the year end rates. Foreign Exchange transactions (Exports/ Imports) are accounted for at contract rates when covered by foreign exchange contracts or at the prevailing rates on the date of transactions when such transactions are not covered by forward contracts and in such case exchange rate fluctuations are accounted for at the time of realisation / payment.

F. Inventories:

Inventories are valued as under:

- a. Raw Materials, Stores, Consumables, Packing materials and other materials: at cost on FIFO basis.
- b. Work in process is carried at cost of input RM and estimated cost of manufacturing upto the stage of completion.
- c. Finished Goods: At realizable value or cost whichever is lower.

G. Excise Duty, Service Tax and Education Cess

Excise Duty is accounted on the basis of payments made in respect of goods cleared. CENVAT, Service Tax and Education Cess on capital goods, raw materials and services as the case may be are accounted on receipt / completion of contracts, job works.

H. Revenue:

Revenue in respect of sales comprises of sale of goods and in respect of insurance claims, interest etc., is recognised when it is reasonably certain that the ultimate collection will be made.

I. R & D Expenditure:

Expenditure for capital items are debited to respective Fixed Assets and depreciation at applicable rates. Revenue expenditure is charged to Profit & Loss Account.

J Deferred tax

Deferred Tax is accounted for by computing the tax effect of timing differences, which arise during the the year and reversed in subsequent periods. Deferred Tax assets on accumulated losses and unabsorbed depreciation are recognised only to the extent there is certainty of realisation of such asset in future.

K Earnings Per Share :

The basic and diluted Earnings Per Share is calculated by dividing the profit/(loss) after tax by the weighted average number of equity shares outstanding.

L Impairment of Assets :

At each Balance Sheet date, the carrying values of the assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where there is an indication that there is a likely impairment loss for a group of assets, the company estimates the recoverable amount of the group of assets as a whole, to determine the value of impairment.

M Investments:

Investments are stated at cost.

N Borrowing Costs :

Borrowing Costs attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset, till the period in which the asset is ready for use. Other borrowing costs are recognised as an expense in the period in which these are incurred.

O Provisions and Contingent Assets :

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent liability is disclosed for i) possible obligations, which will be confirmed only by future events not wholly within the control of the company or ii) present obligation arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

B. NOTES TO ACCOUNTS

1 Secured Loans

a. Term Loans

Term loan from AXIS Bank Ltd is secured by way of hypothecation and equitable mortgage of movable and immovable assets of the Company including Plant & Machinery, both present and future on first charge basis (save and except book debts) and also secured by way of corporate guarantee. Further secured by way of second charge on the Current Assets of the company.

b. Working Capital

The working capital loans from SBH, SBI, PNB and AXIS Bank are secured by way of hypothecation of raw materials, stock-in-process, stores and spares & finished goods, book debts and other current assets of the Company on pari passu basis and further secured by way of second charge on Fixed Assets of the Company on pari passu basis. SBH, SBI and PNB are also further secured by deposit of title deeds of the property owned by Mr. P. R. Agarwal, Managing Director and Mr. Rajesh Agarwal, Executive Director of the Company and also pledge of 693,600 equity shares of Avon Organics Ltd held in the name of Mr. P. R Agarwal and pledge of Rs. 20 lacs Fixed Deposit with SBH standing in the name of Mr. Rajesh Agarwal and also personal guarantee by the aforesaid. AXIS Bank Loans are further secured by Corporate Guarantee.

c. Vehicle Loans

The Vehicle loans availed under hire purchase are secured by hypothecation of vehicles and also personal guarantee of some of the erstwhile Directors of the Company.

ACCOUNTING POLICIES TO NOTES TO ACCOUNTS

		(Rs. in Lacs)	
2.	Contingent Liabilities not provided for :	2008-09	2007-08
	a. Estimated Amount of Unexecuted Capital Contracts	135.36	50.00
	b. Letters of Credit	1152.78	394.08
	c. Bank Guarantees	51.00	41.00
	d. Others	29.38	29.38
3	Managerial Remuneration:	2008-09	2007-08
		(Rs.)	(Rs.)
	Managing Director		
	Salary	-	1,200,000
	Perquisites	-	300,000
	Executive Director		
	Salary	1,200,000	1,260,000
	Perquisites	300,000	240,000
	Director - Marketing		
	Salary	200,000	1,180,000
	Perquisites	33,334	200,000
4	Auditors Remuneration:	2008-09	2007-08
		(Rs.)	(Rs.)
	Audit Fees	150000	150000
	Certification Fee	22500	55000
5	Additional information pursuant to the provisions of Paragraph 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956:		
		2008-09	2007-08
		Qty	Qty
		TPA	TPA
		Rs.	Rs.
		(In Lacs)	(In Lacs)
a.	Licensed and Installed Capacity		
	Licensed Capacity	- NA -	- NA -
	Installed Capacity	2,300	2300
b.	Production details		
	Intermediates & APIs	1,926.49	1739.40
c.	Details of Sales:		
	Intermediates & APIs	1,884.20	2,287.40
		12,531.69	7,793.18
d.	Details of opening stock of finished goods		
	Intermediates & APIs	41.82	67.42
		406.95	500.41
e.	Details of closing stock of finished goods		
	Intermediates & APIs	84.11	41.82
		721.98	406.95

ACCOUNTING POLICIES TO NOTES TO ACCOUNTS

6 Value of Imported (CIF) and Indigenous materials consumed and their percentage to total consumption					
		2008-09		2007-08	
		Rs. (In lacs)	% to Total consumption	Rs. (In lacs)	% to Total consumption
1.	INDIGENEOUS	6705.91	91.52	3045.58	76.92
2.	IMPORTED	621.67	8.48	913.66	23.08
TOTAL		7327.58	100.00	4582.71	100.00
Details of Major materials Consumed:		2008-09		2007-08	
		Qty (in MT)	Rs. (In lacs)	Qty (In MT)	Rs. (In lacs)
1.	Acetic Acid	927.02	350.94	1001.92	356.65
2.	Ortho Phenylene Diamine	65.95	68.77	68.25	131.55
3.	Toluene	658.31	330.71	114.27	64.99
4.	Acetone	546.93	282.91	517.42	273.91
5.	CS Lye	958.51	108.94	1345.09	126.93
6.	Methanol	553.25	111.31	508.73	94.33
7.	Mollasses	6826.77	254.75	10171.87	216.44
8.	Benzaldehyde	369.81	297.04	435.09	331.62
9.	Platinum(in Kgs)	9.92	256.42	7.80	160.07
7 Foreign Currency / Exchange Transactions:		2008-09		2007-08	
		Rs. in lacs		Rs.in lacs	
A.	Value of Imports				
	Raw Materials	621.67		913.66	
B.	Value of Exports - Direct	2257.46		2943.75	
	- Deemed Exports	902.17		0	
C.	Expenditure in Foreign Currency				
	a. Foreign Travel	0.51		1.78	
	b. Other Services	1.64		38.16	
8	The Company has been availing interest free Sales Tax deferement loan from AP State Government.The repayment of the same will be started from July, 2010 and the balance outstanding as on 31.03.2009 was Rs. 1359.57 lacs.				
	The Company has also been availing Interest free Sales Tax deferement loan from Maharashtra State Government. The repayment will be started from Jan , 2011 and the balance outstanding as on 31.03.2009 was Rs. 190.25 lacs.				
9	No Provision is made for Income Tax on account of unaborbed losses.				
10	The company has one segment of actitivity namely "Pharmaceuticals".				
11	Balances of Sundry Creditors, Debtors, Advances as on 31 st March, 2009 are subject to confirmation.				

ACCOUNTING POLICIES TO NOTES TO ACCOUNTS

12 In the absence of necessary information with the company relating to information to the registration status of suppliers under the Micro, Small and Medium Enterprises Development Act, 2006, the information required under the said Act could not be complied and disclosed. The company has not received information from vendors regarding their status under the Micro, Small and Medium Enterprises.

13 Pursuant to AS-18 the names, relationships and particulars of transactions with related parties during the year are as under:

A) List of Related parties

SI No	Particulars	Relationship
1	PR Agarwal	Key Management Person
2	Rajesh Agarwal	Key Management Person
3	Umesh Agarwal	Key Management Person
4	Ajit Kamath	Key Management Person
5	Manoj Jain	Key Management Person
6	Rajendra Kaimal	Key Management Person
7	Arch Pharmalabs Ltd.	Holding Company
8	Hyderabad Metchem P. Ltd.	Company in which some of the Directors are interested

B) The following transactions were carried with the related parties in the ordinary course of business during the year

Purchases		Rs in Lacs
1	Hyderabad Metchem P Ltd	55.12
2	Arch Pharmalabs Ltd	445.24
Sales		
1	Arch Pharmalabs Ltd	795.26
Services		
1	Remuneration	17.33
2	Rent	11.04

14 Previous year's figures have been regrouped and re-classified, wherever necessary.

15 The schedules referred to the above form part of the accounts.

16 Paise has been rounded off to the nearest rupee.

As per our report of even date

For **Shyam Sharma & Co,**
Chartered Accountants

Humayun S
Partner
M. No. 217227

Ajit Kamath
Chairman & Managing Director

Manoj Jain
Director

Place: Hyderabad
Date : 27.08.2009

V S Soma
Executive Director
& Company Secretary

CASH FLOW STATEMENT

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2009

	2008-2009 (Rs. in lacs)	2007-2008 (Rs. in lacs)
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary items	565.28	(842.93)
Adjustments for		
Depreciation	552.00	470.63
(Profit) / Loss on Sale of Asset	0.00	0.80
Interest	994.66	976.00
Operating Profits before Working Capital Changes	2111.95	604.50
(Increase) / Decrease in Inventories	(1561.71)	(483.20)
(Increase) / Decrease in Debtors	(2820.47)	444.75
(Increase) / Decrease in Loans & Advances	(534.57)	96.33
Increase / (Decrease) in Current Liabilities	1501.11	36.34
Increase / (Decrease) in Cash Credit Loan	1247.12	(2092.95)
Cash Generated from Operations	(56.57)	(1394.23)
Interest Paid	(994.66)	(958.69)
Income Tax(FBT)	(7.00)	(7.50)
Net Cash flow from Operating Activities (A)	(1058.23)	(2360.42)
B. Cash Flow from Investing Activities		
Fixed Assets	(1558.52)	(681.76)
Sale of Asset	0.00	22.89
Net Cash Used in Investing Activities (B)	(1558.52)	(658.87)
C. Cash Flow from Financing Activities		
Share capital	0.00	980.91
Share Premium	0.00	980.91
Change in long term borrowings	1056.53	1156.76
Unsecured Loan	1545.88	34.19
Net Cash inflow from Financing Activities (C)	2602.41	3152.77
Net Increase in Cash Flow (A+B+C)	(14.34)	133.48
Opening Balance of Cash and Cash Equivalent	253.71	120.24
Closing Balance of Cash and Cash Equivalent	239.37	253.71

As per our report of even date

For and on behalf of the Board

For **Shyam Sharma & Co,**
Chartered Accountants

Humayun S
Partner
M. No. 217227

Ajit Kamath
Chairman & Managing Director

Manoj Jain
Director

Place: Hyderabad
Date : 27.08.2009

V S Soma
Executive Director
& Company Secretary

AUDITORS' CERTIFICATE FOR CASH FLOW

AUDITORS' CERTIFICATE FOR CASH FLOW

To

The Board of Directors

AVON ORGANICS LIMITED

We have examined the attached cash flow statement of M/s. Avon Organics Limited for the year ended 31st March, 2009. The statement has been prepared by the company in accordance with the requirements of Clause 32 of the Listing Agreement and is based on and in agreement with the corresponding profit & loss account and balance sheet of the company covered by our report of 27.08.2009 to the members of the company.

For **Shyam Sharma & Co.**
Chartered Accountants

Place : Hyderabad
Date : 27.08.2009

HUMAYUN S
Partner
Membership No.: 217227

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I Registration Details

Registration No. - State Code

Balance Sheet Date

Date Month Year

II Capital Raised during the year (Rs. in lacs)

Public Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>	Rights Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>
Bonus Issue <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>	Private Placements <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="N"/> <input type="text" value="I"/> <input type="text" value="L"/>

III Position of Mobilisation and Deployment of Funds (Rs. in lacs)

Total Liabilities <input type="text" value="1"/> <input type="text" value="8"/> <input type="text" value="7"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="3"/> <input type="text" value="7"/> . <input type="text" value="9"/> <input type="text" value="8"/>	Total Assets <input type="text" value="1"/> <input type="text" value="8"/> <input type="text" value="7"/> <input type="text" value="4"/> <input type="text" value="4"/> <input type="text" value="3"/> <input type="text" value="7"/> . <input type="text" value="9"/> <input type="text" value="8"/>
SOURCE OF FUNDS	APPLICATION FUNDS
Paid up Capital <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="0"/> . <input type="text" value="0"/> <input type="text" value="0"/>	Net Fixed Assets <input type="text" value=""/> <input type="text" value="6"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="3"/> . <input type="text" value="7"/> <input type="text" value="9"/>
Reserves and Surplus <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="2"/> . <input type="text" value="6"/> <input type="text" value="5"/>	Investments <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="1"/> <input type="text" value="9"/> . <input type="text" value="2"/> <input type="text" value="0"/>
Secured Loans <input type="text" value=""/> <input type="text" value="8"/> <input type="text" value="0"/> <input type="text" value="0"/> <input type="text" value="6"/> <input type="text" value="1"/> <input type="text" value="0"/> . <input type="text" value="6"/> <input type="text" value="8"/>	Current Assets, Loans & Advances <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="0"/> <input type="text" value="6"/> <input type="text" value="7"/> <input type="text" value="1"/> <input type="text" value="4"/> . <input type="text" value="9"/> <input type="text" value="9"/>
Unsecured Loans <input type="text" value=""/> <input type="text" value="3"/> <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="0"/> <input type="text" value="8"/> <input type="text" value="3"/> . <input type="text" value="6"/> <input type="text" value="1"/>	Accumulated Losses <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="0"/> . <input type="text" value="0"/> <input type="text" value="0"/>
Current Liabilities <input type="text" value=""/> <input type="text" value="2"/> <input type="text" value="3"/> <input type="text" value="9"/> <input type="text" value="5"/> <input type="text" value="5"/> <input type="text" value="6"/> . <input type="text" value="4"/> <input type="text" value="3"/>	Misc. Expenses (Not Written Off) <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="0"/> . <input type="text" value="0"/> <input type="text" value="0"/>
Deferred Tax Liability <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="1"/> <input type="text" value="4"/> <input type="text" value="0"/> <input type="text" value="6"/> <input type="text" value="4"/> . <input type="text" value="6"/> <input type="text" value="1"/>	

IV Performance of the Company (Rs.in lacs)

Total Income <input type="text" value="1"/> <input type="text" value="2"/> <input type="text" value="5"/> <input type="text" value="6"/> <input type="text" value="3"/> <input type="text" value="1"/> <input type="text" value="5"/> . <input type="text" value="2"/> <input type="text" value="2"/>	Total Expenditure <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="9"/> <input type="text" value="9"/> <input type="text" value="7"/> <input type="text" value="8"/> <input type="text" value="6"/> . <input type="text" value="9"/> <input type="text" value="0"/>
Profit / Loss before Tax <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="6"/> <input type="text" value="5"/> <input type="text" value="2"/> <input type="text" value="8"/> . <input type="text" value="3"/> <input type="text" value="2"/>	Profit / Loss after tax <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="5"/> <input type="text" value="5"/> <input type="text" value="8"/> <input type="text" value="2"/> <input type="text" value="8"/> . <input type="text" value="3"/> <input type="text" value="2"/>
Earnings per share (in Rs.) <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="2"/> . <input type="text" value="4"/> <input type="text" value="8"/>	Dividend-Rate % <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/> <input type="text" value="0"/>

V Generic names of Three Principal Products / Services of the Company (as per monetary terms)

Product Description	Item Code No. (ITC Code)
Mono Methyl Aceto Acetamide	291590
Aceto Acetanilide (AAA)	29241002
Ephedrine HCL	30039089

AVON ORGANICS LIMITED

Regd Off: Survey No. 18, Yawapur Village, Sadasivpet Mandal, Medak District, A.P.
Corp Off: 6-3-865, 4th Floor, Madhupala Towers, Ameerpet, Hyderabad – 500 016
Phone: 040-23414432; 23405042

PROXY FORM

Regd. Folio No No. of shares held
I/We of being a Member/Members
of the above named Company hereby appoint or failing him
of as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting
of the Company to be held on Tuesday, 29th September, 2009, at the Registered Office of the Company at 3.00 P.M.

Signed:

AFFIX
15 PAISE
REVENUE
STAMP

Date:

Note: Proxy Form must reach the Company's Registered office not less than 48 (Forty Eight) hours before the Meeting.

---(TEAR HERE)---

AVON ORGANICS LIMITED

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ATTENDANCE SLIP

Regd. Folio No No. of shares held

(To be handed over at the entrance of the Meeting Venue.)

Name of the attending Member (IN BLOCK LETTERS)

Name of the Proxy (IN BLOCK LETTERS) (To be filled in by the Proxy attending instead of the Member)

I hereby record my presence at the Annual General Meeting of the Company held on Tuesday, 29th September, 2009, at the Registered Office of the Company at 3.00 P.M.

Member/Proxy Signature

Note:

1. Interested Joint Members may obtain Attendance slips from the Registered Office of the Company.
2. Member's/Joint Member's Proxies are required to bring the Attendance slips with them. Duplicate slips will not be issued at the venue.

PRINTED MATTER
BOOK - POST



If undelivered, please return to :

AVON ORGANICS LIMITED

6-3-865, 4th Floor, Madhupala Towers,
Opp. Greenland Apts. Ameerpet,
Hyderabad - 500 016.