

17th Annual Report 2009-10



AVON
ORGANICS LIMITED
(AN ARCH ENTERPRISE)

In Tune with Technology

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CORPORATE INFORMATION

Board of Directors	<p>Mr. Ajit Kamath, <i>Non Executive Chairman & Managing Director</i></p> <p>Mr. Manoj Jain, <i>Director</i></p> <p>Mr. V.S. Soma, <i>Executive Director & Company Secretary</i></p> <p>Mr. Ramakant Nayak, <i>Non-Executive, Independent Director</i></p> <p>Dr. Shantilal Jain, <i>Non-Executive, Independent Director</i></p> <p>Mr. Sudhir Ghate, <i>Non-Executive, Independent Director</i></p> <p>Mr. Ashit Shah, <i>Non-Executive, Independent Director</i></p>
Company Secretary	Mr. V.S. Soma
Registered Office	<p>Survey No. 18, Yawapur, Sadasivpet (M), Medak District, Andhra Pradesh Phone: 99498 28084; Fax: 91-08455-251536</p>
Corporate Office	<p>1. 6-3-865, 1st Floor, Madhupala Towers, Opp: Greenland Apts., Ameerpet, Hyderabad Phone: 040-30906500/01 Fax: 040-23404438</p> <p>2. H Wing, 4th Floor, Tex Centre, Off Sakivihar Road, Chandivali, Andheri (East), Mumbai - 400 072 Phone: 022-40756789 Fax: 022-28471234/ 1002</p>
Auditors	<p>M/s. Mukesh Mehta & Associates, Chartered Accountants, 3/4A, Hammersmith Industrial Premises, Narayan Pathare Marg, Off Sitladevi Temple Road Mahim (W), Mumbai – 400 016</p>
Manufacturing Facilities	<p>1. Survey No. 18, Yawapur, Sadasivpet (M), Medak District, Andhra Pradesh Phone: 99498 28084</p> <p>2. Plot No. E-2, Chincholi Industrial Area, Solapur, Maharastra Phone: 0217-2357738 Fax: 0217-2357339</p>
Bankers	<p>State Bank of India AXIS Bank Limited Punjab National Bank Canara Bank Karur Vysya Bank</p>
Registrars & Share Transfer Agents	<p>XL Softech Limited 3, Sagar Society, Road No. 2, Banjara Hills, Hyderabad – 500 034 Phone: 040-23545913/14/15.</p>

NOTICE

NOTICE IS HEREBY GIVEN THAT the 17th Annual General Meeting of Avon Organics Limited will be held on Saturday, 25th September, 2010 at 11.30 a.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, 2010 and Profit and Loss Account for the financial year ended 31st March, 2010 along with the Report of the Directors and Auditors thereon.
2. To declare dividend on Equity Shares.
3. To appoint a Director in place of Mr. Manoj Jain, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s. Mukesh Mehta & Associates, Chartered Accountants, as Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting of the Company on

remuneration to be decided by the Board of Directors of the Company.

SPECIAL BUSINESS

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

“RESOLVED THAT Mr. Ramakant Nayak, who was inducted into the Board as an Additional Director of the Company in accordance to the provisions of Section 260 of the Companies Act, 1956 (the “Act”) effective from 31st October, 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 here by appointed as a Director of the Company”.

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

Sd/-
V.S. Soma
Executive Director
& Company Secretary

Place: Mumbai
Date : 13.08.2010

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. As per the requirements of Section 154 of the Companies Act, 1956, the Register of Members and the Share Transfer Books of the Company will remain closed from Wednesday, 22nd September, 2010 to Saturday, 25th September, 2010 (both days inclusive).

The 'Record Date' for payment of Dividend is fixed as Saturday, 25th September, 2010.
3. The final dividend for the financial year ended 31st March, 2010 as recommended by the Board,

if approved at the meeting, will be paid on or after Saturday, 25th September, 2010 (Record Date), to those members whose names appear in the Company's Register of Members as on the book closure dates.

4. Members holding shares in electronic form are hereby informed that bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its Registrars cannot act on any request received directly from the Members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participant of the Members.
5. Members holding shares in physical form are requested to inform any change, in their registered

address to the registered / corporate office of the company or to X L Softech Limited, Registrar & Share Transfer Agents of the Company.

Members holding shares in electronic form are requested to intimate immediately any change in their address or bank mandates to their Depository Participants with whom they are maintaining their demat accounts.

6. Member / Proxies should bring in their attendance slip sent herewith duly filled in for attending the meeting.
7. Shareholders desiring any information relating to the accounts are requested to write to the Company at an early date so as to enable Management to keep the information ready.
8. Explanatory Statement Pursuant to Section 173 (2) of the Company's Act, 1956, in respect of Item No.5 of the Notice set out, is annexed hereto.
9. The shares of the Company are presently listed

on the Hyderabad, Mumbai and Calcutta Stock Exchanges. However, the same is actively traded at Bombay Stock exchange.

10. Pick up coach facility

For the convenience of members who are desirous of attending the company's Annual General Meeting scheduled on Saturday, 25th September, 2010 at 11.30 a.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 8.30 a.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.

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

Item No. 5

Mr. Ramakant Nayak has been appointed as Additional Director of the Company at the meeting of Board of Directors held on 31st October, 2009. As per the provisions of Section 260 of the Companies Act, 1956, the abovementioned Director will hold office of a Director up to the conclusion of Annual General Meeting. The Company has received notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of the Director.

Mr. Ramakant Nayak has a distinguished career spanning for more than 40 years in commercial banking. His career includes the esteemed positions of Chairman & Chief Executive Officer (CEO) of Lakshmi Vilas Bank from June, 2005 to June, 2007, The Managing Director & Chief Executive Officer (CEO) of erstwhile The Lord Krishna Bank Ltd., merged with Centurion Bank / HDFC Bank Ltd. from January, 2003 to June, 2005 and Chairman of Marathwada Gramin Bank from 1995 till 1997. Mr. Nayak is a Certified Associate of Indian Institute of

Banking (I) and has served as a member on several Indian Banks Association (IBA) committee. He possesses degrees in Science and Law and has Diploma in Marketing and Advertising.

Mr. Ramakant Nayak currently serves on the Board of Sun Capital Advisory Services Pvt. Ltd., Nine Rivers Capital Holdings Pvt. Ltd., Sun Global Investments Ltd. - UK, Sunteck Realty Ltd., Nitin Fire Protection Industries Ltd. and Blend Financial Services Ltd. alongwith Avon Organics Limited.

None of the Directors of the Company, except Mr. Ramakant Nayak, are interested in this resolution.

The Directors recommend the resolution for approval of the shareholders.

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

Sd/-
V.S. Soma
Executive Director
& Company Secretary

Place: Mumbai
Date : 13.08.2010

DIRECTORS' REPORT

To
The Members,

Your Directors have pleasure in presenting their Seventeenth Annual Report on the business and operations of the Company and the Audited Financial Accounts for the year ended 31st March, 2010.

The figures of the previous year have been reclassified to conform to the current classification.

FINANCIAL RESULTS

(Rs. in Lakhs)

Particulars	Year ended 31.03.2010	Year ended 31.03.2009
Sales & Operational Income	15045.49	12228.43
Gross Profit / (Loss) before Interest, Depreciation and Tax (PBDIT)	2645.33	2111.94
Less: Depreciation	585.10	552.00
Gross Profit before Interest and Tax (PBIT)	2060.23	1559.94
Less: Financial charges	1169.40	994.66
Profit / (Loss) before Tax (PBT)	890.83	565.28
Less: Provision for Taxation		
Fringe Benefit Tax	–	7.00
Short provision for Tax for earlier years	0.63	–
Net Profit / (Loss) after tax (PAT)	890.20	558.28

DIVIDEND

The Directors are pleased to recommend payment of a Dividend of 10% (Re. 1/- per Equity Share of the face value of Rs. 10/- each), which, if approved by the Members at the Annual General Meeting will involve an outflow of Rs. 225 Lakhs towards Dividend and Rs. 38.24 Lakhs as Dividend Distribution Tax resulting in a total outflow of Rs. 263.24 Lakhs.

PERFORMANCE REVIEW

During the year the Company has achieved Net Sales and Operational income of Rs. 15045.49 Lakhs as against Rs. 12228.43 Lakhs in the previous year, registering an increase in sales by 23.04%. During the year the Company has achieved a Net profit of Rs. 890.20 Lakhs as against Rs. 558.28 Lakhs, during the corresponding period in the previous year, resulting in

consistent rise in profits for the 2nd consecutive financial year.

The total sales of the Company includes export sales of Rs. 5081.30 Lakhs during the year under review as against Rs. 2257.46 Lakhs, during the previous year and account for approximately 33.77% of the total sales in the current year as against 18.46% in the previous corresponding period.

A major part of the revenues of our Solapur plant are attributable to the successful launch of the Generic version of Valtrex, with an exclusivity period of 180 days, by Ranbaxy Laboratories Limited. Your company was the supplier of choice of the Active Pharmaceutical Ingredient for the same ie. Valacyclovir. This also helped the Solapur facility from being a single product facility to multiple products and acquire new capabilities.

PERSONNEL

The Board records its appreciation for the support and contribution of all employees towards the growth of the company. Your Company has 472 employees as on 31st March, 2010.

None of the employees of the Company drew remuneration of Rs. 24 Lakhs and above per annum or Rs. 2 Lakhs and above per month during the year under review. This information is furnished as required under the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

CAPITAL EXPENDITURE

In an effort to support future growth, during the year under review, the Company has invested in modernization and enhancement of the facilities and has incurred capital expenditure amounting to Rs. 2611.19 Lakhs, which includes Capital Work-in progress.

QUALITY SYSTEMS

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

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, 2010, 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, 2010 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, 2010 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, also forms part of the Annual Report.

INCORPORATION OF A SUBSIDIARY COMPANY IN SINGAPORE

Pursuant to the resolution passed at the Meeting of the Board of Directors of the Company, held on 15th May, 2010, a wholly owned subsidiary company has been incorporated in Singapore. The subsidiary will help to facilitate marketing operations, source new technology as well as raw material inputs from the Far East and South East Asian market.

DIRECTORS

The Board has an optimum combination of Executive and Non-Executive Directors with majority of the Board comprising of Non-executive Directors.

As per the requirements of Clause 49 of Listing Agreement, only one-third of the Board should comprise of Independent Directors in case the Chairman of the Board is a Non-Executive Director.

In our Company, the Non-Executive Chairman, being a Promoter Director of the parent Company, more than fifty percent of the Board comprises of Independent Directors, in compliance with the provisions of Clause 49 of the Listing Agreement.

Re-appointment of Mr. Manoj Jain, Non-Executive Director

Mr. Manoj Jain, Non-Executive Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Manoj Jain is the Deputy Managing Director in Arch Pharmalabs Limited, the parent company of Avon Organics Limited. He is a Chartered Accountant by qualification and possesses an experience of more than 14 years in the Pharmaceutical industry.

Regularisation of appointment of Mr. Ramakant Nayak, Non-Executive, Independent Director

Mr. Ramakant Nayak was appointed as Additional Director of the Company at the meeting of Board of Directors held on 31st October, 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 notice in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of the Director.

Mr. Ramakant Nayak has a distinguished career spanning for more than 40 years in commercial banking. His career includes the esteemed positions of Chairman & Chief Executive Officer (CEO) of Lakshmi Vilas Bank from June, 2005 to June, 2007, The Managing Director & Chief Executive Officer (CEO) of erstwhile The Lord Krishna Bank Ltd., merged with Centurion Bank / HDFC Bank Ltd. from January, 2003 to June, 2005 and Chairman of Marathwada Gramin Bank from 1995 till 1997. Mr. Nayak is a Certified Associate of Indian Institute of Banking (I) and has served as a member on several Indian Banks Association (IBA) committee. He possesses degrees in Science and Law and has Diploma in Marketing and Advertising.

Mr. Ramakant Nayak currently serves on the Board of Sun Capital Advisory Services Pvt. Ltd., Nine Rivers Capital Holdings Pvt. Ltd., Sun Global Investments

Ltd. - UK, Sunteck Realty Ltd., Nitin Fire Protection Industries Ltd. and Blend Financial Services Ltd. alongwith Avon Organics Limited.

AUDITORS

The Statutory Auditors, M/s. Mukesh Mehta & Co., Chartered Accountants hold office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment upto the conclusion of next Annual General Meeting. A certificate has been received from the Auditors to the effect that their re-appointment, if made, would be within the limits prescribed under Section 224(1B) of the Companies Act, 1956.

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.

PROPOSED LISTING WITH NATIONAL STOCK EXCHANGE OF INDIA LIMITED [NSE]

The Management is proposing to list the equity shares of the Company with National Stock Exchange of India Limited [NSE] during the current financial year.

ACKNOWLEDGMENTS

The Board of Directors would like to place on record their sincere appreciation for the support and assistance extended by the Company's suppliers, bankers, financial institutions, employees, business associates and various departments of the Central and State Governments for their continued support and valuable co-operation.

Your Directors also express their gratitude to investors for the support and confidence reposed in the Company and Management.

For and on behalf of the Board

Sd/-

Ajit Kamath

Place: Mumbai

Date : 13.08.2010

Chairman & Managing Director

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.
- b. Total energy consumption per unit of Production : Details are furnished in Form A

B. Technology absorption: : Details are furnished in Form B

	(Rs. in Lakhs)	
	2009-10	2008-09
1. Foreign Exchange Earnings	5081.30	2257.46
2. Foreign Exchange outgo	1693.24	623.82
3. Net Foreign Exchange Earnings	3388.06	1633.64

FORM A

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

	2009-10	2008-09
A. POWER AND FUEL CONSUMPTION:		
1. ELECTRICITY:		
a. Purchased Units:	10205638	8614986
Amount (Rs. in Lakhs)	482.81	340.20
Rate / Unit (Rs.)	4.73	3.95
b. Own Generation:		
Through D.G. Set Units	1152444	993390
Amount (Rs. in Lakhs)	145.86	137.45
Rate / Unit (Rs.)	12.66	13.84
2. FURNACE & BOILER (Rs. in Lakhs)	563.61	503.90
B. CONSUMPTION PER UNIT OF PRODUCTION*:		
Electricity (Unit / MT) (Rs.)	72773	24794
Furnace & Boiler (Unit / MT) (Rs.)	65242	26156

*The change is on account of low volume, high value product mix.

FORM B**A. RESEARCH AND DEVELOPMENT:**

1. Specific areas in which R & D was carried out.

R&D activity supports the short, medium and long term business needs of the Company, which helps us in competing in the international regulated markets across US / Europe.

R & D activity includes various complex product improvements and process optimization projects which require special skills and technology and offer higher value addition and sustained revenue streams.

2. Benefits derived from above R & D.

Product improvements, process development, standardization of quality control of products have been some of the results of Research and Development which are reflected in the overall performance of the Company.

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 and also with a view to adapt products and processes in line with the changing market needs.

4. Expenditure on R & D:

(Rs. in Lakhs)

	2009-10	2008-09
Revenue Expenditure	15.64	11.03
% to Turnover	0.10	0.09

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.

Technology for manufacture of IP-II, a drug intermediate is fully absorbed from our Corporate R & D centre and in house technologies were developed for yield improvements, solvent recovery and reuse methods, and un-desired impurity control.

Investments have been made in creating more research labs, with specific focus on European market requirements and adding experienced scientific and technically skilled manpower (scientists, technologists and engineers), adding equipment and upgrading continuously the facilities of the Company.

The Company is continuously exploring the possibilities of exporting more of its products to different markets.

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

The Company has benefited from reduction in cost due to the enormous efforts resulted in the process improvements for yield improvement, solvent consumption and recovering the products, optimizing quantity the catalysts and increased revenue through higher exports. This has resulted in our process becoming cost effective and minimum utilization of raw materials. The following is the brief list of process development activities carried out at the R & D and benefits derived there from

- 1) Recovery of Cholic acid from mother liquor residue (10-12%).
- 2) IP-I, Yield improvement by distilling off the solvent and recrystallization in lower volume of the solvent in the purification step to improve the yield.
- 3) Creating anhydrous conditions in the IP-II reaction by initial Azeotropic distillation of the ethyl acetate solvent, by reducing the requirement of acetic anhydride quantity for the reaction.
- 4) Development of new route to control the major impurities (mono acetoxo impurity) in the IP-II product by using isopropyl acetate solvent instead of ethyl acetate

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 | None |
| b. Year of import | Not Applicable |
| c. Has technology been fully absorbed | Not Applicable |

For and on behalf of the Board

Sd/-

Ajit Kamath

Chairman & Managing Director

Place: Mumbai

Date : 13.08.2010

MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT

Global Industry Structure and Development

The financial turmoil of the western world had far reaching implications on the business environment. While the impact on developing and emerging economies like India was less severe, however it did impact from the point of view of demand in the western countries.

During the year, positive signs had begun to emerge in many countries, signifying recovery from the general recession and economic crisis. However, there is high uncertainty, with one crisis or the other, particularly in Europe, affecting overall sentiments. The recovery of the Indian economy seems to be on track with GDP predicted to grow to higher levels. The Indian pharmaceutical industry maintained its momentum and registered a growth of about 18 per cent, according to ORG-IMS statistics.

India forms a part of the Emerging Market section of the Pharmaceutical Industry, Pharmerging market, a term coined by IMS Health. The Pharmerging market which was collectively estimated to grow at a rate of 13 - 16% on CAGR basis during 2008-2013. Pharmerging group consists of countries like Brazil, Russia, India, China, Turkey, Mexico and South Korea.

The Indian pharmaceutical industry is driving product development and breaking new grounds in medicine research worldwide. Currently, the Indian pharmaceutical industry is one of the world's largest and most developed, ranking 4th in volume terms and 13th in value terms. The country accounted for 8 per cent of global production and 2 per cent of world markets in pharmaceuticals. In the segment of Active Pharmaceutical Ingredients (APIs) India ranks third in the world producing about 500 different APIs. In fact, India is currently a world leader in manufacture and export of basic drugs. The Indian pharmaceutical industry has portrayed tremendous progress with reference to infrastructure development, technology base creation and a wide range of production.

Indian Scenario

The pharmaceutical industry in India is among the most highly organized sectors. This industry plays an important role in promoting and sustaining development in the field of global medicine.

Due to the presence of low cost manufacturing facilities, educated and skilled manpower and cheap labour force among others, the industry is set to scale new heights in the fields of production, development, manufacturing and research.

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. 2645.33 Lakhs as against operating profit of Rs. 2111.95 Lakhs in the previous year. The Company has also succeeded in achieving the net profit of Rs. 890.20 Lakhs as against the profit of Rs. 558.28 Lakhs incurred in the previous year.

Risks and Concerns

The pharmaceutical industry works in a dynamic environment. Compared with other industries, the risk and compliance profile span the full pharmaceutical product life cycle – from invention to testing, manufacturing, and marketing.

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

Your company does not perceive any risks or concerns other than those that are common to industry such as regulatory risks, exchange risks and other commercial and business 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.

Finance

a. *Financial Performance*

- **Net-worth:** The net-worth of the Company has increased to Rs. 5418.19 Lakhs from Rs. 4791.23 Lakhs during the previous year. The increase has been primarily on account of profits earned by the company during the year under review after adjusting the proposed Dividend Payment and Dividend Tax thereon.
- **Net Working Capital:** The Net Current Assets of the Company have increased to Rs. 6265.36 Lakhs from Rs. 5724.61 Lakhs in the previous year.
- **Fixed Assets:** During the period under review, the Company has incurred capital expenditure of Rs. 2611.19 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. 15045.49 Lakhs as against Rs. 12228.43 Lakhs during the year 2008-09 registering an increase of 23.04%. The increase has primarily been on account of revenue from the Valacyclovir, increased capacity utilization and better cost management initiatives.
- **Net Profit:** The Net profit stood at Rs. 890.20 Lakhs as compared to the Net Profit of Rs. 558.28 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

Your Company pays a lot of attention to the internal control system. The Company has adequate internal control systems commensurate with the size and the nature of business of the Company.

The audit committee periodically reviews the said internal control systems. The system ensures protection of assets and proper recording of transactions. All the issues relating to internal control systems are resolved by the audit committee.

The Internal Control Systems ensure efficiency of operations, compliance with internal policies and applicable laws and regulations, protection of resources and assets, and accurate reporting of financial transactions. Moreover, the Company continuously upgrades these systems in line with the best available

practices. The internal control system is supplemented by extensive internal audits which is carried by experienced auditors

Human Resource Development and Industrial Relations

Over the year, Human Resource (HR) relations of the Company has been leading initiatives for organizational change and strengthening the impact of HR on business outcomes. The relationship with all the employees in the Company continues to remain cordial.

As of 31st March, 2010, the employee strength of the Company stands at 472. The Company views HR progressively and manages it as 'Human Capital', with the object of delivering better and sustainable business performance. The Company also aims at enriching the capabilities and careers of the employees. The company strives not only to impart adequate training but also to provide the right environment to maximize team efforts while enhancing individual growth potential.

The Directors record their appreciation of the support and contribution of all employees towards the growth of the company.

Caveat

Shareholders are cautioned that certain data and information external to the company is included in this section. Though these data and information are based on sources believed to be reliable, no representation is made on their accuracy or comprehensiveness. 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. 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. The Company undertakes no obligation to publicly update or revise any of the opinions or forward – looking statements expressed in this section, consequent to new information, future events or otherwise.

REPORT ON CORPORATE GOVERNANCE

We, at Avon, believe that sound corporate governance is necessary to enhance and retain stakeholders' trust. Our disclosures seek to attain the highest standards and best practices in corporate governance. The Company has a strong legacy of fair, transparent and ethical practices, which it believes, are the essence of good corporate governance. Even in a tough competitive business environment, the Management and Employees of the Company are committed to value transparency, integrity, honesty and accountability which are fundamental to the Company.

It is widely accepted that good corporate governance ultimately leads to better performance, higher investor confidence and helps in value creation for the Company.

A steady rate of growth in the Company is being attained / achieved while constantly safeguarding the interests of the stakeholders of the Company.

The Securities and Exchange Board of India [SEBI] through Clause 49 of the listing agreement with stock exchanges regulates corporate governance for listed companies. The provisions of Clause 49 of the Listing Agreement have been followed in Avon.

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, 2010, the Board comprised of Executive and Non-Executive Directors. The composition of the Board as on 31st March, 2010 was as follows:

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

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, fifty percent of the Board comprises of Independent Directors, in compliance with the provisions of Clause 49 of the Listing Agreement.

The Board is apprised and informed of all the important issues relating to the business activities of the Company. The Agenda for the Meetings of the Board is sent in advance to all the Directors with relevant explanatory statements, wherever required, to enable the Board to take informed decisions and to discharge its responsibilities effectively. 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 2009-10 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 Memberships of Board Sub-Committees in other Companies	Attendance at AGM
Mr. Ajit Kamath [#]	Non Executive - Promoter	5	15	3	Yes
Mr. Manoj Jain	Non Executive - Promoter	5	13	3	Yes
Mr. V.S. Soma ^{##}	Company Secretary & Whole-time Director	3	Nil	Nil	Yes
Dr. Shantilal Jain [*]	Non-Executive - Independent	2	2	2	Yes
Mr. Sudhir Ghate [*]	Non-Executive - Independent	2	4	2	Yes
Mr. Ashit Shah [*]	Non-Executive - Independent	1	Nil	2	Yes
Mr. Ramakant Nayak ^{**}	Additional Director	1	6	4	No
Mr. Rajendra Kaimal [@]	Non-Executive, Promoter	2	8	2	No
Dr. P.M. Bhargava [@]	Independent, Non-Executive	Nil	Nil	Nil	No
Mr. P.R. Agarwal [@]	Executive, Promoter	2	Nil	Nil	No
Mr. Rajesh Agarwal [@]	Executive, Promoter	2	1	1	No
Mr. Umesh Agarwal [@]	Whole time, Executive	2	1	1	No
Mr. T. Krishna [@]	Independent, Non-Executive	Nil	Nil	Nil	No
Dr. T.V. Krishna Rao [@] [Alternate to Mr. T. Krishna]	Independent, Non-Executive	2	Nil	Nil	No
Mr. C.K.C. Gupta [@]	Independent, Non-Executive	2	Nil	Nil	No

@ Resigned from the Board 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.

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 Directors in Non-Executive Independent capacity with effect from 01.08.2009.

** Appointed as Additional Director on 31.10.2009.

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 2009-10 on the following dates: 30th April, 2009; 31st July, 2009; 27th August, 2009; 31st October, 2009; 30th January, 2010.

c. Code of Conduct

The Board of Directors has laid down a code of conduct for all Board members and senior management of the Company. All the Directors and senior management personnel have affirmed compliance with code of conduct. Code of conduct is formulated taking into account 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.

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) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements and such other functions / statements as may be recommended by SEBI / stock exchanges and all other regulatory authorities, are correct, sufficient and credible.
- 3) 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.
- 4) Reviewing the Company's financial and risk management policies and compliance with internal control systems;
- 5) Overseeing the disclosures made by the Company in the various statements recommended by SEBI / stock exchanges and all other regulatory authorities and ensure that they contain the information which is true and fair to their belief.

b) Composition, Names of Members and Chairman

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, 2010, the constitution of Audit Committee and attendance thereat was as follows:

Name of the Member	Category	No. of meetings attended
Mr. Sudhir Ghatge [Non-Executive and Independent]	Chairman	3
Mr. Ashit Shah [Non-Executive and Independent]	Member	2
Mr. Manoj Jain [Non-Executive]	Member	3

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.

The Committee met 5 times during the year under review on 30th April, 2009; 31st July, 2009; 26th August, 2009; 31st October, 2009; 30th January, 2010.

However, due to the reconstitution of the Board with effect from 31st July, 2009, the Current Directors have attended Audit Committee Meetings for part of the year, as tabled above. The earlier Audit Committee Meetings were duly attended by the erstwhile Audit Committee Members.

B. REMUNERATION COMMITTEE

The remuneration committee, inter alia, reviews and recommends the remuneration / commission / incentives etc. of the Directors.

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, as approved by the shareholders.

Sitting fees payable to Non-Executive Directors have been increased to Rs. 10,000 and Rs. 5,000 for Board Meetings and Audit Committee Meetings respectively with effect from 31st October, 2009. Sitting fees are not being paid to Mr. Manoj Jain, Non-Executive Director as he is the Promoter Director of Arch Pharmalabs limited, the parent company of Avon Organics Limited.

The details of remuneration paid to the Managing Director, Whole-Time Directors during the financial year 2009-10 are given below:

Particulars	All elements of remuneration package i.e. salary, benefits, bonus etc. (in rupees)
Mr. Ajit Kamath	NIL
Mr. V.S. Soma	8,62,000
Mr. P.R. Agarwal	NIL
Mr. Rajesh Agarwal	5,00,000
Mr. Umesh Agarwal	NIL

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

C. SHAREHOLDERS' / INVESTOR GRIEVANCE COMMITTEE MEETING

a) Brief description of terms of reference

The Company has constituted Shareholders' / Investor Grievance Committee for facilitation of the interaction between the shareholders and the Company. The Committee oversees the performance of the Registrar and Share Transfer Agents and suggests measures for overall improvement in providing services to the investors. 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' addresses
- Non - Receipt of Annual Reports
- Timely disclosures for shareholders and investors

b) Composition, Names of Members and Chairman

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 30th April, 2009; 31st July, 2009; 31st October, 2009; 30th January, 2010.

However, due to the reconstitution of the Board with effect from 31st July, 2009, the Current Directors have attended Shareholders' / Investors Grievance Committee Meetings for part of the year, as tabled above. The earlier Shareholders' / Investors Grievance Committee Meetings were duly attended by the erstwhile Audit Committee Members.

c) Name and designation of Compliance Officer

Mr. V.S. Soma, Executive Director & Company Secretary of the Company is the Compliance Officer of the Company, responsible for supervising the working of the Shareholders' / Investor Grievance Committee Meeting and monitoring the investor and shareholders grievance redressal mechanism and to report the same to the Company's Board in each meeting. He is further responsible for directly liaising 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 matters.

Name of the

Mr. V.S. Soma

Compliance officer:

Designation:

**Executive Director &
Company Secretary**

Contact Details:

Address:

**C/o. Avon Organics Limited
6-3-695, Madhupala Towers
Opp. Greenlands Apartments
Ameerpet, Hyderabad
Tel. No.: 040-30906500/01
Fax No.: 040-23404438
E-mail: cs_1@avonorganicsltd.com**

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

Sl. 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	2	2	Nil
	TOTAL	2	2	Nil

No investor complaints remained unattended / pending for more than 30 days and no request for share transfers or dematerialization received during the financial year was pending for more than 30 days and 15 days, respectively.

D. SHARETRANSFER SYSTEM:

Mr. V.S. Soma, Executive Director & Company Secretary of the Company, who is also the Compliance Officer of the Company, is responsible for monitoring the Share transfer process and reporting 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 or 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 transfer, transmission, 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
2009	Tuesday, 29 th September, 2009, 3.00 p.m.	Registered Office
2008	Tuesday, 30 th September, 2008, 3.00 p.m.	Registered Office
2007	Saturday, 22 nd September, 2007, 3.00 p.m.	Registered Office

All the resolutions set out in the Notices were passed by the shareholders. The Company did not have any proposal to vote through postal ballot during the period under review.

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

Re-appointment of Mr. Manoj Jain, Non-Executive Director

Mr. Manoj Jain, Non-Executive Director retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Manoj Jain is the Deputy Managing Director & Promoter Director in Arch Pharmed Labs Limited, the parent company of Avon Organics Limited. He is a Chartered Accountant by qualification and possesses an experience of more than 14 years in the Pharmaceutical industry.

Regularisation of appointment of Mr. Ramakant Nayak, Non-Executive, Independent Director

Mr. Ramakant Nayak was appointed as Additional Director of the Company at the meeting of Board of Directors held on 31st October, 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.

Mr. Ramakant Nayak has a distinguished career spanning for more than 40 years in commercial banking. His career includes the esteemed positions of Chairman & Chief Executive Officer (CEO) of Lakshmi Vilas Bank from June, 2005 to June, 2007, The Managing Director & Chief Executive Officer (CEO) of erstwhile The Lord Krishna Bank Ltd., merged with Centurion Bank / HDFC Bank Ltd. from January, 2003 to June, 2005 and Chairman of Marathwada Gramin Bank from 1995 till 1997. Mr. Nayak is a Certified Associate of Indian Institute of Banking (I) and has served as a member on several Indian Banks Association (IBA) committee. He possesses degrees in Science and Law and has Diploma in Marketing and Advertising.

Mr. Ramakant Nayak currently serves on the Board of Sun Capital Advisory Services Pvt. Ltd., Nine Rivers Capital Holdings Pvt. Ltd., Sun Global Investments Ltd. - UK, Sunteck Realty Ltd., Nitin Fire Protection Industries Ltd. and Blend Financial Services Ltd. along with Avon Organics Limited.

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 the capital markets during the last three years.

- c. Transfer to Investor Education and Protection Fund:**

During the year under review, the amount lying in the unpaid dividend account of Rs. 51,117 (Rupees Fifty One Thousand One Hundred and Seventeen Only) was transferred to Investor Education and Protection Fund, as per the rule 3 of the Investor Education and Protection Fund (Awareness and Protection of Investors) Rules, 2001.

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 and have been published in the newspapers.

The quarterly financial results of the company are generally published in National and 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

Saturday, 25th September, 2010 at 11.30 a.m.
Survey No.18, Yawapur Village, Sadasivpet,
Medak Dist, A.P.

2. Financial Calendar

- Quarter ending June 30, 2010
- Quarter ending September 30, 2010
- Quarter ending December 31, 2010
- Quarter ending March 31, 2011

- April to March
- by 15th August, 2010
 - by 15th November, 2010
 - by 15th February, 2011
 - by 15th May, 2011

3. Book Closure dates

22.09.2010 to 25.09.2010 (both days inclusive)

4. Dividend Payment

The Board of Directors has recommended a dividend of Re. 1/- i.e. 10% per equity share of Rs. 10/- each for the financial year ended 31st March 2010.

The 'Record Date' for payment of dividend is fixed as Saturday, 25th September 2010.

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 the Listing Agreement. The listing fees for the year under review was not paid to Hyderabad Stock Exchange, due to its derecognition by SEBI with effect from 29th August, 2007.

7. International Securities Identification No.

INE881A01015

8. Corporate Identification Number

L24110AP1993PLC016112

9. Stock Code:

BSE
HSE

531541
AVN

10. Registered Office

Survey No.18, Yawapur Village, Sadasivpet,
Medak Dist., A.P.
Tel: 99498 28083/84; Fax: 911-251536

11. Corporate Office

1. 6-3-865, 1st Floor, Madhupala Towers,
Opp. Greenland, Apts., Ameerpet, Hyderabad.
2. H Wing, 4th Floor, Tex Centre, Off Saki Vihar Road
Chandivali, Andheri (E), Mumbai - 400 702

12. Registrars and Share Transfer Agents

XL Softech Systems Limited
3, Sagar Society, Road No. 2,
Banjara Hills, Hyderabad – 500 034
Phone: 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

1. Survey No.18, Yawapur Village, Sadasivpeth,
Medak Dist, Andhra Pradesh
2. 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

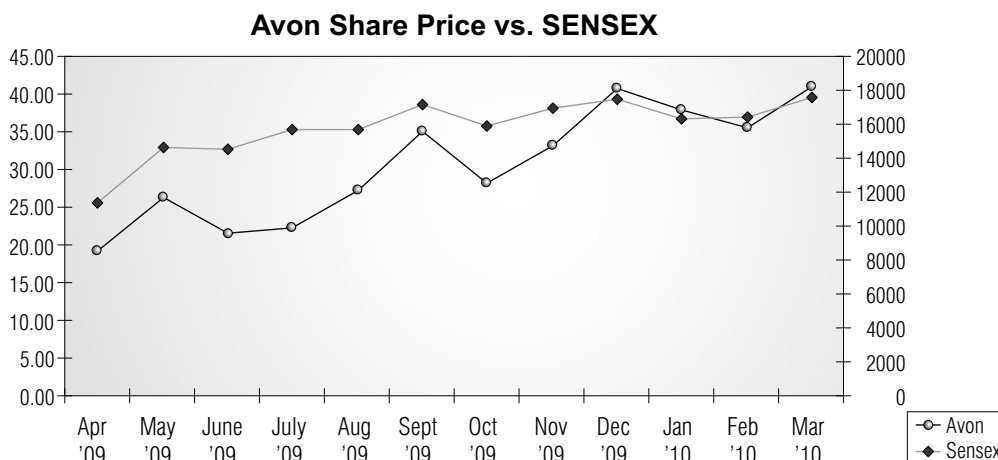
As on 31st March, 2010, 2,23,46,284 Equity shares equivalent to 99.32% of the paid up share capital of the company are in dematerialized form. The company's shares are currently traded in S group on the BSE, Mumbai.

17. Stock Market data relating to shares listed

Monthly High and low quotations at the Bombay Stock Exchange for the year 2009-10

Month	Bombay Stock Exchange (in Rs.)	
	High	Low
April 2009	22.29	14.26
May 2009	28.75	19.65
June 2009	27.40	20.75
July 2009	24.65	20.25
August 2009	31.80	21.05
September 2009	36.70	25.10
October 2009	35.60	27.10
November 2009	33.05	26.00
December 2009	46.10	35.50
January 2010	50.60	33.50
February 2010	41.50	35.10
March 2010	45.00	36.35

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

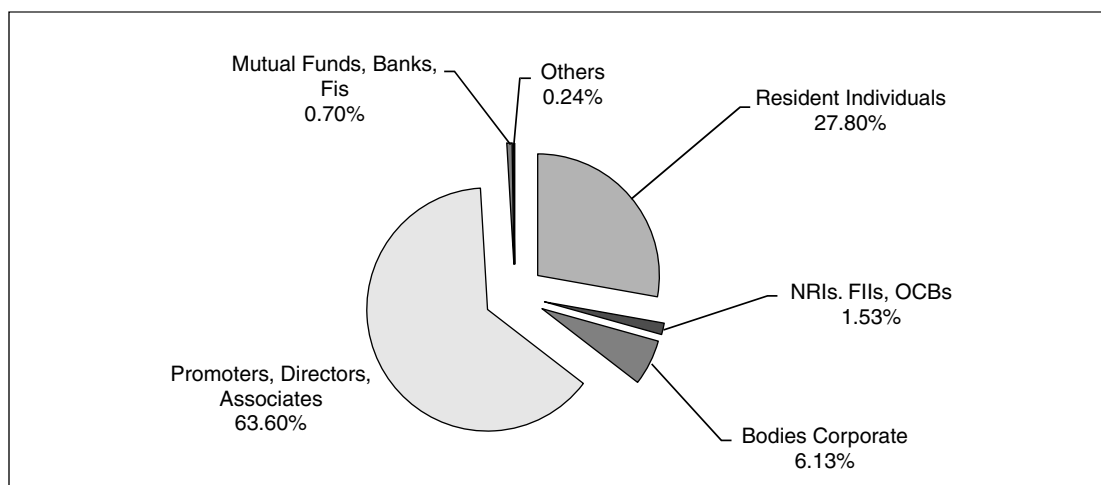


18. Distribution of Shareholding as on 31st March, 2010

No. of Equity shares	Shareholders		No of Shares	
	Number	% of Holders	Number	% of shares
Upto 5000	4366	76.52	892087	3.97
5001-10000	629	11.02	552054	2.45
10001-20000	313	5.49	518045	2.30
20001-30000	102	1.79	273842	1.22
30001-40000	51	0.89	182297	0.81
40001-50000	75	1.31	359952	1.60
50001-100000	83	1.45	639142	2.84
100001 and Above	87	1.53	19082581	84.81
Total	5706	100.00	22500000	100.00

19. Categories of shareholders as on 31st March, 2010

Categories	No. of share holders	% of Shareholders	No. of shares held	% of shares
Resident Individuals	5394	94.53	6255990	27.80
NRI's, FI's, OCB's	47	0.82	343575	1.53
Bodies Corporate	240	4.21	1379149	6.13
Promoters, Directors, Associates	1	0.02	14309100	63.60
Mutual funds, Banks, FI's	2	0.04	157600	0.70
Others	22	0.39	54586	0.24
Total	5706	100.00	22500000	100.00

Categories of Shareholders as on 31st March, 2010

CERTIFICATE OF COMPLIANCE WITH THE CODE OF CONDUCT

To

The Shareholders,

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, 2010.

Sd/-

Ajit Kamath

Chairman & Managing Director

Place: Mumbai

Date : 13.08.2010

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.

Sd/-

Ajit Kamath

Chairman & Managing Director

Place: Mumbai

Date : 13.08.2010

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, 2010, as stipulated in Clause 49 of the Listing Agreement 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, 2010, 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 **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-
Mukesh Mehta
Proprietor

Membership No.100407
FRN: 116309W

Place: Mumbai
Date : 13.08.2010

AUDITORS' REPORT

To

The Members of **AVON ORGANICS LIMITED**

We have audited the attached Balance Sheet of Avon Organics Limited, as at 31st March, 2010, 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 mis-statement. 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, 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2010 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, 2010.
 - (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 Mukesh Mehta & Associates
Chartered Accountants

Sd/-
Mukesh Mehta
Proprietor

Membership No.100407
FRN: 116309W

Place: Mumbai
Date : 08.07.2010

ANNEXURE TO AUDITORS' REPORT

- 1.1 The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- 1.2 The Fixed assets have been physically verified by the management at reasonable intervals, 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, which needs to be entered in the registers maintained under section 301 of the Act, have been so entered. Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevalent market price 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, 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 of 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 dispute is pending
Income tax	69.39	2005-06	Commissioner of Income tax (Appeals) - III

- 10 The company has not incurred cash loss in the current year and immediately preceding previous year. However the company has accumulated losses amounting to Rs.1180.32 Lakhs in the Balance Sheet as on 31st March, 2010.
- 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 have been held by the Company in its own name. The company has sold the bond during the year which was shown under the head investment.
- 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 Banks / 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 **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-

Mukesh Mehta
Proprietor

Membership No.100407
FRN: 116309W

Place: Mumbai
Date : 08.07.2010

BALANCE SHEET AS AT 31.03.2010

(Amount in Rs.)

Particulars	Sch. Ref	As at 31.03.2010	As at 31.03.2009
SOURCES OF FUNDS			
1. SHAREHOLDERS' FUNDS			
a. Share Capital	1	225,000,000	225,000,000
b. Reserves & Surplus	2	316,818,903	541,818,903
			254,122,648
			479,122,648
2. LOAN FUNDS			
a. Secured Loans	3	1,062,914,514	800,610,682
b. Unsecured Loans	4	346,353,537	1,409,268,052
			341,083,608
			1,141,694,290
3. DEFERRED TAX			
		14,064,610	14,064,610
TOTAL		1,965,151,564	1,634,881,548
APPLICATION OF FUNDS			
1. FIXED ASSETS	5		
Gross Block		1,094,607,448	960,252,412
Less: Depreciation		525,609,429	468,545,310
Net Block		568,998,019	491,707,102
Capital Work in Progress		298,055,800	175,496,687
2. INVESTMENTS	6	19,200	519,200
3. CURRENT ASSETS, LOANS & ADVANCES			
a. Inventories	7	616,812,355	562,369,442
b. Sundry Debtors	8	609,613,077	440,193,699
c. Cash & Bank Balances	9	122,400,197	23,936,790
d. Other Current Assets	10	107,144,541	81,293,584
e. Loans & Advances	11	114,696,819	98,921,471
		1,570,666,990	1,206,714,986
Less: Current Liabilities & Provisions	12		
a. Current Liabilities		445,851,293	239,206,427
b. Provisions		26,737,152	350,000
Net Current Assets		1,098,078,545	967,158,559
TOTAL		1,965,151,564	1,634,881,548
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 **Mukesh Mehta & Associates**
Chartered Accountants

For and on behalf of the Board

Sd/-
Mukesh Mehta
Proprietor
Mem.No.100407
FRN: 116309W

Sd/-
Ajit Kamath
Chairman & Managing Director

Sd/-
Manoj Jain
Director

Sd/-
V.S. Soma
Executive Director
& Company Secretary

Place: Mumbai
Date : 08.07.2010

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31.03.2010

(Amount in Rs.)

Particulars	Sch. Ref	Year ended 31.03.2010	Year ended 31.03.2009
1. INCOME			
a. Sales		1,504,549,005	1,222,843,266
b. Other Income	13	2,934,764	3,146,789
c. Increase / (Decrease) in stocks	14	14,588,451	(9,866,081)
TOTAL		1,522,072,219	1,216,123,974
2. EXPENDITURE			
a. Cost of Materials Consumed	15	936,534,332	732,758,417
b. Power & Fuel		119,228,142	98,154,722
c. Payments & benefits to employees	16	95,109,412	85,018,430
d. Other Manufacturing Expenses	17	59,734,447	40,043,842
e. Administrative & Selling Expenses	18	46,933,042	48,953,978
f. Financial charges	19	116,939,464	99,465,992
g. Depreciation	5	58,509,974	55,200,271
TOTAL		1,432,988,813	1,159,595,652
Profit / (loss) before tax		89,083,406	56,528,322
Less: Prior Period Expenses		—	—
Less: Provision for Taxation		—	—
Less: Deferred tax		—	—
Less: Fringe Benefit Tax		—	700,000
Less: Short Provision for Tax for earlier Years		63,277	—
Profit / (loss) after tax		89,020,129	55,828,322
Less: Proposed Dividend		(22,500,000)	—
Less: Dividend Distribution Tax		(3,823,875)	—
Surplus in P&L Account b/f from last year		(180,728,752)	(236,557,074)
Balance carried to Balance Sheet		(118,032,497)	(180,728,752)
Significant Accounting Policies & Notes to Accounts	20		
COMPUTATION OF EARNINGS PER SHARE			
a. Net profit / loss for the year (Rs.)		89,020,129	55,828,322
b. No. of shares outstanding during the year		22,500,000	22,500,000
c. Basic and diluted EPS (Rs.)		3.96	2.48
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 Profit and Loss Account

As per our report of even date
For **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-
Mukesh Mehta
Proprietor
Mem.No.100407
FRN: 116309W

Place: Mumbai
Date : 08.07.2010

For and on behalf of the Board

Sd/-
Ajit Kamath
Chairman & Managing Director

Sd/-
Manoj Jain
Director

Sd/-
V.S. Soma
Executive Director
& Company Secretary

SCHEDULES TO FINANCIAL STATEMENTS

(Amount in Rs.)

	As at 31.03.2010	As at 31.03.2009
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 2,50,00,000 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)		
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	(118,032,497)	(180,728,752)
TOTAL	316,818,903	254,122,648
SCHEDULE 3		
SECURED LOANS		
a. Term Loans from Banks	590,505,709	404,416,439
b. Working Capital Loan from Banks	471,542,158	394,697,241
c. Vehicle Loans under Hire Purchase	866,647	1,497,002
TOTAL	1,062,914,514	800,610,682
SCHEDULE 4		
UNSECURED LOANS		
Deferred Sales Tax Loan from State Govts.	160,252,537	154,982,608
From Body Corporates	186,101,000	186,101,000
TOTAL	346,353,537	341,083,608
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
TOTAL	19,200	519,200
Aggregate market value of quoted Investments	90,400	38,400
Aggregate market value of Unquoted Investments	—	500,000

**SCHEDULE 5
FIXED ASSETS**

(Amount in Rs.)

Particulars	GROSS BLOCK			DEPRECIATION				NET BLOCK	
	As at 01.04.2009	Additions	Deletions	As at 31.03.2010	Depreciation For the Year	On Deletions	As at 31.03.2010	As at 31.03.2010	As at 31.03.2009
Land & Site Development	12,332,901	198,745	0	12,531,646	0	0	12,531,646	12,332,901	
<u>Buildings</u>									
– Non Factory	5,727,447	307,013	0	6,034,460	208,789	0	1,835,313	4,199,147	4,100,923
– Factory	106,406,831	12,665,631	0	119,072,462	4,234,994	0	46,795,025	72,277,437	63,846,800
Plant & Machinery	766,173,752	121,131,605	2,246,850	885,058,507	50,191,969	877,108	431,086,460	453,972,047	384,402,153
Electrical Installations	47,744,862	342,019	0	48,086,881	2,244,829	0	31,506,909	16,579,972	18,482,782
Furniture	5,821,562	2,589,154	0	8,410,716	355,702	0	4,300,170	4,110,546	1,877,094
Office Equipment	4,839,824	89,082	0	4,928,906	314,271	0	2,406,531	2,522,375	2,747,564
Computers	5,685,854	1,236,478	0	6,922,332	629,698	0	5,061,317	1,861,015	1,254,235
Vehicles	5,519,379	0	1,957,841	3,561,538	329,723	568,748	2,617,704	943,834	2,662,650
TOTAL	960,252,412	138,559,727	4,204,691	1,094,607,448	58,509,974	1,445,856	525,609,429	568,998,019	491,707,103
Previous Year	953,481,109	6,782,553	11,250	960,252,412	55,200,271	1,660,554	468,545,310	491,707,102	540,136,070

SCHEDULES TO FINANCIAL STATEMENTS

(Amount in Rs.)

	As at 31.03.2010	As at 31.03.2009
SCHEDULE 7		
INVENTORIES		
(As valued and certified by Management)		
a. Raw Materials	264,385,839	257,315,829
b. Stores, Consumables & Packing Material	51,777,460	50,849,579
c. Work-in-progress	225,499,957	182,006,101
d. Finished Goods	43,292,527	72,197,933
e. Material in transit	31,856,571	—
TOTAL	616,812,355	562,369,442
SCHEDULE 8		
SUNDRY DEBTORS		
(Unsecured, Considered good and certified by Management)		
Due over six months	9,835,737	16,260,304
Others	599,777,340	423,933,395
TOTAL	609,613,077	440,193,699
SCHEDULE 9		
CASH & BANK BALANCES		
Cash on hand	1,075,758	1,332,674
Balance with Scheduled Banks		
a. in Current Accounts	99,162,658	819,077
b. in Deposits Accounts	22,161,781	21,733,922
c. in Unclaimed Dividend a/c	—	51,117
TOTAL	122,400,197	23,936,790
SCHEDULE 10		
OTHER CURRENT ASSETS		
1. Deposits	12,737,762	11,114,976
2. Accrued Interest on Deposits	3,878,617	3,886,620
3. Balance with Govt. Departments	76,270,394	53,984,318
4. Prepaid expenses	1,726,817	2,085,409
5. Income Tax paid	12,530,951	10,222,261
TOTAL	107,144,541	81,293,584
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	23,357,303	22,499,063
2. Advances to employees	505,311	661,718
3. Other Advances	90,834,205	75,760,690
TOTAL	114,696,819	98,921,471

SCHEDULES TO FINANCIAL STATEMENTS

(Amount in Rs.)

	As at 31.03.2010	As at 31.03.2009
SCHEDULE 12		
CURRENT LIABILITIES & PROVISIONS		
a. Current Liabilities		
Sundry Creditors	442,677,289	239,155,310
Un claimed Dividend	–	51,117
Sales Tax Deferment Loan	3,174,004	–
(A)	445,851,293	239,206,427
b. Provisions		
Provision for Tax	413,277	350,000
Proposed Dividend	22,500,000	–
Dividend Distribution Tax	3,823,875	–
(B)	26,737,152	350,000
TOTAL (A+B)	472,588,445	239,556,427

	Year ended 31.03.2010	Year ended 31.03.2009
SCHEDULE 13		
OTHER INCOME		
Interest Received	2,754,027	3,146,789
Misc. Income	180,736	–
TOTAL	2,934,764	3,146,789

SCHEDULE 14		
INCREASE / (DECREASE) IN STOCKS		
Opening Stock		
Work-in-progress	182,006,100	223,375,003
Finished Goods	72,197,933	40,695,111
(A)	254,204,033	264,070,114
Closing Stock		
Work-in-progress	225,499,957	182,006,100
Finished Goods	43,292,527	72,197,933
(B)	268,792,484	254,204,033
TOTAL (A + B)	14,588,451	9,866,081

SCHEDULE 15		
COST OF MATERIALS CONSUMED		
Opening Stock	257,315,829	113,559,749
Add: Purchases	943,604,342	876,514,497
	1,200,920,171	990,074,246
Less: Closing Stock	264,385,839	257,315,829
TOTAL	936,534,332	732,758,417

SCHEDULES TO FINANCIAL STATEMENTS

(Amount in Rs.)

	Year ended 31.03.2010	Year ended 31.03.2009
SCHEDULE 16		
PAYMENTS & BENEFITS TO EMPLOYEES		
Salaries & Wages	80,949,318	72,561,061
Staff Welfare Expenses	5,936,267	5,315,949
Contributions to Funds	6,861,827	5,408,086
Directors Remuneration	1,362,000	1,733,334
TOTAL	95,109,412	85,018,430
SCHEDULE 17		
OTHER MANUFACTURING EXPENSES		
Packing Material consumed	6,666,663	4,906,132
Stores and spares consumed	12,837,766	11,539,783
Repairs and Maintenance	16,243,147	12,711,374
Manufacturing Expenses	21,855,769	8,523,323
Insurance Charges	2,131,102	2,363,230
TOTAL	59,734,447	40,043,843
SCHEDULE 18		
ADMINISTRATIVE AND SELLING EXPENSES		
Rent, Rates and Taxes	6,103,193	3,761,488
Printing and Stationary	2,260,838	974,291
Postage, Telegrams and Telephones	2,697,401	1,931,859
Professional Charges	3,834,236	1,276,803
Travelling and Conveyance	6,499,745	6,387,787
Auditors' Fees	150,000	172,500
Vehicle Maintenance	1,867,821	393,343
Vehicle Hire charges	2,583,717	3,133,325
General Expenses	3,749,690	9,276,358
Loss on Sale of Assets	390,453	—
Export Expenses	—	1,053,385
ECGC Premium	331,802	787,950
Discounts	—	3,011,447
Outward Freight	12,358,120	14,460,073
Sales Promotion & Advertisement	4,106,025	2,333,369
TOTAL	46,933,042	48,953,978
SCHEDULE 19		
INTEREST AND FINANCIAL CHARGES		
Interest Paid	93,345,391	80,208,661
Other Financial Charges	23,594,073	19,257,331
TOTAL	116,939,464	99,465,992

SCHEDULE 20**NOTES TO ACCOUNTS****Significant Accounting Policies & Notes to Accounts****I 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.
- c) All income and expenditure having material bearing on the financial statements are recognised on an accrual basis.
- d) Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates which it believes are reasonable under the circumstances that affect the reported amounts of assets, liabilities and contingent liabilities on the date of financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Difference between the actual results and estimates are recognised in the year in which the results are known / materialized.

II Statement of Significant Accounting Policies:**A 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.

B Depreciation:

The depreciation on fixed assets has been provided on Written Down Value method for Fixed 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 as per Schedule-VI of the Companies Act, 1956.

C Employees' Benefits:

Contribution to defined schemes such as Provident Fund, ESI are charged as incurred on accrual basis. The premium paid to LIC Gratuity Fund as per section 4 of the Gratuity Act, 1972 has been charged to Profit & Loss account.

D 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.

E 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.

F 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 etc.

G Revenue Recognition:

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

H 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.

I Deferred Tax:

Deferred Tax is accounted for by computing the tax effect of timing differences, which arise during 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.

J 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.

K 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.

L Investments:

Investments are stated at cost.

M 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.

N 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.

III Notes to Accounts:**1 Secured Loans****a. Term Loans**

The term loans from banks of Rs. 5905.06 lakhs (previous year Rs. 4044.16 lakhs) are secured by way of first pari passu charge on fixed assets, second pari passu charge on current assets, personal guarantee of promoter director and also by way of corporate guarantee.

b. Working Capital

The working capital loans from the banks Rs. 4715.42 lakhs (previous year Rs. 3946.97 lakhs) are secured by first pari passu charge on the current assets, second pari passu charge on fixed assets and personal guarantee of promoter directors of the company.

c. Vehicle Loans

The Vehicle loans of Rs. 8.67 lakhs (previous year Rs. 14.97 lakhs) availed under hire purchase are secured by way of hypothecation of vehicles and also personal guarantee of some of the erstwhile Directors of the Company.

2. Contingent Liabilities not provided for:**(Rs. in Lakhs)**

Particulars	2009-10	2008-09
a. Estimated Amount of Unexecuted Capital Contracts	502.40	135.36
b. Letters of Credit	24.15	142.74
c. Bank Guarantees	51.00	51.00
d. Others	29.38	29.38

3. Managerial Remuneration:**(in Rs.)**

Particulars	2009-10	2008-09
Executive Director		
Salary	1,362,000	1,200,000
Perquisites	—	300,000
Director - Marketing		
Salary	—	200,000
Perquisites	—	33,334

4. Auditors Remuneration:**(in Rs.)**

Particulars	2009-10	2008-09
Audit Fees	150,000	150,000
Certification Fee	—	22,500

5. Additional information pursuant to the provisions of Paragraphs 3, 4C & 4D of Part II of Schedule VI of the Companies Act, 1956:

Particulars	2009-10		2008-09	
	Qty TPA	Rs. (in lakhs)	Qty TPA	Rs. (in lakhs)
a. Licensed and Installed Capacity				
Licensed Capacity		NA		NA
Installed Capacity	2,300	—	2300	—
b. Production details*:				
Intermediates & APIs	863.88	—	1926.49	—
c. Details of closing stock of finished goods				
Intermediates & APIs	56.28	432.93	84.11	721.98

*The change is on account of low volume, high value product mix.

6. Value of Imported (CIF) and Indigenous materials consumed and their percentage to total consumption

Particulars	2009-10		2008-09	
	Rs. (in lakhs)	% to Total consumption	Rs. (in lakhs)	% to Total consumption
1. Indigeneous	7678.43	81.99	6705.91	91.52
2. Imported	1686.91	18.01	621.67	8.48
TOTAL	9365.34	100.00	7327.58	100.00

7. Details of Major Raw Materials Consumed:

Particulars	2009-10		2008-09	
	Qty (in MT)	Rs. (in lakhs)	Qty (in MT)	Rs. (in lakhs)
Acetic Acid	710.63	209.05	927.02	350.94
Aceto Acet Mono Methyl Amide (Crude)	420.29	330.69	1,189.88	956.64
Tartarate Salt Crude	29.56	177.77	—	—
Toulene	449.72	204.10	658.31	330.77
5% Palladium	0.88	237.10	—	—
Absolute Alcohol	437.40	200.36	—	—
Acetone	328.38	170.00	546.93	282.91
Acyclovir USP	38.29	854.29	3.75	68.93
Benzaldehyde	296.70	258.82	369.81	297.93
CBZL-Valine	58.12	943.40	9.38	178.33
Dimethyl Formamide	345.80	151.22	62.77	38.60
Methanol	731.63	103.46	553.25	111.31
Mollasses	6,766.16	259.65	6,826.77	254.75
NN Dicyclohexyl Corbodimade	55.50	211.14	—	—

8. Foreign Currency / Exchange Transactions: (Rs. in lakhs)

Particulars	2009-10	2008-09
A. Value of Imports		
Raw Materials	1,689.18	621.67
B. Value of Exports - Direct	5,081.30	2257.46
Deemed Exports	4,892.88	902.17
C. Expenditure in Foreign Currency (Rs.)		
a. Foreign Travel	—	0.51
b. Other Services	4.06	1.64

9. The Company has been availing interest free Sales Tax deferement loan from States Government Authorities and the balance outstanding as on 31st March, 2010 was Rs. 1,634.26 lakhs (Previous year Rs. 1,549.82 lakhs), out of which Rs. 31.74 lakhs (Previous year Rs. NIL) is due within one year.

10. No Provision is made for Income Tax on account of unabsorbed losses.

11. The company has one segment of activity namely "Pharmaceuticals".

The Company is engaged solely in the business of 'Pharmaceuticals'. The entire operations are governed by the same set of risks and returns and hence the same has been considered as representing a single segment.

This treatment is in accordance with the guiding principles enunciated in the Accounting Standard 17 on 'Segment Reporting' as notified under the Companies Act, 1956. However the geographical break up of sales is as under

i) Domestic	Rs. 5,071.31 lakhs
ii) Direct Exports	Rs. 5,081.30 lakhs
iii) Deemed Exports	Rs. 4,892.88 lakhs

12. Some of Sundry Creditors, Sundry Debtors and Advances as on 31st March, 2010 are subject to confirmation.

13. 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.

14. 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:

Sl.No.	Particulars	Relationship
1.	Mr. Ajit Kamath	Key Management Person
2.	Mr. Manoj Jain	Key Management Person
3.	Mr. Rajesh Agarwal*	Key Management Person
4.	Mr. V.S. Soma	Key Management Person
5.	M/s. Arch Pharmalabs Ltd.	Holding Company

*Mr. Rajesh Agarwal is not a related party with effect from 1st August, 2009, i.e. the date of his resignation.

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

(Rs. in Lakhs)

Sl.No.	Related Party	Transaction	2009-10
1.	M/s. Arch Pharmalabs Ltd.	Purchase	344.04
2.	M/s. Arch Pharmalabs Ltd.	Sales	869.60
3.	Mr. V.S. Soma	Services	8.62
4.	Mr. Rajesh Agarwal	Services	6.84

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

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

17. Paise has been rounded off to the nearest rupee.

As per our report of even date
For **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-
Mukesh Mehta
Proprietor
Mem.No.100407
FRN: 116309W

Place: Mumbai
Date : 08.07.2010

For and on behalf of the Board

Sd/-
Ajit Kamath
Chairman & Managing Director

Sd/-
Manoj Jain
Director

Sd/-
V.S. Soma
Executive Director
& Company Secretary

CASH FLOW STATEMENT FOR THE YEAR ENDED 31.03.2010

(Amount in Rs. Lakhs)

Particulars	Year ended 31.03.2010	Year ended 31.03.2009
A. Cash Flow from Operating Activities		
Net Profit before tax and extraordinary items	890.83	565.28
Adjustments for		
Depreciation	585.10	552.00
(Profit) / Loss on Sale of Asset	3.90	0.00
Interest	1,169.39	994.66
Operating Profits before Working Capital Changes	2,649.23	2111.95
(Increase) / Decrease in Inventories	(544.43)	(1561.71)
(Increase) / Decrease in Debtors	(1,694.19)	(2820.47)
(Increase) / Decrease in Loans & Advances	(412.76)	(534.57)
Increase / (Decrease) in Current Liabilities	2,066.45	1501.11
Increase / (Decrease) in Cash Credit Loan	768.45	1247.12
Cash Generated from Operations	2,832.74	(56.57)
Interest Paid	(1,169.39)	(994.66)
Income Tax (FBT)	(3.50)	(7.00)
Net Cash flow from operating Activities (A)	1,659.85	(1058.23)
B. Cash Flow from Investing Activities		
Fixed Assets	(2,611.19)	(1558.52)
Sale of Fixed Assets	23.68	0.00
Sale of Asset (Investments)	5.00	0.00
Net Cash Used in Investing Activities (B)	(2,582.50)	(1558.52)
C. Cash Flow from Financing Activities		
Change in long term borrowings	1,854.59	1056.53
Unsecured Loan	52.70	1545.88
Net Cash inflow from Financing Activities (C)	1,907.29	2602.41
Net Increase in Cash Flow (A+B+C)	984.63	(14.34)
Opening Balance of Cash and Cash Equivalent	239.37	253.71
Closing Balance of Cash and Cash Equivalent	1224.00	239.37
Increase / (Decrease)	984.63	(14.34)

As per our report of even date
For **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-
Mukesh Mehta
Proprietor
Mem.No.100407
FRN: 116309W

Place: Mumbai
Date : 08.07.2010

For and on behalf of the Board

Sd/-
Ajit Kamath
Chairman & Managing Director

Sd/-
Manoj Jain
Director

Sd/-
V.S. Soma
Executive Director
& Company Secretary

AUDITORS' CERTIFICATE ON CASH FLOW

To

The Board of Directors,

AVON ORGANICS LIMITED

We have examined the attached cash flow statements of M/s. AVON ORGANICS LIMITED for the year ended 31st March, 2010. 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 and Loss Account and Balance Sheet of the Company covered by our Report of dated July 8, 2010 to the members of the Company.

For **Mukesh Mehta & Associates**
Chartered Accountants

Sd/-

Mukesh Mehta

Proprietor

Membership No.100407

FRN: 116309W

Place: Mumbai

Date : 08.07.2010

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**I Registration Details**

Registration No.

0	1	-	1	6	1	1	2
---	---	---	---	---	---	---	---

 State Code

0	1
---	---

Balance Sheet Date

3	1
---	---

0	3
---	---

2	0	1	0
---	---	---	---

Date Month Year

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

Public Issue

--	--	--	--	--	--	--	--

 N I L

Rights Issue

--	--	--	--	--	--	--	--

 N I L

Bonus Issue

--	--	--	--	--	--	--	--

 N I L

Private Placements

--	--	--	--	--	--	--	--

 N I L**III Position of Mobilisation and Deployment of Funds (Rs. in Lakhs)**

Total Liabilities

	2	4	3	7	7	.	4	0
--	---	---	---	---	---	---	---	---

SOURCE OF FUNDS

Paid up Capital

		2	2	5	0	.	0	0
--	--	---	---	---	---	---	---	---

Reserves and Surplus

		3	1	6	8	.	1	9
--	--	---	---	---	---	---	---	---

Secured Loans

		1	0	6	2	9	.	1	5
--	--	---	---	---	---	---	---	---	---

Unsecured Loans

		3	4	6	3	.	5	3
--	--	---	---	---	---	---	---	---

Current Liabilities

		4	7	2	5	.	8	8
--	--	---	---	---	---	---	---	---

Deferred Tax Liability

			1	4	0	.	6	5
--	--	--	---	---	---	---	---	---

Total Assets

	2	4	3	7	7	.	4	0
--	---	---	---	---	---	---	---	---

APPLICATION FUNDS

Net Fixed Assets

		8	6	7	0	.	5	4
--	--	---	---	---	---	---	---	---

Investments

					0	.	1	9
--	--	--	--	--	---	---	---	---

Current Assets, Loans & Advances

		1	5	7	0	6	.	6	7
--	--	---	---	---	---	---	---	---	---

Accumulated Losses

					0	.	0	0
--	--	--	--	--	---	---	---	---

Misc. Expenses (Not Written Off)

					0	.	0	0
--	--	--	--	--	---	---	---	---

IV Performance of the Company (Rs.in Lakhs)

Total Income

		1	5	2	2	0	.	7	2
--	--	---	---	---	---	---	---	---	---

Profit / Loss before Tax

			8	9	0	.	8	3
--	--	--	---	---	---	---	---	---

Earnings per share (in Rs.)

					3	.	9	6
--	--	--	--	--	---	---	---	---

Total Expenditure

		1	4	3	2	9	.	8	9
--	--	---	---	---	---	---	---	---	---

Profit / Loss after tax

			8	9	0	.	2	0
--	--	--	---	---	---	---	---	---

Dividend-Rate %

					1	0	.	0	0
--	--	--	--	--	---	---	---	---	---

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

Mono Methyl Aceto Acetamide

Aceto Acetanilide (AAA)

Ephedrine HCL

Item Code No. (ITC Code)

291590

29241002

30039089



AVON ORGANICS LIMITED

Regd Off: Survey No. 18, Yawapur Village, Sadasivpet Mandal, Medak District, A.P.

Corp Off: 6-3-865, 1st Floor, Madhupala Towers, Ameerpet, Hyderabad – 500 016

Phone: 040-30906500/01

PROXY FORM

Reg 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 Saturday,
25th September, 2010, at the Registered Office of the Company at 11.30 a.m.

Signed :

Date:

Affix
15 Paise
Revenue
Stamp

Signature

Note: This proxy Form duly completed should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.



AVON ORGANICS LIMITED

Regd Off: Survey No. 18, Yawapur Village, Sadasivpet Mandal, Medak District, A.P.

Corp Off: 6-3-865, 1st Floor, Madhupala Towers, Ameerpet, Hyderabad – 500 016

Phone: 040-30906500/01

(Please present this at the entrance of the meeting venue)

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 Saturday,
25th September, 2010, at the Registered Office of the Company at 11.30 a.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.

NOTES

[illegible]

PRINTED MATTER
BOOK POST

If undelivered, please return to:



AVON ORGANICS LIMITED

(AN ARCH ENTERPRISE)

#6-3-865, 1st Floor, Madhupala Towers
Opp. Greenland Apartments
Ameerpet, Hyderabad – 500 016