

8th
Annual Report
2005 - 06

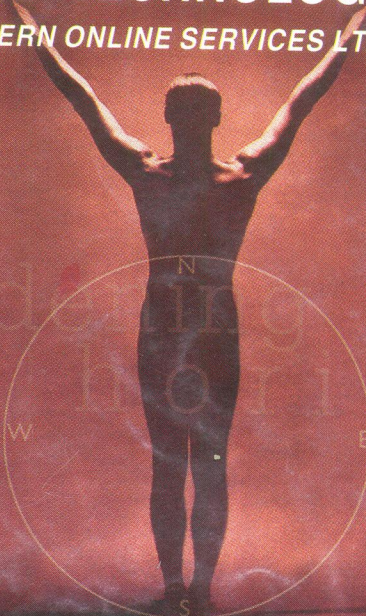


shrinking
distances

We
get
you
there
Faster.

SOUTHERN ONLINE BIO TECHNOLOGIES LTD

(Formerly known as SOUTHERN ONLINE SERVICES LTD)



widening
horizons

Smart Solutions and Eco Friendly

Hon'ble Chief Minister of
Andhra Pradesh,
Dr.Y.S.Rajashekar Reddy
inaugurating APSRTC bus ran
on Biodiesel on June 5, 2005.



Mr.Satrucharla Vijaya
Rama Raju, Minsiter for
Environment, Forest,
Science & Technology,
inaugurating APSRTC
bus ran on Biodiesel on
June 5, 2006.

SBT Corporate Office at
3A, 3rd Floor,
Samrat Complex,
Saifabad, Hyderabad - 04



Board of Directors	Mr. N. Satish Kumar	Managing Director
	Mr. B.H.R. Balaji	Executive Director
	Mr. K. Radha Krishna	Director - Finance
	Mr. B. Sreedhara Reddy	Director - Admn.
	Mr. K. Tejesh Kumar	Director - Intl. Affairs
	Mr. K. Venkateswara Rao	Director - Intl. Affairs
	Mr. Y. Anand Swaroop	Director
	Mr. B. Suresh	Director
	Ms. T. Rohini Reddy	Director
	Mr. V. Durga Prasad	Director
	Mr. C. Raveendra Kumar	Director
	Mr. B. Rajesh	Director

**Compliance Officer &
Company Secretary** : **Mr. D. Krishna Rao**

Auditors : **P. Murali & Co.,**
Chartered Accountants
6-3-655/2/3,
Somajiguda
Hyderabad - 500 082

Regd. Office : 3A, 3rd Floor, Samrat Complex,
Saifabad, Hyderabad-04
Tel: (040) 23241999
Fax: (040) 23241444
Website: www.sol.net.in
Email: info@sol.net.in

**Registrars & Share
Transfer Agents** : **M/s. Aarathi Consultants Pvt. Ltd.**
1-2-285, Domalguda, Hyderabad-29.
Tel: (040) 27642217/27638111
Fax: (040) 27632184
Email: info@aarthiconsultants.com

Bankers : **Bank of India**
Banjara Hills Branch
Chandra Apts, Road No.7
Hyderabad - 500 034.

NOTICE

Notice is hereby given that the Eighth Annual General Meeting of the Members of the Company will be held on Friday, the 29th day of December, 2006 at 11.30 A.M. at Dream Valley Resorts, Srinagar, Gandipet, Hyderabad – 500 075 to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Balance Sheet as on 31st March 2006 and Audited Profit & Loss Account for the year ended on that date together with the Directors' Report and Auditors' Report.
2. To appoint a Director in place of Mr. Y. Anand Swaroop, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. K. Tejesh Kumar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. K. Venkateswara Rao, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint M/s. P. Murali & Co., Chartered Accountants, Hyderabad as Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS :

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

"RESOLVED that Mr. C. Raveendra Kumar, who was appointed as an Additional Director of the Company by the Board of Directors who holds office under Section 260 of the Companies Act, 1956, up to the date of ensuing Annual General Meeting and in respect of whom the Company has received a notice in writing proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED that Mr. B. Rajesh, who was appointed as an Additional Director of the Company by the Board of Directors, who holds office under Section

260 of the Companies Act, 1956, up to the date of ensuing Annual General Meeting and in respect of whom the Company has received a notice in writing proposing his candidature for the office of a Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation."

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

"RESOLVED that pursuant to the provisions of Section 198, 269, 309, 310, 311 and read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 as amended from time to time, the members of the Company be and are hereby giving consent and ratified for the re-appointment of Sri. N. Satish Kumar as Managing Director for a further period of 5 (Five Years) with effect from 28th May, 2006 on the remuneration as detailed below:

I. Salary

Rs.1,00,000/- (Rupees One Lakh only) per month

II. Commission

1% of the amount of Net Profit before taxes (but after charging all expenses including depreciation and managerial compensation) as appearing in the Audited Annual Accounts for each Financial Year of the Company, unless otherwise decided by the Board for any financial Year, subject however, that the total remuneration (i.e., salary, perquisites and commission) in any one financial year shall not exceed the limits prescribed from time to time under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may, for the time being, be in force.

III. Perquisites

Perquisites as follows will be paid and / or provided in addition to salary, subject however that the amount of perquisites, if taxable as per Income Tax Act, 1961, shall be restricted to total remuneration as per Part II of Schedule XIII to the Companies Act, 1956, as applicable from time to time.

Part - A

- a] Medical Reimbursement

Reimbursement of medical expenses actually incurred for self and family including dependent mother and father, subject to a ceiling of one month's salary per year or 3 months' salary in a block of 3 years.

b) Leave Travel Concession

For self and family including dependent father and mother, to and from any place in India, once in a year in accordance with the rules of the Company.

c) Club Fees

Fees of Club subject to a maximum of 2 clubs will be allowed, provided that no admission or life membership fees shall be paid.

Part - B

a) Provident Fund

Company's contribution to Provident Fund as per the scheme of the Company.

b) Pension / Superannuation Fund

Company's contribution to Pension / Superannuation Fund in accordance with the scheme of the Company.

c) Gratuity

As per the rules of the Company, payable in accordance with the approved fund at a rate not exceeding one-half month's salary for each completed year of service.

Part - C

a) Car

Use of Company's car with driver for business purposes.

b) Telephone

Free Telephone / Communication facilities at residence for business purposes.

IV. Other Benefits

Leave

On full pay and allowances as per rules of the Company, but not more than one month's leave for every 11 months of service. Leave not availed of shall be allowed to be encashed at the end of the tenure and the same will not be included in the computation of the ceiling on perquisites.

V. Overall Remuneration

The aggregate of salary, commission and perquisites in any financial year shall not exceed the limits prescribed from time to time under Sections 198, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule XIII to the said Act, as may be, for the time being, in force. In case of any doubt / discrepancy / clarification that may arise with respect to payment of remuneration in excess of that entitled under Section II of Part II of Schedule XIII to the Companies Act, 1956, but not exceeding the overall limits prescribed under the Act, the same shall be determined and decided by the Board.

VI. Minimum Remuneration

In the event of loss or inadequacy of profits, in any financial year during the currency of tenure of service, the payment of salary, commission, perquisites and other allowances shall be governed by the limits prescribed under section II of Part II of Schedule XIII to the Companies Act, 1956, including any statutory modification or re-enactment thereof, as may be for the time being in force.

VII. Three month's notice shall be required on either side for termination of services.

9. *To consider and if thought fit, to pass with or without modification(s), the following resolution as a special resolution:*

"RESOLVED THAT in accordance with the provisions of Section 81 (1A) and all other applicable provisions of the Companies Act, 1956 (including any statutory modification(s) or re-enactment thereof, for the time being in force) and relevant provisions of the Memorandum and Articles of Association of the Company, the Listing Agreements entered into by the Company with Stock Exchanges where the shares of the Company are listed and the Issue of Foreign Currency Convertible Bonds, Qualified Institution Placements and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, and subject to the approval, consent, permission and/or sanction of the Ministry of Finance and Ministry of Industry (Foreign Investment Promotion Board/ Secretariat for Industrial Assistance) of the Government of India, Reserve Bank of India, Securities & Exchange Board of India (SEBI) and all other appropriate and/or concerned authorities, institutions or bodies and subject to such conditions and modifications as may

be prescribed by any of them in granting such approval, consent, permission or sanction, the Board of Directors (hereinafter referred to as the "Board", which term shall be deemed to include any committee which the Board may have constituted or may hereafter constitute) be and is hereby authorized on behalf of the Company to issue, offer and allot in international offerings, in one or more foreign markets, Foreign Currency Convertible Bonds(FCCBs) and/or Global Depository Receipts (GDRs) and/or American Depository Receipts (ADRs) subscribed to in foreign currency(ies) for cash or stock swap or for other valuable consideration including strategic alliances, business(es) or a combination thereof, to Foreign Investors (whether Institutions and/or Incorporated Bodies and/or Individuals and whether or not such investors are members of the Company) and/or any securities convertible into equity shares at the option of the Company and/or holder of the securities and/or securities linked to equity shares and/or any other instruments or securities through the QIB route (hereinafter referred to as the "Securities") in terms of Chapter XIII A of SEBI Disclosure and Investor Protection Guidelines, 2000, as amended, which upon conversion of all Securities so issued or allotted could give rise to the issue of an amount (inclusive of such premium as may be determined) up to US \$ 25 million as decided by the Company/Underwriters, and such issue and allotment to be made at such time or times, in one or more tranches, at such price or prices, on such terms and conditions including security, rate of interest and in such manner as the Board may, in its absolute discretion think fit or deemed appropriate, wherever necessary in consultation with the Lead Manager(s)/ Investment Banker(s)/Advisers and/or the Underwriters, subject to guidelines of the Reserve Bank of India(RBI), Securities and Exchange Board of India(SEBI) and Ministry of Finance, and otherwise on such terms and conditions as may be decided and deemed appropriate by the Board at the time of issue or allotment.

RESOLVED FURTHER THAT the Company and/or any agency or body authorized by the Company may issue depository receipts representing the underlying equity shares or other securities issued by the Company, in registered form with such features and attributes as are prevalent in international capital markets for instruments of this nature and to provide for the tradability or free transferability thereof as per

the international practices and regulations, and under the forms and practices prevalent in the international markets including filing any registration statement and any amendment thereto with the respective regulatory authorities.

RESOLVED FURTHER THAT the Board be and is hereby authorized to issue and allot such number of equity shares as may be required to be issued and allotted upon conversion of any securities referred to in paragraph one above or as may be necessary in accordance with the terms of the offering, all such shares rank Pari Passu with the equity shares of the Company in all respects and the Board be further authorized to execute necessary documents for the purpose of listing the equity shares on the Stock Exchanges in India.

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of equity shares or securities or instruments or securities representing the same, as described in paragraph one above, the Board and other designated officers of the Company be and are hereby authorized on behalf of the Company to do all such acts, deeds, matters and things as they may at their discretion deem necessary or desirable for such purpose, including without limitation, filing a Registration Statement and other documents with the respective regulatory authorities, listing the securities on overseas stock exchanges such as Luxembourg and/or London and/or Nasdaq and/or New York Stock Exchange(NYSE) and/or Singapore Stock Exchange and/or any of the other overseas stock exchanges, and the entering into and executing all such arrangements/ agreement(s) with any Lead Manager(s)/ Investment Banker(s)/ Underwriter(s)/ Guarantor(s)/ Depository(ies)/ Custodian(s) and all such agents as may be involved or concerned in such offering of securities and to remunerate all such agents including by way of payment of commission, brokerage, fees, expenses incurred in relation to the issue of securities and other expenses, if any".

RESOLVED FURTHER THAT the Board be and it is hereby authorized to settle all questions, difficulties or doubts that may arise in regard to the issue, offer or allotment of securities and utilization of the issue proceeds as it may in its absolute discretion deem fit without being required to seek any further consent or approval of the Members or otherwise to the end and

intent that the members shall be deemed to have given their approval thereto expressly by the authority of this resolution”.

RESOLVED FURTHER THAT the Board be and is hereby authorized to delegate all or any of the powers herein conferred to any committee of directors or chief executive officer or any executive director or director (s) or any other officer or officers of the Company to give effect to the aforesaid resolution.”

10. *To consider and if thought fit, to pass with or without modification(s), the following resolution as a special resolution:*

“RESOLVED THAT pursuant to the provisions of Sec. 81 & Sec.81 (1A) and other applicable provisions, if any, of the Companies Act, 1956 subject to all necessary approvals, consents, permissions, and/or sanctions of the Government of India (GOI), Reserve Bank of India (RBI), Securities & Exchange Board of India (SEBI) and all other appropriate authorities, institutions or bodies and subject to such conditions as may be prescribed by them in granting such approval, consent, permission or sanction, the Board of Directors of the Company and or Committee of the Board duly constituted and authorized (herein after referred to as “Board”) be and is hereby authorised on behalf of the Company to offer, issue and allot shares for cash aggregating up to Rs.70,00,00,000/- (Rupees Seventy Crores only) including and / or excluding the amount of premium and oversubscription, if any, from members, the promoters, public and subscription as may be allowed by the authorities concerned to and/or Financial Institutions and/or Mutual Funds and/or Foreign Institutional Investors and/or Foreign Investors (whether Institutions and/or Incorporated Bodies and/or Individuals or otherwise) Non-Resident Indians and/or other entities and / or to such other persons whether or not such entities or persons or members of the company, by way of Public and / or Rights Issue and/or Private Placement or any one or more or a combination of the above methods through prospectus and/or letter of offer or otherwise at such subscription or issue price or prices whether below or above the market price or prices with or without premium, on such terms and conditions as may be decided by the Board including the terms of issue as to the price and entities/persons to whom such shares may be issued and on the terms and conditions and

matters connected therewith, in consultation with the Lead managers and/or other advisors and/or otherwise on such items as may be decided and deemed appropriate by the Board”.

RESOLVED FURTHER that the above shares when issued shall rank pari-passu with the existing equity shares of the Company in all respects except that they shall be entitled to pro-rata dividend from the date of allotment”.

RESOLVED FURTHER that the issue of the shares shall be deemed to have been made in India/Abroad at the place of issue and shall be governed by the law of the country as applicable and the Board be and is hereby authorized to file such prospectus and other documents as may be required to be filed in India and/or in foreign country or countries and to seek the listing of such securities in one or more International and/or Indian Stock Exchanges”.

FURTHER RESOLVED that the Board be and is hereby authorized to engage the services of or appoint solicitors, advocates, legal advisors, merchant bankers, guarantors, depositories, custodians and any such other agencies to act as managers, lead managers, or in any other capacity or to advise or to certify any matter relating to Company’s accounts or otherwise, on such terms as to remuneration by way of commission, brokerage, fees or otherwise as the Board may in its absolute discretion deem appropriate”.

FURTHER RESOLVED that for the purposes of giving effect to the above resolution the Board be and is hereby authorized on behalf of the Company to do all such acts, deeds matters and things as it may at its discretion deem necessary or desirable for such purposes and to settle any question, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit”.

11. *To consider and if thought fit, to pass with or without modification(s), the following resolution as an special resolution:*

“RESOLVED THAT pursuant to the provisions of Section 94 (1) (a) of the Companies Act, 1956, and other applicable provisions, if any, the Authorized Share Capital of the Company be and is hereby increased from Rs.25,00,00,000/- (Rupees Twenty Five Crores only) divided into 2,50,00,000 (Two

Crore Fifty Lakhs) Equity Shares of Rs.10/- each, to Rs 75,00,00,000/- (Rupees Seventy Five Crores only) divided into 7,50,00,000 (Seven Crores Fifty Lakhs) Equity Shares of Rs.10/- (Rupees Ten only) each, ranking pari passu with the existing Equity Shares.

RESOLVED FURTHER that the existing Clause V of the Memorandum of Association of the Company as to the share capital be and is hereby deleted and in its place the following Clause V be substituted “

“The Authorised share capital is Rs 75,00,00,000/- (Rupees Seventy Five Crores only) divided into 7,50,00,000 (Seven Crores Fifty Lakhs) Equity Shares of Rs.10/- (Rupees Ten only) each.

The Share Capital of the Company whether original, increased or reduced may be sub-divided, consolidated or divided into such classes of shares as may be allowed under the law for the time being relating to companies with such privileges or rights as may be attached and to be held upon such terms as may be prescribed by the regulations of Articles of Association of the Company.”

On behalf of the Board

Place : Hyderabad
Date : 01-12-2006.

N. Satish Kumar
Managing Director

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE THEREAT INSTEAD OF HIMSELF / HERSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. An instrument appointing proxy to be effective must be lodged at the Registered Office of the Company at least 48 hours before the meeting.
3. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 is herewith annexed.
4. The Register of Members / Register of Beneficiaries and Share Transfer Books of the Company will remain closed from Wednesday, 27th December, 2006 to Friday, 29th December, 2006 (both days inclusive).
5. Members who hold shares in dematerialised form are requested to write their Client ID and DP ID Numbers and those who hold shares in physical form are requested to write their Folio

Number in the Attendance Slip for attending the Meeting.

6. Members holding shares in physical form are requested to notify / send any change in their address to the Company's Share Transfer Agents, or to the Company at its registered office.
7. Members holding shares in dematerialisation form are requested to notify/send any change in their address to the concerned depository participant (s).
8. In case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
9. Section 109A of the Companies Act, 1956 extends the nomination facility to individual shareholders of the company. Therefore, the shareholders willing to avail this facility may make nomination in form 2B.
10. Shareholders / proxies should bring duly filled attendance slips sent herewith for attending the meeting along with the copies of Annual Reports to the Annual General Meeting.
11. At the ensuing Annual General Meeting, Mr. Y. Anand Swaroop, Mr. K. Tejesh Kumar and Mr. K. Venkateswara Rao retire by rotation and being eligible offered themselves for reappointment. Pursuant to Clause 49 of the Listing Agreement, brief profile of each of these directors is given below:
 - A. Mr. Y. Anand Swaroop, is a graduate in Mechanical Engineering from Osmania University, MBA & M.Phil in Econometrics from London School of Economics. Mr. Y. Anand Swaroop has 18 years of IT Sector Experience and has proven his abilities in various capacities. He has indepth knowledge in IT Market, its potential. His knowledge, experience and relations help our company manifold. He does not hold directorship in any other companies.
 - B. Mr. K. Tejesh Kumar, is a Post graduate in Master of Business Administration (MBA) from Andhra University. He executed several consulting and software development projects. His technical and managerial skills will be of great importance to the company. The Board is of the opinion that his appointment as director will be in the best interest of the company. Mr. K.

Tejesh Kumar, is also a director of Global IT Inc., a software company in Chicago, USA.

- C. Mr. K. Venkateswara Rao, has a Masters Degree in Computers from Osmania University. He has over a decade of experience in various technology Companies. Prior to joining the joining, he was the Chief Information Officer for Global IT Inc., a software Development firm providing software development services to fortune 1000 Companies including Motorola, Seagate and Mcdonald's. He is appointed as Director- International affairs for the Company. His technical and managerial skills will be of great importance to the company. He does not hold directorship in any other companies.

On behalf of the Board

Place : Hyderabad

N. Satish Kumar

Date : 01-12-2006.

Managing Director

EXPLANATORY STATEMENT

[Pursuant to Section 173(2) of the Companies Act, 1956]

Item 6: Appointment of Mr. C. Raveendra Kumar, as a Director of the Company

Mr. C. Raveendra Kumar was appointed by the Board of Directors as an additional Director with effect from 27.07.2006. Under section 260 of the Companies Act, 1956, Mr. Raveendra Kumar holds office only up to the date of this Annual General Meeting. The company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs. 500/- from a member signifying his intention to propose the name of Mr. Raveendra Kumar as a candidature for the office of Director.

Mr. Ch.Raveendra Kumar, aged 39 years is a Graduate in Civil Engineering from Nagarjuna University, Guntur, Andhra Pradesh. After his graduation he was involved in several construction projects including for My Home Constructions, Gayatri Constructions, Hindustan Cables Ltd. etc. He has an experience of about 10 years in the fields of Civil Construction and 6 years in Pre-Engineered Steel Buildings.

He does not hold directorships in any other companies. The above information is given as per the Clause 49 of the listing agreement.

The Board recommends the Resolution for the

members' approval in the Annual General Meeting.

None of the Directors of the Company except Mr. Raveendra Kumar to the extent of his appointment as director is concerned or interested in this resolution.

Item 7: Appointment of Mr. B. Rajesh, as a Director of the Company

Mr. B. Rajesh was appointed by the Board of Directors as an additional Director with effect from 30.10.2006. Under section 260 of the Companies Act, 1956, Mr. Rajesh holds office only up to the date of this Annual General Meeting. The company has received a notice in writing under section 257 of the Companies Act, 1956, along with a deposit of Rs. 500/- from a member signifying his intention to propose the name of Mr. Rajesh as a candidature for the office of Director.

Mr. Rajesh, aged 37 years is a Graduate in Commerce from Andhra University, Andhra Pradesh. Mr. Rajesh has more than 13 years of experience and executed several Civil projects, such as external aided projects of World Bank at Narsipatnam, Tuni, NABARD projects in Srikakulam District, National Highways in Raipur, Chattisgarh etc to name a few.

He does not hold directorships in any other companies. The above information is given as per the Clause 49 of the listing agreement.

The Board recommends the Resolution for the members' approval in the Annual General Meeting.

None of the Directors of the Company except Mr. B. Rajesh to the extent of his appointment as director is concerned or interested in this resolution.

Item 8: Re-appointment of Mr. N. Satish Kumar, as Managing Director of the Company

The present term of appointment of Mr. N. Satish Kumar as Managing Director was valid up to 27.05.2006. The Board of Directors feel that for the continuity of the present management and for efficient running of the company, the services of Mr. N. Satish Kumar as Managing Director should be available to the company for a further period of 5 years with effect from 28.05.2006. The Board has re-appointed Mr. N. Satish Kumar as Managing Director in its Board Meeting held on 27.05.2006 for a further period of 5 (five) years w.e.f 28.05.2006, as per the terms and conditions as set out in the Resolution.

The Board commends the resolution to shareholders for approval and ratification



The Explanatory statement together with the accompanying notice may be treated as an abstract of the terms of remuneration payable to Mr. N. Satish Kumar as Managing Director pursuant to section 302 of the Companies Act 1956.

Mr.N.Satish Kumar is also a Director in Southern Biofuels Pvt. Ltd., a wholly owned subsidiary of Southern Online Bio Technologies Ltd.

None of the Directors of the Company except Mr. N. Satish Kumar to the extent of his appointment as director is concerned or interested in this resolution.

Item 9 & 10: Issue of Securites/ Securities convertible into Equity Shares / GDRs / FCCBs / Equity Shares / Convertible Bonds to QIBs or Overseas Investors / to raise the funds through Rights and / or Public Issue

Having implemented successfully the first biodiesel plant commercially, the Company has, for quite some time, been contemplating to establish another Biodiesel plant as 100% EOU as there is huge demand for biodiesel in the global market. The 100% EOU shall also have various advantages and importing of raw material and exporting of Biodiesel to various countries in the globe will be easy under EOU model.

Setting up of a new plant with international standards require sizeable capital and therefore it is proposed to raise funds, by way of Issue of securities convertible into equity shares or Global Depository Receipts (GDR)/ FCCBs/Convertible Bonds to QIBs or overseas investors or through Rights and / or Public Issue, aggregating to an amount of US \$ 25 million at the discretion of the Board in terms of Chapter XIII A of the SEBI Disclosure and Investor Protection Guidelines as amended.

This issue will be within the FDI (foreign direct investment) sectoral limits specified by the Government of India.

Apart from this, your directors also contemplating the option of rising the funds aggregating up to Rs.70,00,00,000/- (Rupees Seventy Crores only) from members, the promoters, public and subscription as may be allowed by the authorities concerned to and/or Financial Institutions and/or Mutual Funds and/or Foreign Institutional Investors and/or Foreign Investors (whether Institutions and/or Incorporated Bodies and/or Individuals or otherwise) Non-Resident Indians and/or other entities and / or to such other persons whether or not such entities or persons or members of the company, by way of Public and / or Rights Issue and/or Private placement and/or any one or more or a combination of the above methods.

Your directors are seeking the approval of the shareholders to have adequate flexibility to the Board to raise the funds in either of the modes or combination of both as set out in the Item 9 and/or 10 of the Notice.

Hence, the enabling resolutions are being proposed to give adequate flexibility and discretions to the Board to finalize the terms in consultation with the Lead Managers or such authorities as may be required to be consulted in accordance with the established practices. In the case of the GDRs/FCCBs representing equity shares when issued will be listed on Stock Exchanges abroad as may be decided by the Board.

Consent of the members is being sought by a Special Resolution pursuant to the provisions of Section 81 & 81(1A) and other applicable provisions of the Companies Act, 1956

The Special Resolutions as set out at the Item 9 & 10 of the Notice, if passed will have the effect of allowing the Board to issue and allot shares to the foreign entities/persons residing outside or in India on the terms and conditions as may be decided by the Board. The Board may be authorized to take all steps necessary for implementing this resolution.

Item 11: Increase of Authorised Share Capital of the Company

In order to provide cushioning in respect of total paid up capital of the company it is proposed to increase the Authorized Share Capital of the Company. The present Authorized Share Capital of the Company i.e. Rs.25,00,00,000/-. To facilitate issue of further shares, the Authorized Share Capital is to be increased to Rs.75,00,00,000/- by creation of 5,00,00,000 further Equity Shares of Rs.10/-, each which will rank pari passu in all respects with the existing shares of the Company. The proposed increase requires approval of the Members in general meeting. Consequent to the increase in the Authorised Share Capital, the Company's Memorandum of Association will also require alteration so as to reflect the increase.

The Board recommends passing of the Ordinary Resolution.

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

On behalf of the Board

Place : Hyderabad
Date : 01-12-2006.

N. Satish Kumar
Managing Director

DIRECTORS' REPORT

Dear Members,

Your Directors have pleasure in presenting the **Eighth Annual Report** together with the Audited Balance Sheet, Profit & Loss Account and Cash Flow Statement for the financial year ended 31st March, 2006.

Financial Results

The highlights of the financial results for the year under review along with the comparative figures for the previous year are as follows:

Particulars	(Rs. in Lakhs)	
	2005-06	2004-05
Total Income	528.47	400.38
Operating Profit	149.47	114.52
Less: Depreciation	96.13	80.17
Less: Misc. Expenditure written off	3.80	9.39
Less: Provision for Tax	14.00	1.70
Net Profit	27.31	23.26

Review And Prospects

The total revenue of the Company for the financial year ended 31st March, 2006 is Rs.528.47 Lakhs as compared to the previous year's total revenue of Rs. 400.38 Lakhs. During this financial year the Company has recorded a net profit of Rs. 27.31 Lakhs as against the previous year's net profit of Rs. 23.26 Lakhs. The Company has improved performance in the ISP business when compared to previous year.

The ISP Division of the Company has achieved a significant turnover of Rs.319.80 lakhs for the Half year ended September' 2006 with a growth of 44.23% when compared with previous financial year corresponding period turnover of Rs.221.73 lakhs.

The ISP Division of the Company has got the

accreditation of ISO 9001:2000 Certification through Moody International. The Biodiesel Division of the Company is also in the process of obtaining this Certificate and the works for the same are under progress.

The Company's Products/Services

The Company has been providing a wide spectrum of services, which includes basic services like Internet access, E-mail etc. and value added services such as Add on hours. The Company presently provides Internet Services as a Licensed ISP by connecting through Bharti Broadband Backbone, and also has a redundancy through Reliance Infocomm Ltd (RIL), VSNL, Dishnet DSL. The Company's services include the following:

- | | |
|---|---------------------|
| ◆ Dial up Services through PSTN | ◆ Web Hosting |
| ◆ Server Co-Location | ◆ VOIP Services |
| ◆ Leased Line services (Terrestrial and RF links) | ◆ Dedicated Servers |
| ◆ Networking Solutions | |

BIODIESEL PROJECT

Your Directors have taken up the Biodiesel project at Samsthan Narayanpur, Nalgonda Dist. The Company has completed the erection, installation and commissioning of the plant. The plant has already completed the trial runs successfully and is in the process of stabilization. The commercial operations will be commenced soon.

Several prospective buyers from local and as well as International market have already visited the Biodiesel factory to check the process, raw material, storage facilities etc. After satisfying in all aspects, they expressed their willingness to enter in to purchase agreements. The Company is in the process of finalizing the terms and conditions such as the selling price, quantity etc and will enter agreements on long-term basis shortly.

Last year your Company has conducted trial runs on APSRTC (Andhra Pradesh State Road Transport Corporation) Bus jointly in coordination with APSRTC and APPCB (Andhra Pradesh Pollution Control Board) from June 5, 2005 to March 31, 2006. After the trial runs as per the report of the APPCB, the product has registered excellent reduction in pollution.

With the successful completion of these trial runs, the Company has again run few more APSRTC City Busses from June 5, 2006 to September 5, 2006 on biodiesel on various blends i.e, B5 (means Biodiesel 5% and Regular conventional Diesel 95%), B10 (means Biodiesel 10% and Regular conventional Diesel 90%) and B20 (means Biodiesel 20% and Regular conventional Diesel 80%) in coordination with APSRTC to observe the mileage of the vehicles on these blends. During the trials, the product biodiesel has registered higher mileage when compared with regular diesel. Based on these successful results in terms of reduction in pollution and higher mileage, the Company is trying to get long-term purchase agreement from APSRTC.

Export

The Company is exploring the possibilities of exporting the Biodiesel as there is huge demand in the Global market and some of the overseas companies are showing interest in purchasing the same. The Company is already started deliberations with some overseas companies for finalisation of export orders of biodiesel and import of raw material.

Technology

The Bio Diesel technology is already in use in developed countries like Austria, Australia, France, Germany, UK and United States of America who are among the many countries that have large Bio Diesel production and usage programs. During the usage of Biodiesel, the Global Market has already enacted ASTM / EN / BIS standards that are used worldwide for Bio Diesel production. The Biodiesel produced in your Biodiesel production unit meets the above standards.

Economic & Other benefits

- ❖ Improving national economy by contribution to reduction of oil imports
- ❖ Reduction of Pollution Substitution of petrodiesel to improve the local air environment and to mitigate CO² emissions, hydrocarbons, soot, particulates and air toxics for global GHG emissions.
- ❖ Increasing the revenues to the farmers by helping them to grow the plantations of Jatropha & Pongamia on their waste, dry lands.
- ❖ Saving the out going of foreign exchange
- ❖ Superior lubricant than Petro diesel.
- ❖ Increase in the greenery, as plantations of Jatropha, Pongamia etc., covers good greenery
- ❖ Biodegradable and Free from Sulphur
- ❖ Creation of Direct & Indirect employment
- ❖ Alleviations of poverty and social disparity in rural areas by creating additional opportunities for collection and supply of Pongamia seeds/ raw vegetable oils to biodiesel plant.
- ❖ Development of degraded land for a forestation activities and thereby improving the ecological balance and increase of forest cover.

In view of above, the current project contribute to sustainable development of the country

Based on the above facts, the use of biofuels has attracted many Global countries and evoked interest among planners, policy makers, economists and environmental activists as a viable option to achieve the goal of sustainable development. If the current

interest in biofuels gets concretized into projects to tap their enormous potential, the 21st century can be expected to move away from depleting fossil fuels. The same has also been appraised by His Excellency, The President of India, The Hon'ble Prime Minister of India, The Hon'ble Chief Minister of AP and many more dignitaries, accredited Institutions, reputed agencies and others in several occasions.

Milestones

Some of the important milestones of the Company are :

Year	Event
2004	<ul style="list-style-type: none"> ❖ Agreement Entered with International Crops Research Institute for the Semi-arid Tropics (ICRISAT) for technical assistance for plantation of Jatropha & Pongamia. ❖ Approval Received from Ministry of Environment and Forests, Government of India for the sale of Carbon Emission Reductions (CER).
2005	<ul style="list-style-type: none"> ❖ Foundation Stone laid for the establishment of Biodiesel unit by His Excellency Heimo Richter, The Ambassador of Federal Republic of Germany. ❖ Grant of 380,000 Euros from German Technical cooperation (GTZ), a agency owned by Government of Federal Republic of Germany. ❖ Agreement entered with with a company based at Bangalore for the supply of 400 tons of Pongamia, Jatropha Seeds etc. ❖ Andhra Pradesh State Road Transport Corporation (APSRTC) has successfully completed trial runs using 20% Bio Diesel blend in 1 bus, which was inaugurated by the Hon'ble Chief Minister, Dr.Y.S.Rajasheker Reddy on June 5, 2005 – the World Environment day.
2006	<ul style="list-style-type: none"> ❖ Biodiesel Site Visit by Mrs. Karin Kortmann, Parliamentary State Secretary and Delegation from the Government of the Federal Republic of Germany. ❖ APSRTC has commenced the trial runs in 3 Busses, which has been inaugurated by the Hon'ble Minister for Environment, Mr.Satrucharla Vijaya Rama Raju on June 5, 2006 – World Environment Day. ❖ Successful trail runs on Biodiesel by ABT Parcel Service, Hindustan Coca Cola Beverages Pvt. Ltd, Hindustan Motors, Southern Rocks & Minerals Pvt. Ltd ❖ Long-term purchase Agreement with ABT Parcel Services, one of the largest transport fleet owners in South India ❖ Signing of Agreement for supply of Raw Material with a Company in Karnataka ❖ Signing of Agreement with Hyderabad based company for supply of Raw Material ❖ Signing of Agreement for supply of raw material and selling of Biodiesel with a company based at Hyderabad.

Rights cum Public Issue:

During the period under review the Company made Rights cum Public Issue of its shares. The Schedule of the Issues were as under:

Issue Programme

Rights Issue

Rights issue opened on	Thursday, September 8, 2005
Last date for receiving requests for split application forms	Thursday, September 22, 2005
Rights Issue closed on	Friday, October 7, 2005

Public Issue

Issue opened on : Wednesday, September 14, 2005

Issue closed on : Saturday, September 24, 2005

In the Rights Issue, the Company allotted 32,59,084 equity shares on 21.10.2005 in the ratio of 4 equity shares for every 7 equity shares held as on the Record date of 18.08.2005. Your Directors would like to take this opportunity to thank all our investors for their overwhelming response to its Rights cum Public Issue and the confidence reposed by them in our business prospects. The allotment was made as per the guidelines of the SEBI. In the Public Issue, the Company allotted 1,38,54,834 equity shares on 21.10.2005.

Consequent to this issue, the shares of the Company are listed at Bombay Stock Exchange apart from the existing listing at Hyderabad & Bangalore Stock Exchanges.

As a result of this Rights cum Public issue, the net worth of the Company has substantially increased to 23.91 crores.

Directors

Pursuant to Article 48 of the Articles of Association of the Company, Mr. Y. Anand Swaroop, Mr. K. Tejesh Kumar and Mr. K. Venkateswara Rao, Directors, whose period of office determined by retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Mr. C. Raveendra Kumar and Mr. B. Rajesh were appointed as additional directors on 27-07-2006 and 30.10.2006 respectively. Their appointment as Directors is proposed in the ensuing annual general meeting.

Mr.G.Govardhana Naidu and Mr.Emmanuel H.

D'Silva ceased to be Directors w.e.f. 27.07.2006 and 30.10.2006 respectively. The Board records its appreciation of the services rendered by them during their tenure of service on the Board.

A brief profile / details relating to the Directors to be appointed / reappointed as stipulated under Clause 49 (VI)(A) of the listing agreement executed with the stock exchanges are furnished in the Explanatory Statement of the Notice of the ensuing Annual General Meeting.

Corporate Governance

Your Directors are happy to report that your Company is compliant with the Corporate Governance requirements as per Clause 49 of the Listing Agreement with the Stock Exchanges. A separate section on Corporate Governance and Management Discussion and Analysis together with a certificate from the Statutory Auditor's confirming compliance is set out in the Annexure forming part of this report.

Directors' Responsibility Statement

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed that:

- i. In the preparation of the annual accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed and there are no material departures.
- ii. We have selected appropriate accounting policies and applied them consistently and have 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 on 31st March 2006 and of the profit of the company for the financial year ended 31st March 2006.

- iii. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- iv. We have prepared the annual accounts for the financial year ended 31st March, 2006 on a going concern basis.

Auditors

M/s. P. Murali & Co., Chartered Accountants, Statutory Auditors of the Company retire at the conclusion of the ensuing Annual General Meeting and are eligible for reappointment.

Fixed Deposits

The Company has not invited/accepted any fixed deposits from the public in terms of Section 58A of the Companies Act, 1956.

Employee Particulars

None of the employees is in receipt of remuneration exceeding the limit and whose particulars are required to be given as prescribed under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

Additional Information As Required U/S 217(1) (E) Of The Companies Act, 1956

(a) Conservation of Energy:

Company's ISP operations and administration require electrical energy for power supply to computer systems, in air conditioning, and lighting, which are not energy intensive. Whereas the Biodiesel plant requires huge electrical energy for operations of the Biodiesel production unit. During the current financial year the Company has undertaken significant measures to reduce the energy consumption by using energy-efficient machines and equipment. The Company also undertakes evaluation of latest technology and invests in making its infrastructure more energy efficient.

(b) Research and Development and Technology Absorption:

Your company will continue to focus and invest in its R & D activities in the production of biodiesel and other products. Your company also leverages its excellence in technology for providing World Class ISP services to its customers in the state of Andhra Pradesh. The continual exposure to new technologies has helped to maintain high motivation levels in employees and to provide quality services. Your company continues to give due importance to research and development to provide high quality of ISP services and better products from biodiesel division.

- (c) (i) Foreign exchange : There are no foreign exchange earnings
- (ii) Foreign Exchange : Rs.14,66,712/- for procuring the ISP equipments, APNIC Fees, VOIP Services, Traveling

Stock Exchanges

The Company's present Equity shares are listed in the Hyderabad Stock Exchange Ltd, Bombay Stock Exchange Ltd. and the Bangalore Stock Exchange Ltd. The Company has paid the Listing Fees to the Stock Exchanges for the Financial Year 2006-07.

Acknowledgements

Your Directors place on record their appreciation of the continuous assistance and co-operation extended to your Company by the customers, bankers, personnel of APSRTC, Pollution Control Board, Central & State Government and shareholders. The Directors also sincerely acknowledge the significant contributions made by all the employees for their dedicated services to the Company.

On behalf of the Board

N. Satish Kumar
Managing Director

K. Radha Krishna
Director-Finance

Place : Hyderabad
Date : 01-12-2006

THE MANAGEMENT DISCUSSION AND ANALYSIS REPORT:

Pursuant to Clause 49 of the Listing Agreement, a report on Management Discussion and Analysis Report is given below:

A. ISP Division

i. Industry Structure and Development:

In India there were 37 million Internet users in September'06 and as per the Internet and Mobile Association of India (IMAI) it will grow to 52 million by 2008. Indians also undertake over a billion searches each month.

The Internet is a high intensity medium, unlike traditional advertising undertaken by many businesses. The growth of web users to a number more than a billion people, and the emergence of the internet as a mainstream, almost ubiquitous presence in everyday life.

Globally, the web is estimated to have some 100 billion pages. An Indian advertiser, on average, pays Rs 16.20 (36 US cents) per click. The highest cost per click paid by an advertiser in India was Rs 266! The IMAI found that the top sectors among 292 Internet advertisers in India were automobiles, banking and financial services with dating and matrimonial ads in the third place.

The Internet will virtually take over a part of human lives; for today's youngsters it already has! Gone are the days of visiting libraries for research, since students get access to everything right on their desktops. In fact if we look back into our lives we would realize that how much we are able to do on the Internet today, from banking to shopping to communicating with friends, all of it. We can't even imagine today what all it will substitute in human lives in the years to come...if it hasn't already.

Global Reach / Penetration of Interactive Services - Internet Statistics 2006

Total internet users in Europe and in the World: [Internet World Stats, January 2006]

Europe : 290,121,957 & World : 1,018,057,389

Total Internet users by country and share of world users: [Internet World Stats]

Country	Total users	% share	Source
US	202,888,307	21.6%	Nielsen/NetRatings, June, 2005
China	103,000,000	11.0%	CNNIC, June, 2005
Japan	78,050,000	8.3%	C+I+A, March, 2005
Germany	47,127,725	5.0%	Nielsen/NetRatings, June, 2005
India	39,200,000	4.2%	C.I.Almanac, March, 2005
UK	35,807,929	3.8%	Nielsen/NetRatings, June, 2005

There will be 1.07 billion internet users globally by 2005, 1.21 billion by 2006 and 1.35 billion by 2007.

Education, general online, jobs, media, NGOs, property, retail and e-commerce, technology and travel came next in the order of preference. In few years from now, Internet can ultimately replace Traditional Media.

The Internet has done very well from day one: the advantage it has is its multi-dimensional character, which no other media has; they are all uni-dimensional, in the sense that they satisfy either the information or entertainment needs of people. The Internet, however, can do much more; it can be used as a transactional medium - you can buy online; do your bank transactions; communicate using tools like email, VoIP and messengers. And of course, it satisfies your information and learning needs - so the Internet is actually media plus. It would be wrong to classify it as a media property; it's not just a media property; it's much more than that.

Internet is the biggest revolution in human lifetimes; it substitutes for shopping; it substitutes for bank; it substitutes for newspaper and much more. With its ability to take on digital sound and video - video on demand, pay-per-view films - and the ability to project them on large screens, it may also replace cinema halls one day!

ii. Opportunities and Threats

The Government has initiated various proactive measures in the proliferation of the Internet Services in the Country. A number of countries have permitted VOIP as a technology option since 1995 to the classical PSTN as well as Internet Telephony so as to provide a cheaper alternative to classical PSTN calls. However, In India, the ISPs were allowed to offer Internet Telephony Services with effect from April 1, 2002.

With the choice availability of Toll Quality (PSTN) and Non-Toll Quality options, Internet Telephony has thrown open Long Distance Telephony to those sections of Society, which could not afford the same earlier. Further, Internet Telephony is proving to be a key driver for local entrepreneurs to set up Community Information Centers / Cyber-kiosks / Internet Dhabas, etc even in small towns and villages. In fact it has made distance learning, Tele-medicine and e-governance etc a reality in Indian context.

However, internet telephony grey market, which is estimated to be about 90% of the total internet Telephony market in India, is affecting the Internet Industry.

Further with effect from 01.01.2006, the Ministry of Communications & IT, Dept. of Telecommunications, Govt. of India, started imposing a Annual Licence Fee of 6% on the adjusted gross revenue in addition to rupee one per annum as is prevailing so far.

iii. Outlook for the Industry

It has been widely recognized that the diffusion of the Internet and its associated applications (e.g., e-governance, electronic commerce, e-banking, e-learning etc.) can fuel the growth of a nation's economy. Internet significantly facilitates the process of development of the nations and its citizens in all respects, be it economic, social, or cultural.

However, it must be noted that for sustaining such applications and Internet as a whole there must be a critical mass of Internet users. It is therefore very important to encourage the Internet growth and usage. To achieve this goal we should recognise that one of the most significant factors

influencing the growth of Internet is the cost to consumers for Internet access and improvement in quality of service.

B. BIODIESEL Division

i. Industry Structure and Development

The concept of using vegetable oil as a fuel dates back to 1895, when Dr. Rudolf Diesel developed the first diesel engine to run on vegetable oil. Diesel demonstrated his engine at the World Exhibition in Paris in 1900, using peanut oil as fuel. Before World War II, biodiesel was introduced in South Africa to power heavy-duty vehicles.

Biodiesel (methyl esters) is a renewable liquid fuel produced from new or used vegetable oils or animal fats. It is typically made by a chemical process called esterification, transesterification which relies on an alcohol, such as methanol, and a catalyst. It can also be made from Pongamia, Jatropha, cottonseed, peanut, canola (a variety of rapeseed), sunflower oils, waste animal fats, and used cooking oil.

Bio Diesel plants are now being built by several companies in Europe; each of these plants will produce up to 5.7 million liters (1.5 million gallons) of fuels per year. In the United States also, Bio Diesel is being commercialized. Several U.S. demonstration programs use Bio Diesel to fuel vehicles, including buses, trucks, construction/maintenance equipment, and motor boats.

Significant progress towards establishing a firm foundation for a Bio Diesel industry in India has already been made. The ministry of Agriculture and affiliated researchers, have determined that there are several native species of nonedible oil bearing trees which can yield substantial and inexpensive oil feed stocks for making Bio Diesel. Several discussions have taken place at the federal government level with the Ministry of Rural Development, Ministry of Environment and Forests, Ministry of Finance.

ii. Opportunities and Threats

The policy on Biodiesel is under consideration of the Government of India and has to announce the same encouraging the production and usage

of Biodiesel. Several financial incentives such as reimbursement of stamp duty, exemptions in sales and income taxes, rebates on power, subsidy on cleaner production measures, quality certification etc. are available. Also the locality of the project has added advantage of easy availability of part of raw material.

Vast swathes of unproductive land can be brought under energy plantations to produce Bio Fuel, which provides opportunities to involve rural communities living in poverty, NGOs, and local governments as well as raw material for the Bio Fuel Project. *“Even thirty million hectares planted for Bio Diesel can completely replace the current use of fossil fuels”.*

The financial returns (Return on Capital Employed) in this project are healthy, which ensures the financial viability of the project.

iii. Outlook for the Industry

Government and private industry in India have begun laying the foundation for a viable biodiesel industry. India is actively involved in implementing a national program for the phasing in of BioDiesel-blended fuel oils, primarily with respect to government-run rail and other transportation systems. India currently imports more than 70% of its crude petroleum diesel needs, which are refined in-country. Several financial incentives are under discussion as part of the national Bio Fuel policy. Various quasi-government organisations, like the Indian Institute of Petroleum, Indian Institute of Technology, New Delhi, Indian Institute of Sciences, Indian Oil Corporation, Indian Railways, and others have come forward to support to alternative fuel generation programs. The World Bank, the International Finance Corporation, the Asian Development Bank, and the Global Environmental Facility are among the multilateral organisations with interest in renewable energy.

The importance and benefits of Biodiesel has

already been appraised by His Excellency, The President of India, The Hon'ble Prime Minister of India, The Hon'ble Chief Minister of AP and many more dignitaries, accredited Institutions, reputed agencies and others in several occasions.

Internal Control System and their Adequacy

The Company has adequate internal control systems and procedures in all operational areas and at all levels – equipments procurement, finance, administration marketing and personnel departments. The Company also has internal Audit system commensurate with its size and nature of business. The internal audit function will be done by a firm of Chartered Accountants. The Audit Committee reviews the internal audit reports and the adequacy of internal controls from time to time.

Discussion on Financial Performance with respect to Operational Performance

During the year under review the Company has achieved an operating Profit of Rs.141.23 Lakhs on the total Income of Rs.528.47 lakhs with a net profit of Rs.27.31 lakhs as against the previous year's Operating Profit of Rs. 114.52 lakhs on the total Income of Rs. 400.38 Lakhs with a net profit of Rs. 23.26 lakhs.

In the current financial year the Company has improved the business remarkably with 32% increase of total revenues and 17.41% increase of net profits.

Human Resource Development and Industrial Relations

The Company believes that the quality of its employees is the key to its success in the long run and is committed to provide necessary human resource development and training opportunities to equip them with skill, which enables them to adapt to contemporary technological advancements.

Industrial relations during the year are cordial and the Company is committed to maintain the same in future.

REPORT ON CORPORATE GOVERNANCE

1. Company's philosophy on Corporate Governance

SBT has been committed to the highest standard of Corporate Governance practices in the entire gamut of its business philosophy. The guiding forces of Corporate Governance at Southern Online are its core values – Quality operations, Customer satisfaction, Shareholders' value, Belief in people. The Company believes that a strong Corporate Governance policy is indispensable to healthy growth of business and resilient and vibrant capital markets, besides being an important instrument of investor protection. In this direction, Southern Online endeavors in true spirit, to adopt the best global practices in Corporate Governance.

2. Board of Directors

A. Composition

The Board of Directors of the Company consists of fifty percent of non-executive directors who are independent directors. The Board is comprised of six executive directors and six non-executive directors.

Composition and category of Directors on the Board for the year 2006-07 are given below:

Name of the Director	Category	Number of Directorships in other Companies	Number of Board Committee memberships held in other Companies
N. Satish Kumar	Promoter & Managing Director	1	Nil
K.Radha Krishna	Promoter & Director Finance	1	Nil
B. Sreedhara Reddy	Promoter & Admn. Director	1	Nil
B.H.R. Balaji	Promoter & Executive Director	1	Nil
K. Tejesh Kumar	Promoter & Director-Intl. Affairs	1	Nil
K. Venkateshwara Rao	Promoter & Director-Intl. Affairs	Nil	Nil
Y. Anand Swaroop	Independent Director	Nil	Nil
B. Suresh	Independent Director	Nil	Nil
Emmanuel H. D'Silva**	Independent Director	Nil	Nil
G. Govardhana Naidu**	Independent Director	Nil	Nil
T. Rohini Reddy	Independent Director	Nil	Nil
V. Durga Prasad	Independent Director	Nil	Nil
C. Raveendra Kumar*	Independent Director	Nil	Nil
B. Rajesh*	Independent Director	Nil	Nil

* Mr. C. Raveendra Kumar & Mr.B.Rajesh are inducted as an additional directors w.e.f 27.07.2006 & 30.10.2006 respectively.

** Mr. G. Govardhana Naidu & Mr.Emmanuel H. D'Silva are ceased to be a directors of the company w.e.f 27.07.2006 & 30.10.2006 respectively.

B. Pecuniary relationship or transactions of the Non-Executive Directors vis-à-vis the Company. None of the Non-Executive Directors has any pecuniary relationship or transactions with the Company.

C. Meetings and Attendance

During the Financial Year 2005-06 the Board of Directors met 11 times on the following dates:

23.04.2005, 26.05.2005, 17.06.2005, 27.06.2005, 27.07.2005, 04.08.2005, 18.08.2005, 03.10.2005, 29.10.2005, 27.01.2006, 20.03.2006

The time gap between any two Board Meetings did not exceed three months.

Attendance of Directors at Board Meetings and at the last Annual General Meeting (AGM) held on 29th October, 2005

Name of the Director	No. of Board Meetings attended	Whether attended the last AGM
N. Satish Kumar	8 ✓	Yes
K.Radha Krishna	9 ✓	Yes
B. Sreedhara Reddy	6 ✓	Yes
B.H.R. Balaji	8 ✓	Yes
K. Tejesh Kumar	5 ✓	Yes
K. Venkateshwara Rao	5 ✓	Yes
Y. Anand Swaroop	4 ✓	Yes
B. Suresh	6 ✓	No
Emmanuel H. D'Silva	3 ✓	No
G. Govardhan Naidu	2 ✓	No
T. Rohini Reddy	6 ✓	No
V. Durga Prasad	8 ✓	Yes

D. Board's Procedure

Agenda papers along with explanatory statements were circulated to the Directors in advance for each of these meetings. All relevant information as per Clause 49 of the Listing Agreement was placed before the Board from time to time.

3. Code of Conduct

The Company has formulated and implemented a Code of Conduct for Board Members and Senior Management of the Company. Requisite annual affirmations of compliance with the respective Codes have been made by the Directors and Senior Management of the Company.

Certificate of Code of Conduct for the year 2005-06

SBT is committed to conducting its business in accordance with the applicable laws, rules and regulations and with highest standards of business ethics. The Company has adopted a "Code of Ethics and Business Conduct" which is applicable to all director, officers and employees.

I hereby certify that all the Board Members and Senior Management have affirmed the compliance with the Code of Ethics and Business Conduct, under a certificate of Code of Conduct for the year 2005-06.

Hyderabad
March 31, 2006

(Sd/-)
N. Satish Kumar
Managing Director

4. Audit Committee

Adhering to the principles envisaged in Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956 the Audit Committee was constituted as under:

A. Composition

The Company has constituted an Audit Committee comprising of the following three Non-Executive Independent Directors.

S.No	Name of the Director	Designation	Nature of Directorship
1	Y.Anand Swaroop	Chairman	Non-Executive & Independent Director
2	B.Suresh	Member	Non-Executive & Independent Director
3	T. Rohini Reddy	Member	Non-Executive & Independent Director

B. Brief description of terms of reference

The Audit Committee of the Board of Directors reviews, acts and reports to the Board of Directors with respect to:

- i. Review of the Company's financial reporting process and its financial statements.
- ii. Review of accounting and financial policies and practices.
- iii. Review of internal control and internal audit systems.
- iv. Review of risk management policies and practices

C. Functions

The Audit Committee reviews the unaudited quarterly, half-yearly and yearly financial results with the Management before the same are submitted to the Board for its consideration and approval.

The Chairman of the Audit Committee is always present at the Annual General Meeting to give clarifications, if any, required by the members thereat.

All the members including the Chairman have adequate financial and accounting knowledge.

D. Meetings and Attendance

Meetings: The Audit Committee met 4 times during the year under review on the following dates: 27.06.2005, 27.07.2005, 29.10.2005 and 27.01.2006 for approval of un-audited Financial Results Attendance during the year 2005-06:

Name	Number of meetings held during the year	Number of meetings attended during the year
Y.Anand Swaroop	3	3
B.Suresh	3	2
T. Rohini Reddy	3	3

Subsidiary Company

Southern Biofe Biofuels Pvt. Ltd (SBBF)

SBBF is a wholly owned subsidiary of the Company. SBBF was incorporated on 08/05/2002 with an authorized share capital of Rs. 34,40,000/-. SBBF initially focused on the establishment and production of biodiesel, the activity of which has been taken over by Southern Online Bio Technologies Ltd. The Company has no operations in the last financial year.

The Audit committee of the Company also reviews the financial statements of the subsidiary Company. The minutes of the Board Meetings of subsidiary company are placed at the Board Meetings of SBT Ltd and reviewed in detail.

CEO/CFO Certification

The Board has recognized Managing Director of the Company as CEO and the Director - Finance as the CFO for the limited purpose of Compliance under the Listing Agreement. The CEO and CFO have certified, in terms of revised clause 49 of the listing agreement, to the Board that the financial statements present a true and fair view of the company's affairs and are compliant with existing accounting standards, internal control and disclosures.

5. Remuneration Committee

The Company has constituted Remuneration Committee to decide, fix the remuneration payable to the Managing / Whole time Directors of the Company.

However, the remuneration of the Managing / Whole time Director is subject to approval of the Board, and of the Company in the General Meeting and such approvals as may be necessary. The remuneration structure of Managing / Whole time Director comprises of salary only.

A. Composition

The Remuneration Committee consists of the following Directors:

S.No	Name of the Director	Designation	Nature of Directorship
1	B.Suresh	Chairman	Non-Executive & Independent Director
2	Y.Anand Swaroop	Member	Non-Executive & Independent Director
3	V. Durga Prasad	Member	Non-Executive & Independent Director

B. Brief description of terms of reference

The Remuneration Committee shall function in accordance with the terms of reference made by the Board of Directors, which are given as follows:

- To fix the remuneration packages of Executive Directors i.e., Managing Director, Whole time Directors, etc.,
- To decide on the elements of remuneration package of all the Directors i.e., salary, benefits, bonuses, stock options, pension etc."

The Non-executive Directors are paid sitting fees for attending the Board & Committee meetings. The Remuneration Committee met once on 29.10.2005 and all the members of the committee were present at the meeting.

The details of the salary and commission paid / payable for the Financial Year ended 31st March, 2006 to the Managing / Whole time Director are as under:

Name of the Director	Designation	Salary per annum (Rs.)	Commission
N. Satish Kumar	Managing Director	7,15,668	Nil
K. Radha Krishna	Director Finance	7,15,668	Nil
B. Sreedhara Reddy	Admn. Director	7,15,668	Nil
B H R Balaji	Executive Director	7,15,668	Nil
K. Tejesh Kumar	Director – Intl. Affairs	1,25,000	Nil
K. Venkateshwara Rao	Director – Intl. Affairs	1,25,000	Nil

The Company does not have any stock option scheme to the Whole-time Directors. The appointments are made in accordance with the terms and conditions specified in the respective resolutions passed by the members in the General Meetings, which do not provide for severance fees.

6. Investors' Grievance Committee

A. Composition

Your Company has constituted an Investors' Grievance Committee consisting of the following Directors:

S.No	Name of the Director	Designation	Nature of Directorship
1	V. Durga Prasad	Chairman	Non-Executive & Independent Director
2	T. Rohini Reddy	Member	Non-Executive & Independent Director
3	Y. Anand Swaroop	Member	Non-Executive & Independent Director

B. Powers

The Committee has been delegated with the following powers:

- to redress shareholder and investor complaints relating to transfer of shares, Dematerialization of Shares, non-receipt of balance sheet, non-receipt of declared dividend etc.
- to approve, transfer, transmission, and issue of duplicate / fresh share certificate(s)
- Consolidate and sub-division of share certificates etc.
- To redress, approve and dispose off any, other complaints, transactions and requests etc., received from any shareholder of the company and investor in general.

The Board has delegated the power to process the transfer and transmission of shares to the Registrar and Share Transfer Agents, who process share transfers within a week of lodgment in the case of shares held in physical form.

During the period under review 807 complaints / requests were received from the shareholders, all of them have been resolved and there are no pending Share Transfers / Complaints as on date of this report. Mr. D. Krishna Rao, Company Secretary of the company is the Compliance Officer.

7. General Body Meetings

The details of last three Annual General Meetings and an Extraordinary General Meeting are as follows:

Financial Year	Date	Time	Venue	Special resolutions passed
7 th AGM 2004-05	29.10.2005	11.30 AM	Dream Valley Resorts, Srinagar, Gandipet, Hyderabad - 500 075	NIL
EGM	14.07.2005	3.00 PM	- do -	NIL
6 th AGM 2003-04	09.06.2004	11.30 AM	- do -	Further Issue of Shares under Section 81 & 81(1A) of the Companies Act, 1956
5 th AGM 2002-03	30.09.2003	11.00 AM	- do -	NIL

There were no matters required to be dealt/ passed by the Company through postal ballot, as required under the provisions of Section 192A of the Companies Act, 1956.

Auditors' Certificate on Corporate Governance as required by revised Clause 49 of the Listing Agreement is given as an annexure to the Director's Report.

8. Disclosures

⊛ The Company has not entered into any transaction of material nature with related parties i.e., Directors, Management, their relatives conflicting with the Company's interest.

⊛ Details of non-compliance

There has been no non-compliance of any legal requirements nor have been any strictures imposed on the Company by Stock Exchanges or SEBI or any statutory authority on any matter related to capital markets during the last 3 years.

⊛ Whistle Blower policy

We have established a mechanism for employees to report concerns about unethical behavior, fraud or violation of code of conduct of the Company. The mechanism provided direct access to the Chairman of the Audit Committee for exceptional cases. All employees can also directly meet the Audit Committee members of the Company. The Whistle Blower Policy has been posted on the Intranet of the Company.

⊛ Compliance with non-mandatory requirements of clause 49 of the listing agreement

The Company has complied with the non-mandatory requirements relating to remuneration committee and Whistle Blower policy to the extent detailed above and has not complied with other non-mandatory requirements.

⊛ Utilization of Rights cum Public Issue proceeds

The Company has raised Rs 17.10 crores through the Rights cum Public issue for setting up new Biodiesel unit at Samsthan Narayanpur, Nalgonda District, Andhra Pradesh with a capacity of 30 tons per annum. The Company has deployed the entire amount of money raised through the public issue for the purpose it has been raised.

⊛ Management Discussion and Analysis

This is given as a separate section in the Annual Report.

9. Means of Communication

The quarterly, half-yearly and yearly financial results will be sent to the Stock Exchanges immediately after the Board approves the same and these results will also be published in prominent daily newspapers, viz. Business Standards and Andhra Bhoomi. These financial statements, press releases are also posted on the Company's website, at www.sol.net.in. As the financial performance of the Company is well published, individual communication of half yearly results are not sent to the shareholders.

The Management Discussion and Analysis Report forms part of the annual report, which is posted to the shareholders of the Company.

10. General Shareholder Information:

The following information would be useful to the shareholders:

a) Eighth Annual General Meeting

Date and Time : 29.12.2006,
at 11.30 A.M

Venue : Dream Valley Resorts,
Srinagar,
Gandipet, Hyderabad - 75.

b) Financial Calendar 2006-07 (Tentative Schedule)

For the Quarter ended June 30, 2006 and September 30, 2006, the Company has already declared the Unaudited Financial Results on July 27, 2006 and October 30, 2006 respectively.

Adoption of Quarterly results for the Quarter ending 3rd/4th Week of

December 31, 2007 : January 2007

March 31, 2007 : June 2007

Annual General Meeting
(Next year) : August /
September, 2007

c) Book Closure Date

27th December, 2006 to 29th December, 2006 (both days inclusive)

d) Listing on Stock Exchanges

Hyderabad Stock Exchange Ltd
Bombay Stock Exchange Ltd.
Bangalore Stock Exchange Ltd

e) Stock Code

☉ Stock Code / Symbol : BSE : 532669
HSE : SOUTH\$

§ (b) Demat ISIN number in

NSDL & CDSL : INE 371B01015

Electronic Connectivity

National Securities Depository Limited

Trade World, Kamala Mills Compound
Senapati Bapat Marg, Lower Parel
Mumbai – 400 013

Central Depository Services (India) Limited

Phiroze Jeejeebhoy Towers, 28th Floor
Dalal Street, Mumbai – 400 023

f) Stock Market Data

The monthly high / low prices of shares of the Company from April, 2005 to March, 2006 at Bombay Stock Exchange after the shares are listed on 24.10.2005:

Date	High (Rs.)	Low (Rs.)	No. of Shares
October 2005	17.00	13.05	844942
November 2005	12.60	9.55	11838013
December 2005	13.89	10.32	8195759
January 2006	19.02	11.25	18317008
February 2006	14.76	11.71	2793851
March 2006	13.13	10.05	1929694

g) Registrars and Transfer Agents

Aarathi Consultants Pvt. Ltd.

1-2-285, Domalguda, Hyderabad- 500 029.

Tel: (040) 27642217/27638111

Fax: (040) 27632184

Email : info@aarthiconsultants.com

h) Share Transfer System

SEBI has vide its circular dated 27-12-2002, directed that all work relating to share registry, both physical and demat should be maintained at a single point. Accordingly, the Share Transfers, both physical and demat form, are done by the Registrar and Share Transfer Agents i.e., M/s. Aarthi Consultants Private Limited, Domalguda, Hyderabad. The requests received for transfer of shares in physical form are generally completed within the stipulated time.

11. (A) Shareholding pattern as on 31.03.2006

S. No.	Category	No. of Sharesheld	% of Shareholding
A	Promoters' Holding		
1.	Promoters -		
	Indian Promoters-	48,09,090	21.08
	Foreign Promoters	NIL	0.00
2.	Persons acting in concert	NIL	0.00
	Sub-Total	48,09,090	21.08
B.	Non - promoters Holding		
3	Institutional Investors		
a	Mutual Funds and UTI	NIL	0.00
b	Banks, Financial Institutions, Insurance Co., (Central Govt. institutions Non-government institutions)	NIL	0.00
c	Foreign Institutional Investors	98,250	0.43
	Sub - Total	98,250	0.43
4.	Others		
a	Private corporate Bodies	35,68,888	15.64
b	Indian Public	1,30,83,359	57.34
c	NRI's / OCB's / Foreign Nationals	10,20,384	4.47
d	Any others		
	i. Trusts	900	0.004
	ii. Clearing Members	2,36,444	1.04
	Sub - Total	1,79,09,975	78.49
	Grand Total	2,28,17,315	100.00

FOREIGN SHAREHOLDING			
1	NRI's / OCB's	3,29,089	1.44
2	FII's	98,250	0.43
3	FOREIGN NATIONALS	6,91,295	3.03
	TOTAL	11,18,634	4.90

(B) Distribution of Shareholding as on 31.03.2006

Range (Rs) Shareholders	No. of Shareholders	% of Total	Shares Amount Shares Amount	% of Total
Upto 5000	7987	72.20	28596410.00	12.53
5,001 – 10000	1335	12.07	11997210.00	5.26
10,001 – 20000	675	6.10	11229560.00	4.92
20,001 – 30000	290	2.62	7668510.00	3.36
30,001 – 40000	136	1.23	4927580.00	2.16
40,001 – 50000	184	1.66	8860760.00	3.88
50,001 – 100000	207	1.87	15759650.00	6.91
1,00,001 and above	249	2.23	139133470.00	60.98
Total	11063	100.00	228173150.00	100.00

12. Dematerialisation of Shares and Liquidity

Trading in Company's shares is permitted only in dematerialised form for all investors. The ISIN allotted to the Company's scrip is INE 371B01015. Investors are therefore advised to open a demat account with a Depository participant of their choice to trade in dematerialized form. Over 96% of the Company's shares up to November end are now held in electronic form. Shares of the Company are actively traded in Bombay Stock Exchange, and hence have good liquidity. The list of depository participants is available with the National Depository Limited (NSDL) at www.nsdl.co.in.

Particulars	No. of Shares	% Share Capital
NSDL	16337321	71.60
CDSL	5655754	24.79
PHYSICAL	824240	3.61
Total	22817315	100.00

Consequent to the Rights cum Public Issue of the Company, 27,70,968 equity shares (12.14% of the total equity) of the Promoters are locked in for a period of 3 years with effect from the date of allotment i.e. till 20.10.2008.

The Company has not issued any GDRs/ADRs/Warrants or any convertible instruments.

13. Address for Correspondence

Registered office : Flat No. A3, 3rd Floor, Office Block, Samrat Complex, Saifabad, Hyderabad-500 004.

R & T Agent : Aarhi Consultants Pvt. Ltd.
1-2-285, Domalguda, Hyderabad- 500 029.
Tel: (040) 27642217/27638111
Fax: (040) 27632184 Email: info@aarhiconsultants.com

On behalf of the Board

Place : Hyderabad
Date : 01-12-2006

N. Satish Kumar
Managing Director

K. Radha Krishna
Director –Finance

Auditors' Certificate on Compliance of Corporate Governance

To,

The Members
Southern Online Bio Technologies Ltd
Hyderabad.

We have examined the compliance of conditions of Corporate Governance by M/s. Southern Online Bio Technologies Ltd for the year ended March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the Company with Stock exchanges.

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 statements of the company.

In our opinion and to the best of our information and according to the explanations given to us and on the basis of our examination described above, we certify that the company has complied with the conditions of corporate Governance as stipulated in the above mentioned Listing agreement.

We state that no investor grievances are pending for a period exceeding one month against the Company as per records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

for **P. Murali & Co.,**
Chartered Accountants

Place : Hyderabad
Date : 29-06-2006

P. Murali Mohana Rao
Partner

AUDITORS' REPORT

To
The Members,
Southern Online Bio Technologies Ltd

We have audited the attached Balance Sheet of SOUTHERN ONLINE BIO TECHNOLOGIES LIMITED as at 31st March , 2006 and also the Profit & Loss Account for the period ended on the date annexed thereto and the cash flow statement for the period ended on that date. 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 auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis of our opinion .

As required by the Companies (Auditor's Report) order 2003 and as amended by the Companies (Auditor's Report)(Amendment) Order 2004, issued by the Central Government of India in terms of the 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 & Loss Account dealt with by this report are in agreement with the books of account ;
- (iv) In our opinion, the Balance Sheet & Profit & Loss Account dealt with by this report comply with the Accounting standards referred to in sub-section (3C) of Section 211 of Companies Act, 1956 ;
- (v) On the basis of written representations received from the Directors, as on 31st March , 2006 and taken on record by the Board of Directors, we report that none

of the Directors is disqualified as on 31st March , 2006 from being appointed 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 , 2006;
 - (b) In the case of the Profit & Loss Account, of the Profit for the period ended on that date;

And

 - (c) In the case of the Cash Flow, of the cash flows for the period ended on that date ;

For **P. Murali & Co.,**
Chartered Accountants

P. Murali Mohana Rao
Partner
Membership No. : 023413

Place : Hyderabad
Date : 29-06-2006

ANNEXURE TO THE AUDITORS' REPORT

- I. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets.
- (b) As explained to us , the fixed assets have been physically verified by the management at reasonable intervals and no material discrepancies between the book records and the physical inventory have been noticed on such verification.
- (c) The Company has not disposed off substantial part of the Fixed Assets during the year.
- II. The Company has no Inventory. Hence this clause is not applicable.
- III. (a) The Company has not granted any loans, secured or unsecured to Companies, Firms or other Parties covered in the register maintained U/s.301 of the Companies Act, 1956.
- (b) As the Company has not granted any loans ,the

clause of whether the rate of interest & other terms and conditions on which loans have been granted to parties listed in the register maintained under section 301 is prejudicial to the interest of company, is not applicable.

- (c) As no loans are granted by company, the clause of receipt of interest & principal amount from parties, is not applicable to the company.
- (d) No loans have been granted to Companies, Firms & other parties listed in the register U/s.301 of the Companies Act, 1956, hence overdue amount of more than rupees one lac does not arise and the clause is not applicable.
- (e) The Company has not taken any loans, secured or unsecured from Companies, Firms or other Parties covered in the register maintained U/s.301 of the Companies Act, 1956.
- (f) As the Company has not taken any loans, the clause of whether the rate of interest & other terms and conditions on which loans have been taken from parties listed in the register maintained under section 301 is prejudicial to the interest of company, is not applicable.
- (g) As no loans are taken by the company, the clause of repayment of interest & principal amount to parties, is not applicable to the company.
- IV. In our opinion and according to the information and explanations given to us, there are generally adequate internal control systems commensurate with the size of the company and the nature of its business with regard to purchase of fixed assets and for sale of goods and services. There is no continuing failure by the company to correct any major weaknesses in internal control.
- V. (a) In our opinion and according to the information and explanation given to us, since no contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been made by the company in respect of any party in the financial year, the entry in the register U/s.301 of the Companies Act, 1956 does not arise.
- (b) According to the information and explanations given to us, as no such contracts or arrangements made by the company, the applicability of the clause of charging the reasonable price having regard to the prevailing market prices at the relevant time does not arise.
- VI. The Company has not accepted any deposits from the public and hence the applicability of the clause of directives issued by the Reserve Bank of India and provisions of section 58A, 58AA or any other relevant provisions of the Act and the rules framed there under does not arise. As per information and explanations given to us the order from the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal has not been received by the Company.
- VII. In our opinion, the company is having internal audit system, commensurate with its size and nature of its business.
- VIII. In respect of the Company, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section(1) of section 209 of the Companies Act, 1956.
- IX. a) The Company is regular in depositing statutory dues including PF, ESI, Income Tax, Cess and any other statutory dues with the appropriate authorities and at the last of the financial year there were no amounts outstanding which were due for more than 6 months from the date they became payable.
- b) According to the information and explanations given to us, no undisputed amounts are payable in respect of PF, ESI, Income Tax, Cess and any other statutory dues as at the end of the period, for a period more than six months from the date they became payable.
- X. The Company has been registered for a period of not less than 5 years, and the company has no accumulated losses at the end of the financial year and the company has not incurred cash losses in this financial year and in the immediately preceding financial year.
- XI. According to information and explanations given to us, the Company has not defaulted in repayment of dues to financial Institutions or banks.
- XII. According to the information and explanations given to us, the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities and hence the applicability of the clause regarding maintenance of adequate documents in respect of loans does not arise.
- XIII. This clause is not applicable to this Company as the Company is not covered by the provisions of special statute applicable to Chit Fund in respect of Nidhi/ Mutual Benefit Fund/Societies.
- XIV. According to the information and explanations given to us, the company is not dealing or trading in shares, securities, Debentures and other investments and hence the provisions of clause 4(xiv) of the Companies (Auditor's Report) Order 2003, are not applicable to the Company.

- XV. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from Banks or Financial Institutions, and hence the applicability of this clause regarding terms and conditions which are prejudicial to the interest of the company does not arise.
- XVI. According to the information and explanations given to us, the Term Loans were applied by the company for the purpose for which the loans were obtained.
- XVII. According to the information and explanations given to us, no funds are raised by the Company on short-term basis. Hence the clause of short term funds being used for long-term investment does not arise.
- XVIII. According to the information and explanations given to us, the Company has not made any preferential allotment of Shares to parties and Companies covered in the Register maintained under section 301 of the Companies Act, 1956 and hence the applicability of the clause regarding the price at which shares have been issued and whether the same is prejudicial to the interest of the Company does not arise.

- XIX. According to the information and explanations given to us, the company does not have any debentures and hence the applicability of the clause regarding the creation of security or charge in respect of debentures issued does not arise.
- XX. We have verified the end use of money raised by rights cum public issue as disclosed in the notes to the financial statements.
- XXI. According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year under audit.

For **P. Murali & Co.**,
Chartered Accountants

P. Murali Mohana Rao
Partner
Membership No. : 023413

Place : Hyderabad
Date : 29-06-2006

BALANCE SHEET AS AT MARCH 31, 2006

Description	Schedule No.	As at 31.03.2006 (Rs.)	As at 31.03.2005 (Rs.)
I. SOURCES OF FUNDS :			
1. Shareholders' Funds :			
a. Share Capital	1	228,173,150	57,033,970
b. Reserves & Surplus	2	10,929,911	9,929,317
2. Loan Funds :			
a. Secured Loans	3	4,629,921	4,696,400
b. Unsecured Loans	4	824,405	878,566
3. Deferred Income Tax Liability Provision		3,698,892	4,156,771
TOTAL :		248,256,279	76,695,024
II. APPLICATION OF FUNDS :			
1. Fixed Assets :	5		
a. Gross Block		108,835,471	57,779,637
b. Less : Depreciation		47,143,943	37,531,020
c. Net Block		61,691,528	20,248,617
2. INVESTMENTS :	6	3,430,970	3,430,970
3. Current Assets, Loans and Advances :	7	191,248,393	56,993,931
Less : Current Liabilities & Provisions :	8	14,274,754	5,891,561
Net Current Assets		176,973,639	51,102,369
4. Miscellaneous Expenditure (to the extent not written off or adjusted)	9	6,160,142	1,913,068
TOTAL :		248,256,279	76,695,024
Notes forming part of Accounts	15		

As per our Report of even date

For and on behalf of the Board

for P.Murali & Co

Chartered Accountants

P.Murali Mohana Rao

Partner

Place : Hyderabad

Date : 29-06-2006

N.Satish Kumar
Managing DirectorB.H.R.Balaji
Executive DirectorK.Radha Krishna.
Director FinanceD.Krishna Rao
Company Secretary

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2006

Description	Schedule No.	Year ended 31.03.2006 (Rs.)	Year ended 31.03.2005 (Rs.)
I. INCOME			
Internet and related Services		52,847,098	40,019,304
Other Income		-	18,570
TOTAL :		52,847,098	40,037,874
II. EXPENDITURE			
Operating Expenses	10	27,641,818	18,001,432
Personnel Cost	11	5,118,669	4,085,971
Administrative Expenses:	12	4,057,444	3,887,750
Financial Expenses	13	831,263	1,059,440
Marketing Expenses	14	1,074,419	1,551,178
Sub Total		38,723,612	28,585,771
Operating Profit		14,123,486	11,452,103
Depreciation		9,612,923	8,016,840
Miscellaneous expenditure written off		379,952	938,940
Profit Before Tax		4,130,610	2,496,323
Provision for Tax		1,172,678	170,000
Provision for Fringe Benefit Tax		227,322	
Profit After tax		2,730,610	2,326,323
Deferred Income Tax Assets for current year		457,879	1,965,643
Prior Period Expenses		2,187,895	219,474
Profit after deferred tax assets provision		1,000,594	4,291,965
Add : Profit Brought forwarded		148,789	(4,143,176)
Profit Transferred to Balance Sheet		1,149,383	148,789
Earnings Per Share		0.12	0.41

As per our Report of even date

For and on behalf of the Board

for P.Murali & Co

Chartered Accountants

P.Murali Mohana Rao
Partner

Place : Hyderabad
Date : 29-06-2006

N.Satish Kumar
Managing Director

B.H.R.Balaji
Executive Director

K.Radha Krishna.
Director Finance

D.Krishna Rao
Company Secretary

SCHEDULES FORMING PART OF THE BALANCE SHEET

Description	As at 31.03.2006 (Rs.)	As at 31.03.2005 (Rs.)
1. Share Capital :		
Authorised :		
2,50,00,000 Equity Shares of Rs.10/- each.	250,000,000	60,000,000
Issued, Subscribed & Paid-up :		
2,28,17,315 Equity Shares of Rs.10/- each fully paid up	228,173,150	57,033,970
Share Application Money	-	-
TOTAL :	228,173,150	57,033,970
2. Reserves and Surplus		
Profit Brought Forward	9,929,317	5,856,823
PROFIT FOR THE YEAR (After Income Tax Provision and Deferred Income Tax)	1,000,594	4,072,494
TOTAL :	10,929,911	9,929,317
3. Secured Loans :		
Bank of India - Banjara hills - Cash Credit against Book Debts	1,705,698	101,447
Bank of India - Banjara Hills - Term Loan (Secured by hypothication of EDP Equipments)	-	4,594,953
ICICI Bank - Housing Loan. (Secured by hypothication of Flats)	2,924,223	-
TOTAL :	4,629,921	4,696,400
4. Un Secured Loans :		
a) Loans from Directors.	590,840	600,001
b) Loans from Others.	-	-
Refundable Deposits from Dealers	233,565	278,565
TOTAL :	824,405	878,566

5. DEPRECIATION STATEMENT

	As at 01.04.2005	GROSS BLOCK		As at 31.03.2006 year	Upto 31.03.2005	DEPRECIATION		NET BLOCK		
		Additions during the year	Deductions during the year			For the period	Deductions during the year	Upto 31.03.2006	As at 31.03.2006	As at 31.03.2005
1 EDP Equipment	52,186,612	6,678,857	-	58,865,469	36,722,885	8,897,791	-	45,620,676	13,244,793	15,463,727
2 Office Equipment	1,206,276	134,305	-	1,340,581	327,759	60,478	-	388,237	952,344	878,517
3 Furniture & Fixtures	1,171,586	45,630	-	1,217,216	394,137	74,161	-	468,298	748,918	777,450
4 Cable	3,215,163	5,328,769	-	8,543,932	86,239	545,309	-	631,548	7,912,384	3,128,924
5 Flat 3a	-	5,847,273	-	5,847,273	-	12,576	-	12,576	5,834,697	-
6 Vehicles	-	792,869	-	792,869	-	22,607	-	22,607	770,262	-
7 CWIP	-	32,228,131	-	32,228,131	-	-	-	-	32,228,131	-
TOTAL :	57,779,637	51,055,834	-	108,835,471	37,531,020	9,612,923	-	47,143,943	61,691,528	20,321,374
Previous Year	47,767,780	10,097,865	13,250	57,852,395	29,518,219	8,016,840	4,038	37,531,020	20,321,374	18,092,833

Description	As at 31.03.2006 (Rs.)	As at 31.03.2005 (Rs.)
6. Investments :		
Investments (3,43,097 No of Equity Shares each Rs.10/- Invested in M/s. Southern Biofe Biofuels Pvt. Ltd)	3,430,970	3,430,970
TOTAL :	<u>3,430,970</u>	<u>3,430,970</u>
7. Current Assets, Loans & Advances :		
A. Current Assets:		
a) Sundry Debtors (Un Secured considered Good) Debts outstanding for a period exceeding six months	40,698,803	42,695,788
Other Debts	<u>7,427,389</u>	<u>7,452,889</u>
b) Pre-paid Expenses	1,523,027	466,821
c) Tax Deducted at Source.	1,039,678	381,500
d) Cash and Bank Balances		
Cash on Hand	360,210	5,090
Balances with Scheduled Banks	<u>333,941</u>	<u>109,228</u>
e) Deposits	63,762,840	1,325,525
f) Stock of CD's.	-	-
B. Loans and Advances:		
a) Advances for Capital Goods	69,545,715	700,690
b) Advances	6,556,789	2,944,672
c) Other Advances	-	911,728
TOTAL :	<u>191,248,393</u>	<u>56,993,931</u>
8. Current Liabilities & Provisions :		
Sundry Creditors for Capital Goods	3,341,353	1,835,236
Sundry Creditors for Expenses	5,299,895	973,873
Outstanding Liabilities	5,633,505	3,082,452
TOTAL :	<u>14,274,754</u>	<u>5,891,561</u>

Description	As at 31.03.2006 (Rs.)	As at 31.03.2005 (Rs.)
9. Miscellaneous Expenditure :		
(to the extent not written off or adjusted)		
a) Preliminary Expenses	4,627,026	-
Less: Written Off During the year	4,627,026	-
b) Deferred Revenue Expenses	1,913,068	2,852,008
Add: Additions During the year	-	-
Less: Written Off During the year	379,952	938,820
TOTAL :	6,160,142	1,913,068
10. Operating Expenses :		
Bandwidth	26,053,888	17,007,740
Lease Line Charges	192,461	37,360
Cable Rent	165,280	86,500
Cable Laying Expenses	343,885	-
Repairs and Maintenance	886,304	869,832
TOTAL :	27,641,818	18,001,432
11. Administrative Expenses :		
AGM & Board Meeting Expenses	43,430	72,935
Audit Fee	45,000	40,000
Electrical Charges	571,142	583,480
Floppys and CDs	-	92,953
General Expenses	153,189	127,773
Insurance	192,163	119,672
Membership, Books & Periodicals	117,673	141,665
Consultancy Charges	77,467	77,700
Printing & Stationery	94,234	112,300
Postage & Telegrams	49,911	26,183
Rent , Rates & Taxes	903,526	827,982
Secretarial Expenses	103,415	87,078
Security Service	20,179	111,910
Telephone, Mobile & Pager Expenses	665,159	897,267
Travelling & Conveyance Expenses	508,968	566,641
Loss on Sale of Fixed Assets	-	2,212
Loss on Chits	511,988	
TOTAL :	4,057,444	3,887,750

Description	As at 31.03.2006 (Rs.)	As at 31.03.2005 (Rs.)
12. Personnel Cost :		
Salaries	4,849,029	3,889,503
Staff Welfare	269,641	196,467
TOTAL :	5,118,669	4,085,971
13. Financial Expenses :		
Bank Charges	107,531	129,864
Interest on Term Loan	433,908	629,165
Interest on Over Draft.	289,824	300,411
Interest on Unsecured Loans	-	-
TOTAL :	831,263	1,059,440
14. Marketing Expenses :		
Advertisement	-	184,548
Collection Expenses	265,936	-
Comissions & Discounts	656,298	1,090,051
Business Promotion	144,185	265,662
Bad Debts	-	-
Donations	8,000	10,917
TOTAL :	1,074,419	1,551,178

SCHEDULE - 15

NOTES FORMING PART OF THE ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

General :

- i. These accounts are prepared on the historical cost basis and on the accounting principles of a going concern.
- ii. Accounting policies not specifically referred to otherwise are consistent and in consonance with generally accepted accounting principles.

Revenue Recognition :

- i. The Company follows the Mercantile system of Accounting and recognises income and expenditure on accrual basis.
- ii. Revenue is not recognised on the grounds of prudence, until realised in respect of liquidated damages, delayed payments as recovery of the amounts are not certain.

Foreign Exchange Transaction :

- i. Realised gains & loss in foreign exchange transactions are recognised in Profit & Loss Account.
- ii. Transactions in foreign currency will be recorded at the rates of exchange prevailing on the date of the transaction. Current assets and liabilities denominated in foreign currency will be translated at the rate of exchange as at Balance Sheet date.

Investments :

Investments are stated at cost i.e. cost of acquisition, inclusive of expenses incidental to acquisition wherever applicable.

Fixed Assets :

Fixed assets are stated at cost less accumulated depreciation. Cost of acquisition of fixed assets is inclusive of freight, duties, taxes and incidental expenses thereto.

Depreciation and Amortisation :

- i. Depreciation is provided on straight line method on pro-rata basis and at the rates and manner specified in the Schedule XIV of the Companies Act, 1956.
- ii. Preliminary Expenses are amortised over the period of 10 years.

Capital Work-in-Progress :

The Capital Work-in-Progress includes cost of Fixed Assets under installation, advances for Capital Goods and unallocated expenditure.

Taxation :

The current charge for income tax is calculated in accordance with the relevant tax regulations applicable to the Company. Deferred tax asset and liability is recognised for future tax consequences attributable to the timing differences that result between the profit offered for income tax and the profit as per the financial statements. Deferred tax asset & liability are measured as per the tax rates/laws that have been enacted or substantively enacted by the Balance Sheet date.

Earning Per Share:

The earning considered in ascertaining the company's earning per share comprises net profit after tax. The number of shares used in computing basic earning per share is the weighted average number of shares outstanding during the year.

Gratuity :

Gratuity has been provided as per the Payment of Gratuity Act.

B. NOTES ON ACCOUNTS

1. Particulars of Employees in accordance with Sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of Employees) Rule 1975 : NIL

	2005-06 (Rs.)	2004-05 (Rs.)
2. Director's Remuneration :	3,112,672/-	1,640,520/-
3. Auditor's Remuneration :		
Audit Fee	45,000/-	40,000/-
4. Import of assets :	312072/-	Nil
5. Expenditure in Foreign Currency :		
Foreign Travelling	345,580/-	Nil
6. In October 2005, the Company made allotment of 1,71,13,918 equity Shares, of Rs.10/- per share aggregating of Rs.1711 Lacs. Expenditure of Rs. 117 Lacs was incurred for making IPO.		
Processes of IPO of Rs.1714 Lacs are utilized in the following manner.		
Acquisition of Fixed Assets.	Rs. 1327.49	
Expenditure for making the offer.	Rs. 117.00	
7. There are no dues to SSI Units outstanding for more than 30 days.		
8. <u>No confirmations were obtained from debtors/creditors as to the balances receivable from/payable to them as at year end.</u>		
9. In accordance with Accounting Standard 22 (AS 22) issued by the ICAI, the Company has accounted for deferred income tax during the year. The deferred income tax provision for the current year amounts to Rs.457879/- towards deferred income tax Asset. (Previous year Rs.1965643/- towards deferred income tax Asset).		
10. Term Loan is Secured by hypothecation of flats and vehicles. Bank Overdraft is secured against book debts.		
11. Counter Guarantee given by Bankers for Rs.10 Lacs in favour of the President of India, acting through the Telegraphic Authority.		
12. Previous years figures have been regrouped wherever necessary.		
13. The figures have been rounded off to the nearest rupee.		

Signatures to Schedules 1 To 15

As per our report of even date
 For **P. Murali & Co.,**
 Chartered Accountants

P. Murali Mohana Rao

Partner
 Membership No. : 023413

For and on behalf of the Board

N.Sateesh Kumar K.Radha Krishna
 Managing Director Director-Finance

Place : Hyderabad
 Date : 29-06-2006

CASH FLOW STATEMENT FOR THE YEAR ENDED MARCH 31, 2006

PARTICULARS	Year Ended 31-03-2006 (Rs. in Lacs)	Year Ended 31-03-2005 (Rs. in Lacs)
A. CASH FLOW FROM OPERATING ACTIVITIES:		
Net profit /(Loss) before tax & extraordinary items	41.31	23.26
Adjustments for:		
PRIOR PERIOD ADJUSTMENT	(21.88)	(2.19)
Depreciation	96.13	80.17
Written off Expense	3.80	9.39
Interest	8.31	10.59
loss on Sale of assets		0.02
Operating Profit before working capital charges	127.67	121.24
Trade and other receivables	(648.30)	46.06
Inventories		0.92
Trade payables	69.83	(5.90)
Cash generated from operations	(450.80)	162.33
Interest paid	(8.31)	(10.59)
Cash flow before extraordinary items	(459.11)	151.73
NET CASH FLOW FROM OPERATING ACTIVITIES		
B. CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	(1200.65)	(262.30)
INVESTMENTS		(34.31)
NET CASH USED IN INVESTING ACTIVITIES	(1200.65)	(296.61)
C. CASH FLOW FROM FINANCING ACTIVITIES:		
creditors for capital goods		16.97
Paid towards Secured Loan	(0.66)	(29.16)
increase in Share Application amount	1711.39	234.87
increase in misc expenses	(46.27)	(54.91)
Repayment of unsecured Loans	(0.54)	(4.43)
NET CASH USED IN FINANCING ACTIVITIES	1663.92	163.35
Net increase in cash and cash equivalents	4.15	18.46
Cash and Cash equivalents as at (Opening Balance)	1.14	1.59
Cash and Cash equivalents as at (Closing Balance)	5.30	20.05

For and on behalf of the Board

Place : Hyderabad
Date : 29.06.2006

N.Satish Kumar
Managing Director

B.H.R.Balaji
Executive Director

K.Radha Krishna
Director-Finance

D.Krishna Rao
Company Secretary

We have examined the attached Cash Flow Statement of Southern Online Bio Technologies Limited (Formerly Known as Southern Online Services Limited) for the year ended 31st March 2006. The Statement has been prepared by the in accordance with the requirements of Clause 32 of listing agreement with Stock Exchanges and is based on and in agreement.

Place : Hyderabad
Date : 29.06.2006

P.Murali Mohana Rao.
Chartered Accountants.
Partner



Balance Sheet Abstract and Company's General Business Profile

(Amount in Rs Thousands)

I. Registration Details

Registration Number	030463
State Code Number	01
Balance Sheet Date	31 st March 2006

II. Capital Raised During the Year

Public Issue	138548
Right Issue	32591
Bonus issue	NIL
Private Placement	NIL

III. Position of Mobilization and Deployment of Funds

Total Liabilities	248256
Total Assets	248256

Sources of Funds

Paid-up Capital	228173
Reserves & Surplus	10929
Secured Loans	4629
Unsecured Loans	824
Deferred Income Tax Liability	3699

Application of Funds

Net Fixed Assets	61691
Investments	3430
Net Current Assets	176973
Miscellaneous Expenditure	6160
Accumulated Losses	NIL

IV. Performance of Company

Turnover	52847
Total Expenditure	48717
Profit /Loss Before Tax +(-)	4130
Profit /Loss After Tax +(-)	2730
Earnings per Share in Rs	0.12
Dividend Rate %	NIL

V. Generic Names of principal products/ services of Company

Item Code No. (ITC Code)	NIL
Product Description	ISP Services & Biodiesel

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 01.12.2006

N.Satish Kumar
Managing Director

B.H.R. Balaji
Executive Director

K.Radha Krishna
Director - Finance



SOUTHERN ONLINE BIO TECHNOLOGIES LIMITED

Regd. Off: 3A, 3rd Floor, Samrat Complex, Saifabad, Hyderabad -500 004

PROXY FORM

Folio No. DP ID No.* Client ID No.*

I/We.....of in the district of being a member/members of the above named company, hereby appoint Mr./Ms..... in the district of as my/our proxy to attend and vote for me/us on my/our behalf at the **Eighth Annual General Meeting** of the Company to be held on Friday, the 29th December, 2006 at 11.30 AM at Dream Valley Resorts, Srinagar, Gandipet, Hyderabad – 500 075 and at any adjournment thereof.

Signed this..... day of 2006.

Address

Signed

* Applicable for investors holding shares in electronic form.

- NOTE:
- a. A Member entitled to attend and vote at the meeting is entitled to appoint a proxy and vote instead of himself.
 - b. Proxy need not be a member.
 - c. The 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.

.....cut here.....

SOUTHERN ONLINE BIO TECHNOLOGIES LIMITED

Regd. Off: 3A, 3rd Floor, Samrat Complex, Saifabad, Hyderabad -500 004

ATTENDANCE SLIP

Folio No. DP ID No.* Client ID No.*

No. of Shares held

I hereby record my presence at the **Eighth Annual General Meeting** of the Company to be held on Friday, the 29th December, 2006 at 11.30 AM at Dream Valley Resorts, Srinagar, Gandipet, Hyderabad – 500 075.

Name of the Shareholder :

Name of the Proxy :

Signature of member/proxy :

- NOTE :
- 1) To be signed at the time of handing over this slip.
 - 2) Members are requested to register their names at least 15 minutes prior to the commencement of the meeting.