

BKV

INDUSTRIES LIMITED

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THIRTEENTH ANNUAL REPORT 2005-2006

BKV INDUSTRIES LIMITED

BOARD OF DIRECTORS

SRI BOMMIDALA KASIVISWANADHAM,	Chairman
SRI BOMMIDALA RAMA KRISHNA,	Managing Director
SMT. BOMMIDALA SAROJA DEVI,	Director
SMT. BOMMIDALA ANITHA,	Director
SRI NELLORE DOLENDRA PRASAD,	Director
SRI KANTETI SRIDHAR,	Director

STOCK EXCHANGES :

The Hyderabad Stock Exchange Ltd.

Admn. Office : 6-3-654,
Adjacent to Erramanjil Bus Stop,
Somajiguda, Hyderabad-500 082

Madras Stock Exchange Ltd.

Post Box No. 183,
II, 2nd Line Beach,
CHENNAI - 600 001.

Bombay Stock Exchange Ltd.,

Rotunda Building, P.J.Towers,
Dalal Street, Fort, MUMBAI - 400 001.

The Calcutta Stock Exchange Association Ltd.

7, Lyons Range,
KOLKATA - 700 001.

The Delhi Stock Exchange Association Ltd.

D.S.E. House, 3/1, Asaf Ali Road,
NEW DELHI - 110 002.

AUDITORS :

M/s. Garlapati & Co.
Chartered Accountants,
15/1, Arundelpet,
GUNTUR - 522 002.

BANKERS :

Andhra Bank
Main Branch,
Near Gowri Sankar Theatre,
Kothapet, Guntur.

REGISTRARS & SHARE TRANSFER AGENTS :

Karvy Computershare Pvt. Limited
Karvy House, 46, Avenue, 4,
Street No.1,
Banjara Hills, HYDERABAD - 500 034.
Tel : 040 - 23312454, 23320751/752
Fax : 040 - 23311968

REGISTERED OFFICE :

Bommidala House,
5-87-15/A, Lakshmipuram, Main Road,
GUNTUR - 522 007.

BKV INDUSTRIES LIMITED**NOTICE OF ANNUAL GENERAL MEETING**

NOTICE is hereby given that the Thirteenth Annual General Meeting of the Members of **BKV INDUSTRIES LIMITED** will be held on Wednesday, the 20th September, 2006 at 3:00 P.M. at Bommidala Cold Complex, By-pass Road, Lalpuram, Guntur – 522 017 to transact the following business.

Ordinary Business

1. To receive, consider and adopt the Profit and Loss Account for the financial year ended 31st March, 2006 and the Balance Sheet as on that date together with the reports of the Directors and Auditors there on.
2. To appoint a Director in place of Sri B. Kasiviswanadham, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Smt. B.Saroja Devi, who retires by rotation and being eligible, offers herself for re-appointment.
4. To re-appoint M/s. Garlapati & Co., Chartered Accountants, as Statutory Auditors of the Company, for the period commencing from conclusion of this meeting till the conclusion of the next Annual General Meeting on such remuneration as may be fixed by the Board of Directors plus out of pocket expenses.

SPECIAL BUSINESS:**5. REDUCTION OF CAPITAL**

To Consider and if thought fit to pass with or without modifications, the following resolutions as SPECIAL RESOLUTIONS :

"RESOLVED THAT on the strength of Article 8 of the Articles of Association of the Company read with Section 100 to 104 of the Companies Act, 1956, the Issued, Subscribed and Paid up capital of the company be and is hereby reduced from Rs. 6,27,94,000/- (Rs. Six Crores Twenty Seven Lakhs Ninety Four Thousand Only) consisting of 62,79,400 equity shares of Rs. 10/- each to Rs. 62,79,400/- (Rs. Sixty Two Lakhs Seventy Nine Thousand and Four Hundred Only) consisting of 62,79,400 equity shares of Rs. 1/- each and consequently the shares in the capital of the company shall be of a face value of Rs. 1/- each.

"RESOLVED FURTHER THAT the reduction of capital shall bind every person whose name may appear in the Register of Members on the effective date (the date on which the reduction of capital becomes effective in accordance with Section 103 of the Act) and accordingly shares in the capital of the company shall stand reduced into shares of Rs.1/- each and as such all the present share certificates in respect of shares in the capital of the company shall stand automatically cancelled without any further act or application and they shall cease to be fit for being negotiated and be of no effect and consequence, on and from the said effective date.

By order of the Board of Directors

Place : Guntur
Date: 10/08/2006

B. RAMAKRISHNA
Managing Director

BKV INDUSTRIES LIMITED**NOTES:**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, and vote on a poll, instead of himself / herself and such proxy need not be a Member. The proxy form is enclosed which should be deposited at the Registered Office of the Company duly completed and signed, not later than 48 hours before the commencement of the Meeting.
2. The Register of Members and Share Transfer Books of the Company will remain closed from 16th September 2006 to 20th September 2006 (both days inclusive).
3. Members are requested to intimate any change in the address registered with the Company. Members holding shares in dematerialised form are requested to notify any change in address to their respective Depository Participants (DPs).
4. Members are requested to bring their admission slip alongwith copy of the Annual Report to the Annual General Meeting.
5. Explanatory statement as per section 173(2) of the companies act, 1956 is attached.

**EXPLANATORY STATEMENT U/S 173 (2) OF THE COMPANIES ACT,
1956 & INFORMATION UNDER CLAUSE 49 OF THE LISTING
AGREEMENT REGARDING RE-APPOINTMENT OF DIRECTORS**

(Pursuant to Clause 49 VI (A) of the Listing Agreement with the Stock Exchanges)

Item No. 2**Sri. B. Kasiviswanadham:**

Sri. B. Kasiviswanadham aged 70 years is a founder promoter of your company. He has over 42 years of experience in Tobacco business. He has been associated with administration, marketing and HR related activities and been associated with your company since its inception

Sri. B. Kasiviswanadham is also a director in the Boards of 5 other companies. He is a member of Shareholders/Investor's Grievance Committee and Chairman of Share Transfer Committee constituted by the company.

Item No. 3**Smt. B. Saroja Devi**

Smt. B. Saroja Devi has several years of experience as director in 4 other companies. She is also associated with your company since its inception.

Smt. B. Saroja Devi is a member of Remuneration Committee and Chairman of Shareholder/ Investor Grievance Committee constituted by the company.

Item No. 5

As you may be aware, your company was not able to carry on the aqua culture business due to environmental issues. Your company had incurred huge losses in the past and the accumulated losses and unabsorbed depreciation were in the aggregate at Rs.11,11,35,189/- as per the audited Balance Sheet as at 31st March, 2005. As per the audited Balance Sheet as at 31st March, 2006, the losses that have not been written off stood at Rs. 10,96,19,681/-.

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As part of the initiatives taken by the Board of directors of your company, your company has begun trading activities in a small way. For this purpose, the objects clause of the Memorandum of Association of your company was also amended. This started showing some results and it may ultimately improve the financial position of the company. Considering the need for presenting a better picture of the financial position and to remove the capital that is not represented by tangible assets, it was thought fit to write off the losses against the paid up capital of the company to the extent possible. This exercise would mean a reduction of the capital and therefore it must be accomplished in accordance with the applicable provisions of the Companies Act (the Act).

In fact, one of the most practical and economic ways is to reduce the share capital of the company and wipe out a part of the accumulated losses to the extent possible so that the balance sheet presents a better picture. The accumulated losses remaining after this reduction process could be wiped out in three to five years through revenues proposed to be raised through the business activities.

The Board of Directors of your company, at the meeting held on 12th May, 2005, approved a composite scheme for reduction and reconstruction of the capital of your company. The scheme provides for reduction of existing capital of the company from Rs.6,27,94,000/- (Six Crores Twenty Seven Lakhs Ninety Four Thousands only) consisting of 62,79,400 equity shares of Rs. 10/- each fully paid up to Rs. 62,79,400/- (Rs. Sixty Two Lakhs Seventy Nine Thousand and Four Hundred Only) consisting of 62,79,400 equity shares of Rs. 1/- each fully paid up.

The difference arising out of such reduction i.e Rs. 5,65,14,600/- will be used to set off a part of the total accumulated losses as on 31-03-2005 of Rs. 11,11,35,189/- thus bringing down the losses to Rs. 5,46,20,589/-. Accordingly on the reduction of capital becoming effective, Rs. 5,65,14,600/- obtained by deducting the post reduction paid up capital (Rs. 62,79,400/-) from the pre-reduction paid up capital (Rs. 6,27,94,000/-) will be used to write off the accumulated losses of the company.

Article 8 of the Articles of Association empowers your company to effect a reduction of share capital. Reduction of share capital requires complying with Section 100 to 103 of the Act. As per Section 100, reduction of capital requires a special resolution and confirmation by Court. The High Court for this purpose is the AP High Court. As per Section 103(2) of the Act, the resolution for reducing share capital as confirmed by the order of the High Court will take effect only on the registration of the order of the court and the minute approved by the court.

The composite scheme approved by the Board of Directors of your company involves a further issue of shares also. Further issue will be made by converting certain secured loans aggregating to Rs. 1,04,00,000/- into equity. As per the present share holding pattern the promoters of your company hold 30.69% of the share capital of your company. By the said further issue, the secured loans of your company would fall to the extent of conversion amount

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(secured by the charge of the properties of the company) and the net worth of your company will improve concomitantly. The further issue will also result in increase in the stake of promoters to 73.91% of the post issue capital of the company.

The pricing for the further issue will be determined in accordance with the applicable guidelines of the Securities and Exchange Board of India (SEBI). As per listing agreement, no-objection letters from all stock exchanges have been received. The Bombay Stock Exchange, vide its letter dated 12th August 2005, insisted that the post reduction share capital should be sufficiently assimilated by the investors before taking up the preferential allotment of shares to promoters against monies lying to the credit of their accounts.

Your company presented a petition to the High Court of Judicature Andhra Pradesh, at Hyderabad for its approval of the composite scheme involving reduction of capital and further issue of shares in accordance with Section 100 to 105, 391 & 394 of the Act. As per the Companies (Court) Rules, 1959, the procedural requirements relating to reduction of capital should be first followed. Normally in the case of any scheme involving a scheme within the meaning of Section 391 / 394 of the Act, a direction for convening a meeting of the shareholders / creditors will be issued by the high court. However as the scheme involves a scheme for reduction of capital, the scheme so far as it pertains to matters other than reduction of capital will be considered by the high court separately. Your company will carry it out in accordance with the directions of the high court after complying with applicable guidelines and regulations of SEBI.

On the strength of the petition filed by your company, the High Court by its order dated 23/06/2006 approved the reduction of capital and directed your company to register the order and the minute and advertise the registration of the order and the minute in newspapers. Your company has taken steps to comply with the said order. After the special resolution placed for your approval under this item gets duly passed at the annual general meeting, necessary application will be made to the high court for further action and directions.

Therefore the above item of business has been placed before you for your consideration and for being passed as special resolution. The Board of Directors recommends the passing of the above resolution as a special resolution. None of the directors is interested in the above resolutions, except those directors whose secured loans are proposed to be converted into shares as a separate proposal.

A copy of the composite scheme aforesaid is available at the registered office of the company for inspection and a copy will also be kept at the venue of the meeting for inspection by members.

By order of the Board of Directors

Place : Guntur
Date: 10/08/2006

B. RAMAKRISHNA
Managing Director

BKV INDUSTRIES LIMITED**DIRECTOR'S REPORT AND MANAGEMENT DISCUSSION & ANALYSIS**

Your Directors have pleasure in presenting you the Thirteenth Annual Report together with Audited Accounts for the year ended 31st March, 2006

PERFORMANCE OF THE COMPANY

(Rs. in Lakhs)

	For the year ended 31/03/2006	For the year ended 31/03/2005
Sales and Other Income	351.22	122.84
Depreciation	17.42	21.29
Impairment of Fixed assets	7.21	9.19
Net Profit / (Loss)	15.16	(26.77)

OPERATIONS:

- A. Farm : No shrimp culture is carried out during the year in Farm.
- B. Hatchery: No seed is produced during the year 2005 - 2006. However shrimp is produced about 12.40 Tones in ponds situated at Hatchery and achieved a shrimp turnover of Rs. 22.54 lakhs. During the year, your company exported 316.80 tons of tobacco for Rs. 286.94 lakhs. The total gross revenue during the year is Rs 351.22 lakhs.

DIVIDEND:

In view of huge accumulated losses, the question of dividend declaration does not arise.

The auditors have given a disclaimer in view of discontinuance of operations in Hatchery and Farm. The note No. "C" to the notes to accounts (Schedule 17) is self explanatory in nature and the accounts are drawn up on going concern basis in view of operations in farming and trading operations.

FUTURE PROSPECTS:

The company will continue merchandise activity dealing in various commodities including Tobacco in future to improve the financial position and performance of the company.

CAPITAL RESTRUCTURING:

The Board of Directors of your company, at the meeting held on 12th day of May, 2005, approved a composite scheme for reduction and reconstruction of the capital of your company. As per the said scheme, the existing capital of the company should be reduced from Rs.6,27,94,000/- consisting of 62,79,400 equity shares of Rs.10/- each fully paid up to Rs. 62,79,400/- consisting of 62,79,400 equity shares of Rs.1/- each fully paid up.

The composite scheme approved by the Board of Directors of your company as aforesaid also involves a further issue of shares by conversion of certain secured loans into equity. The scheme is being carried out in accordance with the applicable provisions of law, rules, regulations and guidelines and subject to necessary sanctions by the high court.

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During the year your company got the approval for capital reduction and reconstructing from Bombay Stock Exchange Ltd., and other Stock Exchanges have approved the proposed capital reduction. We wish to inform the members that the Company has obtained the approval of High Court of Andhra Pradesh for capital reduction and your approval for scheme of arrangement is being sought by the Board of Directors.

PARTICULARS REGARDING ENERGY CONSERVATION etc. :

Information regarding Energy Conservation and Technology Absorption required to be disclosed under Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is enclosed as annexure.

BOARD:

As per Article 145 of Articles of Association of the Company, Sri B. Kasiviswanadham retires by rotation at the Annual General Meeting and being eligible offers himself for re-appointment.

As per Article 145 of Articles of Association of the Company, Smt. B. Saroja Devi retires by rotation at the Annual General Meeting and being eligible offers herself for re-appointment.

PARTICULARS OF EMPLOYEES:

None of the employees of your company was in receipt of remuneration exceeding the limit prescribed under section 217 (2A) of the Companies Act, 1956 during the year.

AUDITORS:

M/s. Gariapati & Co, Chartered Accountants, who are the present statutory auditors of the company retire at the conclusion of the thirteenth Annual General Meeting and being eligible offer themselves for re-appointment as Statutory Auditors of the Company. The company has received a letter from them to the effect that appointment, if made, would be within the prescribed limits under section 224 (1B) of the Companies Act, 1956.

LISTING AGREEMENT WITH STOCK EXCHANGES:

As per the requirement of Listing Agreement, the Company declares that its securities are listed on the Stock Exchanges of Mumbai, Delhi, Kolkata, Chennai and Hyderabad. The company confirms that it has paid annual listing fees to all the above Stock Exchanges for the year 2006 -2007.

DIRECTOR'S RESPONSIBILITY STATEMENT:

The Directors confirm :

- a) that in the preparation of the annual accounts for the year ended 31st March, 2006, the applicable accounting standards have been followed and that no material departures have been made from the same.

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- b) that the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 31/03/2006 and of the profit of the Company for that year.
- c) that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) That the directors have prepared the annual accounts on a going concern basis.

APPRECIATION :

The Board appreciates the valuable co-operation and support extended by all the employees and shareholders of the Company.

By order of the Board of Directors

Place : Guntur
Date: 10/08/2006

B. KASIVISWANADHAM
Chairman

ANNEXURE TO THE DIRECTOR'S REPORT

Annexure to the Director's Report under Section 217 (1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the report of Board of Directors) Rules, 1988 and forming part of Director's Report.

- A. Conservation of Energy - Not Applicable -
- B. i. Technology Absorption, Adaptation & Innovation - Not Applicable -
ii. Research and Development (R&D) - Not Applicable -
- C. Foreign Exchange Earnings & Outgo

	<u>Rs. in Lakhs</u>	<u>U.S.\$</u>
i. Foreign Exchange earnings	286.94	6,61,223
ii. Foreign Exchange outgo		
in respect of Raw Materials	- Nil -	- Nil -
iii. Travelling & Export Promotion Exp.	9.86	21,801
iv. Capital Goods	- Nil -	- Nil -

By order of the Board of Directors

Place : Guntur
Date: 10/08/2006

B. KASIVISWANADHAM
Chairman

A Report on Corporate Governance is enclosed.

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ANNEXURE TO THE DIRECTORS' REPORT

COMPLIANCE REPORT ON CORPORATE GOVERNANCE FOR THE PERIOD APRIL 1, 2005 TO MARCH 31, 2006.

Pursuance to Clause 49 of the Listing Agreement with the Stock Exchanges, your Directors present below a detailed Compliance Report on Corporate Governance.

1. Company's philosophy on code of Governance

Corporate Governance refers to adherence to a combination of laws, regulations, procedures, implicit rules and voluntary practices that enable companies to attract financial and human capital, with a view to maximise long term value for shareholders, while respecting the aspect of multiple stake holders, including the society at large.

At BKV Industries Ltd, we are committed to Good Corporate Governance to ensure that all functions of the company are discharged in a professionally sound and competent manner, which leads to increasing employee, customer satisfaction and shareholder value.

2. Board of Directors

The strength of the Board of Directors as on 31/03/2006 is 6. The Board comprises of Executive and Non-Executive Directors. The Non-Executive Directors being wider perspective to the Board's deliberations and decisions. The Board comprises of one Managing Director and five Non-Executive directors, including Chairman of the Company.

No. of Board Meetings held during the year along with the dates of the Meetings

During the financial year ended March 31, 2006, Six Board Meetings were held on 12th May 2005, 30th June, 2005, 30th July 2005, 20th August 2005, 29th October 2005, and 30th. January 2006.

Attendance of each Director at the Board Meetings, last Annual General Meeting (AGM) and the number of Companies and Committees where he/she is Director / Member

Name of the Director	Category of Directorship	No. of Board Mtgs. attended	Attendance at last AGM Directors	No. of Other Directors ships in Public Limited Companies*	Numbership held in committee of Directors**	Chairmanship held in committee of Directors**
Mr. Bommidala Kasi Viswanadham Chairman	Non - Executive Promoter Director	6	Yes	Nil	1	1
Mr. Bommidala Rama Krishna Managing Director	Executive Promoter Director	5	Yes	Nil	1	Nil
Smt. Bommidala Saroja Devi	Non - Executive Promoter Director	5	No	Nil	1	1
Smt. B. Anitha	Non - Executive Promoter Director	6	Yes	Nil	3	Nil
Mr. Kanteti Sridhar	Non - Executive Independent Director	6	Yes	Nil	Nil	2
Mr. Dolendra Prasad	Non - Executive Independent Director	4	No	1	1	Nil

* Excludes alternate directorships, Directorships in Indian Private Companies & Foreign Companies.

** Committee of Director include Audit committee, Share Transfer Committee, Shareholders / Investor grievance committee and Remuneration committee of the company.