

BKV INDUSTRIES LIMITED

FOURTEENTH ANNUAL REPORT
2006 - 2007

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

REGISTERED OFFICE :

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Fourteenth Annual General Meeting of the Members of BKV INDUSTRIES LIMITED will be held on Friday The 28th September, 2007 at 2.30 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 March, 31 2007 and the Balance Sheet as at that date together with the reports of the Board of Directors and Auditors there on.
2. To appoint a Director in place of Sri Kanteti Sridhar, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Smt. B. Anitha, who retires by rotation and being eligible, offers herself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the company on such remuneration and out of pocket expenses as the Board may decide, based on the recommendation of the Audit Committee.

SPECIAL BUSINESS:

5. **Voluntary delisting of the company's Equity Shares from Stock Exchanges at Chennai, Kolkata and Delhi.**

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

'RESOLVED THAT subject to the applicable provisions of the Companies Act, 1956, Securities Contracts (Regulation) Act, 1956 and the rules framed there under, Listing Agreements, Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 (including any statutory modification(s) or re-enactment thereof for the time being in force and as may be enacted hereinafter) and all other applicable laws, rules, regulations and guidelines and subject to such approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be prescribed while granting such approvals, permissions and sanctions, which may be agreed to, by the Board of Directors of the company (hereinafter referred to as "the Board " which term shall be deemed to include any committee thereof for the time being exercising the powers conferred on the Board by this resolution), consent is hereby accorded to the Board to delist the Company's Equity shares from the following stock exchanges viz. Madras Stock Exchange Ltd, at Chennai, The Calcutta Stock Exchange Association Ltd at Kolkata and The Delhi Stock Exchange Association Ltd, at New Delhi"

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"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to forward the requisite applications in the manner so required together with such documents and such information to respective stock exchanges and further authorised to execute such papers, declarations, undertakings and writings and to do and perform all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, desirable or appropriate to give effect to this resolution."

By order of the Board of Directors

Place : Guntur
Date: 30/07/2007

B. RAMAKRISHNA
Managing Director

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 21st September 2007 to 28th September 2007 (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 along with copy of the Annual Report to the Annual General Meeting.

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

Mr. Kanteti Sridhar is a graduate in commerce. He has experience in business and is working as Managing Director in Siridi Sai Garments (P) Ltd for the last 7 years. The Board consider that the company would be benefited by the business exposure and advice of Mr. K. Sridhar. None of the director is interested in the resolution except Mr. K. Sridhar.

Item No. 3

Smt. B. Anitha is a law graduate and underwent training in Personnel Management. She has rich experience, expertise and knowledge in areas such as legal, banking and HR related activities. Her knowledge of legal aspects will be a great help to the management in complying with various Governmental and other institutional rules, procedures and regulations.

Smt. B. Anitha is not a director on the Board of any other company. She is a member of Shareholders/Investors Grievance Committee, Remuneration Committee and Audit Committee constituted by the company.

Mrs. B. Anitha, Mr.B.Kasiviswanadham, Smt. B. Saroja Devi and Mr. B. Rama Krishna are interested in the resolution.

Item No 5:

Presently the company's securities are listed on 5 Stock Exchanges i.e Mumbai, Chennai, Kolkata, Delhi and Hyderabad. With the wide and extensive networking of exchange like BSE, the investors have access to online dealings in the company's securities across the country. The volume of trading in company's share's on the stock exchanges at Delhi, Kolkata and Chennai has reduced substantially. On the recommendations of the Investors Grievance Committee, the Board of Directors at their meeting held on 30th July, 2007 have, therefore, decided to apply for the voluntary delisting of the company's Equity Shares from the said stock exchanges. The proposed voluntary delisting of the company's equity shares from the said three stock exchanges will not adversely effect any investors including the members located in the regions where the said three stock exchanges are situated. Pursuant to the guidelines issued by SEBI on voluntary delisting by companies of their securities from the stock exchanges, it is now proposed to seek the members approval by way of special resolution for voluntary delisting of the company's equity Shares from the said three stock exchanges as set out in the resolution at item No 5.

The proposed delisting is in the interest of the company and the Board commends the resolution for your approval.

None of the directors of the company is interested in the resolution.

DIRECTOR'S REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

Your Directors have pleasure in presenting you the Fourteenth Annual Report together with Audited Accounts for the year ended 31st March, 2007.

PERFORMANCE OF THE COMPANY

(Rs. in Lakhs)

	For the year ended 31/03/2007	For the year ended 31/03/2006
Sales and Other Income	351.36	351.22
Depreciation	14.18	17.42
Impairment of Fixed assets	5.85	7.21
Net Profit / (Loss)	(-)18.23	15.16

OPERATIONS:

A. Farm : No culture is carried out during the year in Farm.

B. Hatchery: No seed is produced during the year 2006 - 2007. However shrimp is produced about 10.63 Tons in ponds situated at Hatchery and achieved a shrimp turnover of Rs.22.57 lakhs. During the year, your company exported 336.60 tons of tobacco for Rs. 325.69 lakhs. The total gross revenue during the year is Rs 351.36 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 15) 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 Tobacco etc in future to improve the financial position and performance of the company.

CAPITAL RESTRUCTURING:

The first part of the Scheme of arrangement involving capital reduction and preferential issue was approved by the High Court. However an application has been made to the High Court to bring it to the notice of Hon'ble Court a mistake in the procedure and therefore on receipt of necessary orders upon the said application, the first part of the Scheme involving capital reduction will be given effect to.

APPROVAL FOR CONTRACT :

Your company has obtained prior approval of the Central Government for entering into contract with Bommidala Ventures Private Limited as required under the provisions of the Companies Act, 1956.

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 Kanteti Sridhar 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. Anitha 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 (2) (A) of the Companies Act, 1956 during the year.

AUDITORS:

M/s. Garlapati & Co, Chartered Accountants, who are the present statutory auditors of the company retire at the conclusion of the Fourteenth 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 2007 -2008.

DIRECTOR'S RESPONSIBILITY STATEMENT:

The Directors confirm :

- a) that in the preparation of the annual accounts for the year ended 31st March, 2007, the applicable accounting standards have been followed.
- b) that the directors have selected such accounting policies and applied them consistently and made judgements and that estimates 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 31/03/2007 and of the loss 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.

Corporate Governance:

A separate report on Corporate Governance with Auditor's certificate on its compliance is attached as Annexure to this report.

Management Discussion & Analysis:**A. Industry, Structure, Development and Outlook**

1. India is the Third largest producer of tobacco in the world after China and USA. Despite being the third largest producer, India is only the eight largest exporter of tobacco and tobacco products in the world. Out of the total tobacco produced in India, only one-third is flue-cured tobacco suitable for cigarette manufacturing.
2. Considering that as per capita income increases and there is a change in the demographic profile of the populace, there is still some scope for growth for the Indian tobacco industry.
3. India's merchandise exports grew by 20.8% to touch US\$ 124.6 billion during the year, Exports clocked an impressive 21.6% growth for the first eight months, but lost momentum thereafter due to slow down in US economy and appreciation of India Rupee.

B. OPPORTUNITIES, THREATS, RISKS AND CONCERNS

1. The promoters of the company are in tobacco and other commodities industry for more than four decades and been exposed and experienced in the procurement, process and exporting and marketing the produce. Considering the per capita income in India, the consumption of tobacco and cigarettes would go up considerably. Your promoters want to take advantage of the changing patterns of the tobacco production, increase in per capita income levels in India.
2. Company recognises the need for actively managing its business risks which, when effectively done, carries the potential of producing significant rewards. As a corollary, unidentified or inadequately monitored risks can hamper the business performance.
3. The Company has built up a Risk inventory of all the identified risks cutting across its business lines. Members of senior management have undertaken the ownership of the top risks of the Company and are working on mitigating the same through constant discussion of the top management.

C. INTERNAL CONTROL SYSTEM

1. An effective internal control system supported by an Enterprise Resource Planning platform for all business processes ensures that all transaction controls are continually reviewed and risks of inaccurate financial reporting and fraud, if any, are dealt with immediately and eliminated.
2. The Company has a well established system of internal control in operation which complies with the relevant provisions on 'Internal Control' under the Company's Auditor's Report Order 2003 and as prescribed under revised clause 49 of the Listing Agreement with the Stock Exchanges.
3. The business specific observations and the status of implementation of recommended solutions are regularly reviewed and presented to Audit Committee of the Board.

D. FINANCIAL PERFORMANCE

1. The financial statements are prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles in India. The management accepts the responsibility for integrity and objectivity of the financial statements and the basis for various estimates and the judgements used in preparing the financial statements.
2. During the year ended 31st March, 2007, the Company achieved a turnover of Rs. 3.48 crores against the previous year turnover of 3.09 crores, which includes an export turnover of Rs. 3.26 crores, clocking a growth of 14% in exports. Despite considerable

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efforts in controlling the administrative expenditure, the Company incurred a Net Loss of Rs. 18.22 lakhs against a previous year's Net Profit of Rs. 15.15 lakhs. This is mainly due to last year's profit on sale of investments of Rs. 32.99 lakhs.

3. As the company has carried minimum operations in farming activities and executed the trading operations during the year, the margins earned are just sufficient to meet the operational costs and hence no major changes in the Net Working Capital and Secured & Unsecured Loans.
4. **CAUTIONARY STATEMENT**
 Due to substantial appreciation of Indian Rupee, the margins in Export operations are under strain. As the company is depending on the trading and export operations, the performance during the ensuing year will be under considerable stress.

Delisting of Shares:

Presently the company's Ordinary Equity shares are listed in the stock exchanges of Mumbai (BSE) and four other stock exchanges at New Delhi, Kolkata, Chennai and Hyderabad. The shares of the company are compulsorily traded in dematerialized form. Specific attention of members is drawn to item No. 5 of the Notice of Annual General Meeting and explanatory statement attached there to whereby the company proposes to de-list its ordinary equity shares from Chennai, New Delhi and Kolkata Stock Exchanges. For the last several years the trading volumes at these stock exchanges were very negligible. The annual listing fees paid to these stock exchanges do not now offer commensurate benefits to the company / to its investors. The Board considered that continued listing on these stock exchanges is not necessary and therefore decided to de-list from these three stock exchanges. The de-listing of equity shares will not adversely effect the investors including the members located in these regions.

Assigned Lands:

Mandal Revenue Officer, Allur Mandal, Allur has issued a notice directing the company to surrender 24 acres of land lying in Survey Nos. 728, 729 and 730 and 4.77 acres of land lying in 731/D of our Farm at Iskapally in April 2007 as per the provisions of sub-section (2) of section 3 of Andhra Pradesh Assigned Lands(Prohibition of Transfers) Act. In order to comply the statutory requirement under the aforesaid Act, the company has requested the MRO, Allur Mandal to take possession of the assigned lands. Similar request is made to MRO, Indukurpet to arrange the survey of our lands situated at Hatchery, Mypadu village and inform us the existence of assigned lands if any in our Hatchery to reply suitably to the Government.

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: 30/07/2007

B. KASI VISWANADHAM
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	325.69	715272
ii.	Foreign Exchange outgo in respect of Raw Materials	- Nil -	- Nil -
iii.	Travelling & Export Promotion Exp.	-Nil-	- Nil -
iv.	Capital Goods	- Nil -	- Nil -

By order of the Board of Directors

Place : Guntur
Date: 30/07/2007

B. KASI VISWANADHAM
Chairman

A Report on Corporate Governance is enclosed.

ANNEXURE TO THE DIRECTORS' REPORT**COMPLIANCE REPORT ON CORPORATE GOVERNANCE FOR THE YEAR APRIL 1, 2006 TO MARCH 31, 2007.**

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

01 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, 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.

02. Board of Directors

The strength of the Board of Directors as on 31/03/2007 is 6. The Board comprises of Executive and Non-Executive Directors. The Non-Executive Directors bring external and wider perspective to the Board's deliberations and decisions. The Board comprises of one Managing Director and five Non-Executive directors, including non-executive Chairman of the Company.