



BAGALKOT UDYOG LIMITED

(Formerly Kanoria Industries Limited)

Time 11.00 A. M.
Day Friday, 29th December, 2006
Venue Air India Building,
14th Floor, Nariman Point,
Mumbai 400 021

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BOARD OF DIRECTORS

M. S. Sanganerla

M. L. Daga

L. N. Chaturvedi

A. M. Shettar

R. K. Kejriwal

STATUTORY AUDITORS

Messrs V. K. Beswal & Associates

Messrs Santhappa & Co.

COST AUDITORS

Messrs B.J.D. Nanabhoy & Co.

SOLICITORS

Kanga & Co.

BANKERS

Syndicate Bank

Canara Bank

Dena Bank

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REGISTRARS AND TRANSFER AGENTS

Bigshare Services Pvt. Ltd.

E-2, Ansa Industrial Estate,

Saki Vihar Road, Saki Naka,

Andheri (E), Mumbai - 400 072

Tel. No. : (022) 2847 0652 / 653

Fax No. : (022) 2847 5207

REGISTERED OFFICE

Air India Building

14th Floor,

Nariman Point,

Mumbai - 400 021.

FACTORY

Bagalkot, Dist. Bagalkot

Karnataka - 587 111.

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NOTICE

Notice is hereby given that the 56th Annual General Meeting of the Shareholders of BAGALKOT UDYOG LIMITED will be held on Friday, the 29th December, 2006 at 11.00 A.M. at Air India Building, 14th Floor, Nariman Point, Mumbai 400 021 to transact the following business:

AS ORDINARY BUSINESS

1. To consider and adopt the Directors' Report and the audited Balance Sheet and Profit & Loss Account for the year ended 31st March 2006.
2. To appoint a Director in place of Shri M.S. Sanganerla who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri R.K. Kejriwal who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

By Order of the Board
For Bagalkot Udyog Limited

M.L. DAGA

Director & Secretary

Mumbai, 21st November, 2006

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Company. Proxies in order to be effective must be properly signed and delivered to the Company not less than 48 hours before the time of the meeting.
2. The Share Transfer Books and the Register of Members of the Company would remain closed from Thursday, the 21st December, 2006 to Friday, the 29th December, 2006 (both days inclusive).
3. Members are requested to intimate the change of address, if any, immediately to the Company's Registrars & Transfer Agents, M/s. Bigshare Services Pvt. Ltd, E-2/3, Ansa Industrial Estate, Saki Vihar Road, Saki Naka, Andheri (East), Mumbai 400 072.
4. Members are hereby informed that the Company has transferred all unclaimed dividends declared upto and including the Accounting Year ended 31.3.1997 to the Investors Education and Protection Fund of the Central Government in terms of the provisions of Section 205C of the Companies Act, 1956. The Company had not declared dividend since 1st April, 1997.
5. Members who are holding shares in identical order of names in more than one folio are requested to intimate the Registrars and Transfer Agents of the Company, the Ledger Folio of such accounts and send all the Share Certificates to the Registrars to enable them to consolidate their holdings under one folio.
6. The Equity Shares of the Company are listed in the Bombay Stock Exchange Limited, Mumbai, Phiroze Zeejeebhoy Towers, Dalal Street, Mumbai 400 001 and Annual Listing Fee has been paid to them.
7. Nomination facility for shares is now available for members. The prescribed format in this regard can be obtained from the Company's Registrars and Transfer Agents at the addressed as stated in note (3) above.
8. Pursuant to Clause 49 (VI) (A) of the Listing Agreement, the particulars of the Directors being re-appointed/appointed at the Annual General Meeting are annexed.

Information required under clause 49 (VI) (A) of the Listing Agreement in respect of Directors being re-appointed.

- | | | |
|--|---|--|
| 1. Name | : | Shri M.S. Sanganerla |
| Date of Birth | : | 15.1.1933 |
| Qualifications | : | B. Com. LLB.,
Diploma in Business Management |
| Date of Appointment | : | 16.12.1987 |
| Expertise in specific function area | : | General Management |
| Memberships on Committees of the Board of Directors of other Companies | : | Nil |
| 2. Name | : | Shri R.K. Kejriwal |
| Date of Birth | : | 08.05.1960 |
| Qualifications | : | B. Com. (Hons) |
| Date of Appointment | : | 30.07.2001 |
| Expertise in specific function area | : | General Management |
| Other Directorships | : | Kay-Sec Brokerage House (India) Ltd
P.A. Investments Ltd
Pratap Holdings Ltd
Samaresh Investments Ltd
Supertech Additives Ltd
Tanna Electro Mechanics Pvt Ltd
AOL Cryo Ltd
Asiatic Air-O-Gas Engg. Co Ltd
Mintex Trade Links Pvt Ltd
Pennzol Gases & Investments Co Pvt Ltd
New India Shipping Lines Ltd
Shree Bhagya Luxmi Resources Pvt Ltd
India Jute Trading Co Ltd
Anchor Leasing Ltd
Alpha Oxygen Ltd
Six Sigma Gases India Pvt Ltd |
| Memberships on Committees of the Board of Directors of other Companies | : | Nil |

DIRECTORS' REPORT

To
The Shareholders

The Directors hereby present the 56th Annual Report and Audited Accounts of the Company for the year ended 31st March, 2006.

(Rs. in lacs)

FINANCIAL RESULTS

	Current Year	Previous Year
After meeting all operating and administrative expenses, the working of the year shows a deficit of	(718.35)	(660.12)
Add:		
Interest	70.03	259.34
Depreciation	181.30	197.94
Loss before exceptional item	(969.68)	(1117.40)
Exceptional item	1356.07	-
Prior period adjustment	2105.24	-
Profit / (Loss) before taxation	2491.63	(1117.40)
Provision for fringe Benefit Tax	5.33	-
Profit / (Loss) for the year	2486.30	(1117.40)
Loss brought forward from the previous year	(7591.77)	(6474.37)
Balance Carried to Balance Sheet	(5105.47)	(7591.77)

DIVIDEND

In view of the loss, your Directors regret their inability to recommend any dividend.

PRODUCTION AND PERFORMANCE

The figures for the year under review and the comparative position in the previous year are as follows:

	2005-06	2004-05
Clinker Production (MT)	49550	76465
Monthly Average	4129	6372
Cement Production (MT)	101985	134210
Monthly Average	8499	11184
Capacity Utilisation (%)	30.91	40.67
Turnover (Rs. in lacs)	2184	2787

The Draft Rehabilitation Scheme (DRS) submitted by the Operating Agency – IDBI to the Board for Industrial & Financial Reconstruction, New Delhi, has not yet been approved and as such the rehabilitation process could not be commenced and the Company continue to suffer losses during the year under review.

Continued lower capacity utilization during the year resulted in further drop in the turnover during the year under review.

The Company has received the notices from the Deputy Commissioner, Bagalkot, Government of Karnataka and the Karnataka State Pollution Control Board, Bangalore, directing the Company that Air Control Pollution System vis-à-vis the process is required to be modernized to ensure that the effect of air emission is minimal of the Plant and the Company is required to take the issue with the BIFR

and upgrade the system with the modern technology otherwise stop the operation of the plant. In view of the specific directions from these Government authorities to close the operation of the Cement Plant, the Company has not been in a position to operate the Kiln which is the mother unit for cement manufacturing process and consequently the cement manufacturing activities has been stopped effective from the close of 31st May 2005, after the liquidation of the clinker and cement stocks at the plant.

The Company has been able to carry out a one time settlement with its bankers viz. Syndicate Bank, Canara Bank and Dena Bank and the All India Financial Institutions (AIFIs) viz. IDBI. The settlement amount has been paid in full and no dues remain outstanding to any Banks or AIFIs. Necessary adjustments in this connection has been made in the accounts for the year under review.

REFERENCE TO BIFR

There is no further progress on the modified DRS submitted by the Operating Agency - IDBI, to BIFR. The Government of Karnataka has expressed doubts on the rehabilitation of the Company due to heavy arrears of sales tax.

DEBENTURES

The funds raised by the Company through the issue of debentures have been utilized for meeting long term working capital needs.

AUDIT COMMITTEE

As per the requirement of Section 292A of the Companies Act, 1956 and also the Listing Agreements with Bombay Stock Exchange Limited, Mumbai an Audit Committee of the Board of Directors is already in place. During the year, the Committee held three meetings.

CORPORATE GOVERNANCE

Pursuant to Clause 49 (VI)(A) of the Listing Agreement, a report on compliance of Corporate Governance together with a Certificate from the Auditors of the Company is annexed hereto.

SUBSIDIARY COMPANIES

The audited Accounts together with the Reports of the Directors and the Auditors of the Company's subsidiaries, namely, Kanoria Mercantile Limited and Sanatan Investment Company Limited, are attached.

CONSOLIDATED ACCOUNTS

The consolidated audited Accounts of the Company and its subsidiaries and the Auditors' Report thereon are annexed therewith.

HUMAN RESOURCES

Industrial relations during the year have been satisfactory.

DIRECTORS

Shri A.K. Kanoria resigned from his office as Managing Director as well as his office as Director of the Company effective from 16.11.2006. The Board of Directors wishes to place on record their appreciation for the valuable services rendered by Shri Kanoria during his tenure as Chairman and Managing Director of the Company.

S/Shri M.S. Sangneria and R.K. Kejriwal retire by rotation and, being eligible, offer themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

*The Board of Directors of the Company state:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;

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- (ii) 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 and of the profit or loss of the company for that period;
- (iii) 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;
- (iv) that the directors have prepared the annual accounts as on 31st March, 2006, on a going concern basis.

COST AUDIT

Pursuant to the Directions of the Central Government under Section 233 B of the Companies Act, 1956, M/s. B.J.D Naniabhoj & Co., Cost Accountants, Mumbai, have been appointed to conduct the cost audit of the Cement Division of the Company for the year ending on 31.3.2007.

PARTICULARS OF EMPLOYEES

The Company has no employee in respect of whom information under Section 217 (2A) of the Companies Act, 1956, is required to be annexed.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars of conservation of energy, technology absorption and foreign exchange earnings and outgo as required under Section 217(1) (e) of the Companies Act, 1956 are given in Annexure which forms part of this Report.

AUDITORS' REPORT

The observations made by the Auditors in their Report do not require any comments as the same are either self explanatory or have been fully explained in the notes attached to the Accounts.

APPOINTMENT OF AUDITORS

You are requested to appoint Statutory Auditors for the Current Year and fix their remuneration. The retiring joint Auditors, M/s. V.K. Beswal & Associates and M/s. Santhappa & Company are eligible for reappointment.

APPRECIATION

The Directors wish to place on record their appreciation of the co-operation received from the various departments of the Central and State Governments, Bankers and Financial Institutions.

The Directors also wish to thank all the employees for their sincerity, hardwork and efforts.

On behalf of the Board of Directors

R. K. KEJRIWAL M. S. SANGANERIA

Mumbai, 21st November, 2006.

Director

Director

ANNEXURE TO THE REPORT OF THE DIRECTORS

A. CONSERVATION OF ENERGY:

Total energy consumption and energy consumption per unit of production as per FORM "A".

FORM "A"
(See Rule 2)

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

2005-2006 2004-2005

A. POWER & FUEL CONSUMPTION:

1. ELECTRICITY:

a] Purchased unit (Lac KWH)	90.67	112.61
Total amount (Rs.lacs)	441.08	535.51
Rate/Unit (Rs)	4.86	4.76
b] Own generation		
i] Thro Diesel Generators		
Units (Lac KWH)	33.31	59.10
Units per ltr of LDO/SKO	3.77	3.82
Cost / Unit (Rs)	6.69	4.90
ii] Thro Steam turbine/generator		
Units	-	-
Units per ltr of fuel oil/gas	-	-
Cost / Unit (Rs)	-	-

2. COAL & LIGNITE:

(Grade C, D & E used in cement for calcination of raw meal)		
Quantity (Tonnes)	6929.34	17348.11
Total cost (Rs.lacs)	190.20	438.70
Avg. rate (Rs/MT)	2744.82	2528.83

3. FURNACE OIL:

Quantity (K.ltr)	-	-
Total amount	-	-
Avg. rate	-	-

4. OTHER/INTERNAL GENERATION:

Quantity (K.ltr)	-	-
Total amount	-	-
Avg. rate	-	-

B. CONSUMPTION PER UNIT OF PRODUCTION (units per MT)

2005-2006 2004-2005

Electricity	121.55	126.64
Furnace Oil	-	-
Coal	13.98*	22.68%

Consumption is lower because of the higher consumption of the high calorific value Coal during the year.

B. TECHNOLOGY ABSORPTION:

FORM-B
(See Rule 2)

Form for disclosure of particulars with respect to Absorption

RESEARCH AND DEVELOPMENT (R & D):

The Company does not have any separate Research & Development section. The National Council for Cement & Building Materials is carrying out Research and Development activities for the entire industry and the company is a Member of the same, deriving there from all benefits of their activities.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

No technology has been imported during the last five years reckoned from the beginning of the financial year.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

Rs. in lacs

1. Total Foreign exchange earned	Nil	Nil
2. Total Foreign Exchange used	0.35	0.04

On behalf of the Board of Directors

R. K. KEJRIWAL M. S. SANGANERIA

Mumbai, 21st November, 2006.

Director

Director

MANAGEMENT DISCUSSION & ANALYSIS

1. Industry Structure & Development:

The Company has been continuously incurring losses due to its inability to operate at optimum levels on account of high cost of production which is mainly due to high power consumption and coal when compared to industry norms of similar capacity.

2. Opportunities & Threats:

The delay in sanction of the Rehabilitation package for the revival of the company has caused an irreparable loss and the Company has to stop the operation of the Cement Plant as per the direction of the Government of Karnataka effective from the close of 31-05-2006.

3. Segmental Review:

The company having only one segment, no segmental review requires to be given.

4. Outlook:

With the Government's stress on irrigation, housing and infrastructure projects like roads and ports, the outlook for the cement industry is bright. Further infrastructure, and rural housing are the major drivers for cement demand.

5. Risk and concerns:

Any increase in transport, fuel and electricity costs without corresponding increase in selling prices may put pressure on the operating results.

6. General discussions on Financial Performance with respect to operational performance

This has been dealt within the Directors' Report.

7. Internal control system and their inadequacy

Proper and adequate systems of internal controls are installed by the Company for safeguarding all of its assets against losses from unauthorised use or disposition and to ensure that all transactions are authorised, recorded and reported correctly. The systems provide for regular internal audits and checks.

8. Human Resources:

Industrial Relations remained cordial and peaceful throughout the year.

9. Cautionary Statement:

Statements in the Management Discussion and Analysis describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed in the statement.

The sanction of the Draft Rehabilitation Scheme of the Company by BIFR and extension of various reliefs and concessions sought by the Company from Government of Karnataka and Financial Institutions and other secured creditors is a necessary prerequisite to the turnaround and future operations of the Company

The Company assumes no responsibility in respect of forward looking statements herein which may undergo changes in future on the basis of subsequent developments, information or events:

On behalf of the Board of Directors

R. K. KEJRIWAL M. S. SANGANERIA

Mumbai, 21st November, 2006. Director Director

REPORT ON CORPORATE GOVERNANCE

(Pursuant to clause 49 of the Listing Agreement)

1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company's philosophy of Corporate Governance is aimed in the efficient conduct of its business and in meeting its obligations to the shareholders.

The Company is committed to learn and adopt the best practices of corporate governance.

2. BOARD OF DIRECTORS

The present strength of Board of Directors of your Company is Five Directors.

The Composition and category of Directors is as follows:

Name of Director	Category of Directorship	No. of Board Meetings attended	Attendance at the last AGM	Directorship in other Companies including private companies in India	No. of Committees in which Chairman/ Member (other than Bagalkot Udyog Ltd)
Shri A.K. Kanoria* Chairman & Managing Director	Promoter - Executive	6	Yes	6	NIL
Shri M.S. Sanganeria Director	Independent & Non-Executive Director	6	Yes	NIL	NIL
Shri M.L. Daga Director & Secretary	Executive Director	3	Yes	NIL	NIL
Shri L.N. Chaturvedi Director	Independent & Non-Executive Director	NIL	No	5	NIL
Shri A.M. Shettar Director	Independent & Non-Executive Director	6	Yes	NIL	NIL
Shri R.K. Kejriwal Director	Independent & Non-Executive Director	5	Yes	16	NIL

Ceased to be a member of the Board and CMD w.e.f. 16.11.2006.

No. of Board Meetings held: 6

Dates: 25.4.2005, 30.7.2005, 17.8.2005, 30.09.2005, 31.10.2005, 30.01.2006.

3. AUDIT COMMITTEE

The Audit Committee comprises solely of Independent & Non-Executive Directors. Shri R.K. Kejriwal, Shri M.S. Sanganeria and Shri L.N. Chaturvedi are the members of the Committee. Shri R.K. Kejriwal is the Chairman of the Audit Committee.

The terms of reference to the Audit Committee cover the matters specified in Section 292 A of the Companies Act, 1956 and Clause 49 of the Listing Agreement.

Number of Committee meeting held : 3

Dates : 25.4.2005, 17.8.2005, 30.1.2006

Attendance at Audit Committee Meetings

Members	No. of Meetings attended
Shri R.K. Kejriwal	3
Shri M.S. Sanganeria	3
Shri L.N. Chaturvedi	NIL

The Vice President – Finance, Internal Auditor, Statutory Auditors and Cost Auditor of the Company are the Permanent Invitees. The Company Secretary is the Secretary of the Committee.

4. REMUNERATION OF DIRECTORS / REMUNERATION COMMITTEE

The Remuneration Committee comprises of three non-executive Directors viz. Shri M.S. Sanganeria, Shri R.K. Kejriwal and Shri L.N. Chaturvedi. Shri R.K. Kejriwal is the Chairman of the Committee.

Term of reference to the Remuneration Committee of the Company is to comply with Schedule XIII of the Companies Act, 1956 and Listing Agreement and to carry out functions as envisaged therein.

During the year one meeting of the remuneration committee was held on 29.7.2005, which was attended by all the Remuneration Committee members except Shri L.N. Chaturvedi. The remuneration of Managing Director was discussed and decided by the Remuneration Committee.

Details of the Directors' Remuneration paid for the year 2005-2006 as follows:

(A) Executive Directors

Name	Designation	Salary & Allowances	Perquisites	Employers' Contribution to Provident Fund	Total Rs.
Shri A.K. Kanoria	Managing Director	8,40,000	1,09,556	72,000	10,21,556
Shri M.L. Daga	Director & Secretary	4,95,600	-	-	4,95,600

The appointment of Managing Director is contractual which is for the period of three years w.e.f 1.8.2005. Notice period for termination of his appointment is three months notice or less by mutual agreement.

(B) Sitting fee paid to Non-Executive Directors

Name of Directors	Amount (Rupees)
Shri M.S. Sanganerla	12,000
Shri L.N. Chaturvedi	Nil
Shri A.M. Shettar	12,000
Shri R.K. Kejriwal	10,000

The Company does not have a scheme for grant of stock option.

6 SHAREHOLDERS' / INVESTORS' GRIEVANCE COMMITTEE

Shri M.S. Sanganerla	Chairman
Shri M.L. Daga	Compliance Officer
Shri A. M. Shettar	Director
Number of shareholders complaints received and resolved so far	33
Number not solved to the satisfaction of shareholders	Nil
Number of pending share transfers	Nil

6. GENERAL BODY MEETINGS

Location for and time of last three Annual General Meetings:

Date	Time	Location
29.09.2003	11.00 A.M.	Ashoka Hall, Arcadia, 195, Nariman Point, Mumbai 400 021.
29.09.2004	11.00 A.M.	Ashoka Hall, Arcadia, 195, Nariman Point, Mumbai 400 021.
30.09.2005	11.00 A.M.	Ashoka Hall, Arcadia, 195, Nariman Point, Mumbai 400 021.

During the last year, there have been no special resolutions passed by the Company's Shareholders through Postal Ballot. At the ensuing Annual General Meeting there is no resolution proposed to be passed by Postal Ballot.

7. DISCLOSURES

- The particulars of transactions between the Company and related parties as per Accounting Standard are set out in the notes on accounts in the Annual Report. None of these transactions have any potential conflict with the interest of the Company at large.
- There were no instances of non compliance on any matter related to the capital market, during the last three years, except letter during 2004 from SEBI in respect of purported violations of the "Takeover Regulations" - Settlement by Consent Order. The Company had already made its representation.

8. MEANS OF COMMUNICATION

The quarterly results are published in the dailies, Navshakti and Free Press Journal. Half yearly results are not sent to the shareholders individually.

The Management Discussions and Analysis report forms part of this Annual Report. No presentations were made to the institutional investors or analysts.

The Company does not have any website.

9. GENERAL SHAREHOLDERS INFORMATION

9.1 Annual General Meeting

- Date, Time and Venue : 29th December, 2006 at 11.00 A.M. at Air India Building, 14th floor, Nariman Point, Mumbai 400 021.

9.2 Financial Calendar : 1st quarter - 31.7.2006
 April 2006 to March 2007 : 2nd quarter - 31.10.2006
 3rd quarter - last week of January
 4th quarter - last week of April

*Tentative

9.3 Date of Book Closure : 21st December, 2006 to 29th December, 2006 (both days inclusive)

9.4 Dividend Payment Date : No dividend proposed

9.5 Listing on Stock Exchange : Bombay Stock Exchange Limited

9.6 (a) Stock Code : 502125

(b) ISIN Number in NSDL : Not Applicable as the shares are not dematerialised.

9.7 Stock Price Data : Monthly high and low during the year

Month	Share Price		BSE Index*	
	High	Low	High	Low
May 05	12.12	2.10	6772.74	6140.97
June 05	11.40	11.40	7228.21	6647.36
July 05	10.27	10.27	7708.59	7123.11
August 05	9.25	5.75	7921.39	7537.50
September 05	7.89	6.85	8722.17	7818.90
October 05	7.50	6.00	8821.84	7656.15
November 05	6.00	5.71	9033.99	7891.23

Except as reported above, there were no trading in other months.

9.8 Registrar & Transfer Agents : Bigshare Services Private Limited
 E-2/3, Ansa Industrial Estate, Saki Vihar Road, Saki Naka Andheri (East), Mumbai 400 072.

9.9 Share Transfer System:

Share transfer applications are processed by the Registrars & Transfer Agents and placed before the Share Transfer Committee for approval. The share certificates are forwarded to the lodger thereof, hereafter.

The committee meets as often as necessary to approve transfers and other related matters.

9.10 Distribution of shareholding as on 31st March, 2006

Particulars	No. of shares held	Percentage to total share capital
Promoters	6488392	76.26
Financial Institutions/Banks/ Mutual Funds	142082	1.67
Corporate Bodies	334098	3.92
NRIs	24066	0.28
General Public	1519768	17.87
Total	8508406	100.00

9.11 The shares of the Company are not dematerialised.

9.12 The Company has no outstanding of GDR / ADR / Warrants or other convertible instruments.

9.13 Plant Location : Bagalkot, Dist. Bagalkot
 Karnataka 587 111.

9.14 Address for Correspondences : Bagalkot Udyog Limited
 Air India Building, 14th Floor, Nariman Point, Mumbai 400 021

10. DECLARATION ON COMPLIANCE OF THE COMPANY'S CODE OF CONDUCT

The Company has framed a specific code of Conduct for the members of the Board of Directors and the Senior Management Personnel of the Company pursuant to Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited.

All the members of the Board and Senior Management Personnel of the Company have confirmed compliance with the code for the year ended 31st March, 2006.

11. CEO / CFO CERTIFICATION

The necessary certificate under Clause 49 V of the Listing Agreement has been placed before the Board of Directors.

On behalf of the Board of Directors

R. K. KEJRIWAL M. S. SANGANERIA
 Mumbai, 21st November, 2006. Director Director

AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

To the Members of
Bagalkot Udyog Limited

We have read the report of the Board of Directors on Corporate Governance and have examined the compliance of conditions of Corporate Governance by BAGALKOT UDYOG LIMITED (Formerly Kanoria Industries Limited), for the year ended on 31st March, 2006, as stipulated in clause 49 of the Listing Agreement of the said company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance as stipulated in the said clause. 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 the representations made by the directors and the management, we certify that the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the 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 V.K. BESWAL & ASSOCIATES
Chartered Accountants

R.P. LADDHA
Partner
Membership No.48195

Mumbai, 21st November, 2006

For SANTHAPPA & Co.
Chartered Accountants

S. BASAVARAJ
Partner
Membership No. 18133

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956**SECTION 212 (1)(e)**

1. The interest of Bagalkot Udyog Limited (BUL), in its subsidiaries at the end of their last financial year was as follows:-

Name of subsidiary	Financial Year ended on	Extent of interest of BUL
(a) Kanoria Mercantile Ltd	31st March, 2006	Wholly-owned subsidiary
(b) Sanatan Investment Company Ltd	31st March, 2006	Wholly-owned subsidiary

2. The net aggregate amount, so far as it concerns the members of BUL and is not dealt with in BUL's account.

(a) Profit for the above noted financial years of the subsidiaries since they became subsidiaries of BUL	... Rs. 0.70 lacs
(b) Profit for the previous financial years of the subsidiaries since they became subsidiaries of BUL.	... Rs.48.33 lacs

3. The net aggregate amount of the profits of the subsidiaries, which is dealt with in the account of BUL.

(a) For the above noted financial years of subsidiaries.	Nil
(b) For the previous financial years of the subsidiaries since they became subsidiaries of BUL.	Nil

M. L. DAGA
Director & Secretary

R. K. KEJRIWAL
Director

M. S. SANGANERIA
Director

Mumbai, 21st November, 2006.

DISTRIBUTION OF SHAREHOLDING

NUMBER OF ORDINARY SHARES HELD	NUMBER OF SHAREHOLDERS	
	31-3-2006 %	31-3-2005 %
1 to 500	97.10	97.16
501 to 1000	1.72	1.69
1001 to 10000	0.99	0.97
Over 10000	0.19	0.18
Total	100.00	100.00

CATEGORIES OF SHAREHOLDERS

CATEGORY	NUMBER OF SHAREHOLDERS		VOTING STRENGTH		NUMBER OF ORDINARY SHARES HELD	
	31-3-2006	31-3-2005	31-3-2006	31-3-2005	31-3-2006	31-3-2005
Individuals	9715	9707	18.20	17.89	1548394	1522494
Companies	69	69	80.13	80.38	6817930	6838830
Government & Public Financial Institutions	3	3	1.50	1.56	127795	132795
Nationalised Banks Mutual Funds and Trust	5	5	0.17	0.17	14287	14287
Total	9792	9784	100.00	100.00	8508406	8508406

ANNUAL REPORT 2005-2006

AUDITORS' REPORT

We have audited the attached Balance Sheet of **BAGALKOT UDYOG LIMITED (FORMERLY KANORIA INDUSTRIES LIMITED)**, as at 31st March 2006 and also the Profit and Loss Account & Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

1. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) (Amendment) Order, 2004 (together the 'Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of 'The Companies Act, 1956' of India (the 'Act') and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us during the course of the Audit, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
 - b) In our opinion, proper books of accounts as required by law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet, Profit & Loss Account & Cash Flow Statement referred to in this report are in agreement with the books of accounts.
 - d) In our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit & Loss & Cash Flow Statement Account are prepared in accordance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of written representations received from directors of the Company as on 31st March, 2006 and taken on record by the Board of Directors of the Company and relying upon a legal opinion obtain by the Company, we report that prima facie four directors are disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.
 - f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with notes thereon and attached thereto give the information required by the Companies Act, 1956, in the manner so required.
 - g) **We have the report as under:-**
 - i) **Attention is invited to Note no.1-I (c) and Note no. 9 in Schedule 'R' of Notes to the accounts regarding company's ability to continue its operation on a going concern basis.**
 - ii) **As explained in Note no.4 there is a difference between the interest on loan from banks and financial institutions and lease rent provided in the books and the amounts required to be provided at contracted rates, the shortfall for the year being Rs.800.19 lakhs and the cumulative shortfall till 31/3/2006 being Rs.3250.80 lakhs.**

iii) **As a result of the above, the profit for the year has been overestimated by Rs.800.19 lakhs, the loan and the lease liability have been understated by Rs.3250.80 lakhs and the accumulated losses have been understated by Rs.3250.80 lakhs.**

- h) Subject to our observation in para (g) above, the said accounts give a true and fair view in conformity with the accounting principles generally accepted in India:
 - i. In so far as it relates to the Balance Sheet of the state of affairs of the Company as at 31st March, 2006,
 - ii. In so far as it relates to the Profit & Loss Account of the PROFIT of the company for the year ended on that date,
 - and
 - iii. In so far as it related to the Cash Flow Statement, of the Cash Flows for the year ended on that date.

For V.K.BESWAL & ASSOCIATES
Chartered Accountants

For SANTHAPPA & CO.,
Chartered Accountants

R.P. LADDHA
Partner
Membership No. 48195

S. BASAVARAJ
Partner
Membership No. 18133

Mumbai, 21st November, 2006

ANNEXURE REFERED TO IN PARAGRAPH 1 OF OUR REPORT OF EVEN DATE ON ACCOUNTS FOR THE YEAR ENDED 31ST MARCH, 2006 OF BAGALKOT UDYOG LIMITED (FORMERLY KANORIA INDUSTRIES LIMITED)

I. FIXED ASSETS:

- 1) a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, except in case of Cement Division, where detailed records are available only in respect of fixed assets purchased after 1st January, 1968.
- b) As explained to us, the management has verified all the fixed assets during the year at reasonable intervals except items of furniture, fixtures and other equipment of Cement Division and we are informed that there were no discrepancies noticed in respect of the assets verified as compared with the above referred records.
- c) During the year, substantial parts of fixed assets have not been disposed off by the company.

II. INVENTORY:

- 2) a) The Management has physically verified the inventory. In our opinion, the frequency of verification is reasonable.
- b) The procedure and method of physical verification of stock followed by the management are reasonable and adequate in relation to size of the Company and nature of its business.
- c) The Company has maintained proper records of inventory and the discrepancies between the physical stocks and the books stocks noticed on physical verification as maintained in paragraph 3 above are not material.

III. LOANS & ADVANCES:

- 3) The company has not taken/given any loan or advance in the nature of loan from/ to a company listed in the Register maintained under Section 301 of the Companies Act, 1956. In respect of loans and advances in the nature of loans, given by the Company, to its employees and other parties, repayment of principal and interest, wherever applicable, is being made as stipulated.