

Annual Report

30th
June,
2007



BAGALKOT UDYOG LIMITED

ANNUAL REPORT 2006-07

57th Annual General Meeting

Time 11.00 A. M.
 Day Monday, 31st December, 2007
 Venue Air India Building,
 14th Floor, Nariman Point,
 Mumbai 400 021

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BAGALKOT UDYOG LIMITED

BOARD OF DIRECTORS

M. S. Sangneria

M. L. Daga

L. N. Chaturvedi

A. M. Shettar

R. K. Kejriwal

STATUTORY AUDITORS

Messrs V. K. Beswal & Associates

COST AUDITORS

Messrs B.J.D. Nanabhoy & Co.

SOLICITORS

Kanga & Co.

BANKERS

HDFC Bank

Vijaya Bank

Punjab National Bank

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.

ANNUAL REPORT 2006-2007**NOTICE**

Notice is hereby given that the 57th Annual General Meeting of the Shareholders of BAGALKOT UDYOG LIMITED will be held on Monday, the 31st-December, 2007 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 period-ended 30th June 2007.
2. To appoint a Director in place of Shri M.L. Daga who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri L.N. Chaturvedi who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration.

M/s. Santhappa & Co., one of the retiring joint Auditors of the Company have expressed their unwillingness to be reappointed.

By Order of the Board
For Bagalkot Udyog Limited

M. L. DAGA

Director & Secretary

Mumbai, 30th November, 2007

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 Monday, the 24th December, 2007 to Monday, the 31st December, 2007 (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.L. Daga
Date of Birth	: 07.09.1941
Qualifications	: B. Com. F.C.A.
Date of Appointment	: 22.02.1988
Expertise in specific function area	: Extensive experience in Finance, Administration and General Management

Memberships on Committees of the Board of Directors of other Companies

: Nil

2. Name	: Shri L.N. Chaturvedi
Date of Birth	: 05.07.1945
Qualifications	: B. Sc., B.O.A.T. from Calcutta Technic School
Date of Appointment	: 16.11.2000
Expertise in specific function area	: General Management
Other Directorships	: Asiatic Explosive Pvt. Ltd Ameri Gas Pvt. Ltd. Andhra Pradesh Air Products (P) Ltd. AOL Infotech Ltd. Shree Hanuman Steel Rolling Mills Co. Ltd.

Memberships on Committees of the Board of Directors of other Companies

: Nil

BAGALKOT UDYOG LIMITED**DIRECTORS' REPORT**

To
The Shareholders

The Directors hereby present the 57th Annual Report and Audited Accounts of the Company for the period from 1st April, 2006, to 30th June, 2007.

	(Rs. in lacs)	
FINANCIAL RESULTS	Current Year (15 Months)	Previous Year (12 Months)
After meeting all operating and administrative expenses, the working of the year shows a deficit of	(195.24)	(718.35)
Add:		
Interest	98.03	70.03
Depreciation	210.09	181.30
Loss before exceptional item	503.36	969.68
Exceptional item	351.39	1356.07
Prior period adjustment	180.00	2105.24
Capital Subsidy Transferred	10.00	—
Profit / (Loss) before taxation	38.03	2491.63
Provision for fringe Benefit Tax	3.05	5.33
Profit / (Loss) for the year	34.98	2486.30
Tax adjustment of earlier years	8.77	—
Loss brought forward from the previous year	(5105.47)	(7591.77)
Balance Carried to Balance Sheet	(5079.26)	(5105.47)

DIVIDEND

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

PRODUCTION AND PERFORMANCE

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

	Period ended 30th June 2007	Year ended 31st March 2006
1. Clinker Production (MT)	—	49550
2. Cement Production (MT)	15425	101985
3. Turnover (Rs. in lacs)	498	2184

Note: During the current period, Cement Production continued for a few days till stocks of clinker last.

Pending sanction of the rehabilitation scheme by the Board for Industrial & Financial Reconstruction (BIFR), the rehabilitation process could not be started during the period under review and Company continued to suffer losses.

The Company has stopped manufacturing operations at the plant since 1st June, 2006 due to notices issued by the Deputy Commissioner-Bagalkot, Government of Karnataka and the Karnataka State Pollution Control Board, Bangalore directing the company to stop the operation of the rotary kiln till such time the pollution control equipment was set right to meet the emission norms.

REFERENCE TO BIFR

The Draft Rehabilitation Scheme (DRS) submitted by the Operating Agency – IDBI on 25/05/2007 was sanctioned by the BIFR after hearing all the concerned parties vide its Order dated 12/10/2007. The Rehabilitation Scheme sanctioned by the BIFR includes the Demerger of Cement Division of your Company into a separate new Company. Your Company is taking necessary steps to implement the sanctioned Scheme for its rehabilitation.

The main features of the Rehabilitation Scheme are as under:-

1. Transfer of Cement Division of the Company, Bagalkot Udyog Ltd. (BUL) on going concern basis to Bagalkot Cement & Industries Ltd., (BCIL), the Resultant Company with effect from the Appointed Date i.e. 1st July, 2007.
2. Allotment of shares of BCIL, the Resulting Company, to the existing shareholders of BUL in the ratio of 1 fully paid-up equity share of Rs.10 each for every 100 fully paid up equity shares of Rs.10/- each held by them in BUL.
3. Promoters to infuse Rs. 10 Crores as equity share capital in BCIL.
4. The share capital of BUL will be reduced to 10% of the existing capital.

DEBENTURES

The Company has not issued any debenture during the period under review.

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 four meetings.

CORPORATE GOVERNANCE

Pursuant to Clause 49 (VI) (A) of the Listing Agreement, a report on Corporate Governance and Certificate from the Company's Auditors confirming compliance 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.

ANNUAL REPORT 2006-2007**DIRECTORS**

S/Shri M.L. Daga and L.N. Chaturvedi retire by rotation and, being eligible, offer themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company state:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (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 30th June, 2007, 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.Nanabhoy & Co., Cost Accountants, Mumbai, have been appointed to conduct the cost audit of the Cement Division of the Company for the period ending on 31.03.2008.

PARTICULARS OF EMPLOYEES

During the period under review, none of the employees of the Company have drawn remuneration as specified under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

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

M/s. Santhappa & Co., one of the joint Auditors of the Company, have expressed their unwillingness to be reappointed. The other retiring Auditors M/s. V. K. Beswal & Associates have furnished certificates to the Company to the effect that their appointment, if made, would be within the limits prescribed under the Companies Act, 1956. Shareholders are requested to appoint the Auditors and to fix their remuneration.

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, 30th November, 2007.

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.

2006-2007 **2005-2006**
(15 months) **(12 months)**

A. POWER & FUEL CONSUMPTION:**1. ELECTRICITY:**

a] Purchased unit (Lac KWH)	10.61	90.67
Total amount (Rs.lacs)	53.05	441.08
Rate/Unit (Rs)	5.00	4.86
b] Own generation		
i] Thro Diesel Generators		
Units (Lac KWH)	-	33.31
Units per ltr of LDO/SKO	-	3.77
Cost / Unit (Rs)	-	6.69
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
Total cost (Rs.lacs)	-	190.20
Avg. rate (Rs/MT)	-	2744.82

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)

2006-2007 **2005-2006**
(15 months) **(12 months)**

Electricity	-	121.55
Furnace Oil	-	-
Coal	-	13.98

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	3.77	0.35

On behalf of the Board of Directors

R. K. KEJRIWAL **M. S. SANGANERIA**

Mumbai, 30th November, 2007.

Director

Director

BAGALKOT UDYOG LIMITED

MANAGEMENT DISCUSSION & ANALYSIS

1. Industry Structure, Development and Outlook

The strong growth in the Indian Economy and the impressive GDP growth during the Financial Year 2006-07 had its direct impact on the Cement Industry. The cement industry maintained a good growth momentum. The capacity utilization in the industry increased to 96% from 90% during the previous year. The Cement production also increased by 10% to 155.3 Mn. MT as against 141.8.

The Indian economy is projected to grow at 9-10% in the 11th Plan period (2007-12) Cement sector being a core infrastructure sector is expected to grow at more than 9%. Infrastructure and housing will be the main growth drivers for the Cement Industry. Construction of the new bridges, roads, ports, airports and improvement in the existing facilities, growth in the construction & real estate will keep the growth momentum in the Cement Industry.

2. Opportunities & Threats

Increasing economic activities including development of infrastructure, growth in construction industry are expected to increase both, per capita and aggregate cement consumption and are expected to positively impact the prospects of demand for cement.

Excess capacity built up in anticipation of the demand may increase the competition in the industry and put pressure on the pricing.

3. Segmental Review

The Company has only one reportable segment that is manufacturing & sales of cement.

4. Risk and concerns

High energy cost, availability of coal and raising input and transportation cost are the major area of concern.

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

This has been dealt with in the Directors' Report.

6. Internal control system and their inadequacy

The Company has an extensive system of internal controls to ensure that all of its assets are safeguarded and protected against loss from unauthorized use or disposition, and that transactions are authorized, recorded and reported correctly.

7. Human Resources

Industrial Relations remained cordial and peaceful throughout the period.

8. Rehabilitation / De-merger Scheme

The Company has since initiated the steps to implement the Rehabilitation Scheme. Operation of the Cement Plant is likely to commence from January 2008.

9. Cautionary Statement

Statement 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 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, 30th November, 2007.

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)	MemberChairman
Shri A.K. Kanoria Chairman & Managing Director	Promoter - Executive	2	No	6	NIL	NIL
Shri M.S. Sanganeria Director	Independent & Non-Executive Director	9	Yes	NIL	NIL	NIL
Shri M.L. Daga Director & Secretary	Executive Director	8	Yes	NIL	NIL	NIL
Shri L.N. Chaturvedi Director	Independent & Non-Executive Director	NIL	No	5	NIL	NIL
Shri A.M. Shettar Director	Independent & Non-Executive Director	9	Yes	NIL	NIL	NIL
Shri R.K. Kejriwal Director	Independent & Non-Executive Director	4	Yes	18	NIL	NIL

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

No. of Board Meetings held : 9

Dates: 24.4.2006, 11.5.2006, 31.7.2006, 31.10.2006, 21.11.2006, 30.11.2006, 29.12.2006, 31.1.2007, 30.4.2007.

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 : 4

Dates : 24.4.2006, 31.7.2006, 21.11.2006, 30.4.2007.

Attendance at Audit Committee Meetings

Members	No. of Meetings attended
Shri R.K. Kejriwal	4
Shri M.S. Sanganeria	4
Shri L.N. Chaturvedi	NIL

The Chief Financial Officer, 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.

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Details of the Directors' Remuneration paid for the year 2006-2007 are as follows:

(A) Executive Directors

Name	Designation	Salary & Allowances	Perquisites	Employers' Contribution to Provident Fund	Total Rs.
Shri A.K. Kanoria	Managing Director	5,27,334	60,063	45,200	6,32,597
Shri M.L. Daga	Director & Secretary	6,19,500			6,19,500

(B) Sitting fee paid to Non-Executive Directors

Name of Directors	Amount (Rupees)
Shri M.S. Sanganerla	18,000
Shri L.N. Chaturvedi	Nil
Shri A.M. Shettar	18,000
Shri R.K. Kejriwal	8,000

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

5. 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	4
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
29.09.2004	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.
29.12.2006	11.00 A.M.	Air India Building, Nariman Point, Mumbai 400021.

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.

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 : 31st December, 2007 at 11.00 A.M. at Air India Building, 14th floor, Nariman Point, Mumbai 400 021.

- 9.2 Financial Calendar : 1st quarter - 31.10.2007
June 2007 to March 2008 : 2nd quarter- last week of January*
3rd quarter - last week of April*

*Tentative

- 9.3 Date of Book Closure : 24th December, 2007 to 31st December, 2007 (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 period

Month	Share Price		BSE Index	
	High	Low	High	Low
January 07	8.79	5.99	14282	13362
February 07	14.24	9.22	14652	12938
March 07	11.40	9.52	13308	12415
April 07	11.00	10.48	14228	12455
May 07	11.55	10.98	14544	13765
June 07	10.71	10.20	14650	14003

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 Registrar & 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 30th June, 2007

Particulars	No. of shares held	Percentage to total share capital
Promoters	6488392	76.26
Financial Institutions/Banks/Mutual Funds	133382	1.57
Corporate Bodies	334068	3.92
NRIs	24066	0.28
General Public	1528468	17.97
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 30th June, 2007.

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
Director Director

Mumbai, 30th November, 2007.

BAGALKOT UDYOG LIMITED

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, for the period ended on 30th June, 2007, 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, 30th November, 2007

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, 2007	Wholly-owned subsidiary
(b) Sanatan Investment Company Ltd	31st March, 2007	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. 0.64 lacs
(b) Profit for the previous financial years of the subsidiaries since they became subsidiaries of BUL	Rs. 49.03 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

4. As required by Section 212(5) of the Companies Act, 1956, we state that -

- (a) There has been no change in the holding company's interest in the subsidiary between 31st March, 2007, the financial year of the subsidiaries and 30th June, 2007, the financial year of the holding Company.
- (b) There has been no material changes which have occurred between the end of the financial year of the subsidiaries and the financial year of the holding Company in respect of -
- Subsidiaries fixed assets;
 - Their investments;
 - The moneys lent by them; and
 - The moneys borrowed by them for any purpose other than that of meeting current liabilities.

M. L. DAGA
Director & Secretary

R. K. KEJRIWAL
Director

M. S. SANGANERIA
Director

Mumbai, 30th November, 2007.

DISTRIBUTION OF SHAREHOLDING

NUMBER OF ORDINARY SHARES HELD	NUMBER OF SHAREHOLDERS	
	30-6-2007 %	31-3-2006 %
1 to 500	97.06	97.10
501 to 1000	1.72	1.72
1001 to 10000	1.03	0.99
Over 10000	0.19	0.19
Total	100.00	100.00

CATEGORIES OF SHAREHOLDERS

CATEGORY	NUMBER OF SHAREHOLDERS		VOTING STRENGTH		NUMBER OF ORDINARY SHARES HELD	
	30-6-2007	31-3-2006	30-6-2007	31-3-2006	30-6-2007	31-3-2006
Individuals	9715	9715	18.20	18.20	1548394	1548394
Companies	70	69	80.13	80.13	6817930	6817930
Government & Public Financial Institutions	3	3	1.50	1.50	127795	127795
Nationalised Banks Mutual Funds and Trust	5	5	0.17	0.17	14287	14287
Total	9793	9792	100.00	100.00	8508406	8508406

ANNUAL REPORT 2006-2007**AUDITORS' REPORT**

We have audited the attached Balance Sheet of **BAGALKOT UDYOG LIMITED**, as at 30th June 2007 and also the Profit and Loss Account & Cash Flow Statement for the Period 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 his 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 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 as on 30th June, 2007 and taken on record by the Board of Directors, we report that none of the Directors are disqualified as on 30th June, 2007 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 in Schedule 'R' of Notes to the accounts regarding Company's ability to continue its operation on a going concern basis.
 - ii) The Company has restated its liabilities including interest thereon, as specified in the sanctioned rehabilitation/de-merger scheme vide order of the Hon'ble BIFR bench dated 12th October 2007. (refer note 6 of Schedule R of Notes to account)
- 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 30th June, 2007,
 - ii. In so far as it relates to the Profit & Loss Account of the PROFIT of the Company for the Period ended on that date,
- and
- iii. In so far as it relates to the Cash Flow Statement, of the Cash Flows for the Period ended on that date.

For V.K.BESWAL & ASSOCIATES
Chartered Accountants

For SANTHAPPA & CO.,
Chartered Accountants

R.P. LADDHA
Partner

Membership No. 48195

Mumbai, 30th November, 2007

S. BASAVARAJ
Partner

Membership No. 18133

**ANNEXURE REFERED TO IN PARAGRAPH 1 OF OUR REPORT OF
EVEN DATE ON ACCOUNTS FOR THE PERIOD ENDED 30th JUNE,
2007**

1. In respect of Fixed Assets

- a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- b) As explained to us, the management has verified all the fixed assets during the Period 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 Period, no fixed assets have been disposed off by the Company.

2. In respect of Inventories

- a) The Management has physically verified all 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.