



BHAGHEERATHA ENGINEERING LIMITED

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30th
ANNUAL REPORT
2005 – 2006

BOARD OF DIRECTORS

Shri. V. C. ANTONY	Chairman
Shri. TOMY C. MADATHIL	Managing Director
Shri. SUNNY C. MADATHIL	Director (Projects)
Shri. E. S. MENON	Director (Finance) with effect from 19.7.2006
Shri. R. C. BARUA	Director
Shri. VIPUL SHAH	Director

COMPANY SECRETARY

Mr. S. BABU SURESH

AUDITORS

M/s. P. C. Varghese & Co.
Chartered Accountants
41/804 A, Old Railway Station Road
Cochin - 682 018

BANKERS

STATE BANK OF INDIA
SYNDICATE BANK
UNION BANK OF INDIA
DENA BANK

REGISTERED & HEAD OFFICE

XII/971-B, M. K. K. Nair Road
Vazhakkala, Kakkanad P. O.
Kochi-682 030, Kerala, India
Telephone : 0484-2427105 (8 Lines)
Fax : 0484-2425434
E-mail : belkochi@satyammal.com
Website : www.bhagheeratha.co.in

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BHAGHEERATHA ENGINEERING LTD.

NOTICE

NOTICE is hereby given that the 30th Annual General Meeting of the shareholders of Bhagheeratha Engineering Limited will be held at "Dewans Hall", The Avenue Centre, Panampilly Nagar, Ernakulam on Friday, the 29th September, 2006, at 3 p.m., to transact the following business:

ORDINARY BUSINESS :

1. To receive and adopt the Audited Balance Sheet as at 31st March, 2006, the Profit & Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in the place of Shri Vipul Shah, who retires by rotation, and being eligible, offers himself for re-appointment.
3. To appoint Auditors to hold office from the conclusion of this meeting till the conclusion of next Annual General Meeting and to fix their remuneration. M/s.P.C.Varghese & Co., Chartered Accountants, Cochin, retiring Auditors being eligible, offer themselves for re-appointment.

SPECIAL BUSINESS (Special Resolution):**4. Re-appointment of Managing Director:**

To consider and, if thought fit, to pass with or without modification, the following resolution, as an Ordinary Resolution:

"RESOLVED THAT subject to necessary sanctions and approvals as may be required, the Company do hereby accord its approval and consent under Sections 198, 269, 309, 310, 311, 314(1B) and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 for the re-appointment and remuneration payable to Shri Tomy C. Madathil, as Managing Director of the Company for a period of 2 years from 10-10-06 to 30-9-08 upon the terms and conditions given hereunder :

- a) Salary - Rs.35,000/- per month
- b) Perquisites, Retirement Benefits and Leave facility will be in accordance with the Service Rules applicable to whole-time Directors of the Company."

"RESOLVED FURTHER THAT if in any financial year, the Company has no profits or its profits are inadequate, Shri Tomy C. Madathil shall be entitled to be paid the salary and perquisites as given above as the minimum remuneration subject to the limits specified under Section II of Part II of Schedule XIII to Companies Act as may be amended from time to time."

"ALSO RESOLVED THAT the Board of Directors of the Company is hereby authorized to do and perform all such acts, deeds as may be considered necessary or usual to give effect to this resolution."

5. Re-appointment of Director (Projects)- Special Resolution

To consider and, if thought fit, to pass with or without modification, the following resolution, as an Ordinary Resolution:

"RESOLVED THAT subject to necessary sanctions and approvals as may be required, the Company do hereby accord its approval and consent under Sections 198, 269, 309, 310, 311, 314(1B) and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 for the re-appointment and remuneration payable to Shri Sunny C. Madathil, as Director (Projects) of the Company for a period of 2 years from 1-10-06 to 30-9-08 upon the terms and conditions given hereunder:

- a) Salary - Rs.25,000/- per month
- b) Perquisites, Retirement Benefits and Leave facility will be in accordance with the Service Rules applicable to whole-time Directors of the Company."

"RESOLVED FURTHER THAT if in any financial year, the Company has no profits or its profits are inadequate, Shri Sunny C. Madathil shall be entitled to be paid the salary and perquisites as given above as the minimum remuneration subject to the limits specified under Section II of Part II of Schedule XIII to Companies Act as may be amended from time to time."

"ALSO RESOLVED THAT the Board of Directors of the Company is hereby authorized to do and perform all such acts, deeds as may be considered necessary or usual to give effect to this resolution."

6. Appointment of Director(Finance) Special Business – Ordinary Resolution.

To consider and if thought fit, to pass with or without modification the following resolution, as an ordinary Resolution.

Resolved that Shri E.S.Menon, who was appointed as an additional director by the Board of Directors of the Company on 28th June 2006 and whose term expires under section 260 of the Companies Act 1956 at the Annual General Meeting and in respect of which the Company has received a notice from a member under section 257 of the Companies Act proposing his candidature for the office of the Director, be and is hereby appointed as a Director of the Company.

Resolved to ratify the action of the Board of Directors in having nominated Shri E.S.Menon as an additional director of the Company and in having fixed his remuneration upon the terms and conditions stipulated hereunder, subject to necessary sanction and approvals as may be required, and the Company do hereby accord its approval and consent under sections 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions, if any, of the Companies Act 1956 for the appointment and remuneration payable to Shri E.S.Menon as Director(Finance) of the Company.

- (a) Tenure - For the period from 19th July 2006 to 30th September 2008.
- (b) Salary-Rs 25000/- per month
- (c) Perquisites – Retirement benefits and leave facility will be in accordance with the Service Rules applicable to Whole time Directors of the Company.

Resolved further that if in any financial year the company has no profits or its profits are inadequate Shri E.S.Menon shall be entitled to be paid the salary and perquisites as given above as the minimum remuneration subject to the limits specified under Section II Part I of Schedule XIII of the Companies Act as may be amended from time to time.

Also resolved that the Board of Directors of the Company is hereby authorised to do and perform such acts, deeds as may be considered necessary or usual to give effect to this resolution.

SPECIAL BUSINESS (Special Resolution):**7. Issue of Convertible Debentures:**

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

"RESOLVED THAT In supersession of Special Resolution relating to issue of Convertible Debentures passed in the 29th Annual General Meeting held on 16.12.2005 and pursuant to the provisions of Section 81 (1A), 81(3) and other applicable provisions of the Companies Act, 1956 and of the Articles of Association of the Company and relevant sebi guidelines, consent of the Company be and is hereby given for issue of optional secured convertible debentures amounting to Rs.48.80 Crores (Rupees Forty Eight Crores and Eighty Lakhs only) to the banks under the Consortium of Bankers, as per the conditions contained in the Corporate Debt Restructuring Agreement entered into between the Company and the Consortium of Bankers upon the following terms and conditions:

- (i) Total amount of issue – Rs.48.80 Crores divided into 48.80 Lakhs of debentures of Rs.100 each at par.
- (ii) 0% interest for a period of 18 months.
- (iii) The conversion of debentures as equity shares will be at the option of the banks and the option will be exercised at the end of 18 months. The decision of exercising this option will depend upon the market price of the shares of the Company and SEBI guidelines. A portion of the debentures will be converted as equity, the remaining will be converted as term loan or as preference share capital carrying a coupon rate of 8.25%.
- (iv) The debentures will be of the face value of Rs.100/- each and will be issued at par to banks under the Consortium of Bankers. The said debentures will be secured by a floating charge over all the assets of the Company subject to prior charges in favour of Banks, non banking financial companies and others."

"FURTHER RESOLVED THAT the relevant guidelines of SEBI relating to pricing of shares (clause 13.1.1.1 Chapter XIII) shall be complied with to determine the resultant shares and that the price for conversion of the Debentures into shares will not be less than the higher of the following:

The average of weekly High and Low of the closing price of the related shares quoted on the Stock Exchange during the 6 months preceeding the relevant date. OR

The average of weekly High and Low of the closing price of the related share quoted on the Stock Exchange during the 2 weeks preceeding the relevant date."

"ALSO RESOLVED THAT the relevant date on the basis of which price of resultant shares shall be calculated is the date thirty days prior to the date on which the Annual General Meeting is held.

By Order of the Board of Directors

Kochi
14th August, 2006

S. BABU SURESH
Company Secretary

NOTES:**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 THE PROXY NEED NOT BE A MEMBER.**
2. The proxies to be effective should be deposited at the Registered Office of the Company not later than 48 hours before the commencement of the Meeting.
3. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to the Special business to be transacted at the meeting is annexed hereto.
4. Register of Members and Share Transfer Books of the Company will remain closed from 25th Sept, 2006 to 29th Sept, 2006 (both days inclusive) in connection with the Annual General Meeting.
5. Members are requested to intimate Share Transfer Agents, Integrated Enterprises (India) Limited, Kences Towers, No.1 Ramakrishna Street, T. Nagar, Chennai – 600 017, Tamil Nadu, any change in their address immediately for future communication at the correct addresses or to their respective depository participant (DP) in case the shares are held in demat form.
6. Members holding shares in physical form can avail of the Nomination facility by filing Form No.2B (in duplicate) with the Share Transfer Agents. In case of shares held in demat form, the nomination has to be lodged with your Depository Participant (DP).
7. Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, dividend for the financial year ended 31st March, 1999 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the **Investor Education and Protection Fund (IEPF)** established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend when due for transfer to the said fund is given below:

Financial year	Date of declaration	Last date of claiming unpaid	Due date for transfer to IEP
31.03.1999	17.09.1999	16.09.2006	16.10.2006
31.03.2000	22.09.2000	21.09.2007	21.10.2007
31.03.2001	20.09.2001	19.09.2008	19.10.2008

The unclaimed dividend in respect of the financial year 1998-99 due for transfer on 16th October, 2006 is being transferred to Investor Education and Protection Fund.

8. As per Clause 49 of the Listing Agreement with Stock Exchanges, the brief background, functional expertise of the Directors proposed for appointment/reappointment are furnished along with details of companies in which they are Directors and members of Committees of Board in the Report on Corporate Governance annexed to Directors' Report.

EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956**Item. No. 2.**

Retirement of Director, Shri Vipul Shah, and his reappointment.

Shri Vipul Shah is a non-executive director of the Company. He has

BHAGHEERATHA ENGINEERING LTD.

good exposure in construction industry. He is not holding Directorship in other companies.

Item No. 4

The shareholders of the Company in the Annual General Meeting held on 30th September, 2003 re-appointed Shri Tomy C. Madathil as the Managing Director of the Company for a further period till the conclusion of the Annual General Meeting to be held in 2006.

The Board of Directors in their meeting held on 14th August 2006 approved the re-appointment of Shri Tomy C. Madathil as Managing Director for a further period of 2 years upon the same conditions on which he was holding the office of Managing Director after the Annual General Meeting held in 2003. It may be specially noted that taking into consideration the present financial stringency faced by the Company, the Board of Directors do not recommend for any increase in remuneration.

Shri Tomy C. Madathil is 48 years of age and holds a Degree in Civil Engineering and a Post Graduate Degree in Construction Management. He has 23 years experience in the Company of which during 17 years, he was in the over-all-charge of construction activities of several projects of the Company and at different sites and thereafter in co-ordinating matters at the Head Office. In the light of his experience, he was made Managing Director 9 years before and he has discharged his functions with considerable ability and care and he is now well versed with the affairs of the Company. Considering his experience and contribution, the Board of Directors of the Company recommends for his re-appointment for a further period of 2 years from the date of this Annual General Meeting.

In the absence of or inadequacy of profits of the Company in any year, Shri Tomy C. Madathil, Managing Director will be entitled to the remuneration stated in the resolutions by way of minimum remuneration.

Pursuant to the provisions of Sections 269 read with Schedule XIII of the Companies Act, 1956, the re-appointment and fixation of remuneration require approval of the shareholders in General Meeting and sanction from Ministry of Company Affairs.

Excepting, Shri Tomy C. Madathil, Managing Director who is interested in his re-appointment and remuneration payable to him, Shri. Sunny C. Madathil, Director (Projects) also be treated as an interested Director as he is related to Shri Tomy C. Madathil. No other Director is concerned or interested in the resolutions.

A copy of the Service Rules for Whole-time Directors of the Company effective from 1st April, 1995 is available for inspection by the Members of the Company at the Registered Office on all working days.

Item No. 5

The shareholders of the Company in the Annual General Meeting held on 30th September, 2003 re-appointed Shri Sunny C. Madathil as the Director (Projects) of the Company for a further period till the conclusion of the Annual General Meeting to be held in 2006.

The Board of Directors in their meeting held on 14th August 2006 approved the re-appointment of Shri Sunny C. Madathil as Director (Projects) for a further period of 2 years upon the same conditions on which he was holding the office of Director (Projects) after the Annual General Meeting held in 2003. It may be specially noted that taking into consideration the present financial stringency faced by the Company, the Board of Directors do not recommend for any increase in remuneration.

Shri Sunny C. Madathil is 41 years of age and is a B.Tech (Civil) First Rank holder and Gold Medalist of Kerala University and holds a Post Graduate Diploma in Management from Xavier Institute of Management, Bhubaneswar. He has 16 years experience in the Company of which during the initial 10 years, he was in the over-all-

charge of construction activities of several projects of the Company and at different sites and thereafter in co-ordinating matters at the Head Office. In the light of his experience, he was made Director (Projects) 12 years before and he has discharged his functions with considerable ability and care and he is now well versed with the affairs of the Company. Considering his experience and contribution, the Board of Directors of the Company recommends for his re-appointment for a further period of 2 years from the date of this Annual General Meeting.

In the absence of or inadequacy of profits of the Company in any year, Shri Sunny C. Madathil, Director (Projects) will be entitled to the remuneration stated in the resolutions by way of minimum remuneration.

Pursuant to the provisions of Sections 269 read with Schedule XIII of the Companies Act, 1956, the re-appointment and fixation of remuneration require approval of the shareholders in General Meeting and sanction from Ministry of Company Affairs.

Excepting, Shri Sunny C. Madathil, Director (Projects) who is interested in his re-appointment and remuneration payable to him, Shri. Tomy C. Madathil, Managing Director also be treated as an interested Director as he is related to Shri Sunny C. Madathil. No other Director is concerned or interested in the resolutions.

A copy of the Service Rules for Whole-time Directors of the Company effective from 1st April, 1995 is available for inspection by the Members of the Company at the Registered Office on all working days.

Item No. 6

The Board of Directors in their meeting held on 28th June 2006 appointed Shri E.S. Menon, as an additional director on the Board of the Company in accordance with Article XVII(ii) of the Articles of Association and as per section 260 of the Companies Act to hold office till the next Annual General Meeting. In the subsequent meeting of the Board held on 19th July 2006 Board also decided to appoint him as Director(Finance) and fixed his remuneration subject to the approval of the shareholders in the Annual General Meeting and also subject to necessary approvals and sanctions as may be required. Necessary resolution for ratification and consent of the Company for the appointment and fixation of pay are included in the Notice to shareholders.

Shri E.S.Menon is 65 years of age and possesses the qualification B.Com, AICWA. He has more than 38 years experience in financial Management and Accounting. He occupied senior positions in Indian Oil Corporation, Cochin Shipyard and Kochi Refineries. He was Director(Finance) Kochi Refineries during the period from October 1993 to May 2001. Considering his vast knowledge and rich experience, the Board of Directors of the Company recommends for his appointment as Director(Finance) for a period from 19th July 2006 to 30th September 2008.

In the absence of or inadequacy of profits of the Company in any year, Shri E.S.Menon will be entitled to the remuneration stated in the resolutions by way of minimum remuneration.

Pursuant to the provisions of section 269 read with Schedule XIII of the Companies Act 1956, the appointment and fixation of remuneration require approval of the shareholders in General Meeting and sanction from Ministry of Company Affairs.

Except Shri E.S.Menon, no other director is concerned or interested in the resolution.

A copy of the Service Rules for Wholetime Directors of the Company is available for inspection by the Members of the Company at the Regd. Office on all working days.

Item No. 7

In view of the strained financial condition of the Company leading to

severe cash flow shortages affecting the progress of ongoing projects, the Company decided to go in for Corporate Debt Restructuring under RBI sponsored CDR route. One of the conditions contained in Corporate Debt Restructuring scheme is to issue 0% optionally convertible debentures of face value of Rs .48.80 Crores at par to State Bank of India, Union Bank of India, Syndicate Bank and Dena Bank. At the end of 18 months debentures will be converted as equity shares at par in full or a portion of the same will be converted as loan or as preference capital at the option of bankers.

Necessary resolution required to increase the Authorized Capital, taking into consideration the conversion of a portion of debentures as equity shares, will be placed before the shareholders in a subsequent general meeting at the appropriate time.

- i) The Object/s of the issue through preferential offer.
- ii) Intention of Promoter/ Directors/ Key Management persons to subscribe to the offer
- iii) Shareholding pattern before and after the offer

A Special Resolution was passed in the 29th Annual General Meeting held on 16th December, 2005 for issue of Convertible Debentures wherein the period of currency of the instrument was fixed as 36 months, as advised by Consortium Bankers. On applying for getting in-principle sanction, as required under the Listing Agreement, Bombay Stock Exchange Limited pointed out that the currency of instrument shall not exceed 18 months. Further, they also directed that necessary disclosures as required under Clause 13.1A of SEBI DSP Guidelines dated 4th August, 2000 be complied with. Guidelines relating to pricing and relevant date to be specified in the resolution/ explanatory note. Accordingly, the details are given hereunder:

Disclosure as required under Clause 13.1A of SEBI (DSP) Guidelines dated 4th August, 2000.

Convertible debentures are proposed to be issued to Consortium Bankers on preferential basis as agreed in the approved CDR scheme.

Promoters/Directors/Key Management persons do not intend to subscribe to the offer.

The debentures are proposed to be converted as shares only after the expiry of 18 months and that too at the option of Consortium Bankers. Assuming that all the debenture holders opt for conversion of debentures as Equity shares, the shareholding pattern as on 31.03.2006. (Prior to conversion of debentures as Equity shares)

Particulars	No. of shares	%
1. Promoters	2624728	33.43
2. General Public & Others	5225672	66.57
Total	7850400	100.00

Shareholding pattern after conversion of Debentures as Equity Shares (Based on the assumption that the entire debentures will be converted as shares.) Percentage of holding of shares after conversion also depends on the rate of conversion.

Particulars	No. of shares	%
1. State Bank of India	17300000	30.54
2. Union Bank of India	14160000	25.00
3. Syndicate Bank	6540000	11.54
4. Dena Bank	10800000	19.06
5. Promoters	2624728	4.64
6. General Public & Others	5225672	9.22
Total	56650400	100.00

- iv) Proposed time within which the allotment shall be completed.
- v) The identity of the proposed allottees and the percentage of Post Preferential issue capital that may be held by them.

Allotment shall be completed immediately and Clause 13.4.1 and 13.4.3 of Chapter XIII SEBI Guidelines shall be complied with.

Allottees are State Bank of India, Syndicate Bank, Union Bank of India and Dena Bank. Further, they have informed the Company their PAN. Post preferential capital held by allottees will be as follows: If conversion as shares is at Rs. 10/- per share.

Particulars	No. of shares	%
1. State Bank of India	17300000	30.54
2. Union Bank of India	14160000	25.00
3. Syndicate Bank	6540000	11.54
4. Dena Bank	10800000	19.06
	48800000	86.14

None of the Directors are concerned or interested in the resolution, save and except as shareholders of the Company.

By Order of the Board of Directors,

S. BABU SURESH
Company Secretary

Kochi
14th August, 2006

BHAGHEERATHA ENGINEERING LTD.

DIRECTORS' REPORT**To the Members**

Your Directors present the 30th Annual Report together with the Audited Statement of Accounts of the Company for the financial year 2005- 2006.

Operating Results:

The Gross income from operations during the year under review was Rs. 9554 Lakhs as against Rs.12176 Lakhs in the previous year. The Company incurred a loss of Rs11753-Lakhs as against a loss of Rs.1922 Lakhs in the previous year.

During the previous years the Company had recognized claims to the extent of Rs 3526 lakhs as income. These claims were mainly for compensation for extra cost incurred by the Company in various projects on account of variations in scope of works and also for delay in works caused by the default from the part of the clients. Management expected to realize these claims without much delay and hence have decided to recognize the same as income, contrary to the views of the auditors on this matter. All these claims are now disputed by the clients and are in different stages of arbitration and litigations. In view of the above the ultimate realization of these claims may be delayed and no time frame can reasonably fixed for its realization. In such a situation the company is advised to prepare its financial statements in strict adherence to the applicable accounting standards and to avoid qualification of auditors in their reports.

During the current year the Company has incurred a loss of Rs 3058 lakhs on account of termination of works in three projects. Company had preferred claims against these losses, which are also pending in arbitration proceedings. In view of the situation explained above the Company has decided not to recognize the claims as revenue during the year.

It may be noted that the non-recognition and writing back of the claims in strict adherence to the accounting standard does not mean that the Company is not confident of realizing the same. Based on the progress of the arbitration and legal proceedings so far, the management is very confident of getting decisions in its favour and to realize all the claims in due course.

CDR Scheme

As reported last year, on account of the unforeseen liability Company had to shoulder due to the invocation of Bank Guarantees, Company had to sign a CDR agreement with Consortium Bankers as per the Corporate Debt Restructuring Scheme of Reserve Bank of India for restructuring the debts and also to improve the functioning of the Company. The CDR Scheme is implemented by State Bank of India on behalf of the lenders. As a part of the Corporate Debt Restructuring Scheme, Company sold Land and property measuring 3.96192 acres at Kalamassery, Ernakulam for a consideration of Rs 1,61,76,256. There is a proposal for sale of the Registered Office building at Vazhakkala, Kakkanad, Ernakulam in order to reduce the debt. The eight storied registered office building at Vazhakkala, Kakkanad, Ernakulam having a built up area of 54281.698 sq. ft. is

situated on 39.289 cents of land. The book value of the land and building is Rs. 9.93 Crores.

Existing Projects:

The work at projects in Salem Etawah-1C, WB-III Project, and Kerala State Transport Project (Thiruvalla) are in progress with funding arranged from Banks under CDR Scheme. These works are closely monitored to ensure completion of the work early.

ISO 9002 Certification:

The Company which had been certified ISO 9002 by M/s. Det Norske Veritas (DNV) in the year 2000 was upgraded to the new version of ISO 9001:2000 in 2002. M/s.DNV have certified the Company for the service ranges in "Civil Construction of Infrastructural and Industrial Projects". "Continual Improvement and Customer Satisfaction" are the main Objectives of this Version. Under the new ISO Version, the Surveillance Audit by the Certifying Agency is conducted once in six months.

Personnel:

The Company has 387 employees, out of which 210 belong to management and other staff and 177 skilled personnel employed at various project sites. The relation between the management and the labour was cordial throughout the year under review.

Fixed Deposits:

As at the end of the year the total fixed deposits collected aggregate to Rs.282 Lakhs.

No. of deposits unclaimed and unpaid during 31.03.2006-1 (Rs.10,000/-)

Directors:

In accordance with the principle of retirement of Directors by rotation, Shri Vipul Shah will retire at the ensuing Annual General Meeting and he offers himself for re-election.

Shri R. C. Barua, who was appointed as Director (Finance) in the last Annual General Meeting, discontinued from the services of the Company effective from 06.04.2006 due to personal reasons. He continues as Director.

The tenure of appointment of Shri Tomy C Madathil, Managing Director and tenure of appointment of Shri Sunny C Madathil Director (Projects) expire at the ensuing Annual General Meeting. Resolutions for their reappointment and fixation of remuneration are included in the notice to shareholders.

The Board of Directors of the Company in their meeting held on 28th June 2006 appointed Shri E.S.Menon as an additional director of the Company under Article XVII(ii) of the Articles of Association read with section 260 of the Companies Act.

He was also appointed as Director (Finance) effective from 19th July 2006. Resolutions for electing him as Director and reappointing as Director (Finance) are placed for consideration at the Annual General Meeting.

Directors' Responsibility Statement pursuant to Section 217 (2AA) of the Companies Act, 1956.

The Board of Directors hereby confirm:

- (i) that in the preparation of the annual accounts, applicable accounting standards were followed with suitable procedure for material departure.
- (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 adequate and proper care for the maintenance of accounting records, in accordance with the provisions of the Companies Act, 1956, safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, and,
- (iv) that the Directors have prepared the annual accounts as an ongoing concern basis.

Management Discussion and Analysis Report and Report on Corporate Governance.

As required in terms of the listing agreement with Stock Exchanges, a management discussion and analysis report and a report on Corporate Governance are annexed.

Particulars of Employees:

During the year 2005-06 no employee of the Company was in receipt of remuneration in excess of the limit prescribed in Sub-section (2A) of Section 217 of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, 1975.

Auditors:

M/s P.C.Varghese & Co., Chartered Accountants, Auditors of the Company retire at the ensuing Annual General Meeting, and being eligible for re-appointment, have offered their willingness to accept office of the Statutory Auditors, if re-appointed. They have given a certificate to the effect that the re-appointment, if made, would be within the limit prescribed under Section 224 (1B) of the Companies Act, 1956.

Subsidiary Company:

As required under Section 212 of the Companies Act, 1956, the Audited Accounts together with Directors' Report and Auditors' Report for the year ended 31st March, 2006 in respect of the subsidiary namely; Bhagheeratha Energy Controls Limited is annexed.

Bankers:

The Consortium of Bankers, consisting of State Bank of India, Syndicate Bank, Union Bank of India and Dena Bank continued to extend their valuable support to the company for meeting the additional credit requirements under CDR Scheme. Your Directors place on record their sincere gratitude to the Bankers for their co-operation and confidence reposed on the Company.

Particulars pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988:**(a) Conservation of Energy:**

Energy conservation measures are taken in all activities of the Company by careful monitoring and implementation of suitable measures for optimizing energy consumption.

(b) Technology Absorption:

On account of the nature of operations of the Company, no special efforts have been put in this regard.

(c) Foreign Exchange earnings and outgo:

Total foreign exchange used and earned during the year.

	Current year Rupees in Lakhs	Previous year Rupees in Lakhs
Foreign Exchange used	Nil	Nil
Foreign Exchange earned	Nil	Nil

Acknowledgement

Your Directors thank the Government at the Centre and in the States, Financial Institutions, other Financing Agencies, Stock Exchanges, Sub-contractors and their staff, Material Suppliers, Consultants, Clients, Deposit holders and Shareholders for their continued support and co-operation. The Directors also place on record their appreciation for the services rendered by employees at all levels.

On behalf of the Board of Directors

Place: Kochi

Date: 14. 08. 2006

V. C. Antony
Chairman

ADDENDUM TO DIRECTORS' REPORT

In the matter of qualifications in the Auditors' Report, the Directors wish to give the reply as under:

ANNEXURE TO AUDITORS' REPORT

vi & ix) Company is under a Corporate Debt Restructuring Scheme. Accordingly all receipts and payments are channelised through a Trust and Retention Account (TRA) opened and operated with State Bank of India, the leader of the Consortium of banks. The Bank has been informed in time of the need for release of statutory payments like refund of deposits which have become due, payment of interest on fixed deposits, remittance of provident fund, payment of sales tax and income tax deducted source.

BHAGHEERATHA ENGINEERING LTD.

Annexure to the Directors' Report

REPORT ON CORPORATE GOVERNANCE

In compliance with the requirement of Clause 49 of the Listing Agreement with Stock Exchanges, your Company submits the below mentioned Annual Report of Corporate Governance.

A. COMPLIANCE OF MANDATORY REQUIREMENTS:**1. Company's Philosophy on Corporate Governance**

The Company's philosophy on Corporate Governance envisages the Company as a forward looking organization and believes that paying due attention to sound Corporate Governance would protect the interest of all the stakeholders.

2. Board of Directors

The Composition, Category of the Board of Directors and their attendance at the Board Meetings during the period and at the last Annual General Meeting as also the number of other directorships and committee memberships are given below:

Sl. No.	Name of Director	Category	No. of Board Meetings attended	Attendance at the last AGM	Number of Directorship in other companies*	Number of Committees in which member
1.	Shri. V. C. Antony Chairman	Promoter, Non-Executive	1	Yes	7	
2.	Shri. Tomy C. Madathil Managing Director	Promoter, Executive	14	Yes	4	
3.	Shri. Sunny C. Madathil Director (Projects)	Promoter Executive	12	Yes	1	
4.	Shri. R. C. Barua Director (Finance)**	Non-Executive	3	No	1	
5.	Shri. Vipul Shah	Non-Executive		Yes	None	
6.	Shri. E.S. Menon Director (Finance)	Executive	(Appointed Effective from 19.07.2006)			

*Includes directorships held in Private Limited Companies.

** Discontinued as Director (Finance) effective from 06.04.2006

During the year under report, the Board met 15 times i.e. on 05.04.2005, 08.04.2005, 11.06.2005, 27.06.2005, 29.06.2005, 27.07.2005, 12.08.2005, 04.11.2005, 12.11.2005, 16.12.2005, 06.01.2006, 13.01.2006, 20.02.2006, 28.02.2006 and 16.03.2006. On account of resignation of some independent directors and as the vacancies could not be filled up, the norms relating to composition of board could not be complied with during the financial year under report. None of the Directors of the Board are members in more than ten statutory committees and they do not act as Chairman of more than five statutory committees across all companies in which they are Directors.

3. Code of Conduct for directors and senior management

Necessary further steps are being taken to implement guideline relating to code of conduct for directors and senior management.

4. Audit Committee

Clause 49 of the Listing Agreement emphasizes the role of Audit Committee. The gist of the same are as follows:

- ☐ Review of the Company's financial reporting process, the financial statement and the financial policies.
- ☐ Review of the adequacy of the internal control systems and functioning of the internal Auditing Team.
- ☐ Discussion with the Internal and External Auditors, scope of audit including the observations of the Auditors for the financial year and a joint post audit review of the same.
- ☐ Reviewing with management the annual financial statements before submission to the Board.

An Audit Committee consisting of three Independent Directors and one promoter Director was functional. On account of the resignation/retirement of Independent Directors, Board could not reconstitute Audit Committee in the financial year under report. Efforts are being made to constitute Audit Committee at the earliest by inducting Independent Directors on the Board of the Company.

In the matter of disclosure related to subsidiary company it may be noted that the subsidiary company does not have turn over worth 20% of the consolidated turnover to the listed company.

5 Remuneration of Directors

Remuneration of Managing Director, Director (Projects) and Director (Finance) are determined by the Board and is subject to approval of the Company in General Meeting and such other authorities as may be necessary. While fixing the remuneration, the Board has taken into consideration all relevant factors. Non Executive Directors were not given any remuneration. They were not given sitting fees also.

6. Remuneration Committee

Board could not constitute the remuneration committee on account of the retirement/resignation of independent directors. Efforts are being made to reconstitute the remuneration committee early.

Details of remuneration paid to whole-time Directors during the financial year ended 31st March, 2006 is given below:

(i) Wholtime Directors:

(Rs. in 000)

Name & Designation	Salary-& Perquisites	Commission
Shri. Tomy C. Madathil Managing Director	532	Nil
Shri. Sunny C. Madathil Director (Projects)	359	Nil
Shri. R. C. Barua Director (Finance)	447	Nil

7. Share holders/ Investors' Grievance Committee :

Share Transfers are attended by the Registrar and Transfer Agents (RTA), Integrated Enterprises (India) Limited, Cochin. RTA periodically submits details of transfer/transmission proposals. Grievances Committee consisting of two directors looks into shareholders grievances and suggests immediate steps for redressal of the complaints. During the year 30 number of letters/ communications from shareholders were received regarding non-receipt of share certificate after transfer, non-receipt of dividend warrants, non-receipt of Annual Reports and other general queries. All the letters/ communications are generally replied within 15 days from their lodgment with the Company. The number of transfers pending at the close of the financial year 2005-06 is nil.

8. General Body Meetings

Year	Date	Venue
2003	30 th September, 2003	"Versilles" Hotel Renaissance, Palarivattom, Ernakulam- 682 025.
2004	30 th September, 2004	- As above -
2005	16 th December, 2005	"Dewans Hall", The Avenue Centre, -Panampilly Nagar, Ernakulam - 682 036
No special resolution was put through postal Ballot last year and the Company does not propose to pass any special resolution through postal Ballot this year.		

In the Annual General Meeting held on 16.12.2005 special resolutions were passed for issue of convertible debentures and also for re-appointment of Shri R.C.Barua as Director Finance who attained the age of 70 years. In the AGM held in the year 2004 and 2003 no special resolutions were passed.

9. Disclosures

During the year under report, no transaction of material nature has been entered into by the Company with its Promoters, Directors, the management, or their relatives which have potential conflict with the interest of the Company. Transactions with related parties are disclosed in Note to the Accounts in the Annual Report.

The Company has generally complied with the requirement of the stock Exchanges and SEBI on matters related to capital market. No penalties have been imposed on the Company by Stock Exchanges/SEBI.

10. Secretarial Audit

A qualified Practicing Company Secretary carried out secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and total issued and listed capital.