



BHARAT GEARS LIMITED

ANNUAL REPORT
2005-2006



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Board of Directors

Mr. Surinder P. Kanwar,
Chairman & Managing Director

Mr. Sameer Kanwar,
Executive Director-Strategic Planning

Mr. W. R. Schilha

Mr. A. F. Hartmann

Dr. Ram S. Tarneja

Mr. N. J. Kamath

Mr. V. K. Pargal

Mr. Jai Singh Bhandari

Bankers/Financial Institutions

Industrial Development Bank of India Ltd.

Export Import Bank of India

State Bank of India

Bank of Baroda

Indian Overseas Bank

The Federal Bank Ltd.

Auditors

A.F. Ferguson & Co.

Audit Committee

Mr. V. K. Pargal *Chairman*

Dr. Ram S. Tarneja

Mr. N. J. Kamath

Shareholders /Investors' grievance Committee

Mr. N. J. Kamath *Chairman*

Mr. Surinder P. Kanwar

Mr. Sameer Kanwar

Remuneration Committee

Mr. N. J. Kamath *Chairman*

Mr. J. S. Bhandari

Mr. V. K. Pargal

Management Executives

Mr. N.V. Srinivasan
Corporate Business Head

Mr. Milind Pujari
Financial Controller

Compliance Officer

Mr. Ashish Pandey
Group Leader (Legal) & Company Secretary

Registrar & Transfer Agents

M/s Intime Spectrum Registry Ltd.
A-31, 3rd Floor,
Naraina Industrial Area,
Phase-I, Near PVR Naraina,
New Delhi - 110 028.



Registered Office

20 K.M. Mathura Road,
P.O. Amar Nagar,
Faridabad-121 003,
Haryana.

Corporate Office

14th Floor, Hoechst House,
Nariman Point, Mumbai-400 021.

Works

Kausa Shil, Mumbra,
Distt. Thane-400 612,
Maharashtra.

20 K.M. Mathura Road,
P.O. Amar Nagar,
Faridabad-121 003,
Haryana.

Branches

512, Surya Kiran Building,
19th Kasturba Gandhi Marg,
New Delhi-110 001.

25-26, Yard No. 6, 1st Floor
Transport Nagar (Narwal),
Jammu-180 006.

19, Transport Nagar,
Jaipur-302 003.

SCF- 506, 1st Floor Motor
Market, Mani Majra,
UT Chandigarh.

89/01, 7th Cross, Wilson
Garden, Hosur Road,
Bangalore-560 027.

Poomkudy House,
NH-47 Road,
Edappally,
Kochi-682 024

104, Mahalinga Puram,
Hight Road, Chennai.

Commercial
House, Kankarbagh Road,
Patna-800 020.

89, Motor Stand Road,
Agartala-799 001,
Tripura.

Jora Phatak Road,
Gurunanak Pura,
Dhanbad-826 001.

Hoechst House,
14th Floor, Nariman Point,
Mumbai-400 021.

17-18, Auto Friends Estate,
Nr. Changodar Bridge, Bawla
Road, Sarkhej,
Ahmedabad-382 210.

New Bombay
Market, Complex, Nav Bharat
Press Road,
Raipur-492 001,
Chattisgarh.

Duplex No. 5, Anant En-
clave, 172,
Nepier Town,
Near Shastri Bridge,
Jabalpur, M.P.

20 K.M. Mathura Road,
P.O. Amar Nagar,
Faridabad-121 003,
Haryana

8, Sahdev Market,
Jalandhar City-144 001.

1902-A, Baldev Nagar,
Ambala City, Haryana.

Hamirpur Road,
UNA (H.P.)

Durga Mills,
Near Milk Dairy,
Mangal Parao,
Haldwani-263139.

123/650-A, GNA Market,
Pratap Ganj,
(Gadarian Purva),
Kanpur-208 012.

Plot 30-31, 100 Feet Road,
Jawahar Auto Nagar,
Vijaywada-520 007.

Poomkudy Centre,
2/2056-B, Vyanad Road,
Near Civil Station,
Calicut-673 020,
Kerala.

9/15, Dr. Munnuswami
Garden, Avinashi Road,
Coimbatore-641 018.

17, Brabourne Road,
Mukherjee House, 2nd Floor,
Kolkata-700 072.

204, Sri Ram Market,
1st Floor, Chatripari Road,
Guwahati.

4, North Market Road,
Upper Bazar,
Ranchi-834 001.

NH-5, Gandharpur,
Cuttack-753 003,
Orissa.

W4/94, TPT Nagar,
SDM Road,
Gwalior-474 009.

41, Chhoti Gwaltoli,
Opp. Madhumilan Cinema,
Indore-452 001.
M.P.

54, Bhasin House,
Verma Layout, Khargaon
Road, Wadi, Nagpur.

5/3/1042-2,
Shankar Bagh Lane,
Nizam Shah Road,
Hyderabad-500 095.

NOTICE

TO THE MEMBERS OF BHARAT GEARS LIMITED

NOTICE is hereby given that the 34th Annual General Meeting of the Members of Bharat Gears Limited will be held as under :

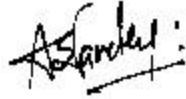
Day : Friday
Date : 21st July, 2006
Time : 11.30 A.M.
Venue : Municipal Auditorium,
N.I.T. Faridabad -121 001
(Haryana).

to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited accounts of the Company for the year ended March 31, 2006 together with Reports of the Auditors and Directors thereon.
2. To appoint a Director in place of Dr. Ram S. Tarneja who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. A. F. Hartmann who retires by rotation and is eligible for re-appointment.
4. To appoint Auditors for the year 2006-2007 to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board



Ashish Pandey
Group Leader (Legal)
& Company Secretary

Place : Faridabad
Dated : 26th June, 2006

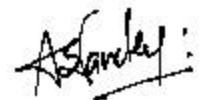
NOTES:

- i. **A member entitled to attend and vote is entitled to appoint for one or more proxies to attend and vote on a poll, instead of himself and the proxy need not be a member of the Company. The proxies in order to be valid and effective must be delivered duly completed in the enclosed format at the Registered Office of the Company not later than forty-eight hours before the scheduled time of commencement of the meeting.**
- ii. **NO GIFTS OR COUPONS SHALL BE DISTRIBUTED AT THE ANNUAL GENERAL MEETING.**
- iii. Members/Proxies are requested to deposit the enclosed Attendance Slip duly filled in and signed at the entrance of the meeting for attending the meeting. No Attendance Slip shall be issued at the meeting.
- iv. The Register of Members and the Share Transfer Books of the Company shall remain closed from 13th July, 2006 to 21st July, 2006 (both days inclusive).
- v. The documents referred to in the accompanying Notice and the Annual Report are open for inspection at the Registered

Office of the Company during the office hours between 11.00 A.M. and 1.00 P.M. on all working days except Sundays up to the date of the Annual General Meeting and shall also be available at the venue of the Meeting.

- vi. Members seeking any further clarification/information relating to the Annual Accounts are requested to write at the registered office of the Company at least ONE WEEK before the date of the Meeting i. e. on or before 14th July, 2006 so as to enable the management to keep the information ready at the Annual General Meeting.
- vii. Pursuant to Section 205C of the Companies Act, 1956 all unclaimed dividends which remain unclaimed/ unpaid for a period of 7 (seven) years from the date they became due for payment will be transferred to Investor Education and Protection Fund. The Shareholders shall not be able to claim any unpaid dividend from the said Fund or from the Company thereafter.
- viii. The unclaimed dividend for the financial year 1997-98 has already been deposited with the Investor Education and Protection Fund. The unclaimed dividend for the financial year 1998-99 shall be deposited with Investor Education and Protection Fund after 19th August, 2006. The same shall not be available for withdrawal after 19th August, 2006. The Shareholders who have not claimed dividend for the financial years 1998-99 to 1999-2000 are requested to forward their claims for revalidation of their dividend warrants.
- ix. As a measure of economy, copies of the Annual Report shall not be distributed at the Meeting. Members are requested to bring along their own copies to the meeting.
- x. The shares of the Company are compulsorily traded in demat mode. Hence, the Shareholders who are still holding physical share certificates are advised that it is in their own interest to dematerialize their shareholding to avail benefit of dematerialization viz. easy liquidity, electronic transfer, savings in stamp duty and prevention of forgery.
- xi. Members are requested to notify change in their addresses, bank details, bank mandate and nomination, if any, quoting their respective Folio Numbers and other particulars to the Registrar and Share Transfer Agents of the Company. Alternatively, they may also be sent at the Registered Office of the Company. (Relevant Forms for nomination and updating of Shareholders information is enclosed at the end of the Annual Report.)
- xii. Members holding shares in the same name under different folios are requested to apply for consolidation of such folios and send relevant share certificates.

By Order of the Board



Ashish Pandey
Group Leader (Legal)
& Company Secretary

Place : Faridabad
Dated : 26th June, 2006



DIRECTORS' REPORT

To The Members

The Directors are pleased to present the 34th Annual Report on the business and operations of the Company and Audited Statement of Accounts of the Company for the financial year ended on 31st March 2006.

(Rupees/crores)
Financial year ended

Financial Results	31.03.2006	31.03.2005
Sales and other income (gross)	191.16	171.60
Profit before finance charges and Depreciation	23.86	24.77
Finance Charges	9.70	11.22
Depreciation	9.29	9.19
Profit/(Loss) before tax	4.87	4.36
Less : Current tax/deferred tax/fringe benefit tax	0.89	-
Profit/(Loss) after tax	3.98	4.36
Add: Balance brought forward from previous year	(17.01)	(22.21)
Add: Transferred from Debenture redemption reserve	-	0.83
Balance carried to Balance Sheet	<u>(13.03)</u>	<u>(17.01)</u>

Dividend

In view of accumulated losses of the previous years, your directors are constrained not to recommend any dividend on the equity as well as preference shares of the Company for the year under review. Also no amount is being proposed to transfer to any reserve in the Balance Sheet as at 31st March, 2006.

Finance

During the year under review, fresh long-term loan of Rs.38.76 lacs were raised. Repayments of long-term loan of Rs 295.04 lacs were made. The 75,000 10% cumulative redeemable non-convertible preference shares of Rs. 100 each (Series V) aggregating to Rs. 75 Lacs, which were redeemable at par on 01st March 2006, was further rolled over to 01st September 2006, with the consent of the holders of these shares.

The offer and issue of equity shares aggregating to 18,04,115 of Rs. 10/- each on rights basis to the existing shareholders in the ratio of 3 equity shares for every 10 shares held, at a premium of Rs.30/- per share (Issue Price of Rs. 40/- per share) aggregating to Rs. 721.65 Lacs, is under process. The proceeds of the issue would be utilized for redemption of preference shares and towards part repayment of long-term debts. Necessary approvals/ observation letters from SEBI and concerned Stock exchanges have been received.

The budgetary plan for the financial year 2006-2007 has already been finalized, which includes fresh capital budget, towards replacement/quality/modernization. The investment will enable the company to cater to customer requirements and also to reduce costs in subsequent years as well as also streamline operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Your company continues to be a leader in the Heavy/Medium Commercial Vehicle, Utility Vehicle and Tractor segment field of the Automotive Gears industry in India. Your company also exports automotive gears which is a major thrust area of the company.

(a) Industry Structure & Developments in the Industry:

The structure of the Indian automotive industry is as under:

- Commercial vehicles (HCV, MCV, and LCV)
- Utility vehicles (SUV)
- Cars from 800cc to 2500cc(+)
- Two wheelers –and Three wheelers
- Tractors from 18HP to 75HP(+)
- Off-highway vehicles

During the year under review all the segments have shown robust growth. It is now well established that the Indian economy is one of the fastest growing economies and shall be a large demand generator and key player in the International Trade. The automotive sector is expected to be one of the leading contributors to the growth of the economy.

Tractor Industry:

The Indian tractor industry posted a moderate growth of about 15% as compared to the previous year. Supplies to this industry accounts for about 50% of your company's turnover. Demand from your company's domestic tractor customers, who are also active in the export market, is very optimistic and outlook is upbeat for the current year too. The domestic sector is expected to grow by 10% in 2007 while exports are also expected to grow by 30%.

Commercial Vehicle Industry:

The domestic industry recorded a growth of about 10% during the period and exports grew by about 35%.

LCV's dominated the growth increase with only a nominal increase for Medium and Heavy commercial vehicles. The lighter range of commercial vehicles with payload of 500-1000 KG is expected to grow by more than 100% in 2006-2007. The heavy commercial vehicle section has been witnessing capacity increases from existing players and also from new entrants. Your company is a very active player in this sector.

Utility Vehicles:

Utility vehicle sales also grew by about 8% over that of the previous year, and the growth is expected at about 10% in the current year. All players have introduced a range of models and have plans for introduction of more models in the financial year 2006-2007. Your Company is an active player supplying components in this sector also.

(b) Opportunities and Threats:

In line with WTO agreement, import duties were further lowered. Further, norms for foreign direct investment have eased. This has exposed us to competition from abroad and from new entrants. Several new entrants have entered the auto component industry and more entrants are likely to follow as demand picks up. India is expected to be a hub for automotive component production.

GDP growth rate is expected to be 8% in 2007. Monsoons are expected to be fairly normal. In short, growth should be satisfactory for industry in the current year also. Power outages continue to be a major cause of concern. Further the spiraling cost of fuels will also be a major dampener.

During the year under review Company's Technical Collaboration Agreement with Holcraft, USA, for manufacture of industrial furnaces has come to the End

(c) Outlook :

Your Company has achieved 11% growth over the previous year and we are targeting an overall growth of 15% in the financial year 2006-07. Exports are expected to grow by 20%.

On the Export front, we cater to OE orders from Europe, China and USA and are also active in the Middle East aftermarket. The auto components industry is growing rapidly. The opportunities in India are attracting big names and major international OEMs have started outsourcing components from Indian manufacturers. Further existing OEM's have stepped up operations to cater to domestic and their export demands. Many new entrants have started domestic manufacture of automotive components. However, despite competition, the outlook is positive and we are preparing ourselves to meet such competition.

Outlook on furnace business continues to be optimistic in light of capital expenditure plans drawn up by automotive industry.

(d) Risks & Concerns:

During the year under review, the Company achieved a growth in turnover of 11% and posted a modest net profit. Prices of petroleum products have increased sharply and consequently other related inputs have also gone up. As a result, margins are under pressure.

(e) Internal Control Systems and their adequacy:

The Company maintains adequate internal control systems, which assures proper recording of transactions of its operations and also ensures protection against misuse or loss of the Company's assets.

An independent firm of chartered accountants carries out internal audit of the Company. Internal audit is carried out at periodic intervals to ensure that the Company's internal control systems are adequate and complied with.

Both plants of the Company continue to be under QS9000 certification, and have also achieved ISO/TS 16949 certification. Further, in addition, the plant at Faridabad continues to be under ISO: 14001(Environmental) certification.

(f) Discussion on Financial Performance with respect to operational performance :

Demand for your Company's products continued to be buoyant. Although operations of a plant of the Company was disrupted by unusual rainfall in July 2005 and subsequent power shortfalls, turnover increased by 11% over that of the previous year resulting in a net profit of Rs 3.98 crores. Profitability was lower than previous year due to MAT and fringe benefit tax.

(g) Developments in human resources and industrial relations :

Industrial relations at both plants continued to be satisfactory.

Under the Voluntary Retirement Scheme, 30 employees left the company at a cost of Rs. 0.96 crores.

Employees' headcount at the end of the year was 1319.

A Statement required under Section 217(2A) of the Companies Act, 1956 is annexed.

Fixed Deposits

In terms of section 205C of the Companies Act 1956, the deposit and interest thereon which remains unclaimed for a period of seven years from the date when it became due is required to be deposited with the Investor Education and Protection Fund established under the Companies Act. Accordingly, a sum of Rs. 2.23 Lacs towards unclaimed deposits in respect of 47 depositors and Rs. 6072/- towards unclaimed interest on matured deposits was deposited with the said Fund during the Year. After the close of the year, there are no deposits remaining unpaid.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Report on Corporate Governance, together with a certificate of Compliance from Statutory Auditors is enclosed after this report.

Directors

In accordance with the Articles of Association of your Company, Dr. Ram S. Tarneja and Mr. A. F. Hartmann, Directors retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for reappointment.

Further, the Central Government has granted its approval for payment of remuneration to Mr. Surinder P. Kanwar, Chairman and Managing Director of the Company for a period of three (3) years w. e. f. 01st October 2005, in excess of the limits specified under sections 198, 269, 309, 310, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies (Amendment) Act, 2000 the Directors confirm that, -

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) appropriate accounting policies have been selected and applied consistently, and have made judgments and



estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2006 and of the profits of the Company for the period ended on that date;

- iii) proper and sufficient care has been taken 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; and
- iv) the annual accounts have been prepared on a going concern basis.

Particulars of Employees

Information regarding employees in accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is given in Annexure 'A' to the Directors' Report.

Conservation of Energy, Technology Absorption, Foreign Exchange Earnings & Outgo

The information in accordance with the provisions of Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in Annexure 'B' to the Directors' Report.

Auditors

M/s. A. F. Ferguson & Company, Chartered Accountants, the Statutory Auditors of the Company hold office until the conclusion of the forthcoming Annual General Meeting and are eligible for

re-appointment. The Company has received letter from them to the effect that their appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956.

Auditors' Report

The observations of the Auditors in their report are self-explanatory and/or explained suitably in the Note to the Accounts.

Cost Audit

In terms of the approval of the Central Government, M/s. M. K. Kulshrestha & Associates, Cost Accountants were appointed as Cost Auditors of the Company for auditing the Cost records for the year ended 31st March, 2006.

Acknowledgements

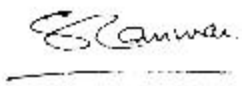
The Board of Directors gratefully acknowledge the continued cooperation, trust and support of our shareholders and would like to place on record its appreciation for the dedicated services rendered by the Employees at all levels. The Directors further express their gratitude to the Financial Institutions, Bankers, Customers, Suppliers and Collaborators as well for the assistance and confidence reposed by them in the Company.

For and on behalf of the Board of Directors

Place : Mumbai
Dated : 23rd May, 2006

Surinder P. Kanwar
Chairman and Managing Director

BHARAT GEARS LIMITED**Information Pursuant to Section 217 [2A] of the Companies Act, 1956, read with Companies Particulars of Employees Rules 1975 as Amended up to Date and Forming Part of the Directors' Report for the year ended 31st March, 2006.**

Sl. No.	Name	Age in Years	Qualification	Designation	Date of Commencement of Employment	Years of Experience	Remuneration (Rs. in Lacs)	Particulars of Last Employment
A. Employed for the Full Financial Year :								
1.	Surinder P. Kanwar	53	B.Com	Chairman & Managing Director	01.10.1990	31	69.36	Managing Director BST Mfg. Ltd.
B. Employed for the part of the Financial year:				NIL				
NOTES :								
01. Remuneration includes salary, allowances, Co's contribution to Provident Fund, Superannuation, Gratuity Funds and value of other perquisites on the basis of Income Tax Act 1961.								
02. Except Mr. Sameer Kanwar, Executive Director who is relative of Mr. Surinder P. Kanwar, Chairman & Managing Director of the Company, none of the employee is related to any of the Director of the Company.								
03. All the appointments except that of Mr. Surinder P. Kanwar and Mr. Sameer Kanwar are Non-Contractual.								
						For and on behalf of the Board of Directors		
								
						Surinder P. Kanwar Chairman & Managing Director		
Place : Mumbai								
Date : 23 rd May, 2006								

Report on Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo and Forming part of Directors' Report for the year ended 31st March, 2006.**A. Conservation of energy**

a) Energy conservation measures taken:

The fluorescent tube lighting in Mumbra plant is over 30 years old. These fitting and tubes are being replaced with energy efficient ones resulting in 22% savings in energy per day. The new investment is getting paid back in four months.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy;

The compressed air supply in Mumbra plant is catered to a bank of old and new compressors. The old compressors, whose spare parts availability is poor, are being replaced with newer higher capacity compressor. The new investment gives a payback period of 21 months through energy savings.

c) Impact of the measures (a) to (b) above for reduction of energy consumption and consequent impact on the cost of the production of goods;

To encourage electrical consumers to maintain Unity Power Factor, MSEB the power utility company for Mumbra plant gives an incentive of 7% of the energy charge. We have consistently availed fully of this discount over last twelve months.

d) Total energy consumption and energy consumption per unit of production as per Form A of the Annexure in respect of industries in the Schedule thereto: _____Not Applicable_____



B. Technology Absorption

e) Efforts made in technology absorption are as per Form B of the Annexure.

Form for disclosure of particulars with respect to absorption

Research and development (R & D)

The Company is in the business of manufacturing and supplying automotive gears to OEM's and for aftermarket sales both for domestic and overseas markets. The nature of business activity carried on by the Company at present does not entail any Research and Development as such. However, the Company extends the design software facility for developing the new products to their customers.

Hence clauses 1 to 4 relating to Research and Development are not applicable

Technology Absorption, adaptation and innovation.

1	Efforts in brief, made towards technology absorption, adaptation and innovation.	Green grinding of Parallel Axis gears was introduced in the Company a few years back with the TAG gear grinding machine. With the addition of Reishauer CNC grinding machine recently, this technology is further extended to cover more new products being developed by the Company
2	Benefits derived as a result of the above efforts, eg, product improvement, cost reduction, product development, import substitution, etc.	Benefits accrue to the Company in terms of reduced rejection and better productivity and delivery.
3	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished: a) Technology imported	Technology is received free of charge as per terms of technical collaboration agreement with AC Holcroft, in consideration of royalty on sale. Not Applicable
	b) Year of import	Not Applicable
	c) Has technology been fully absorbed	Yes
	d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.	Not Applicable

C. Foreign Exchange Earnings and Outgo:

(f) Activities relating to exports; initiatives taken to increase export; development of new export markets for products and services; and export plans.

Efforts are on to explore new OEM markets, particularly in USA. We have received orders from existing customers as well as added several new customers during the year.

(g) Total foreign exchange used and earned.

The particulars with respect to foreign earnings and outgo are as follows:

	2005-2006	(Rs. in lacs) 2004-2005
Foreign Exchange Earned	2088.59	1430.98
Foreign Exchange used	172.24	89.88
Net Foreign Exchange earnings	1916.35	1341.10

For and on behalf of the Board of Directors

Surinder P. Kanwar
Chairman & Managing Director

Place : Mumbai
Date : 23rd May, 2006

CORPORATE GOVERNANCE REPORT

For the Year ended 31st March 2006
(Pursuant to Clause 49 of the Listing Agreement)

COMPANY'S PHILOSOPHY

Corporate Governance is a combination of voluntary practices and compliances of laws and regulations leading to effective control and management of the Organization and its valuable resources through effective and transparent business conduct integrating communication, integrity and accountability towards its stakeholders.

Your Company is following transparent and fair practices of good Corporate Governance and its constant endeavor is to continually improve upon those Practices. The Company recognizes communication as key element in the overall Corporate Governance framework and therefore, emphasizes on keeping abreast its stakeholders including investors, lenders, vendors & customers on continuous basis by effective and relevant communication through Annual Reports, quarterly results, corporate announcements and reflecting the same on the Company's website www.bharatgears.com.

The Securities and Exchange Board of India (SEBI) the regulatory body for Capital Market, vide its circular dated 29th March, 2005, has extended the date for ensuring compliance with the revised clause 49 of the listing agreement which was introduced by it vide SEBI Circular dated 29th October, 2004 suggesting changes to the then existing clause – 49 and has mandated listed companies to comply with the revised Clause – 49 by 31st December, 2005. In view of the above this report complies with earlier Clause 49 for the transition period i. e. 01st April, 2005 to 31st December, 2005 and also with the revised Clause 49 for the period from 01st January, 2006 till 31st March, 2006.

BOARD OF DIRECTORS

Your Company has an optimum combination of executive and non-executive independent directors on the Board. The Board consists of 8 members, the Chairman of the Board is an executive director and half of the strength of the Board consists of non-executive independent directors. All non-executive Independent Directors bring a wide range of expertise and experience to the Board. The Board believes that the current size of the Board is appropriate based on the Company's present requirements.

Composition of the Board

Executive Directors

1. Mr. Surinder P. Kanwar - Chairman & Managing Director
2. Mr. Sameer Kanwar - Executive Director (Strategic Planning)

Nominees of Collaborators - (ZF Friedrichshafen AG)

3. Mr. W. R. Schilha - Director
4. Mr. A. F. Hartmann - Director

Non-Executive Independent Directors

5. Dr. Ram S. Tarneja - Director
6. Mr. N. J. Kamath - Director
7. Mr. V. K. Pargal - Director
8. Mr. J. S. Bhandari - Director

(Representative of Life Insurance Corporation of India- Equity Investor)

The **Table 1** gives Composition of the Board, Attendance record of the directors at the Board Meetings and at the last Annual General Meeting (AGM); Number of their outside directorships and their memberships/ chairmanships in Board Committees:

Table 1

S. No.	Name of Director	Category	No. of Board meeting attended ^A	Attendance at last AGM	No. of outside Directorships held ^B	No. of memberships/ Chairmanships in Board Committees ^C	Member Chairman
1.	Mr. Surinder P. Kanwar	Executive	4	Present	2	1	--
2.	Mr. Sameer Kanwar	Executive	4	Present	--	1	--
3.	Mr. W. R. Schilha	Independent	2	Present	--	--	--
4.	Mr. A. F. Hartmann	Independent	2	Present	--	--	--
5.	Dr. Ram S. Tarneja	Independent	4	Present	13	9	4
6.	Mr. N. J. Kamath	Independent	4	Present	1	2	1
7.	Mr. V. K. Pargal ^P	Independent	4	Present	--	1	--
8.	Mr. J. S. Bhandari	Independent	3	--	--	--	--

^AAttendance at the Board Meetings relevant to the period when Director of the Company.

^BIncludes Directorship in companies registered under the Companies Act, 1956, excluding directorship in private companies, section 25 companies, unlimited companies and alternate directorship.

^CIncludes Membership/Chairmanship of Audit Committee and Shareholders' /Investors' Grievance Committee.

^DMr. V. K. Pargal is also a Director on the Board of Pargal Consultants Pvt. Ltd (PCPL), which is providing consultancy service to the Company in its professional capacity. Professional fees paid to PCPL for the year 2005-2006 is Rs. 1,08,000/-. The Board is of the opinion that such payments in the context of overall expenditure by the Company, is not significant and does not affect his independence.

Apart from this, no other non-executive director has any pecuniary relationships/transactions vis-à-vis the Company (other than the sitting fees for attending the Board/Committee meetings).

None of the Directors of your Company is a member of more than 10 committees or is the chairman of more than five committees across all companies in which they are Directors.

BOARD MEETINGS

During the year under review, four (4) Board Meetings were held on the following dates. The gap between any two meetings was not more than 4 months as mandated in clause 49 of the listing agreement: -

- 18th May 2005;
- 27th July 2005;
- 27th October 2005 and
- 25th January 2006.

Information supplied to the Board

The Board has complete access to all information with the company. The information is provided to the Board and the agenda papers for the meetings are circulated in advance of each meeting.

BOARD COMMITTEES

1. Audit Committee

Constitution and Composition

The "Audit Committee" comprises of the following three non-executive & independent directors, who have financial/accounting acumen to specifically look into internal controls and audit procedures. Dr. Ram S. Tarneja, the Chairman of the Audit Committee has accounting and financial management expertise.

The **Table 2** gives the composition of the audit committee and the attendance record of members of the committee:



Table 2

Composition and Attendance Record of Audit Committee			
S. No.	Name of Members	Designation	No of Meetings Held/attended
1.	Dr. Ram S. Tarneja	Chairman	4/4
2.	Mr. N. J. Kamath	Member	4/4
3.	Mr. V. K. Pargal	Member	4/4

In addition to the members of the Audit Committee, the Financial Controller, Internal Auditor and the Statutory Auditors attended these meetings as invitees. Members held discussions with Statutory Auditors during the meetings of the Committee. The Audit Committee reviewed the Quarterly, Half-Yearly Un-audited and Annual audited financials of the Company before consideration and approval by the Board of Directors. The Committee reviewed the internal control systems and conduct of the internal audit.

The Chairman of the Committee was present at the last Annual General Meeting to answer the shareholders' queries.

Mr. Gulshan K Bhatia – Group Head (Legal) & Company Secretary acts as the Secretary to the Committee, for the aforesaid meetings.

Audit Committee Meetings

During the year under review, four (4) meetings of the Audit Committee were held on the following dates:

17th May 2005;

26th July 2005;

27th October 2005 and

25th January 2006.

Terms of reference

The broad terms of reference as delegated to the Audit Committee by the Board are as follows:

- Overview of the Company's financial reporting process and disclosure of its financial information;
- Recommending the appointment/removal of external auditors, nature and scope of audit, fixation of audit fee and payment of fees for any other service rendered by external auditors;
- Reviewing with the management, the quarterly, half yearly and annual financial statements before submission to the Board;
- Reviewing with the management, internal and external auditors, the internal audit reports and the reports of the external auditors;
- Reviewing of the adequacy and effectiveness of internal audit function, the internal control system of the Company, compliance with the Company's policies and applicable laws and regulations;
- Reviewing the Company's financial and risk management policies;
- To look into the reasons for substantial defaults, if any, in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

The Audit Committee may also review such matters as may be referred to it by the Board or which may be specified as role of the audit committee under amendments, if any, from time to time, to the Listing Agreement, Companies Act and other statutes.

2. Remuneration Committee

Constitution and Composition

In terms of the non-mandatory requirement of Clause 49 of the Listing Agreement, the "Remuneration Committee" was constituted on 22nd April, 2002. The said Committee has been empowered to consider, approve and recommend the remuneration of the Whole Time Director/Managing Director. The Remuneration Committee comprises of three non-executive & independent directors. [Table 3](#) gives the details.

Table 3

S. No	Name of Members	Designation	No. of Meetings held / attended
1.	Mr. N. J. Kamath	Chairman	1/1
2.	Mr. J. S. Bhandari	Member	1/1
3.	Mr. V. K. Pargal	Member	1/1

Remuneration Committee meetings

The Remuneration Committee meets as and when required. During the Year under review, the Remuneration Committee met once on 17th May, 2005 to consider the re-appointment of Mr. Surinder P. Kanwar – Chairman and Managing Director of the Company for a further period of five years w.e.f. 01st October, 2005 and payment of remuneration to him under the provisions of Section 198, 269, 309, 310, Schedule –XIII and other applicable provisions of the Companies Act, 1956, subject to the approval of the shareholders in the General Meeting, and further subject to the Approval of Central Government and other concerned authorities.

The Chairman of the Remuneration Committee was present at the Annual General Meeting, to answer the shareholders' queries.

The remuneration policy of the Company is based on the need to attract the best available talent and be in line with the industry levels.

REMUNERATION OF DIRECTORS FOR 2005-06

(Rs. in lacs)

Name of the Members	Sitting fees	Salaries and perquisites	Total
Mr. N. J. Kamath	0.24	NIL	0.24
Mr. J. S. Bhandari	0.08	NIL	0.08
Mr. V. K. Pargal	0.22	NIL	0.22
Dr. Ram S. Tarneja	0.20	NIL	0.20
Mr. Surinder P. Kanwar @	NIL	Salary - Monetary Value of Perquisites - Contribution to Provident and other funds	42.00 13.96 13.40
Mr. Sameer Kanwar #	NIL	Salary - Monetary Value of Perquisites - Contribution to Provident and other funds	10.20 8.70 3.60

* Excludes provision for leave encashment which is made based on the actuarial valuation done for the Company on an overall basis.

@The appointment of and payment of remuneration to Mr. Surinder P. Kanwar, has been approved in the Annual General Meeting held on 27th July 2005 for a further period of five years w. e.f. 01st October, 2005 to him under the provisions of Section 198, 269, 309, 310, Schedule –XIII and other applicable provisions of the Companies Act, 1956, subject to the Approval of Central Government and other concerned authorities.

**The payment of final remuneration to Sh. Surinder P. Kanwar, for the year under review, shall be subject to the approval of the Central Government, in this regard.

Approved in the Annual General Meeting held on 17th September, 2001 for a period of five years w.e.f. 01st February, 2002.

There is no notice period or severance fee in respect of appointment of any of the above Managerial Personnel. The Company does not have any stock option scheme.

3. Shareholders'/Investors' Grievance Committee

The "Shareholders'/Investors' Grievance Committee" has been empowered to look into the shareholders/investors grievances and redressal of the same. The said Committee is also authorised to effect transfers/transmissions of equity shares/debentures and other securities and also to issue Duplicate Shares and other securities and matters related or incidental thereto.

Table 4 gives the composition of the Shareholders'/Investors' Grievance Committee and the attendance record of members of the Committee:

Table 4

S. No	Name of Members	Designation	No. of Meetings held / attended
1.	Mr. N. J. Kamath	Chairman	3/3
2.	Mr. Surinder P. Kanwar	Member	3/2
3.	Mr. Sameer Kanwar	Member	3/2

Mr. N. J. Kamath is a non-executive director whereas Mr. Surinder P. Kanwar and Mr. Sameer Kanwar are executive Directors.

Shareholders'/Investor's Grievance Committee meetings

During the year under review Three (3) meetings, of the Shareholders'/Investors' Grievance Committee, were held on the following dates:

- 15th April, 2005;
- 26th July, 2005; and
- 25th January, 2006

During the financial year 2005-2006, 21 complaints were received from the shareholders till 31st March 2006; all of them were resolved to the satisfaction of the shareholders. All the requests for transfers and transmissions have been duly acted upon and no such request was pending as on 31st March, 2006.

Sub-Committee

In order to have speedy disposal of the shareholders'/investors' requests for transfer and transmission, a sub-committee consisting of the following directors/officers of the Company is in place for effecting share transfer/transmission/ split/consolidation of shares:

1. Mr. Surinder P. Kanwar, Chairman & Managing Director
2. Mr. Sameer Kanwar, Executive Director
3. Mr. P. C. Kothari, General Manager (Accounts)
4. Mr. Gulshan Bhatia, Group Head (Legal) & Company Secretary

Any two of the above are authorised to consider and approve the share transfer/transmission/ split/consolidation of shares.

The sub-committee is attending to Share Transfer formalities at least once in a fortnight.

Compliance Officer

Mr. Gulshan Bhatia – Group Head (Legal) & Company Secretary is the Compliance Officer of the Company.

DIRECTORS

During the year under review, the Company did not appoint any new Directors.

Re-appointment of existing non-executive rotational directors.

In accordance with the provisions of Companies Act, 1956 and the articles of association of the Company, Dr. Ram S. Tarneja and Mr. A. F. Hartmann, being 1/3rd of the rotational Directors, are liable to retire at the forthcoming Annual General Meeting and being eligible for re-appointment, have shown their willingness to be re-appointed. The Board recommends their re-appointment.

Table 5 gives the information pertaining to Directors of the Company: -

TABLE 5

Particulars of Directors :
<p>A. Dr. Ram S. Tarneja, Director</p> <p>a) Brief Resume :- Dr. Ram S. Tarneja aged 74 years, is a non-executive director of the Company since 31.12.1981. Dr. Tarneja, born on 7.12.1931 did B.A (Hons) from Delhi. He is also an M.A. both from University of Delhi & University of Virginia and also done Ph. D from Cornell University. He is the former Managing Director of Bennett, Coleman & Co. Ltd. He is also on the board of several prominent companies apart from Bharat Gears Limited as detailed below.</p> <p>b) Nature of his expertise in specific functional areas: Dr. Ram S. Tarneja has varied and rich experience across Companies. He has served on the Board and committee of various Companies and has the requisite expertise in accounting and financial management.</p> <p>c) The details of Directorship and Membership/Chairmanship of Board Committees as on 31.03.2006 of Dr. Ram S. Tarneja is as follows:-</p>

Directorship in Other Companies	Membership / Chairmanship of Board Committees
Public Limited Companies:	Audit Committee:
1. NESCO Limited	1. Rallis India Limited
2. Otis Elevator Company (I) Limited	2. Bharat Gears Limited (Chairman)
3. Jollyboard Limited (Chairman)	3. Bennett, Coleman & Co. Limited (Chairman)
4. Bennett, Coleman & Co. Limited	4. Otis Elevators Company (I) Limited
5. Rallis India Limited	5. GATI Limited
6. Ballarpur Industries Limited	6. Transcorp International Limited
7. Phillips Carbon Black Limited	Shareholders'/Investors' Grievance Committee:
	7. Housing Development Finance Corporation Limited (Chairman)
8. Housing Development Finance Corporation Limited	8. Ballarpur Industries Limited (Chairman)
9. GATI Limited	9. Rallis India Limited
10. ITC Limited	10. Engineering Projects (India) Ltd. (Public Sector Undertaking)
	Remuneration Committee:
11. Transcorp International Limited	11. Rallis India Limited
12. Phoenix Township Limited	12. ITC Limited
13. SOWIL Limited	13. GATI Limited
14. GIVO Limited - Alternate Director	14. Nesco Limited
Private Limited Companies:	Share Transfer Committee:
1. Arim Metal Industries Pvt. Ltd. (Shareholder & Vice-Chairman)	15. Otis Elevators Company (I) Limited
2. Nissin ABC Logistics Pvt. Ltd. (Chairman)	16. Jollyboard Ltd.
3. Engineering Projects (India) Ltd. (Public Sector Undertaking)	Nominations Committee:
	17. ITC Limited
	18. Rallis India Limited
	Executive Committee:
	19. Rallis India Limited
	Ethics & Compliance Committee:
	20. Rallis India Limited (Chairman)
	Business Plan Review Committee:
	21. Ballarpur Industries Limited
	Rights Issue Committee:
	22. Bharat Gears Limited

d) **Shareholding of Non-Executive Directors in the Company :** Dr. Ram S. Tarneja does not hold any shares in the Company.

B. Mr. A. F. Hartmann, Director

a) **Brief Resume:** Mr. Andreas Friedrich Hartmann aged 53 years is a director on the board of the Company since 28.6.1996 as a representative of ZF Friedrichshafen AG, Germany, the foreign collaborators of the Company.

b) **Nature of his expertise in specific functional areas:** Mr. Andreas Friedrich Hartmann, is attorney at law, admitted at the courts of Cologne. He is a Vice President, Group General Counsel. He is head of Corporate Development/ Co-operations / Joint Ventures of ZF Friedrichshafen AG. He is also a member of the Board of ZF Getriebe GmbH and ZF Sachs AG, Germany and Kinowelt GmbH.

c) The details of Directorship and Membership/Chairmanship of Board Committees as on 31.03.2006 of Mr. Andreas Friedrich Hartmann is as follows: -

Directorship in Other Companies	Membership/ Chairmanship of Board Committees
Foreign Companies:	
Public Companies	Nil
1. ZF Sachs AG, Schweinfurt	
2. Kinowelt Medien AG i. L., Leipzig	
Private Companies	
1. ZF Getriebe GMBH, Saarbrucken	
d) Shareholding of Non- Executive Directors in the Company: Mr. Andreas Friedrich Hartmann does not hold any shares in the Company	



GENERAL BODY MEETINGS

The General Meetings held by the Company during last three years of the Company are as detailed below:

Annual General Meetings

Financial Year	Venue	Date	Time	Whether any Special Resolution passed
2004-2005	Municipal Auditorium, NIT Faridabad, Haryana - 121 001	27th July, 2005	10.30 A.M	Yes
2003-2004	Municipal Auditorium, NIT Faridabad, Haryana - 121 001	23rd July, 2004	11.00 A.M	No
2002-2003	Municipal Auditorium, NIT Faridabad, Haryana - 121 001	29th September, 2003	10.30 A.M	Yes

Extra-ordinary General meetings

Financial Year	Venue	Date	Time	Whether any Special Resolution passed
2005-2006	Hotel Mahalakshmi Palace, 68, Neelam Bata Road, NIT Faridabad, Haryana - 121 001	14th December, 2005	2.30 P.M	Yes
2003-2004	Municipal Auditorium, NIT Faridabad, Haryana - 121 001	23rd July, 2004	11.30 A.M	Yes

At these meetings, no resolution was put through Postal Ballot.

DISCLOSURES

Related Party Transactions

During the year 2005 - 2006, there were no related party transactions of material significant nature that are considered to have potential conflict with the interest of the Company at large. All disclosures related to financial and commercial transactions where directors were interested are provided to the Board, and the interested directors do not participate in the discussion nor do they vote on such matters.

Compliance by the Company

There were no instances of any non - compliance by the Company or penalties, strictures imposed on the Company by stock exchanges or SEBI or any other statutory authority, on any matter related to the capital markets, during the last three years.

Non Mandatory Requirements

The Company has set up a Remuneration Committee, details whereof are given in the Board Committee section of this report.

MEANS OF COMMUNICATION

Quarterly Results, Half Yearly Reports, Newspapers in which published, website etc.

The Quarterly/ half yearly and annual financial results are normally published by the Company in 'The Financial Express' (English), Delhi and in 'Jansatta' (Hindi), Delhi. In addition to the above, the Quarterly/ half yearly and the annual financial results and official releases, if any, are also displayed on the Company's website www.bharatgears.com for the information of all the shareholders. The half-yearly reports were not sent to household of shareholders. The Company is registered under EDIFAR (Electronic Data Information Filing and Retrieval) site of SEBI www.sebi.gov.in. The Company has been posting online, the quarterly/half-yearly and annual financial results, shareholding pattern, along with full version of Corporate Governance Report, Annual Report and other requisite material information on www.sebidifar.nic.in.

Further, any interviews given by Company Executives/Management during the year are also displayed on the Company's website www.bharatgears.com. Besides the above, no other presentations were made to any institutional investors or to the analysts.

GENERAL SHAREHOLDER INFORMATION

Annual General Meeting Details:

The forthcoming AGM of the Company shall be held at 11.30 A.M on Friday, the 21st of July, 2006 at Municipal Auditorium, NIT Faridabad, Haryana - 121 001.

Financial Year:

Financial year of the Company commences on 1st April and ends on 31st March. The Four Quarters of the Company end on 30th June; 30th September; 31st December & 31st March respectively.

Date of Book Closure:

July 13th, 2006 to July 21st, 2006 (both days inclusive)

Dividend Payment Date: Not Applicable

Listing on Stock Exchanges and Stock Code:

The shares of the Company are listed on the following Stock exchanges:

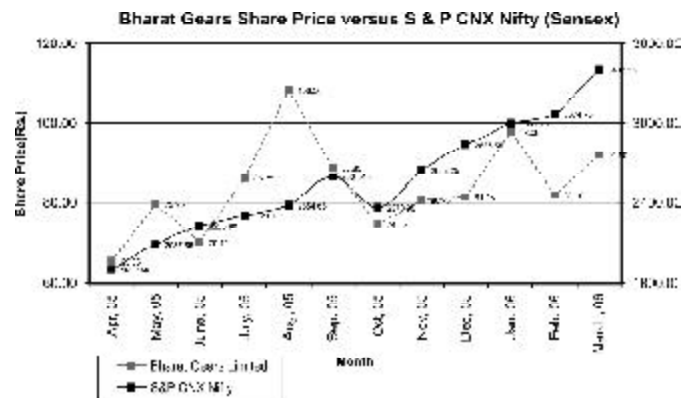
- Bombay Stock Exchange Limited [BSE]
[Stock Code: 505688]
- National Stock Exchange of India Limited [NSE]
[Symbol: BHARATGEAR]

The Annual Listing Fees for the year 2006-2007 have been paid to the aforesaid Stock Exchanges.

Market Price Data: High, Low during each month of Financial Year 2005-2006 on National Stock Exchange of India Limited:

As per official quotations of National Stock Exchange of India Limited, the High, Low market price of the equity shares of the Company during the last financial year is given below:-

Month	High (Rs.)	Low (Rs.)	Closing (Rs.)
April	70.00	60.10	65.35
May	92.80	63.00	79.95
June	83.90	68.10	70.15
July	93.95	63.00	86.35
August	109.80	75.05	108.30
September	122.00	81.55	88.85
October	98.20	72.60	74.85
November	95.50	75.00	80.75
December	87.50	75.05	81.45
January	105.00	79.50	98.00
February	98.95	80.00	82.10
March	106.50	66.50	91.90



Registrar and Transfer Agents, Share Transfer System:

M/s Intime Spectrum Registry Limited
A - 31, 3rd Floor, Naraina Industrial Area, Phase - I,
Near PVR Naraina,
New Delhi - 110 028

The Registrar and Transfer agents are single point for handling both the share registry work relating to shares held in physical and electronic form. The Share Transfers were duly registered and returned in the normal course with in stipulated period, if the documents were clear in all respects.

BHARAT GEARS LIMITED

Categories of Shareholders as on March 31, 2006:

Shareholding Pattern			
Category	No. of shares held	% age of share holding	
A. Promoters' holding			
1. Promoters			
- Indian Promoters	876,563	14.58	
- Foreign Promoters	-	-	
2. Persons acting in Concert	716,687	11.92	
B. Non-Promoters Holding			
3. Institutional Investors			
a. Mutual Funds and Unit Trust of India	529,299	8.80	
b. Banks, Financial Institutions, Insurance Companies (Central/ State Govt. Institutions/Non -Govt. Institutions)	236,784	3.94	
c. Foreign Institutional Investor	50	-	
4. Others			
a. Private Corporate Bodies	559,590	9.31	
b. Indian Public	1,501,760	24.97	
c. Non Resident Indians / Overseas	29,418	0.49	
d. Any Other			
- Foreign Collaborator	1,563,567	26.00	
Total	60,13,718	100.00	

Distribution of Shareholding as on March 31, 2006:

No. of Equity shares held	Number of shareholders	Number of shares	%age to total shares
Up to 250	7503	556807	9.25
251 to 500	806	324999	5.40
501 to 1000	299	253119	4.22
1001 to 2000	121	190189	3.16
2001 to 3000	45	116418	1.94
3001 to 4000	22	78924	1.31
4001 to 5000	20	93769	1.56
5001 to 10000	25	174390	2.91
10001 and above	20	4225103	70.25
Total	8861	6013718	100.00

Dematerialization of Shares and liquidity:

The Company's equity shares are compulsorily traded in the Stock Exchanges in the dematerialized mode and are available for trading under both the Depository Systems in India - National Securities Depository Limited and Central Depository Services (India) Limited.

AUDITORS' CERTIFICATE ON THE COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE UNDER CLAUSE 49 OF THE LISTING AGREEMENT

To the Members of Bharat Gears Limited

We have examined compliance of conditions of Corporate Governance by Bharat Gears Limited, for the year ended on March 31, 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with the 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 compliance with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement. 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

As on 31st March 2006 a total of 41,03,843 equity shares of the Company of Rs. 10/- each, which form 66.56% of the paid up share capital, stand dematerialized.

Outstanding ADRs/GDRs/ Warrants or any convertible instruments, conversion date and likely impact on equity: **Not applicable**

Plant Locations:

The Company's plants are located at the below mentioned addresses:

- M/s Bharat Gears Limited
20 K.M, Mathura Road
P.O Amar Nagar,
Faridabad - 121 003
(Haryana)
- M/s Bharat Gears Limited
Kausa Shil, Shilpata,
Dist. Thane - 400 612
(Maharashtra)

Addresses for Correspondence:

(1) For Share transfer/ demat of shares or any other query relating to shares:-

M/s Intime Spectrum Registry Limited
A-31, 3rd Floor,
Naraina PVR Naraina,
New Delhi - 110 028

(2) For Investor assistance in any other matter:-

Mr. Ashish Pandey
Group Leader (Legal) & Company Secretary
M/s. Bharat Gears Limited
20 K.M. Mathura Road,
P.O. Amar Nagar,
Faridabad - 121 003

E-Mail for Investors:-

Investors may also email at the following email addresses: - bglfbd@vsnl.com and investor@bglindia.com

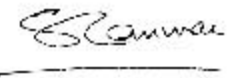
Nomination facility:

As per the provisions of Companies Act, 1956, the shareholders may avail nomination facility in respect of their shareholding. For the convenience of the shareholders, the nomination form is enclosed at some other place in this Annual Report. The same may be sent duly filed at the registered office of the Company, addressed to the Company Secretary.

Updation of Shareholders information:

The shareholders of the Company are requested to intimate their latest residential address along with the details of their shareholding in the enclosed form. The enclosed form may either be sent to the Company at its registered office or be hand-delivered at the Annual General Meeting of the Company.

On behalf of the Board of Directors



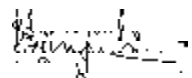
Surinder P. Kanwar
Chairman & Managing Director

Dated : 23rd May, 2006
Place : Mumbai

certify that the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in clause 49 of the abovementioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A. F. FERGUSON & CO.
Chartered Accountants



MANJULA BANERJI
PARTNER

Place : New Delhi
Date : 23rd May, 2006



AUDITORS' REPORT

TO THE MEMBERS OF BHARAT GEARS LIMITED

We have audited the attached Balance Sheet of Bharat Gears Limited as at 31st March, 2006 and also the Profit and Loss Account and the 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 disclosures 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 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said 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 purposes of our audit;
 - (b) in our opinion, proper books of account as required by law, have been kept by the Company so far as appears from our examination of those books;
 - (c) the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply 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 the directors, as on 31st March, 2006, and taken on record by the Board of Directors, we report that none of the directors is 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 accounts give the information required by the Companies Act, 1956, in the manner so required, and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;

- (ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
- (iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For **A.F. Ferguson & Co.**
Chartered Accountants

U.M. NEOGI

Partner

Membership No.30235

Place : Mumbai
Date : 23rd May, 2006

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF THE AUDITOR'S REPORT TO THE MEMBERS OF BHARAT GEARS LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED 31st MARCH 2006.

- (i) (a) The Company is maintaining proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) The Company has a programme of physical verification of fixed assets. As per the said programme, certain assets were physically verified during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification. In our opinion, having regard to the size of the Company and the nature of its assets, the programme of verification of fixed asset of the Company is reasonable.
- (c) Since there is no disposal of substantial part of fixed assets during the year, paragraph 4(i)(c) of the Companies (Auditors' Report) Order, 2003 (hereinafter referred to as the Order) is not applicable.
- (ii) (a) The inventories, except for stocks lying with third parties where certificates confirming stocks have been received in respect of most of the stocks held, have been physically verified by the management during the year at reasonable intervals.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the records of inventory, we are of the opinion that the Company is maintaining proper records of inventory. According to the information and explanations given to us, no material discrepancies were noticed on physical verification between the physical stock and the book records.
- (iii) (a) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 (the Act). Accordingly, clauses (iii)(b) to (iii)(d) of paragraph 4 of the Order are not applicable to the Company for the current year.
- (b) Except for interest free loans of Rs.45 lacs taken from a Company and Rs.55.16 lacs taken from a party listed in the register maintained under Section 301 of the Act, according to the information and explanations given to us, the Company has not taken any loans, secured or unsecured from companies, firms or other parties listed in the register maintained under Section 301 of the Act.
- (c) In our opinion, terms and conditions on which loans referred to above have been taken, are not prejudicial to the interest of the Company.
- (d) In respect of the loans referred to above, the principal was not due for repayment during the year.

BHARAT GEARS LIMITED

- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that the particulars of contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.
- (b) In our opinion and according to the information and explanations given to us, having regard to the explanation that purchases of certain items are of specialised nature and comparable alternative quotations are not available, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act and exceeding the value of rupees five lakhs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
- (vi) As the Company has not accepted any deposits from the public, the paragraph 4(vi) of the Order is not applicable.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and the nature of the business.
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Act. We are of the opinion that prima facie the prescribed accounts and records have been made and are being maintained. We are not required and accordingly have not made a detailed examination of the records maintained.
- (ix) (a) According to the information and explanations given to us and according to the records of the Company, the Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income tax, tax deducted at source, tax collected at source, professional tax, sales tax, value added tax, fringe benefit tax, custom duty, excise duty, service tax, octroi charges, property tax, water tax, license fees, works contract tax, cess and other material statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts in respect of the statutory dues referred to above were outstanding as at 31st March 2006 for a period of more than six months from the date they became payable.
- (c) As explained to us and according to the records of the Company, the following dues as at the year end of income tax/ sales tax/ value added tax/ wealth tax/ service tax/ custom duty/ excise duty/ cess have not been deposited on account of any dispute:

- (x) In our opinion, the accumulated losses of the Company are not more than fifty percent of its net worth. The Company has not incurred any cash losses during the financial year covered by our audit and in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.
- (xii) Since the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities, paragraph 4(xii) of the Order is not applicable.
- (xiii) As the Company is not a nidhi / mutual benefit fund / society, paragraph 4(xiii) of the Order is not applicable.
- (xiv) Since the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4(xiv) of the Order is not applicable.
- (xv) In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by employees from financial institutions are not prejudicial to the interest of the Company.
- (xvi) In our opinion, the term loans have been applied for the purpose for which they were raised.
- (xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long term investments.
- (xviii) According to the information and explanations given to us, the Company has not made any preferential allotment of shares during the year to parties and Companies covered in the register maintained under Section 301 of the Act.
- (xix) Since the Company has not issued any debentures during the year, paragraph 4(xix) of the Order is not applicable.
- (xx) Since the Company has not raised any money during the year by way of public issue, paragraph 4(xx) of the Order is not applicable.
- (xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

For **A. F. Ferguson & Co.**
Chartered Accountants



U.M. NEOGI
Partner

Membership No.30235

Place : Mumbai
Date : 23rd May, 2006

Name of the Statute	Nature of Dues	Amount of tax (Rs.)	Period to which the amount relates	Forum where dispute is pending
West Bengal Sales Tax Act, 1994	Sales Tax on free of cost material	238,780	2002-03	Deputy Commissioner, Commercial Taxes
West Bengal Sales Tax Act, 1994	Sales Tax on free of cost material	263,742	2003-04	Assistant Commissioner, Commercial Taxes
Kerala General Sales Tax Act, 1963	Sales Tax on Branch transfer	130,291	2003-04	Deputy Commissioner (Appeals), Commercial Taxes



BHARAT GEARS LIMITED
BALANCE SHEET AS AT 31ST MARCH, 2006.

	Schedule	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
I. Sources of funds :			
(1) SHAREHOLDERS' FUNDS			
Share capital	1	959.87	959.87
Reserves and surplus	2	1538.62	1501.18
		<u>2498.49</u>	<u>2461.05</u>
(2) LOAN FUNDS			
Secured loans	3	7567.32	7705.18
Unsecured loans	4	100.16	264.88
Finance lease obligations		61.68	24.68
		<u>7729.16</u>	<u>7994.74</u>
(3) DEFERRED TAX LIABILITIES (Note 20 of Schedule 19)			
		<u>960.71</u>	<u>1228.95</u>
	Total	<u>11188.36</u>	<u>11684.74</u>
II. Application of funds :			
(1) FIXED ASSETS			
Gross block	5	16494.97	15796.68
Less : Depreciation		10241.76	9385.65
Net block		6253.21	6411.03
Add : capital work in progress and advances on capital account		679.51	195.98
		<u>6932.72</u>	<u>6607.01</u>
(2) DEFERRED TAX ASSETS (Note 20 of Schedule 19)			
		<u>960.71</u>	<u>1228.95</u>
(3) CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	6	2385.87	2036.66
Sundry debtors	7	3603.97	3302.16
Cash and bank balances	8	568.59	504.68
Loans and advances	9	954.03	1026.09
		<u>7512.46</u>	<u>6869.59</u>
Less : CURRENT LIABILITIES AND PROVISIONS			
Current liabilities	10	4097.33	3295.89
Provisions	11	281.17	238.27
		<u>4378.50</u>	<u>3534.16</u>
Net current assets		<u>3133.96</u>	<u>3335.43</u>
(4) MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted) (Note 15 of Schedule 19)		<u>160.97</u>	<u>167.02</u>
(5) DEBIT BALANCE IN THE PROFIT AND LOSS ACCOUNT			
	2A	-	346.33
	Total	<u>11188.36</u>	<u>11684.74</u>
NOTES :	19		

Per our report attached
For A.F. FERGUSON & CO.
Chartered Accountants

SURINDER P. KANWAR
Chairman and Managing Director

SAMEER KANWAR
Executive Director-Strategic Planning

RAM S. TARNEJA
N. J. KAMATH
V. K. PARGAL
W. R. SCHILHA
A. F. HARTMANN
Directors

U.M. NEOGI
Partner

ASHISH PANDEY
*Group Leader (Legal)
& Company Secretary*

MILIND PUJARI
Financial Controller

Place : Mumbai
Date : 23rd May, 2006

BHARAT GEARS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	Rs. lacs Year Ended 31st March, 2006	Rs. lacs Year Ended 31st March, 2005
Sales including processing charges (gross)		18664.48	16692.28
Less : Excise duty		<u>2346.58</u>	<u>2252.62</u>
Sales including processing charges (net)		16317.90	14439.66
Other income	12	<u>451.27</u>	<u>468.20</u>
TOTAL INCOME		<u>16769.17</u>	<u>14907.86</u>
EXPENDITURE			
Consumption of materials	13	6309.18	5555.92
Purchase of finished goods		216.37	55.77
Increase in finished goods and work in progress	14	(92.03)	(263.20)
Payments to and provisions for employees	15	2936.08	2712.22
Other expenses	16	5014.00	4370.47
Financing charges	17	969.86	1121.51
Depreciation	18	<u>928.70</u>	<u>919.02</u>
PROFIT BEFORE TAX		<u>487.01</u>	<u>436.15</u>
- Provision for tax		-	-
- Current tax		33.00	-
- Deferred tax (net)		-	-
- Fringe benefit tax		<u>56.00</u>	-
PROFIT AFTER TAX		<u>398.01</u>	<u>436.15</u>
Add: Balance brought forward from the previous year		(1701.25)	(2220.74)
Add: Transferred from Debenture redemption reserve		-	83.34
Balance carried to Balance Sheet		<u>(1303.24)</u>	<u>(1701.25)</u>
Basic and diluted earnings per share (in Rs.) (Note 19 of Schedule 19)		<u>5.94</u>	<u>6.58</u>
NOTES:	19		

Per our report attached
For A.F. FERGUSON & CO.
Chartered Accountants

U.M. NEOGI
Partner

Place : Mumbai
Date : 23rd May, 2006

SURINDER P. KANWAR
Chairman and Managing Director

ASHISH PANDEY
Group Leader (Legal)
& Company Secretary

SAMEER KANWAR
Executive Director-Strategic Planning

MILIND PUJARI
Financial Controller

RAM S. TARNEJA
N. J. KAMATH
V. K. PARGAL
W. R. SCHILHA
A. F. HARTMANN
Directors



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006

	(Rs. lacs) For the year ended 31st March, 2006	(Rs. lacs) For the year ended 31st March, 2005
A. CASH FLOW FROM OPERATING ACTIVITIES :		
Net profit before tax	487.01	436.15
Adjustments for :		
- Depreciation	928.70	919.02
- Write off of capital work in progress	-	9.49
- Unrealised exchange loss (net)	14.06	18.06
- (Profit) /Loss on sale of fixed assets(net)	(4.34)	5.01
- Interest income	(12.92)	(26.30)
- Lease rent	11.21	20.35
- Interest expense	920.86	1046.23
Operating profit before working capital changes	2344.58	2428.01
Adjustments for :		
- Inventories	(349.21)	(464.68)
- Trade and other receivables	(292.69)	(1063.72)
- Trade and other payables/Provisions	581.82	147.28
- Miscellaneous expenditure	6.05	12.72
Cash generated from operations	2290.55	1059.61
- Income taxes including Fringe Benefit Tax paid (net of refunds)	(124.29)	(11.19)
Net cash from operating activities	2166.26	1048.42
B. CASH FLOW FROM INVESTING ACTIVITIES :		
Purchase of fixed assets	(1097.45)	(371.53)
Sale of fixed assets	23.14	10.59
Interest received (inclusive of tax deducted at source Rs. 2.04 lacs ; previous year: Rs 2.54 lacs)	10.68	25.47
Fixed Deposits with bank not readily convertible in cash	(75.00)	-
Sale of long term investment	-	86.20
Net cash used in investing activities	(1138.63)	(249.27)
C. CASH FLOW FROM FINANCING ACTIVITIES :		
Proceeds from long term borrowings	38.76	403.84
Repayment of long term borrowings	(319.69)	(348.50)
Repayment of short term borrowings	-	(25.00)
Increase / (Decrease) in cash credits and packing credits	94.88	285.67
Payment of dividend etc.to Investor Education and Protection Fund	(3.82)	(23.56)
Lease rent paid (net)	(19.40)	(20.38)
Interest paid	(829.45)	(1160.49)
Net cash used in financing activities	(1038.72)	(888.42)
Net increase / (decrease) in cash & cash equivalents (A+B+C)	(11.09)	(89.27)
Cash & cash equivalents at the beginning of the year.	466.68	555.95
Cash and cash equivalents at the end of the year.(see note 2)	455.59	466.68
	(11.09)	(89.27)

Notes :

- The cash flow is based on and derived from the accounts of the Company for the year ended 31st March, 2006 and 31st March, 2005.
- Cash and cash equivalents comprise :

	(Rs/lacs)	(Rs/lacs)
Cash,cheques on hand and bank balances	327.96	347.52
Margin money with banks	122.28	116.05
Fixed deposit with banks	118.35	41.11
Total	568.59	504.68
Less : Fixed deposits with bank not readily convertible in cash	113.00	38.00
Cash and cash equivalents at the end of the year	455.59	466.68

- The previous year's figures have been regrouped wherever necessary.

<p>Per our report attached to the Balance Sheet For A.F. FERGUSON & CO. Chartered Accountants</p> <p>U.M. NEOGI Partner</p> <p>Place : Mumbai Date : 23rd May, 2006</p>	<p>SURINDER P. KANWAR Chairman and Managing Director</p> <p>ASHISH PANDEY Group Leader (Legal) & Company Secretary</p>	<p>SAMEER KANWAR Executive Director-Strategic Planning</p> <p>MILIND PUJARI Financial Controller</p>	<p>RAM S. TARNEJA N. J. KAMATH V. K. PARGAL W. R. SCHILHA A. F. HARTMANN Directors</p>
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BHARAT GEARS LIMITED

SCHEDULES ANNEXED TO THE ACCOUNTS

(1) SHARE CAPITAL	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
Authorised		
1,00,00,000 Equity shares of Rs.10 each	1000.00	1000.00
15,00,000 Cumulative redeemable convertible or non-convertible preference shares of Rs.100 each	1500.00	1500.00
	2500.00	2500.00
Issued and Subscribed		
60,13,718 Equity shares of Rs.10 each fully paid up [Of the above 28,750 equity shares have been issued pursuant to the scheme of amalgamation of the erstwhile Universal Steel & Alloys Limited (USAL) with the company]	601.37	601.37
1,50,000 10% Cumulative redeemable non - convertible preference shares of Rs. 100 each, fully paid up (Refer note 1 below)	150.00	150.00
2,08,500 10% Cumulative redeemable non - convertible preference shares of Rs.100 each, fully paid up [Issued pursuant to a Corporate Debt Restructuring scheme] (Refer note 2 below)	208.50	208.50
	959.87	959.87
Notes :		
1. Series IV and Series V 10% Cumulative redeemable non-convertible preference shares of Rs. 75 lacs each were redeemable at par on 1st March, 2006 and 1st September, 2004 respectively, which have been rolled over to 1st September, 2006 with the consent of holders of these shares.		
2. Series VI, VII & VIII aggregating Rs. 208.50 lacs were allotted on 29th September, 2003 in respect of the present value of 50% of the differential interest on account of reduction in interest rate on the term loans as per the Corporate Debt Restructuring scheme and are redeemable at par in two equal annual installments on 31st March, 2011 and 31st March, 2012.		
(2) RESERVES AND SURPLUS		
Capital redemption reserve Per last balance sheet	380.00	380.00
Share premium account Per last balance sheet	383.37	383.37
Debenture redemption reserve Per last balance sheet	-	83.34
Less : Transferred to profit and loss account	-	83.34
	-	-
Revaluation reserve Per last balance sheet	737.81	752.05
Less : Transferred to profit and loss account, being depreciation on amount added on revaluation of fixed assets (Schedule 18)	14.24	14.24
	723.57	737.81
General reserve Per last balance sheet	1354.92	1354.92
Less : Profit and loss account (see Schedule 2A)	1303.24	1354.92
	51.68	-
	1538.62	1501.18
(2A) PROFIT AND LOSS ACCOUNT		
Debit balance in the Profit and Loss Account	1303.24	1701.25
Less : Deducted from General Reserve (See Schedule 2)	1303.24	1354.92
	-	346.33



(3) SECURED LOANS	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
From Banks :		
Cash credits (including funded interest thereon) and packing credits (note 1 below)	2199.81	2132.18
Other:		
Rupee loan from The Federal Bank Limited (note 2, 7 & 8 below)	321.52	324.53
Rupee loan from The Federal Bank Limited (note 2 & 8 below)	58.50	58.00
Rupee loan from State Bank of India (note 2 & 8 below)	126.92	127.90
Rupee loan from Indian Overseas Bank (note 2 & 8 below)	62.66	62.38
Rupee loan from The Federal Bank Limited (note 3 below)	871.01	887.10
Rupee loan from Bank of Baroda (note 2 & 8 below)	90.78	90.78
Rupee loan from Industrial Development Bank of India Limited (note 3 below)	1491.51	1625.08
Rupee loan from Industrial Development Bank of India Limited (note 5 below)	530.12	578.25
Rupee loan from Industrial Development Bank of India Limited (note 2 & 8 below)	390.49	409.86
Vehicle loan from ICICI Bank Ltd. (note 4 below)	45.81	24.07
	6189.13	6320.13
From Others :		
Foreign Currency loan from Export-Import Bank of India (note 3 below)	970.73	969.88
Foreign Currency loan from Export-Import Bank of India (note 2 & 8 below)	191.22	188.33
Foreign Currency loan from ZF Friedrichshafen AG (note 6 below)	216.24	226.84
	1378.19	1385.05
	7567.32	7705.18

Notes :

- Cash credits (including funded interest thereon) and packing credits from banks are secured by hypothecation of stocks of raw materials, stock in process, semi finished and finished goods, loose tools, general stores and book debts and all other moveables both present and future and by joint mortgage created for all immoveable properties of the Company located at Mumbra and Faridabad which rank second subject and subservient to charges created in favour of loans referred to in notes 2, 3, and 5.
- Rupee loans from The Federal Bank Limited, State Bank of India, Indian Overseas Bank, Bank of Baroda, Industrial Development Bank of India Limited and Foreign currency loan from Export Import Bank of India are secured by first mortgage and charge created on the immoveable and moveable assets at Mumbra unit, on parri passu basis with loans referred to in note 5 .
- Rupee loans from The Federal Bank Limited, Industrial Development Bank of India Limited and Foreign currency loan from Export Import Bank of India are secured by way of joint mortgage of land at Faridabad plant together with all buildings and structures thereon and all plant & machinery attached to the earth and by way of hypothecation of all moveable fixed assets at Faridabad plant ranking parri passu with each other.
- Secured against the hypothecation of respective vehicles
- Rupee loan from Industrial Development Bank of India Limited is secured by mortgage of immoveable properties and hypothecation of moveable fixed assets located at Mumbra plant, both present & future, which ranks parri passu with charges created in respect of loans referred to in note 2 .
- Foreign Currency loan from ZF Friedrichshafen is secured by charge created during the year on specific assets located at Faridabad plant which rank subordinate and subservient to charges created in respect of the loans referred to in notes 1 and 3.
- Rupee loan from The Federal Bank Limited is also secured by mortgage of Company's office premises at Nariman Point, Mumbai.
- Rupee loans referred to in note 2 are also guaranteed by a Director of the Company aggregating Rs. 1242.09 lacs (previous year : Rs. 1261.78 lacs) (from banks : Rs. 1050.87 lacs; (previous year : Rs. 1073.45 lacs) from others : Rs. 191.22 lacs; (previous year : Rs 188.33 lacs)).

BHARAT GEARS LIMITED

(4) UNSECURED LOANS	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
Other than short term		
From Housing Development Finance Corporation Ltd. (under Line of Credit scheme) (Repayable within one year Rs. Nil; previous year: Rs.8.53 lacs)	-	28.15
From LIC Housing Finance Ltd. (under Line of Credit scheme) (Repayable within one year Rs. Nil; previous year: Rs.2.51 lacs)	-	9.57
From Director (Repayable within one year Rs. Nil; previous year: Rs.Nil)	55.16	55.16
From others (Repayable within one year Rs. Nil; previous year: Rs.48 lacs)	45.00	172.00
	100.16	264.88

(5) FIXED ASSETS

(Rs. in lacs)

Assets	Gross Block			Depreciation				Net Block		
	As at 31.03.2005	Additions	Deductions/ Adjustments	As at 31.03.2006	Upto 31.03.2005	For the year	On Deductions/ Adjustments	Upto 31.03.2006	As at 31.03.2006	As at 31.03.2005
Land - Freehold	139.43	-	-	(*) 139.43	-	-	-	-	139.43	139.43
Land - Leasehold (@)	581.40	-	-	(*) 581.40	54.74	7.82	-	62.56	518.84	526.66
Buildings and roads	1698.69	6.24	-	(*) 1704.93 (**)	571.70	51.45	-	623.15	1081.78	1126.99
Leasehold improvements	1.77	-	-	1.77	1.68	-	-	1.68	0.09	0.09
Plant and machinery	12243.11	640.87	78.30	12805.68	8009.81	824.10	70.05	8763.86	4041.82	4233.30
Electrical installations	285.37	41.10	-	326.47	121.56	11.56	-	133.12	193.35	163.81
Water supply installations	75.06	-	-	75.06	23.67	3.73	-	27.40	47.66	51.39
Furniture and fixtures	149.31	4.11	0.07	153.35	122.46	5.13	0.06	127.53	25.82	26.85
Computers, office and miscellaneous equipment	500.30	26.07	3.72	522.65	408.13	25.91	1.55	432.49	90.16	92.17
Vehicles	85.87	42.43	16.11	112.19	61.70	8.63	7.64	62.69	49.50	24.17
Assets acquired under finance lease										
Plant and machinery	7.37	46.57	-	53.94	1.31	0.75	-	2.06	51.88	6.06
Vehicles	29.00	5.45	16.35	18.10	8.89	3.86	7.53	5.22	12.88	20.11
	15796.68	812.84	114.55	16494.97	9385.65	942.94	86.83	10241.76	6253.21	
As at 31st March, 2005	15428.09	443.81	75.22	15796.68	8512.01	933.26	59.62	9385.65		6411.03
Capital work-in-progress									668.25	191.38
Advances on capital account									11.26	4.60
									679.51	195.98
									6932.72	6607.01

(*) Includes amounts added on revaluation carried out by an approved valuer (see table below)

	on 31.7.84	on 30.04.85	on 25.11.97	Total
Land	117.48	92.99	488.41	698.88
Buildings & roads	147.25	93.20	51.13	291.58
	264.73	186.19	539.54	990.46

Basis of revaluation :	Current cost Accounting	Not Available	Replacement cost/Current cost Accounting
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(#) Relating to the erstwhile USAL

(**) 'Buildings' include 10 shares of Rs.50/- each in Venkatesh Premises Co-operative Society Ltd. - Total Rs.500/- (previous year: Rs.500/-).

(@) is in the name of erstwhile USAL. The company is in the process of getting it transferred in its name.



(6) INVENTORIES	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
Stores and spare parts	280.41	218.93
Loose tools	476.24	316.59
Stock-in-trade		
Raw materials and components	354.03	317.70
Work in progress	910.36	740.89
Finished goods - manufactured	349.75	435.73
Finished goods - traded	13.45	4.91
Scrap	1.63	1.91
	<u>2385.87</u>	<u>2036.66</u>

(7) SUNDRY DEBTORS (UNSECURED & CONSIDERED GOOD UNLESS OTHERWISE STATED)

Outstanding for a period exceeding six months doubtful	9.59	9.59		
others	<u>80.38</u>	89.97	<u>40.73</u>	50.32
Others		<u>3523.59</u>		<u>3261.43</u>
		<u>3613.56</u>		3311.75
Less : Provision for doubtful debts		9.59		9.59
		<u>3603.97</u>		<u>3302.16</u>

(8) CASH AND BANK BALANCES

Cash on hand	5.42	5.76
Cheques on hand	110.83	168.82
With scheduled banks :		
On current accounts	211.71	172.94
On margin accounts	122.28	116.05
On fixed deposit accounts	118.35	41.11
[Includes deposits the receipts for which, are held by Industrial Development Bank of India Limited towards outstanding dividends on preference shares, Rs.38 lacs (previous year : Rs.38 lacs) and, redemption of Series IV 10% Cumulative redeemable non-convertible preference shares Rs.75 lacs (previous year : Rs.Nil)]		
	<u>568.59</u>	<u>504.68</u>

(9) LOANS AND ADVANCES

UNSECURED AND CONSIDERED GOOD :		
Loans and advances recoverable in cash or in kind or for value to be received	706.44	806.21
Balance with excise authorities (on current account)	40.95	46.54
Security deposits	82.90	80.89
Income-tax payments less provision	123.74	92.45
	<u>954.03</u>	<u>1026.09</u>

BHARAT GEARS LIMITED

	Rs. lacs As at 31st March, 2006	Rs. lacs As at 31st March, 2005
(10) CURRENT LIABILITIES		
Acceptances	854.70	678.33
Sundry Creditors		
- due to small scale industrial undertakings	115.71	76.32
- others	2508.25	1815.68
Customers advances and credit balances	556.67	676.68
Interest accrued but not due on loans	49.18	34.64
Security deposits	10.58	8.18
Investor Education and Protection Fund *		
(a) Unpaid dividends	2.10	3.32
(b) Unpaid matured deposits	-	2.54
(c) Unpaid interest accrued on fixed deposits	0.14	6.06
	4097.33	3295.89
* The figures reflect the position as at the year end. The actual amount to be transferred to the Investor Education and Protection Fund in this respect shall be determined on the due date.		
(11) PROVISIONS		
Leave Encashment	274.75	235.54
Others	6.42	2.73
	281.17	238.27
(12) OTHER INCOME		
Export incentives	64.17	89.56
Interest	12.92	26.30
-on security deposits, deposits with banks, income tax refunds etc. (Tax deducted at source on interest received Rs. 2.04 lacs; previous year : Rs.2.54 lacs)		
Income from scrap	181.79	166.43
Rent	0.60	0.60
Credit balances no longer payable written back	15.10	37.28
Profit on sale of fixed assets	9.05	3.81
Miscellaneous income	167.64	144.22
	451.27	468.20
(13) CONSUMPTION OF MATERIALS		
Raw materials and components consumed		
Opening stock	317.70	230.87
Add : Purchases of raw materials & components	6345.51	5642.75
	6663.21	5873.62
Less : Closing stock	354.03	317.70
	6309.18	5555.92
(14) INCREASE IN FINISHED GOODS AND WORK IN PROGRESS		
Opening stock :		
Finished goods - manufactured	435.73	363.61
Finished goods - traded	4.91	2.12
Work in progress	740.89	552.60
	1181.53	918.33
Less:- Closing Stock :		
Finished goods - manufactured	349.75	435.73
Finished goods - traded	13.45	4.91
Work in progress	910.36	740.89
	1273.56	1181.53
	(92.03)	(263.20)



(15) PAYMENTS TO AND PROVISIONS FOR EMPLOYEES	Rs. lacs Year Ended 31st March, 2006	Rs. lacs Year Ended 31st March, 2005
Salaries, wages and bonus	2332.18	2227.42
Contribution to provident, superannuation, gratuity and other funds	276.83	193.18
Employees' welfare expenses	327.07	291.62
	<u>2936.08</u>	<u>2712.22</u>
(16) OTHER EXPENSES		
Stores,spares & packing materials consumed (Net of recoveries Rs. 3.90 lacs; previous year : Rs.3.29 lacs)	867.50	776.47
Loose tools consumed	576.32	472.65
Processing charges	620.30	483.84
Power and fuel	1578.21	1344.95
Repairs and maintenance		
-machinery	214.10	197.73
-buildings	48.58	24.98
-others	167.49	144.59
Travelling, conveyance and car expenses	196.57	152.28
Insurance	43.47	48.41
Rent	39.52	48.43
Rates and taxes	77.01	77.87
Freight, forwarding and other charges	194.68	196.66
Commission to selling agents	39.94	43.74
Loss on sale of long term investment	-	57.47
Less : Write back of provision for dimunition in value of investment being no longer required	-	57.47
Miscellaneous expenses (Includes loss on sale / write off of fixed assets Rs. 4.71 lacs; previous year : Rs.18.31 lacs)	350.31	357.87
	<u>5014.00</u>	<u>4370.47</u>
(17) FINANCING CHARGES		
Interest on debentures and other fixed period loans	647.67	748.62
Other interest and bill discounting charges	273.19	297.61
Bank and other financing charges	49.00	68.08
Cash discount	-	7.20
	<u>969.86</u>	<u>1121.51</u>
(18) DEPRECIATION		
For the year	942.94	933.26
Less : Transferred from revaluation reserve, being depreciation on amount added on revaluation of fixed assets (Schedule 2)	14.24	14.24
	<u>928.70</u>	<u>919.02</u>

(19) NOTES:**1. SIGNIFICANT ACCOUNTING POLICIES****i) Basis of Accounting:**

The financial statements are prepared under the historical cost convention on an accrual basis except for the revalued fixed assets as stated in (ii) below.

ii) Fixed assets and depreciation:

Fixed assets are stated at cost of acquisition or at revalued amounts less accumulated depreciation.

The company provides for depreciation on fixed assets to write off 95% of the cost either on written down value method or straight line method (SLM) in the manner and at the rates prescribed in Schedule XIV to the Companies Act, 1956 except for certain assets acquired prior to 1.8.86, as below: -

		<u>Rate %</u>
Factory Buildings and roads	SLM	1.61/3.28

Depreciation on revalued amounts is transferred from revaluation reserve to the profit and loss account.

Leasehold land is amortised over the remaining period of lease.

iii) Inventories are valued as follows:

Stores, spare parts and loose tools at cost.

Raw materials and components, work in progress and finished goods at the lower of cost and net realisable value.

Cost comprises of material cost and expenditure incurred in normal course of business in bringing inventories to its location and includes, where applicable, appropriate overheads.

Material cost, other than those of traded goods which is on specific identification basis, is arrived at on weighted average basis.

Scrap is valued at net realisable value.

iv) Contracts for furnace construction:

Provision is made for estimated foreseeable future losses on contracts for furnace construction based on revenue and the estimated total costs of the contracts.

v) Foreign Currency Transactions:

Transactions in foreign exchange are accounted at current rates. All assets and liabilities denominated in foreign currency are restated at relevant year end rates. Exchange gains or losses realised and arising due to translations of long-term loans/ liabilities relating to acquisition of imported fixed assets are treated as adjustments to the carrying cost of such fixed assets. All other exchange differences are accounted for in the profit and loss account except in case of transactions covered by forward exchange contracts where premium or discounts are amortised as expense or income over the life of the contract.

vi) Revenue recognition:

Sales/ Processing charges of Automotive Gears & Gearboxes are accounted on the basis of actual despatches to the customers.

Revenue from contracts for construction of furnaces is recognized on the percentage of completion method based on the stage of completion determined with reference to the contract costs incurred upto the year end and the estimated total costs of the contracts.

Net income, if any, from development of tools is recognised as income as and when the tools are sold in terms of respective contracts/ supply under the contract is completed/ on the expiry of commercially useful life of tools/ on expiry of five years from completion of development, whichever is earliest.

vii) Amortisation of Miscellaneous Expenditure:

Payments made to employees who left under Voluntary Retirement Scheme / Early Retirement Scheme are amortised over a period of 5 years from the year in which the liability accrues.

Share issues expenses are amortised over a period of 5 years from the year in which the shares are issued.



viii) Retirement benefits:

The company has various schemes of retirement benefits such as Provident Fund, Superannuation Fund and Gratuity Fund duly recognised by Income Tax authorities and the Company's contributions are charged against revenue every year. Provision for leave encashment is made on the basis of actuarial valuation done based on the data as at 1st January by an independent actuary.

ix) Taxation:

Current tax is determined as the amount of tax payable in respect of taxable income for the period.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

Deferred tax assets are recognised on unabsorbed depreciation and carry forward of losses only to the extent that there are timing differences, the reversal of which will result in sufficient income or there is virtual certainty that sufficient taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date.

Minimum Alternative Tax (MAT) credit asset are recognized only when and to the extent there is convincing evidence that the company will pay normal Income Tax during the specified period. The carrying amount of MAT credit asset is reviewed at each Balance Sheet date.

2. i) The amount of net exchange loss included in the profit and loss account for the year - Rs. 13.11 lacs; (previous year: Rs.18.02 lacs).
- ii) The amount of net exchange loss, which has been added to the cost of relevant plant and machinery, is Rs. 1.97 lacs; (previous year: Rs.7.20 lacs).

3. i) Managerial remuneration:

(a) Chairman & Managing Director:

	Rs. in lacs Year Ended 31st March, 2006	Rs. in lacs Year Ended 31st March, 2005
- Salary	42.00	30.00
- Contribution to provident and other funds	13.40	8.47
- Monetary value of perquisites (*)	13.96	11.62
	<u>69.36</u>	<u>50.09</u>

(b) Executive Director

- Salary	10.20	9.60
- Contribution to provident and other funds	3.60	2.71
- Monetary value of perquisites (*)	8.70	8.12
	<u>22.50</u>	<u>20.43</u>

*Excludes provision for leave encashment which is made based on the actuarial valuation done for the Company on an overall basis.

- ii) Directors sitting fees: **0.74** 0.56

4. Contingent liabilities not provided for:

- A. In respect of bills discounted Rs. 635.35 lacs; (previous year: Rs.668.50 lacs)
- B. *In respect of claims against the company not acknowledged as debt (Sales tax, ESIC) Rs.13.43 lacs; (previous year Rs.16.48 lacs) against which the Company's appeal are pending with the relevant appellate authorities.
- C. *In respect of Income tax for assessment years 1994-95, 1995-96,1998-99 and 1999-00 mainly on account of disallowance of expenditure on reconditioning of machinery - Rs.66.90 lacs; (previous year: Rs.66.90 lacs). In respect of AY 1994-95 the Company's appeal against ITAT order is pending with High Court and for other assessment years the amount of contingent liability is estimated by the Company.
- D. In respect of guarantee given to Housing Development Finance Corporation Limited for loans availed by employees Rs. 8.74 lacs; (previous year: Rs. 15.76 lacs)

* Future outflow of resources embodying economic benefits in respect of these matters is uncertain.

BHARAT GEARS LIMITED

5. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs. 166.37 lacs (including for intangible assets Rs. 38.50 lacs); (previous year: Rs 15.64 lacs)
6. Quantitative information for each class of goods manufactured/ traded and for furnaces built and sold:

	<u>Units</u>	<u>Licensed</u>	<u>Year Ended</u>			
			<u>31st March, 2006</u>	<u>31st March, 2005</u>		
			<u>Installed</u>	<u>Licensed</u>	<u>Installed</u>	
(i) Manufactured Goods:						
Capacities:						
Automotive gears	Tonnes	4000	10594	4000	10594	
Industrial furnaces	Nos.	20	20	20	20	
Gear box	Nos.	10000	2500	10000	2500	
Production:						
Automotive gears	Nos.		2432508		2198585	
Furnaces built	Nos.		4		1	
Gear boxes	Nos.		Nil		Nil	
			<u>Year Ended</u>	<u>Year Ended</u>		
			<u>31st March, 2006</u>	<u>31st March, 2005</u>		
			<u>Unit</u>	<u>Rs. lacs</u>	<u>Unit</u>	<u>Rs. lacs</u>
			<u>(Nos.)</u>		<u>(Nos.)</u>	
<hr/>						
- Opening stock:						
Automotive gears		122284	435.73	74007	363.61	
Gear boxes		-	-	29	Nil	
			435.73		363.61	
<hr/>						
- Sales:						
Automotive gears #		2484479	15312.42	2150308	13891.61	
Industrial furnaces (\$)		4	347.68	1	74.53	
Gear boxes		-	Nil	29	Nil	
Tooling Development			248.28		178.19	
Others			155.32		222.46	
			16063.70		14366.79	
<hr/>						
- Closing stock:						
Automotive gears		70313	349.75	122284	435.73	
Gear boxes		-	Nil	-	Nil	
			349.75		435.73	

Includes processing charges Rs. 2382.03 lacs; 443460 nos. (previous year: Rs. 2146.14 lacs; 369801 nos.)

\$ Quantity represents furnaces built during the year. Revenue from contracts is recognised as stated in note 1 (vi) above.

	<u>Unit</u>	<u>Rs. lacs</u>	<u>Year Ended</u>	
			<u>31st March, 2006</u>	<u>31st March, 2005</u>
	<u>(Nos.)</u>		<u>Unit</u>	<u>Rs. lacs</u>
			<u>(Nos.)</u>	
(ii) Traded goods:				
Automotive gears:				
Opening stock	858	4.91	2550	2.12
Purchases	42314	216.37	23049	55.77
Sales	39838	254.20	24741	72.87
Closing stock	3334	13.45	858	4.91



(iii) Consumption of raw materials and components:

	Year Ended 31st March, 2006			Year Ended 31st March, 2005	
	Unit	Qty	Value (Rs. lacs)	Qty	Value (Rs. lacs)
Forgings	Nos.	2730639	5990.90	2397333	5381.35
Others			318.28		174.57
			6309.18		5555.92

- a) As the raw materials used in the manufacture of automotive gears either purchased by the Company or supplied by the customers are identical and as the opening and closing stocks of finished goods and production cannot be accordingly identified, the respective quantitative details of consumption of raw materials, opening and closing stocks, production cannot be separately disclosed and have, therefore, been included in the respective figures above.
- b) The quantities of actual production and sales include free replacements and insurance claims and are net of quantities received back at factory for re-work.
- c) The figures of actual production, sales, consumption of forgings, opening and closing stocks of finished goods are given in numbers which include numbers of finished goods/ forgings of different sizes.
- d) The installed capacity is as certified by the management but not verified by the auditors, as this is a technical matter.

7. Value of imported and indigenous materials consumed and the percentage of each to the total consumption thereof:

	Year Ended 31st March, 2006		Year Ended 31st March, 2005	
	%	Value	%	Value
Imported:				
- Raw materials and components	0.07	4.34	0.18	9.97
- Loose tools, stores & spare parts	8.93	128.88	7.96	99.49
Indigenous:				
- Raw materials and components	99.93	6304.84	99.82	5545.95
- Loose tools, stores & spare parts	91.07	1314.94	92.04	1149.63

8. CIF Value of imports:

	Year Ended 31st March, 2006		Year Ended 31st March, 2005	
- Raw materials and components		3.22		7.00
- Loose tools, stores & spare parts		169.83		95.80
- Capital goods		152.85		Nil

9. Expenditure in foreign currency:

- Foreign travel	25.78	14.52
- Commission	0.34	7.06
- Royalty (includes tax deductible at source)	16.93	9.40
- Interest on foreign currency loans (includes tax deductible at source)	91.61	30.89
- Others (exchange loss etc.)	37.58	28.01

10. Earnings in foreign exchange:

- Export of goods on F.O.B. basis	1921.81	1311.57
- Tooling development income	42.42	Nil
- Others (Freight, insurance, exchange gain etc.)	124.36	119.41

BHARAT GEARS LIMITED

11. Miscellaneous expenses include:

	Year Ended 31st March, 2006	(Rs. in lacs) Year Ended 31st March, 2005
Auditor's Remuneration(Includes service tax, where applicable)		
i) Audit fees	11.22	10.47
ii) Fees for other services:		
- for company law matters	0.17	0.16
- others	6.61	4.20
iii) Reimbursement of out of pocket expenses	0.38	0.24

The above excludes following remuneration paid to Auditors towards proposed rights issue, included under Miscellaneous expenditure (to the extent not written off or adjusted) referred to in note 15 (b) below.

Fees for other services:		
- for taxation matters	0.25	Nil
- others	5.51	Nil

12. Income from service rendered Rs. 95.86 lacs; (previous year: Rs.159.48 lacs) is included in sales and processing charges and Rs. 23.70 lacs; (previous year: Rs. 54.69 lacs) is included in Miscellaneous income in Schedule-12.
13. The names of the small scale industrial undertakings to whom the Company owes a sum which is outstanding for more than 30 days as at the year end are as follows:

As on 31st March, 2006	As on 31st March, 2005
Sr.No Name of the Party	Sr. No Name of the Party
1 Accurate Engineering Co. Pvt. Limited	1 Accurate Engineering Co. Pvt. Ltd.
2 B. H. Enterprises	2 B. H. Enterprises
3 CNC Engineers	3 CNC Engineers
4 Coro Chem	4 Coro Chem
5 Corrogard Chemicals	5 Corrogard Chemicals
6 Delite Plastics	6 Del Gears Ltd.
7 Dipti Corrugating Industries	7 Delite Plastics
8 Del Gears Ltd	8 Four Star Industries
9 Enopeck Seals (India)	9 Macwell Engineering Company
10 Four Star Industries	10 Naya Plast & Metal Works
11 Leonine Engineers Pvt Ltd	11 Patankar Winding Works
12 Lubstar Petrochem Industries	12 Precomp Tools Pvt. Ltd.
13 Naya Plast & Metal Works	13 Pack O Pack
14 Nirupam Engineers Pvt Ltd.	14 Raskin Sales & Services
15 Pranam Packing Industries	15 Sushil Traders
16 PCP Chemicals Pvt Ltd	16 Tashi Technology Pvt. Ltd.
17 Pack O Pack	17 Thermoshell Industries
18 Protochem Industries Pvt Ltd	18 Worth Engineering
19 Precihole Machine Tools Pvt Ltd	
20 Sushil Traders	
21 Tashi Technology Pvt Ltd	
22 Unity Engineering	
23 Vee Gee Electronics	
24 Worth Engineering	

The above information and that disclosed in Schedule-10 'Current Liabilities' regarding small scale industrial undertakings has been compiled by the Company on the basis of details regarding the status of the party available with the Company. This has been relied upon by the auditors.



14. Security deposits in Schedule 9 - 'Loans and advances' include Rs.5 lacs; (previous year: Rs. 5 lacs) due from a private limited company, in which a Director of the Company is a Director.
15. Miscellaneous expenditure to the extent not written off of Rs. 160.97 lacs (previous year: Rs. 167.02 lacs) shown in the Balance Sheet is arrived as under:

	Year Ended 31st March, 2006	(Rs. lacs) Year Ended 31st March, 2005
(a) Balance brought forward	167.02	179.74
Payments made to employees under the Voluntary Retirement Scheme	96.36	80.67
Less: Amortised during the year (Included in Salaries, wages and bonus under Schedule - 15)	112.66	93.39
Balance at the end of the year	<u>150.72</u>	<u>167.02</u>
(b) Share Issue expenses	10.25	Nil
Balance brought forward	Nil	Nil
Less : Amortised during the year(Included in Miscellaneous expenses under Schedule - 16)	Nil	Nil
Balance at the end of the year	<u>10.25</u>	<u>Nil</u>
Total	<u>160.97</u>	<u>167.02</u>

16. The Company is primarily engaged in the Automotive Gears business. As such there is no other separate reportable segment as defined by Accounting Standard - 17 " Segment Reporting" issued by the Institute of Chartered Accountants of India.

17. Related Party Disclosures

- (i) Related parties with whom the Company had transactions during the year:

- (a) Enterprises over which key management personnel is able to exercise significant influence:

Bharat Gears Officers Provident Fund (BGOPF)
 Cliplok Simpak (India) Pvt. Ltd. (CSIPL)
 Raunaq International Ltd. (RIL)
 Vibrant Finance & Investments Pvt. Ltd. (VFIPL)
 Ultra Consultants Pvt. Ltd. (UCPL)

- (b) The investing company of which the Company is an associate
 ZF Friedrichshafen AG, Germany (ZF)

- (c) Key Management Personnel:

Mr. Surinder P. Kanwar (SPK) - Chairman and Managing Director (who also has ability to exercise 'significant influence' over the Company)

Mr. Sameer S. Kanwar (SSK) - Executive Director (son of Chairman and Managing Director of the Company)

- (ii) Transactions with the related parties during the year ended 31st March, 2006

(Rs. in lacs)

	Enterprises over which key management personnel is able to exercise significant influence	
	2005-2006	2004-2005
Rent & other expenses (VFIPL)	10.20	10.20
Rent income (RIL)	0.66	0.66
Building repair expenses (RIL)	28.52	24.50
Purchases of packing material (CSIPL)	6.18	1.32
Contribution to Provident Fund (BGOPF)	10.43	10.32
Construction of water tank (RIL)	1.14	0.50

BHARAT GEARS LIMITED

	The investing company of which the Company is an associate	
	2005-2006	2004-2005
Interest accrued on foreign currency loan	10.96	11.50

Key Management Personnel:

Remuneration - Refer note 3 (i) of Schedule 19 to the accounts.

(iii) Balances outstanding as at the year end:

(Rs. in lacs)

	Amount payable as at 31st March, 2006	Amount payable as at 31st March, 2005	Amount Receivable as at 31st, March 2006	Amount Receivable as at 31st, March 2005
Enterprises over which key management personnel is able to exercise significant influence	49.92	57.63	Nil	0.43
The investing company of which the Company is an associate	242.26	245.33	Nil	Nil
Key Management Personnel	75.34	57.87	Nil	Nil

(iv) No amounts have been written off / provided for or written back during the year in respect of amounts receivable from or payable to the related parties.

18. (I) Disclosures as per Accounting Standard - 19 on "Leases", in respect of formal agreements entered into for assets taken on lease during accounting periods commencing on or after 1st April, 2001:

(A) Finance Lease:

(i) The net carrying amount as at 31st March, 2006 for assets acquired under finance lease.



Refer Schedule 5- Fixed Assets

(ii) The maturity profile of finance lease obligations is as follows:

(Rs. in lacs)

	Total minimum lease payments outstanding as at 31st March, 2006	Interest not due	Present value of minimum lease payments
Not later than one year	16.25 (9.08)	4.97 (2.26)	11.28 (6.82)
Later than one year but not later than five years	57.26 (20.82)	9.38 (2.96)	47.88 (17.86)
Total	73.51 (29.90)	14.35 (5.22)	59.16 (24.68)

Figures in brackets are for the previous year.

(iii) General description of these agreements:

Some of these agreements contain renewal clause.

There are no restrictions such as those concerning dividends, additional debt and further leasing imposed by the lease agreements entered into by the Company.



(B) Operating Lease:

(i) Lease payments recognised in the Profit and Loss account for the year are as follows:

	Year Ended 31st March, 2006	(Rs. in lacs) Year Ended 31st March, 2005
Residential flats / offices / godowns	18.38	18.51

(ii) Most of the agreements contain renewal clause and provide for escalation of rent of about 5% on renewal.

(II) Disclosure as regards the assets taken on lease on or before 31st March, 2001:

(Rs. in lacs)

Sr.No	Nature of leased assets	Rental for the year	Future rental obligation
1	Plant & Machinery	7.68 (14.37)	Nil (7.98)
2	Vehicles	3.53 (5.98)	Nil (3.54)
	Total	11.21 (20.35)	Nil (11.52)

Figures in brackets are for the previous year.

19. Earnings per share as disclosed in the profit and loss account is computed based on the following figures:

	Year Ended 31st March, 2006	(Rs. in lacs) Year Ended 31st March, 2005
Profit after tax as per profit and loss account	398.01	436.15
Add: Dividend on Cumulative Preference shares (including tax on distributed profits Rs. 5.03 lacs; previous year Rs. 4.69 lacs)	(40.88)	(40.54)
Profit attributable to equity shareholders	357.13	395.61
Weighted average number of equity shares outstanding during the year	60,13,718	60,13,718
Basic and diluted earnings per share (face value- Rs. 10 per share)	Rs.5.94	Rs. 6.58

20. Taxes on income:

Components of deferred tax balances:

	Year Ended 31st March, 2006	(Rs. in lacs) Year Ended 31st March, 2005
Deferred tax liabilities		
On fiscal allowances on fixed assets	(950.22)	(1218.18)
On other items	(10.49)	(10.77)
	(960.71)	(1228.95)
Deferred tax assets		
On unabsorbed depreciation and carry forward of losses	767.73	965.19
On interest funding	187.18	260.47
On other items	5.80	3.29
	960.71	1228.95

BHARAT GEARS LIMITED

21. Disclosures for long term contracts (including contracts entered into before 1st April, 2003)

	Year Ended 31st March, 2006	(Rs. in lacs) Year Ended 31st March, 2005
Contract revenue recognised during the year	503.00	296.99
Method used to determine contract revenue and the stage of completion of contracts in progress	Refer note 1(vi)	Refer note 1(vi)
Disclosure in respect of contracts in progress as at the year end		
- aggregate amounts of costs incurred and recognized profits	7.80	107.55
- the gross amount due from customers for contract work (included under Sundry Debtors- Schedule 7)	7.80	77.25
- the gross amount due to customer for contract work	Nil	Nil
- the amount of advance received	30.00	72.31
- retention (included under Sundry Debtors - Schedule 7)	Nil	9.09

22. Arrears of dividend on cumulative preference shares - Rs.145.67 lacs (previous year: Rs. 109.82 lacs).

In addition to above, in respect of certain subscription agreements for preference shares, in the event of withdrawal of benefit available for exemption of tax on dividend income under section 10 (33) of the Income Tax Act, 1961, the company has to pay dividend at a rate 7.00% higher than the coupon rate from the date of withdrawal till the date of redemption. Further, in case of default on payment of dividend, 2% per annum over and above the normal coupon rate payable from the date of default till the date of actual payment.

23. Disclosures in pursuance of the Accounting Standard 29 " Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India.

(Rs. in lacs)

Provision for warranties	2005 - 2006	2004 - 2005
Carrying amount at the beginning of the year	2.73	4.46
Additional provision made during the year	6.42	2.73
Amount used during the current year	(2.12)	(0.15)
Unused amount reversed during the year	(0.61)	(4.31)
Carrying amount at the end of the year	6.42	2.73

Provision for warranty is made for the estimated amount of expenditure which may be incurred during the warranty period of twelve months after successful commissioning of the furnace.

24. Previous years figures have been regrouped wherever necessary.

SURINDER P. KANWAR
Chairman and Managing Director

SAMEER KANWAR
Executive Director-Strategic Planning

RAM S. TARNEJA
N. J. KAMATH
V. K. PARGAL
W. R. SCHILHA
A. F. HARTMANN
Directors

ASHISH PANDEY
*Group Leader (Legal)
& Company Secretary*

MILIND PUJARI
Financial Controller

Place : Mumbai
Date : 23rd May, 2006



25. STATEMENT AS REQUIRED BY PART IV OF SCHEDULE VI TO COMPANIES ACT,1956.

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

Registration No. :

	3	4	3	6	5
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 State Code :

0	5
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Balance Sheet Date :

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Date Month Year

II. CAPITAL RAISED DURING THE YEAR (Amount in Rs. Thousands)

Public Issue :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

 Rights Issue :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

Bonus Issue :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

 Private Placement :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amounts in Rs. Thousands)

Total Liabilities :

1	1	1	8	8	3	6	*		
---	---	---	---	---	---	---	---	--	--

 Total Assets :

1	1	1	8	8	3	6	*	*	
---	---	---	---	---	---	---	---	---	--

* Excludes Current Liabilities - 437850
** Net of Current Liabilities - 437850

SOURCES OF FUNDS :

Paid - up Capital :

9	5	9	8	7					
---	---	---	---	---	--	--	--	--	--

 Reserves & Surplus :

1	5	3	8	6	2				
---	---	---	---	---	---	--	--	--	--

Secured Loans :

7	6	2	9	0	0	*			
---	---	---	---	---	---	---	--	--	--

 Unsecured Loans :

1	0	0	1	6					
---	---	---	---	---	--	--	--	--	--

* includes Finance Lease - 6168

Deferred tax liability :

9	6	0	7	1					
---	---	---	---	---	--	--	--	--	--

APPLICATION OF FUNDS :

Net Fixed Assets :

6	9	3	2	7	2				
---	---	---	---	---	---	--	--	--	--

 Investments :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

Net Current assets :

3	1	3	3	9	6				
---	---	---	---	---	---	--	--	--	--

 Misc. Expenditure :

1	6	0	9	7					
---	---	---	---	---	--	--	--	--	--

Accumulated Losses :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

 Deferred tax assets :

9	6	0	7	1					
---	---	---	---	---	--	--	--	--	--

IV. PERFORMANCE OF THE COMPANY (Amount in Rs. Thousands)

Turnover :

1	9	1	1	5	7	5	*		
---	---	---	---	---	---	---	---	--	--

 Total Expenditure :

1	8	6	2	8	7	4			
---	---	---	---	---	---	---	--	--	--

* Includes other income -

4	5	1	2	7					
---	---	---	---	---	--	--	--	--	--

Profit before tax :

4	8	7	0	1					
---	---	---	---	---	--	--	--	--	--

 Profit after tax :

3	9	8	0	1					
---	---	---	---	---	--	--	--	--	--

Earning Per Share (Rs.) :

5	.	9	4						
---	---	---	---	--	--	--	--	--	--

 Dividend Rate % : Equity

Preference :

			N	I	L				
--	--	--	---	---	---	--	--	--	--

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS OF COMPANY :

Item code No. :

8	7	0	8	9	9	0	0												
---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--

Product Description :

A	U	T	O	M	O	T	I	V	E	G	E	A	R	S						
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--

Item code No. :

8	7	0	8	4	0	0	0													
---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--

Product Description :

G	E	A	R	B	O	X														
---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Item code No. :

8	4	1	7	1	0	0	0													
---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--

Product Description :

I	N	D	U	S	T	R	I	A	L	F	U	R	N	A	C	E					
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--	--

For and on behalf of the Board of Directors
SURINDER P. KANWAR
Chairman and Managing Director

SAMEER KANWAR
Executive Director-Strategic Planning

RAM S. TARNEJA
N. J. KAMATH
V. K. PARGAL
W. R. SCHILHA
A. F. HARTMANN
Directors

Place : Mumbai
Date : 23rd May, 2006

ASHISH PANDEY
Group Leader (Legal)
& Company Secretary

MILIND PUJARI
Financial Controller

PROFORMA FOR UPDATION OF SHAREHOLDER'S INFORMATION

Folio No. No of Equity Shares Specimen Signature (As per application/Transfer Deed)

Name(s)

First Holder _____

Occupation

Jt. Holder 1 _____

Jt. Holder 2 _____

Address

(In Case of Joint Holding, all the Joint Holders to sign)

Pin Code

Cert. Nos.

FROM
Dist. Nos.

FROM

TO

TO

NOTE : 1. IN CASE THE SPACE IS NOT SUFFICIENT PLEASE ATTACH A SEPARATE SHEET.
2. THE ABOVE PROFORMA MAY BE FILLED AND RETURNED EVEN IF THERE IS NO CHANGE IN THE PARTICULARS.

"FORM 2B"

NOMINATION FORM

(To be filled in by the individual applying singly or jointly)
(if jointly only upto two persons)

I/We.....and.....the holders of.....equity shares against Folio No..... bearing Certificate number(s) from.....to.....and distinctive number from.....to.....of M/s Bharat Gears Limited wish to make a nomination and do hereby nominate the following person in whom all rights of transfer and or amount payable in respect of the said shares shall vest in the event of my/our death.

Name and Address of nominee
(Please write in block letters)

Name																				
Father's/Husband Name																				
Occupation																				
Address																				
Date of Birth*																				

(*to be furnished in case the nominee is a minor)
**The Nominee is a minor whose guardian is :

Name																				
Address																				

(**To be deleted if not applicable)

Specimen Signature of Nominee/Guardian : _____

Signature :	Signature :
Name :	Name :
Address :	Address :
Date :	Date :

Signature of two witnesses
Name and Address Signature with date

- 1.
- 2.



BHARAT GEARS LIMITED

Registered Office : 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad - 121 003 (Haryana).
34TH ANNUAL GENERAL MEETING
ATTENDANCE SLIP

Please complete this attendance slip and hand it over at the entrance of the Meeting Hall

Name of the Member
(in Block Letters)

Name of Proxy, if any
(in Block Letters)

Regd. Folio No./Demat A/c No. DP ID No.

No. of shares held

I hereby record my presence at the 34th Annual General Meeting of the Company on Friday 21st July, 2006 at 11.30 A.M. at MUNICIPAL AUDITORIUM, N.I.T. FARIDABAD-121 001 (HARYANA).

Signature of the Proxy..... Signature of the Member.....

- Note :
1. Members/Proxy holders are requested to bring this Attendance Slip duly filed in and signed with them when they come to the meeting and hand it over at the entrance of the Meeting Hall.
NO ATTENDANCE SLIP WILL BE ISSUED AT THE TIME OF MEETING.
 2. No briefcase, bag etc. shall be allowed inside the Meeting Hall.
 3. Please bring your copy of the Annual Report to the meeting
 4. The meeting is of members only and you are requested not to bring with you any person who is not a member or a Proxy.

NOTE : NO GIFTS / GIFT COUPONS SHALL BE DISTRIBUTED AT THE MEETING



BHARAT GEARS LIMITED

Registered Office : 20 K.M. Mathura Road, P.O. Amar Nagar, Faridabad - 121 003 (Haryana).

PROXY FORM

I/We
of

.....being member(s) of BHARAT GEARS LIMITED

hereby appoint

of

or failing him/her

of

as my/our Proxy to vote for me/us and on my/our behalf at the 34th Annual General Meeting of the Company to be held on Friday 21st July, 2006 at 11.30 A.M. at MUNICIPAL AUDITORIUM, N.I.T. FARIDABAD-121 001 (HARYANA) and at any adjournment thereof.

AS WITNESS my/our hand(s) this.....day of.....2006.

Signature (s).....

Revenue
Stamp

Regd. Folio No. Demat A/c No. DP ID No.

- Note :
1. The Proxy need not be a member
 2. The Proxy must be returned so as to reach the Registered Office of the Company not less than 48 hours before the time for holding the aforesaid meeting.

NOTE : NO GIFTS / GIFT COUPONS SHALL BE DISTRIBUTED AT THE MEETING

