

LETTER OF OFFER*(Private & Confidential)**For Equity Shareholders of the Company Only*

L.G.Balakrishnan & Bros Ltd.

(Originally incorporated as L.G.Balakrishna & Bros. Private Limited on 24/03/1956 and subsequently converted into Public Limited company on 15/01/1975.

Registered Office : 6/16/13, Krishnanrayapuram Road, Ganapathy, Coimbatore – 641 006.

Tel : +91 422 253 2325, Fax : +91 422 253 2333

E-mail: rightissue@lgb.co.in , Website: www.lgb.co.in ;

Contact Person : Mr. M. Lakshmi Kanth Joshi, Compliance Officer

ISSUE OF 93,48,782 1% SECURED OPTIONALLY CONVERTIBLE BONDS (“Bonds”) OF Rs. 101/- EACH DUE 2013 FOR CASH AT PAR AGGREGATING RS. 9,447.27 LACS ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF ONE BOND FOR EVERY NINE EQUITY SHARES (i.e. 1:9) OF RE. 1/- EACH, HELD ON [●] (i.e. THE RECORD DATE)

GENERAL RISKS

Investment in Equity and Equity related securities involve a degree of risk and investors should not invest any funds in this issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Issuer and the Issue including the risks involved. The securities have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or the adequacy of this document.

The attention of investors is drawn to the statement of Risk Factors beginning on page vi of this Letter of Offer.

ISSUER’S ABSOLUTE RESPONSIBILITY

The Issuer, having made all reasonable inquiries, accepts responsibility for, and confirms that this Letter of Offer contains all information with regard to the Issuer and the Issue, which is material in context of the Issue, that the information contained in this Letter of Offer is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions, expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

CREDIT RATING

The 1% Secured Optionally Convertible Bonds being offered through this Letter of Offer have been rated by:

- ICRA as LA
- FITCH as A(ind)

For details of rating please refer to page 11 of this Letter of Offer.

LISTING

The existing Equity Shares of the Company are listed on Bombay Stock Exchange Limited (“BSE”), The National Stock Exchange of India Limited (“NSE”), Coimbatore Stock Exchange Ltd. (CoSE) and the Madras Stock Exchange Limited (“MSE”). The Company has received “in principle” approvals from BSE, NSE, CoSE and the MSE for listing the Optionally Convertible Bonds (“Bonds”) issued on rights basis and the Equity Shares that will arise out of conversion of the Bonds at the option of the bondholder, vide letters dated [●], [●],[●] and [●], respectively. The Designated Stock Exchange for the Issue is BSE.

LEAD MANAGER TO THE ISSUE**KEYNOTE**

CORPORATE SERVICES LTD

KEYNOTE CORPORATE SERVICES LTD.

307, Regent Chambers,

Nariman Point, Mumbai – 400 021.

Tel. : (022) 2202 5230 Fax : (022) 2283 5467

E-mail: lgb@keynoteindia.netWebsite: www.keynoteindia.net

SEBI Regn. No.: INM 000003606

REGISTRAR TO THE ISSUE**CAMEO CORPORATE SERVICES LTD.**

‘Subramanian Building’,

No.1, Club House Road,

Chennai – 600 002.

Tel.: (044) 2846 0390 Fax : (044) 2846 0129

E-mail: cameo@cameoindia.comWebsite: www.cameoindia.com

SEBI Regn. No.: INR000003753

ISSUE OPENS ON

[●]

**LAST DATE FOR RECEIVING
REQUESTS FOR SPLIT FORMS**

[●]

ISSUE CLOSES ON

[●]

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I. DEFINITIONS/ABBREVIATIONS

Term	Description
“LGB”, “the Company”, “our Company”, “we” or “us”	Unless the context otherwise requires, refers to L. G. Balkrishna Bros. Limited, a public limited company incorporated under the Companies Act, having its registered office at 6/16/13, Krishnanrayapuram Road, Ganapathy, Coimbatore – 641006.

Conventional / General Terms

Term	Description
Act/ Companies Act	The Companies Act, 1956, as amended from time to time
Articles	Articles of Association of the Company
Auditor	Statutory auditors of the Company, being M/s. Deloitte Haskins & Sells, Chartered Accountants
Board or Board of Directors	Board of Directors of the Company
Capital or Share Capital	Share capital of the Company, as on a specific date
Equity Share(s) or Share(s)	Means the Equity Share(s) of the Company having a face value of Re. 1/-, each fully paid-up
Equity Shareholder(s)/ Shareholders	Means the holder of Equity Share(s)
fiscal / Fiscal	Financial Year ending March 31, unless otherwise specified
Income Tax Act	The Income Tax Act, 1961 and amendments thereto
Memorandum	Memorandum of Association of the Company
SEBI Act, 1992	The Securities and Exchange Board of India Act, 1992, as amended from time to time
SEBI DIP Guidelines	The SEBI (Disclosure and Investor Protection) Guidelines, 2000, as amended
Stock Exchanges	BSE, NSE, CoSE and MSE, individually or collectively, as the context may require
Takeover Code	The SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as amended from time to time

Bond Related Terms

Term	Description
Bond	1% Secured Optionally Convertible Bonds of face value Rs. 101/- due for redemption in 2013.
Rate of Interest on the Bonds	The interest rate payable on the Bonds will be 1% p.a. to be serviced semi-annually.
Final Maturity of the Bonds	7 years from the issue date
Conversion Right to Bond holders	The Bonds are convertible at the option of the Bondholders into Equity Shares at the Conversion Price at any time on or after the first month from the Issue Date of the Bonds and prior to the close of business (at the place the Bond is deposited for conversion) on a month prior to the Final Maturity Date of the Bonds, unless previously converted by the Bondholder, or redeemed and cancelled by the Company.
Redemption at Maturity of the Bonds	Unless previously converted by the Bondholder or redeemed and cancelled by the Company, the Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5 th year from the Issue Date of the Bonds. The premium payable on the Bonds will be calculated at an effective yield of 9.75% p.a.

Reference Price	The Reference Price, to be calculated by the Calculation Agent on the last working day of every month to be used as a Reference Price in the subsequent month, will be the average of the daily closing prices of the Equity Shares as quoted on the stock exchange where the Equity Shares of the company are most frequently traded during the month of calculation of the Reference Price.
Calculation Agent	ICICI Bank Limited, being the Calculation Agent, shall on the last working day of every month announce the Reference Price for the subsequent month. The notices received for conversion from the Bondholders in the subsequent month will be governed by the aforesaid announced Reference Price and the allotment and subsequent listing of equity shares shall commence from the last working day of the subsequent month. The same day shall be the last day for the computation of interest payable on the Bonds on which conversion option is exercised. The Calculation Agent shall announce the Conversion Price and Reference Price of the Bonds every month through such media including the Company's website as specified by the applicable law.
Put Option to Bondholders	Any time after three years from the date of issue, the Bondholders shall have an option to get their bonds redeemed. The redemption will be at such a yield as specified in "Redemption at Maturity of the Bonds".
Call Option to the Company	Any time after three years from the date of issue, the Company shall have an option to redeem the Bonds. The redemption will be at such a yield as specified in "Redemption at Maturity of the Bonds".

Issue Related Terms

Term	Description
BSE	Bombay Stock Exchange Limited
CAF	Composite Application Form
Consolidated Certificate	In case of multiple physical shares, the Company would issue one consolidated certificate for the Bonds allotted to one folio
CoSE	Coimbatore Stock Exchange
Credit Rating Agencies	ICRA & FITCH
Date of Allotment	Shall mean the date on which the Bonds are allotted to Shareholders/Investors
Debenture Trustee	IDBI Trusteeship Services Ltd.
Designated Stock Exchange	The designated stock exchange for the Issue is BSE
Letter of Offer	Letter of Offer filed with SEBI for its comments
Investor(s)	Shall mean the holder(s) of Equity Shares of the Company as on the Record Date, i.e. [●] and Renounees, who are eligible to apply for and receive their Rights Entitlement, subject to applicable law
Issue	Issue of 93,48,782 1% Secured Optionally Convertible Bonds (Bonds) of Rs. 101/- each for cash at par aggregating Rs. 9,447.27 Lacs on rights basis to the existing Equity Shareholders of the Company in the ratio of one Bond for every Nine Equity Shares of Re. 1/- each, held on the Record Date
Issue Closing Date	[●]
Issue Opening Date	[●]
Issue Price	Rs. 101/- per Bond
Lead Manager or Keynote	Keynote Corporate Services Limited
Letter of Offer	This Letter of Offer dated [●], filed with the Stock Exchanges, after receiving and incorporating the observations by SEBI on the Letter of Offer
MSE	Madras Stock Exchange
NSE	National Stock Exchange of India Limited
Registrar to the Issue or Registrar	Cameo Corporate Services Limited

Renouncees	Shall mean the persons who have acquired Rights Entitlements from Equity Shareholders
Rights Entitlement	The number of Bonds that a shareholder is entitled to, on the basis of the ratio decided, in proportion to his/her shareholding in the Company as on the Record Date

Abbreviations

Term	Description
AS	Accounting Standard, issued from time to time by the Institute of Chartered Accountants of India
BSE	Bombay Stock Exchange Limited
CDSL	Central Depository Services (India) Limited
DP	Depository Participant
EGM	Extraordinary General Meeting
FEMA	Foreign Exchange Management Act, 1999
FII(s)	Foreign Institutional Investors registered with SEBI under applicable laws
FITCH	FitchRatings India Private Limited
HUF	Hindu Undivided Family
ICRA	ICRA Limited
MSE	Madras Stock Exchange Limited
NRI(s)	Non Resident Indian(s)
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OCB	Overseas Corporate Bodies
RBI	The Reserve Bank of India
SEBI	Securities and Exchange Board of India
Sq. ft.	Square feet

Company/Industry Related Terms

Term	Description
CAD	Computer Aided Design
CAM	Computer Assisted Manufacturing
Die	A tool used to form metal into various shapes
EPCG	Export Promotion Capital Goods Scheme
EXIM	Export – Import
OEM	Original Equipment Manufacturer
SEZ	Special Economic Zone

II. RISK FACTORS

CERTAIN CONVENTIONS, USE OF MARKET DATA

In this Letter of Offer, the terms “we”, “us”, “our”, the “Company”, “our Company”, “LGB Limited” unless the context otherwise indicates or implies, refers to LG Balakrishnan & Bros. Limited. In this Letter of Offer, unless the context otherwise requires, all references to one gender also refers to another gender and the word “Lac” means “one hundred thousand”, the word “million (mn)” means “ten lacs”, the word “Crore” means “ten million” and the word “billion (bn)” means “one hundred crores”. In this Letter of Offer, any discrepancies in any table between total and the sum of the amounts listed are due to rounding-off.

In the Letter of Offer unless the context otherwise requires all references to “Rs.” and Indian Rupees” are to the legal currency of the Republic of India.

In this Letter of Offer, unless the context otherwise requires, unless stated otherwise, the financial data in this Letter of Offer is derived from our financial statements prepared and restated in accordance with Indian GAAP, the Companies Act and SEBI Guidelines included elsewhere in this Letter of Offer. In this Letter of Offer, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off.

Industry data used throughout this Letter of Offer has been obtained from industry publications and other authenticated published data. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that industry data used in this Letter of Offer is reliable, it has not been independently verified. Similarly, internal Company reports, while believed by us to be reliable, have not been verified by any independent sources

For additional definitions, please refer to the section titled ‘Definitions and Abbreviations’ on page iii of this Letter of Offer.

FORWARD-LOOKING STATEMENTS

We have included statements in this Letter of Offer which contain words or phrases such as “will”, “propose”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “plan”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions, that are “forward-looking statements”.

Actual results may differ materially from those suggested by the forward-looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to:

- Regulatory changes relating to the auto-components industry in India and our ability to respond to them;
- Our ability to successfully implement our strategy;
- Our growth and expansion, technological changes;
- Our exposure to market risks, general economic and political conditions in India, which have an impact on our Business activities or investments;
- The monetary and fiscal policies of India;
- Inflation, deflation, volatility in interest rates;
- Fluctuations in foreign exchange rates;
- Volatile equity markets;
- The performance of the financial markets in India;
- Changes in domestic and foreign laws, regulations & taxes; and
- Competition in our industry.

For further discussion of factors that could cause our actual results to differ, please refer to the section titled ‘Risk Factors’ on page vi of this Letter of Offer. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. Neither our Company nor the LM, nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, our Company, and the Lead Manager will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

RISK FACTORS

An investment in Secured Optionally Convertible Bonds involves risk. You should carefully consider all of the information in this Letter of Offer, including the risks and uncertainties described below, before making an investment in our Company's Secured Optionally Convertible Bonds. If any of the following risks actually occur, our business, financial condition and results of operations could suffer.

This Letter of Offer also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Letter of Offer:

Unless specified or quantified in the relevant risk factors below, we are not in a position to quantify the financial or other implication of any of the risks mentioned herein under:

INTERNAL RISK FACTORS

1. The Company is involved in certain legal and regulatory proceedings that, if determined against the Company, could have a material adverse impact on the Company.

The Company is party to various legal proceedings, these proceedings are pending at different levels of adjudication before various courts, and if determined against the Company, could have an adverse impact on the business, financial condition and results of operations. No assurance can be given as to whether these matters will be settled in favour of or against our Company and/or these entities. Nor can any assurance be given that no further liability will arise out of these claims. For further details on these proceedings, see the section "Outstanding Litigation" on page 71 of the Letter of Offer.

A Summary of the said pending litigations and proceedings is as follows:

(i) Proceedings initiated by our Company

Type of Cases	No. of Cases	Amount Involved (Rs. Lacs)
Civil	5	78.49
Criminal	4	24.56
Labour	5	8.61
Excise Duty	2	28.96
Sales Tax	3	60.76
Income Tax	4	104.40
TOTAL	23	305.78

(ii) Proceedings initiated against our Company and Group Companies

Type of Cases	No. of Cases	Amount Involved (Rs. Lacs)
Civil	2	19.18
Labour	4	2.94
Criminal	1	88.7
Show Cause Notices	5	177.02
TOTAL	12	287.84

2. Export Obligations

We have assumed export obligations under the EPCG scheme which we need to fulfill within a period of eight (8) years respectively, from the date of the issue of the respective licenses. The total export obligation as per the EPCG scheme is estimated at US\$ 77,37,745.20 (approximately Rs. 36,36,74,024.40), which will have to be fulfilled within a period of eight (8) years from the date of the respective licenses, or such extended period as may be allowed from time to time. The consequence of not meeting the above commitment would be a retrospective levy of import duty on items previously imported at concessional duty. Additionally, the retrospective authorities have rights to levy penalties and/or interest for any defaults on a case-by-case basis. A detailed table of our export obligations is set forth as under:

No	EPCG License No.	Date	Nature of Export Requirement	Amount of Export Obligation (in US\$)	Export Obligation Expiry Date
1	3230000846/2/11/00	24/08/2001	Chains/spares/Accessories for Automobile & Industrial applications	3,77,834.21	24/08/2009
2	3230001303/3/11/00	02/08/2002	Chains/spares/Accessories for Automobile & Industrial applications Alloy steel Forgings	3,37,750.00	02/08/2010
3	3230002891/2/11/00	08/04/2004	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains & Alloy Steel Forgings (Machined)	1,31,460.20	08/04/2012
4	3230003151/2/11/00	28/07/2004	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains, Alloy Steel Forgings	2,23,834.24	28/07/2012
5	3230003459/2/11/00	21/10/2004	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains, Alloy Steel Forgings(machined)	5,92,238.78	21/10/2012
6	3230005450/2/11/00	18/10/2005	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains, Alloy Steel Forgings(machined)	15,06,248.15	18/10/2013
7	3230004084/2/11/00	10/02/2005	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains, Alloy Steel Forgings(machined)	4,89,931.66	10/02/2013
8	3230006369/2/11/00	10/03/2006	Automotive Timing Chains, Industrial Chains, Transmission Chains, Motor Cycle Chains, Alloy Steel Forgings(machined)	17,17,932.90	10/03/2014
9	3230006370/2/11/00	10/03/2006	Automotive Timing chains, Industrial chains, Fine Blanked Components, Transmission Parts, Alloy Steel Forgings, Motor Cycle chains	2,09,566.85	10/03/2014
10	3230007067/2/11/00	06/06/2006	Automotive Timing chains, Industrial chains, Fine Blanked Components, Transmission Parts, Alloy Steel Forgings, Motor Cycle chains	1,36,517.57	05/06/2014
11	3230007068/2/11/00	06/06/2006	Automotive Timing chains, Industrial chains, Fine Blanked Components, Transmission Parts, Alloy Steel Forgings, Motor Cycle chains	20,14,430.64 *imports not yet completed	05/06/2014
TOTAL				77,37,745.20	

3. We have not provided for certain contingent liabilities as on 31/03/2006.

The outstanding contingent liabilities of our Company as on 31/03/2006 which have not been provided for are as under:

No	Particulars	Rs. Lacs
1	Claims against the erstwhile subsidiary company M/s.Apten Forgings Ltd not acknowledged as debts	24.55
2	Amount outstanding out of letter of credit opened	2,920.25
3	Estimated amount of contracts remaining to be executed on capital account and not provided for (Net after advance payments)	1,762.42
4	Guarantees given by bankers on behalf of the Company	344.10
5	Bills discounted with Banks	700.38
6	Commitment on account of Technical Fee payable in future (for Technology Transfers)	134.25
7	Guarantees	1,550.00
8	Disputed tax Liability	229.58
TOTAL		7,665.53

4. Our Company has entered into several loan agreements that contain customary restrictive covenants, placing significant limitations on our Company.

Our Company has taken a number of loans from various institutions, for which some of its immovable and movable properties have been offered as security. As such, the lenders of our Company have the option to take over management control of our Company if there are defaults on their debt obligations.

In respect to the various agreements entered into by our Company with its lenders, we are bound by certain restrictive covenants regarding our capital structure. As per these restrictive covenants, our Company cannot, without the prior approval of these lenders prepay any outstanding loan amount, issue any debentures, raise loans, deposits from public, issue equity or preference capital, issue bonus shares, change its capital structure or create any charge on its assets or give any guarantees. Also we shall not without the prior written approval of these lenders buy back, cancel, retire, reduce, redeem, purchase, re-purchase, acquire any of its share capital, issue any further share capital. Further, our Company is also prohibited from creating any subsidiary or undertaking mergers, amalgamations and re-organizations with the creditors or shareholders, without the prior consent of its lending institutions. Also, our Company shall not, without the prior permission of its lender, invest any part of the loan money advanced, by way of deposits, loans, share capital or otherwise in any concern. Our Company shall not declare or pay any dividend to its shareholders during any financial year unless it has paid all the pending dues. We shall not make any investments by way of deposits, loans, share capital, revalue its assets, carry out general trading other than sale of its own products, enter into a arrangement for sale of its products and purchase of raw materials without the prior written approval of the said institution.

Please however note, that the Issue proceeds will be used to prepay certain debt, for which appropriate sanctions from the Company's lenders have been obtained.

5. There has been a constant change in technology and designs of automotive parts.

Automobile manufacturers are faced with constant demand for new designs and new models. While meeting such demand, automotive suppliers like us need to adapt to these changes and cope up with such demand in limited costs and time. Our inability to meet such demand from our customers may lead to loss of business for us. This will hamper our growth in the future and may have an adverse effect on our business operations and profitability.

6. We face stiff competition from the erstwhile and un-organised sectors.

Pricing is one of the factors that plays an important role in our customers' selection of our products. Over the last few years, the rise in prices commanded by us has not kept pace with the rise in input costs, due to the highly competitive environment in which we operate. This has affected our past profitability. Stiff competition from other players in the Market can and does adversely impact our operations and profitability.

7. Some of our purchase orders with our suppliers do not have arbitration clauses.

In the event our suppliers make any default on delivery or there is any dispute regarding quality or quantity of the materials supplied to us, since some purchase orders do not have arbitration clauses, we may not have adequate and timely recourse against them. Any failure or delay on our part to procure required materials may delay schedules of production or any commitments to other entities for supply and could adversely affect our business. Such failures or delays may also lead to increase in prices of these materials, further affecting our cost and profit estimates.

8. Foreign currency risk

The volatility in global financial markets may have an adverse impact on our business. We have to make payments in foreign exchange for our imports. In the future, we expect an increase in our dealings in foreign exchange thus increasing our exposure to foreign exchange markets. Any increase in the exchange rate of the rupee vis-à-vis the foreign currency of our exports will adversely affect earnings on export transactions. Our inability to appropriately hedge this foreign exchange exposure may result in an adverse impact on our financial condition.

9. We rely on contract labour for the performance of many of our operations.

We rely on contractors who engage on-site labourers for performance of many of our unskilled operations. Further, on an application made by the contract labourers, the appropriate court / tribunal may direct that the contract labourers are required to be regularized or absorbed, and / or that our Company pay certain contributions in this regard.

10. The land and building for one of our plants is not owned by us but has been taken on lease

The land and building at the Sengalipalayam plant location in Coimbatore has been taken on lease from 01/05/1998 and had been renewed on 01/05/2002. Subsequently, the lease has been renewed for a period of three years on 01/05/2006. The rent payable is Rs.17,750/- per month, payable on or before the 10th of the succeeding month.

11. Some of our purchase orders with our suppliers do not have arbitration clauses.

In the event our suppliers make any default on delivery or there is any dispute regarding quality or quantity of the materials supplied to us, since some purchase orders do not have arbitration clauses, we may not have adequate and timely recourse against them. Any failure or delay on our part to procure required materials may delay schedules of production or any commitments to other entities for supply and could adversely affect our business. Such failures or delays may also lead to increase in prices of these materials, further affecting our cost and profit estimates.

12. Defects in our products could lead to negative publicity, financial loss and erosion of our customer-base.

Typically the products provided by us are critical to the operations of our customers' businesses. A defect in our products could result in a claim against us for substantial damages. Such a claim could be brought even if prima facie we are not responsible for such a failure or defect. Furthermore, any such claims would serve to erode our brand image and market perception, and may diminish our clientele.

13. Post conversion of the convertible secured bonds our Promoter and members of our Promoter Group will remain the largest shareholders in our Company, which will allow them to influence the outcome of shareholder resolutions / board resolutions.

Considering a minimum conversion price of Rs. 55/- per Equity Share of Re. 1/- each and assuming that every Bondholder opts for conversion of their Bonds, upon completion of the conversion, our Promoters and members of our Promoter Group will collectively hold 34.14% of the paid-up equity capital of our Company. With the largest equity stake in our Company, the Promoters and Promoter Group will be able to influence matters requiring shareholders' approval, such as approval of financials of our Company, declaration of dividend, etc.

EXTERNAL RISK FACTORS

1. Absence of entry barriers

Apart from high initial capital investments and requirement of customer relationships, there are no entry barriers, regulatory or otherwise, for setting up an automotive components plant. Due to absence of such entry barriers, many players from the organised as well as the un-organised sector may enter this industry. The entry of several new large organized players may result in excess capacity, competition and resultant price pressure on the products.

2. Increasing employee compensation in India may reduce some of our competitive advantage in the global market.

Increase in compensation payable to employees in India may reduce some of the inherent cost competitiveness enjoyed by us through our operations in India. Employee compensation in India is increasing at a fast rate, which could result in increased costs relating to engineers, managers and other mid-level professionals. We may need to continue to increase the levels of our employee compensation to retain talent and this will reduce our competitiveness compared to competitors in other emerging economies like China and Thailand.

Upon conversion of the Bonds, the price of the resultant Equity Shares will depend upon various factors such as general economic conditions, volatility in stock market, liquidity in our equity shares etc.

HIGHLIGHTS :

- Dominant market position in automobile chains industry, supported by strong Original Equipment Manufacturer (OEM) relations, diversified customer base and long track record.
- Strong presence in the forging/fine blanking, helping in operating efficiency.
- Proficiency in tool making, reverse engineering helps in controlling capital costs.
- Strong export prospects which are expected to drive revenue growth in the long term.

NOTES :

1.

Preissue Networth (as on 31/03/2006)	:	Rs. 9,319.53 Lacs
Preissue Net Asset value (as on 31/03/2006)	:	Rs. 11.86 per share of Re. 1/- each
Issue Size	:	Issue of 93,48,782 1% Secured Optionally Convertible Bonds (Bonds) of Rs. 101/- each due in 2013 for cash at par aggregating Rs. 9,447.27 lacs on rights basis to the existing equity shareholders of the company in the ratio of One Bond for every Nine Equity Shares of Re. 1/- each held on [●] (i.e. The record date).
Cost per share to the promoter	:	Rs. 0.83 /- per share of Re. 1/- each

2. There is no interest of promoters/directors/key management personnel other than reimbursement of expenses incurred or normal remuneration or benefits.
3. There are certain transactions in the past six months on the stock exchange in the shares of the Company by the Promoters/Directors of the Company, details of which are set forth on page 17 of this Letter of Offer.
4. Related party disclosures: For details please refer to page 54 of this Letter of Offer.
5. The Lead Manager and the Company shall update this Letter of Offer and keep the shareholders/public informed of any material changes till the listing and trading commencement.

III. INTRODUCTION

Industry Summary

Auto component industry caters to growing automobile industry by supplying it with vital components as OE fitments needed for manufacture of Automobile. Over past few years the automobile industry has seen robust growth and in tandem according to recent reports by ACMA, SIAM. The Indian auto component industry, has witnessed consistent growth over the years. If current trends are any indication, the auto-component industry is poised for a period of sustained high growth fuelled by a robust domestic automotive market and by rapidly expanding global outsourcing business. The year 2004-2005 ended with an overall growth of more than 25% and with an export growth of +30% in the auto-component sector. According to the "Vision 2015" study recently conducted by McKinsey & Co, the Indian passenger car market is poised to touch the 2 million mark by 2010 and 3 million by 2015, leading to a domestic market of US \$ 18-20 billion for auto-components in the next 10 years.

The other segments of automobile industry are also witnessing similar trend. Easy availability of raw material, cheap labour and technology upgradation has resulted in outsourcing of auto components by Global Auto Manufacturers. Automobile and auto component industry seems ready to establish India as the global manufacturing center. The auto component industry production (in US \$ Million) has risen from 3278 million in 1996 to 8700 million in 2005 which shows a clear increasing trend over the years. This, combined with the exports possibility of another US \$ 20-25 billion, the auto-component industry has the potential of achieving a total size of US \$ 40-45 billion by 2015. The industry has exported goods worth US \$ 330 million in year 1997-98 which estimated to go up to US \$ 1400 million in the year 2004-2005. Capacity expansion in industry is at a high and most of the companies are actively engaged in enhancing capacities making further investments and even expanding their footprints abroad. The investment in auto component industry has risen from US \$ 1813 million to estimated US \$ 3750 million in year 2004-05.

Business Summary

LGB, part of Elgi Group, is one of the leading manufacturers of automobile transmission and industrial chains and components. Capitalizing on its component engineering expertise, LGB has recently entered into fine blanking and forging.

The core businesses of the company as per revenue share can be classified under the following three SBUs- Transmission (Auto and industrial) 65%, Forging Hot & Warm forging and Cold Forging 22%, and Metal Forming Fine blanking 13%,.

Apart from this, LGB has a 100% subsidiary- LGB Textiles- carrying on yarn spinning business with an installed base of 9,936 spindles. At present company has 10 plants and is currently planning to set up a plant in Pune and Uttaranchal each for its transmission business.

Transmission business

LGB has a significant market share in the automotive chain segment. Total chain market (auto & industrial) put together is around Rs 5-6 bn, which is growing at 15-20%. Auto segment contributes to nearly 70-75% of the transmission revenues and the balance is contributed by industrial segment. LGB has a 33% market share in the industrial segment as this market has number of unorganized players as well. TI Diamond (Tube Investments) has a 35% market share in the industrial segment.

Margins of auto and industrial segment are more or less the same, but industrial margins are lower generally on account of unorganized players in the industrial segment. PBT margin of the two segments

Metal Forming

Metal forming is an offshoot of the chain business of the company. LGB is the largest fine blanking player in the country with IFB (originally Indian Fine Blanks) as the largest competitor. Capacity in this business will be increase by 100% over next one year. At present around 20% of sales of this business are internal sales and the balance to external players, mainly 2 wheelers. At present there are only 2 small car manufacturers in India and the other car manufacturers are procuring SKDs and CKDs in India. This business is presently exporting Rs 10 mn/month of fine blanks to Eaton Trucks, USA

Forging

Forging is a large industry and growing at a healthy rate of 20-25%. For LGB most of its forging division products cater to the automobile segment. At present the company has 3 plants of which it purchased 2 plants (hot and Hot & warm). The third plant was set up by the company for cold forging. Largest business in this segment is derived from the product CLAW, which contributes around Rs 20 mn/month and is growing at a fast pace. LGB is the 2nd/3rd largest player in this segment world wide and has customers like Visteon, Denso and Delphi. Apart from this it is also strong in the auto electrical segment (starter motor) and has customers like KONE.

LGB has already entered into long term contracts with various domestic players as well as foreign Tier I and II companies. The company is in advanced stage of discussions and in some cases finalised contracts with customers. The initial requirement is for 2 Million Euro or Rs 400 mn which has to be executed over year and a half. This product is under the warm forging segment. Cold forging at present is a Rs 200 mn business. However, the revenues of this business maybe lower than warm and hot, the profits are better.

Competitive strengths

Dominant market position in automotive chains sector.

We are first Indian company to operate in the automotive chains sector of the auto components industry. We currently market our chains under the proprietary brand "Rolon", and cater to 65% of the Indian Market (OEM and replacement).

Large distribution network

We currently have 18 offices and depots spread all over India along with a 2,000 strong dealer network and 110 salesmen covering the entire country. This gives us a "just-in-time" supply capability due to our network of depots that are geographically spread out.

Technology absorption from foreign majors

We have benefited from technology that we have absorbed from various global auto parts companies like IWIS (Germany), Diado (Japan), Rexnord (Germany), Gelb (US) and Nichidoi (Japan). Our manufacturing facilities and processes have been accredited with national and international quality certifications and its systems benefit from Six Sigma, Balanced Scorecard and SAP.

Strong Research and Development focus

We have a long established research and development programme for new product development and improvement in existing products. We employ over 25 people in our R & D department comprising of engineers, Ph.Ds and analysts.

Summary of the Issue

ISSUE OF 93,48,782 1% SECURED OPTIONALLY CONVERTIBLE BONDS (“Bonds”) OF Rs. 101/- EACH DUE 2013 FOR CASH AGGREGATING RS. 9,447.27 LACS ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF ONE BOND FOR EVERY NINE EQUITY SHARES OF RE. 1/- EACH HELD ON [●] (i.e. THE RECORD DATE)

Principal Terms of the 1% Secured Optionally Convertible Bonds:

Issue Date of the Bonds	[●] (The Issue Date will be the date of allotment of the Bonds proposed to be allotted in this Rights Issue).
Coupon / Rate of Interest	The coupon / interest rate payable on the Bonds will be 1% p.a. to be serviced semi-annually.
Final Maturity of the Bonds	7 years from the issue date
Redemption at Maturity of the Bonds	The Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5 th year from the Issue Date of the Bonds. The premium payable on the Bonds will be calculated at an effective yield of 9.75%p.a.
Put Option to Bondholders	Any time after three years from the date of issue, the Bondholders shall have an option to get their bonds redeemed. The redemption will happen at such yield as specified in “Redemption at Maturity of the Bonds”.
Call Option to the Company	Any time after three years from the date of issue, the Company shall have an option to redeem the Bonds. The redemption will happen at such yield as specified in “Redemption at Maturity of the Bonds”.
Rating of the Bonds	The 1% Secured Optionally Convertible Bonds being offered through this Letter of Offer have been rated by: <ul style="list-style-type: none">● ICRA Limited as LA [indicates LA- (pronounced L A minus)] The rating indicates adequate credit quality and average credit risk.● FITCH [indicates A (ind)] Indicate a strong credit risk relative to other issuers or issues in the country.

For detailed terms of this issue, please refer to page 89 of this Letter of Offer.

Summary of Financial Data

STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
A. FIXED ASSETS					
a) Gross Block	28,235.21	19,921.25	15,162.75	13,160.83	11,645.46
b) Less: Depreciation	10,453.53	8,586.77	7,203.68	6,011.76	5,104.99
c) Net Block	17,781.68	11,334.48	7,959.07	7,149.07	6,540.47
d) Capital work in Progress	1,183.77	2,971.71	68.30	36.76	91.66
e) Revaluation Reserve	251.19	287.02	138.91	138.91	138.91
Total Net Fixed Assets	18,714.26	14,019.17	7,888.46	7,046.92	6,493.22
B. INVESTMENTS	370.67	398.19	669.28	174.82	167.99
C. CURRENT ASSETS, LOANS & ADVANCES					
a) Inventories	9,333.54	8,209.81	5,655.47	4,370.27	3,925.32
b) Sundry Debtors	6,993.51	6,025.20	4,283.81	3,758.86	3,117.92
c) Cash and Bank Balances	1,017.81	1,120.02	197.30	529.51	655.76
d) Other Assets	42.63	10.01	19.02	5.59	16.92
e) Loans and Advances	4,060.47	2,292.37	2,026.51	1,577.66	1,364.65
Total Current Assets	21447.96	17657.41	12182.11	10241.89	9080.57
Total Assets	40532.89	32074.77	20739.85	17463.63	15741.78
D. LIABILITIES AND PROVISIONS					
Loan Funds					
a) Secured Loans	17,612.61	11895.03	4975.98	4077.77	4438.05
b) Unsecured Loans	768.65	895.23	1031.29	874.71	748.62
Sub total	18381.26	12790.26	6007.27	4952.48	5186.67
Current Liabilities					
a) Liabilities	10,408.77	9010.15	5329.63	4429.17	3381.58
b) Provisions	575.31	778.50	1005.83	771.51	578.90
Total	10,984.08	9788.65	6335.46	5200.68	3960.48
Deferred Tax Liability	1,848.02	1276.76	1001.41	1009.81	1018.31
Total Liabilities	31,213.36	23,855.67	13,344.14	11,162.97	10,165.46
Net Worth	9,319.53	8,219.10	7,395.71	6,300.66	5,576.32
Net Worth Representing					
Share Capital	786.06	786.06	786.06	393.03	393.03
Reserves & Surplus	8,784.66	7,729.96	6,748.56	6,046.54	5,335.90
Revaluation Reserve	-251.19	-287.02	-138.91	-138.91	-138.91
Deferred Revenue Expenditure to the extent not written off	0.00	-9.90	0.00	0.00	-13.70
	9,319.53	8,219.10	7,395.71	6,300.66	5,576.32

CONSOLIDATED RESTATED ASSETS AND LIABILITIES

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004
FIXED ASSETS			
a) Gross Block	29,578.70	20,615.11	17,233.29
b) Less: Depreciation	10,618.56	8,622.34	7,988.75
c) Net Block	18,960.14	11,992.77	9,244.54
d) Capital work in Progress	1,183.77	3,556.74	173.42
e) Revaluation Reserve	251.19	287.02	322.86
Total Net Fixed Assets	19,892.72	15,262.49	9,095.10
Investments	225.43	252.95	227.73
CURRENT ASSETS, LOANS & ADVANCES			
a) Inventories	10,049.01	8,840.03	6,300.91
b) Sundry Debtors	7,158.40	6,051.98	4,697.92
c) Cash and Bank Balances	1,048.64	1,156.36	230.73
d) Other Assets	42.63	10.01	20.82
e) Loans and Advances	4,196.11	2,431.80	2,296.00
Total Current Assets	22,494.79	18,490.18	13,546.38
Total Assets	42,612.94	34,005.62	22,869.21
LIABILITIES			
Loan Funds			
a) Secured Loans	18,965.25	13,604.11	6,734.45
b) Unsecured Loans	1,091.35	1,061.79	1,031.29
Sub total	20,056.60	14,665.90	7,765.74
Current Liabilities			
a) Liabilities	10,702.53	8,986.40	5,788.45
b) Provisions	586.25	786.65	1,027.28
Total	11,288.78	9,773.05	6,815.73
Deferred Tax Liability	1,871.95	1,290.80	1,008.92
Total Liabilities	33,217.33	25,729.75	15,590.39
Net Worth	9,395.61	8,275.87	7,278.82
Net Worth Representing			
Share Capital	786.06	786.06	786.06
Reserves & Surplus	8,860.74	7,786.73	6,829.86
Revaluation Reserve	-251.19	-287.02	-322.86
Deferred Revenue Expenditure to the extent not written off	0.00	-9.90	-14.24
	9,395.61	8,275.87	7,278.82

STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
INCOME					
Gross Sales	46,974.54	40,836.10	29,833.76	25,238.30	20,734.43
Less: Excise Duty & Sales Tax Payments	5,362.10	3,943.61	2,774.36	2,263.42	1,897.67
Net Sales	41,612.44	36,892.49	27,059.40	22,974.88	18,836.76
Other Income	330.52	438.42	180.63	207.64	114.50
Total	41,942.96	37,330.91	27,240.03	23,182.52	18,951.26
EXPENDITURE					
Consumption of Materials	20,930.61	19,384.86	13,450.17	11,609.40	9,695.42
Employees Cost	3,013.31	2,497.19	2,256.76	2,211.93	1,772.89
Other Manufacturing Cost	8,443.48	6,892.47	4,682.17	3,847.68	2,813.66
Administrative Expenses	1,184.99	1,106.22	829.75	762.69	859.32
Selling & Distribution Expenses	2,287.55	1,916.49	1,921.28	1,581.61	1,285.19
Sub - Total	35,859.94	31,797.23	23,140.13	20,013.31	16,426.48
EBIDTA	6,083.02	5,533.68	4,099.90	3,169.21	2,524.78
Interest	1,953.48	1,503.12	846.22	733.98	834.95
Depreciation	1,914.53	1,623.50	1,251.00	1,059.22	863.45
Net Profit before tax & extraordinary items	2,215.01	2,407.06	2,002.68	1,376.01	826.38
Provision for Tax	284.33	490.00	650.00	430.00	240.00
Deffered Tax	571.26	267.84	-8.40	-8.50	-67.38
Adjusted Profit	1,359.42	1,649.22	1,361.08	954.51	653.76
Balance brought forward from previous year	620.92	695.66	600.61	289.97	479.11
Profit available for appropriation	1,980.34	2,344.88	1,961.69	1,244.48	1,132.87
Interim Dividend inclusive of tax	0.00	444.39	0.00	0.00	0.00
Proposed Dividend	235.82	235.82	235.82	216.17	157.21
Tax on Dividend	33.07	33.07	30.21	27.70	0.00
Transfer to General Reserve	135.94	1,010.68	1,000.00	400.00	685.69
Balance Carried to Balance Sheet	1,575.51	620.92	695.66	600.61	289.97
Total	1,980.34	2,344.88	1,961.69	1,244.48	1,132.87
Basic & Diluted Earnings per Share(Rs)	1.73	2.15	1.73	24.29	16.64
Face value per share	1.00	1.00	1.00	10.00	10.00

CONSOLIDATED ADJUSTED PROFIT AND LOSS ACCOUNT

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004
INCOME			
Sales	49,191.11	41,415.07	32,285.71
Less:Excise Duty	5,362.10	3,943.61	2,997.07
	43,829.01	37,471.46	29,288.64
Other Income	339.21	442.94	184.01
Total	44,168.22	37,914.40	29,472.65
EXPENDITURE			
Consumption of Materials	22,282.91	19,717.13	14,337.92
Employees Cost	3,118.24	2,530.26	2,352.93
Other Expenses	12,400.68	10,021.65	8,437.34
Interest	2,071.44	1,514.69	1,103.19
Depreciation	2,044.21	1,658.15	1,349.88
Total	41,917.48	35,441.88	27,581.26
Net Profit	2,250.74	2,472.52	1,891.39
Provision for Tax	289.01	498.15	650.00
Deffered Tax	581.15	281.62	21.26
Profit after Tax	1,380.58	1,692.75	1,262.65
Balance brought forward from previous year	657.28	688.50	581.39
Profit available for appropriation	2,037.86	2,381.25	1,844.04
Interim Dividend inclusive of tax	-	444.39	-
Proposed Dividend	235.82	235.82	235.82
Tax on Dividend	33.07	33.07	30.21
Transfer to General Reserve	135.94	1,010.68	1,000.00
Balance Carried to Balance Sheet	1,631.19	657.29	578.01
Total	2,036.02	2,381.25	1,844.04
Basic & Diluted Earnings per Share(Rs)	1.76	2.15	1.61
Face value per share	1.00	1.00	1.00

IV. GENERAL INFORMATION

Dear Shareholder(s),

ISSUE OF 93,48,782 1% SECURED OPTIONALLY CONVERTIBLE BONDS (Bonds) OF Rs. 101/- EACH DUE ON 2013 FOR CASH AT PAR AGGREGATING Rs. 9,447.27 LACS ON RIGHTS BASIS TO THE EXISTING EQUITY SHAREHOLDERS OF THE COMPANY IN THE RATIO OF ONE BOND FOR EVERY NINE EQUITY SHARES HELD ON [●] (i.e. THE RECORD DATE)

Registered Office: 6/16/13, Krishnanrayapuram Road, Ganapathy, Coimbatore - 641 006. Tel : +91 422 253 2325, Fax : +91 422 253 2333 Website: www.lgb.co.in	Corporate Office: 6/16/13, Krishnanrayapuram Road, Ganapathy Post, Coimbatore-641 006 Phone : +91 422 25322325 Fax : +91 422 2532333 E-Mail: lgbgpy@vsnl.net
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Plants:

TRANSMISSION DIVISION	FORGING DIVISION	FINE BLANKING DIVISION
Annur (Chain Division) Ganesapuram, Kattampatti –641 107 Phone: +91 422 2654318 E-Mail: anr.itd@lgb.co.in	Apten Forgings (Hot & Warm Forgings Divisions) Div. of L.G.Balakrishnan & Bros Ltd 4-A Bommasandra Industrial . Area Anekal Taluk, Bangalore- 560 009 Phone: +91 80 27832577 E-Mail : itd@aptenbglr.com	Pongalur (Fine Blanking Division) 1/175 , Sathy Road, Pongalur Post Coimbatore- 638 459 Phone: +91 4254 262460 E- Mail: lgbpglr@lgb.co.in
Karur (Rubber Belt Division) Mochakottampalayam Viswanathapuri Post, Karur-639 002 Phone: +91 4324 286510 E-Mail : krr.itd@lgb.co.in	Kodayampalayam (Cold Forging Division) Pillayar Koil Street, Near Power House Kottaipalayam Post, Coimbatore- 641 110 Phone: +91 422 2654812 E-Mail: cfd.itd@lgb.co.in	Sengalipalayam (Machining Division) 2/22 Sengalipalayam, N.G.G.O Colony Post Coimbatore- 641 022 Phone: +91 422 2642539 E-Mail: lgb_sgpm@sify.com
Vaiyampalayam (Chain Division) Kottaipalayam Village, Vaiyampalayam Post, Coimbatore- 641 110 Phone: +91 422 2654300 E-mail : vym.itd@lgb.co.in	MGM Industries (Warm Forging Division) Div. of L.G.Balakrishnan & Bros Ltd Plot No 80 & 81, K.S. R Road Metagalli Post, Mysore- 570 016 Phone: +91 821 5280311 E- Mail: itd@lgbmgm.com	
Mysore (Chain Division) 24, Industrial Suburb, III Stage Mysore South, Mysore 570 008 Phone: +91 821 2483259 E-Mail : myp.itd@lgb.co.in		
Gudalur (Chain Division) Vendasandur Taluk Dindigul – 624 620 Phone: +91 4324 281284, 281283 E-Mail: gud.itd@lgb.co.in		

Registrar of Companies

Our Company, bearing Registration Number 181-000257, is registered with the Registrar of Companies, Tamil Nadu at Coimbatore. The office of the Registrar is located at Coimbatore Stock Exchange Building, 683-686, Trichy Road, Singanallur, Coimbatore 641 005.

Compliance Officer

Mr. Lakshmi Kanth Joshi

6/16/13, Krishnanrayapuram Road, Ganapathy,
Coimbatore - 641 006.

Tel : +91 422 253 2325,

Fax : +91 422 253 2333

Email: lk.joshi@lgb.co.in

Website: www.lgb.co.in

Bankers to the Company

UTI Bank Ltd.

"Vigneshwar Cresta"
1095, Avanashi Road
Papanaicken palayam
Coimbatore - 641 037.
Tel: +91 422 2216166
Fax: +91 422 2215786

BNP Paribas

Prince Towers, 3 rd Floor
25/26, College Road
Chennai 600 006.
Tel: +91 44 28215445
Fax: +91 44 28251235

Corporation Bank

Industrial Finance Branch
1604,Trichy Road
Coimbatore - 641 018.
Tel: +91 422 2302489
Fax: +91 422 2302489

Andhra Bank

Coimbatore Main
17, Mill Road
Coimbatore - 641 001.
Tel: +91 422 2392654
Fax: +91 422 2393511

Scotia Bank

Classic Towers
1547,Trichy Road
Coimbatore - 641078.
Tel: +91 422 2303404
Fax: +91 422 2303403

HDFC Bank Ltd.

Classic Towers
1547, Trichy Road
Coimbatore - 641 018.
Tel: +91 422 2302630
Fax: +91 422 2300857

Export Import Bank of India

UTI House
Ist Floor
29, Rajaji Salai
Chennai 600 001.
Tel: +91 44 25224712
Fax: +91 44 25224082

Standard Chartered Bank

509,D.B.Road,Coimbatore -2
19,Rajaji Salai,5th Floor,
Chennai - 1.
Tel: +91 44 2544664
Fax: +91 44 2547901

Union Bank of India

235, Oppanakara Street
Coimbatore - 641 001.
Tel: +91 422 2390517
Fax: +91 422 2391026

IndusInd Bank

652 - 656, Avanashi Road
Coimbatore - 641 037.
Tel: +91 422 2212738
Fax: +91 422 2212770

ICICI Bank Ltd.

Cheran Plaza, I Floor
1090,Trichy Road
Coimbatore - 641018
Tel: +91 422 2302757
Fax: +91 422 2301373

IDBI Bank Ltd.

Viscose Towers
1078, Avanashi Road
Coimbatore - 641 018.
Tel: +91 422 5585148
Fax: +91 422 2210160

ISSUE MANAGEMENT TEAM

Lead Manager to the Issue

KEYNOTE CORPORATE SERVICES LTD.

307, Regent Chambers
Nariman Point, Mumbai – 400 021
Tel: +91 22 22025230,
Fax: +91 22 22835467
Website: www.keynoteindia.net
E-mail: lgb@keynoteindia.net
SEBI Regn No: INM 000003606
Contact Person: Mr. Vikram Subramaniam

Registrar to the Issue

CAMEO CORPORATE SERVICES LTD.

‘Subramanian Building’,
No.1, Club House Road,
Chennai – 600 002.
Tel.: +91 44 2846 0390
Fax : +91 44 2846 0129
E-mail: cameo@cameoindia.com
Website:www.cameoindia.com
SEBI Regn. No.:INR000003753
Contact Person: Mr. R. D. Ramaswamy, Vice President.

Legal Advisors

J. Sagar & Associates

Vakil House, 18 Sprott Road,
Ballard Estate,
Mumbai – 400 001.
Tel: +91 22 56561500
Fax: +91 22 56561515

Bankers to the Issue

To be appointed

Auditors to the Company

M/s. Deloitte Haskins & Sells

Chartered Accountant
Shanmugha Manram, 41, Race Course
Coimbatore- 641 018.
Phone: +91 422 4392801/802/803
Fax: +91 422 2218615

INTERSE ALLOCATION OF RESPONSIBILITIES

Not Applicable

CREDIT RATING

The details of the ratings received by the Company for this Issue are as follows:

Borrowing Programs	Amount Rs.	Rating Agency	Rating	Date of Rating Letter
Rs. 1,000 million debt (proposed Optionally Convertible Secured Bond Programme)	1,000 million	ICRA Limited	LA- (pronounced L A Minus) The rating indicates adequate credit quality and average credit risk.	19/04/2006
Rs. 1,000 million debt (proposed Optionally Convertible Secured Bond Programme)	1,000 million	FITCH Ratings India Private Limited	A (ind) Indicate a strong credit risk relative to other issuers or issues in the country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment of these financial commitments to a greater degree than for financial commitments denoted by a higher rated category.	15/05/2006

RATING SCALE

ICRA

Long-Term Rating Scale: for Bonds, Non-Convertible Debentures (NCDs), and other Debt Instruments (excluding Public Deposits), all with original maturity exceeding one year.

For the rating categories LAA through to LC the sign of + (plus) or - (minus) may be appended to the rating symbols to indicate their relative position within the rating categories concerned. Thus, the rating of LAA+ is one notch higher than LAA, while LAA- is one notch lower than LAA.

LAAA	The highest-credit-quality rating assigned by ICRA. The rated instrument carries the lowest credit risk.
LAA	The high-credit-quality rating assigned by ICRA. The rated instrument carries low credit risk.
LA	The adequate-credit-quality rating assigned by ICRA. The rated instrument carries average credit risk.
LBBB	The moderate-credit-quality rating assigned by ICRA. The rated instrument carries higher than average credit risk.
LBB	The inadequate-credit-quality rating assigned by ICRA. The rated instrument carries high credit risk.
LB	The risk-prone-credit-quality rating assigned by ICRA. The rated instrument carries very high credit risk.
LC	The poor-credit-quality rating assigned by ICRA. The rated instrument has limited prospect of recovery.
LD	The lowest-credit-quality rating assigned by ICRA. The rated instrument has very low prospect of recovery.

FITCH

Long Term Credit Ratings - Investment Grade

The suffix '(ind)' refers to National Ratings assigned by Fitch India. Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with sub- or low-investment grade international sovereign ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA (ind)' for National ratings in India. Specific letter grades are not therefore internationally comparable.

AAA(ind)	'AAA' national ratings denote the highest rating assigned in its national rating scale. This rating is assigned to the "best" credit risk relative to all other issuers or issues in the country.
AA(ind)	'AA' national ratings denote a very strong credit risk relative to other issuers or issues in the country. The credit risk inherent in these financial commitments differs only slightly from the country's highest rated issuers or issues.
A(ind)	'A' national ratings denote a strong credit risk relative to other issuers or issues in the country. However,

	changes in circumstances or economic conditions may affect the capacity for timely repayment of these financial commitments to a greater degree than for financial commitments denoted by a higher rated category.
BBB(ind)	'BBB' national ratings denote an adequate credit risk relative to other issuers or issues in the country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment of these financial commitments than for financial commitments denoted by a higher rated category.

DEBENTURE TRUSTEE

IDBI Trusteeship Services Ltd.

Asian Building, Ground Floor,
17, R Kamani Marg, Ballard Estate,
Mumbai – 400 001.
Tel : +91 22 66311771 - 3
Contact Person: Mr. V. G. Pathak, Vice President

MONITORING AGENCY

Not Applicable

APPRAISING ENTITY

Not Applicable

UNDERWRITING/ STANDBY SUPPORT

This issue of Bonds is not being underwritten and/or no standby support is being sought for the said issue.

ISSUE SCHEDULE

ISSUE OPENS ON	LAST DATE FOR RECEIVING REQUESTS FOR SPLIT FORMS	ISSUE CLOSES ON
[•]	[•]	[•]

V. CAPITAL STRUCTURE OF THE COMPANY

Share capital as at the date of filing of this Letter of Offer with SEBI and after the Issue is set forth below.

	Nominal Value (Rs.)	Aggregate Value (Rs.)
A. Authorised Capital		
12,00,00,000 Equity Shares of Re. 1 each	12,00,00,000	12,00,00,000
B. Issued Equity Share Capital before the Issue		
8,41,45,774 Equity Shares of Re. 1 each	8,41,45,774	8,41,45,774
C. Subscribed and Paid up Equity Share Capital before the Issue		
8,41,39,034 Equity Shares of Re. 1 each	8,41,39,034	8,41,39,034
D. Present Issue being offered to the Equity Shareholders through this Letter of Offer		
93,48,782 1% Secured Optionally Convertible Bonds of Rs. 101/- each at par	94,42,26,982	94,42,26,982
E. Post Issue (after conversion of Bonds) paid up Equity Share Capital*		
[•] Equity Shares of Re. 1 each	[•]	[•]
F. Share Premium Account		
Existing share premium account	9,48,93,690	
Share premium account after the Issue (after conversion of Bonds)	[•]	

* the number of equity shares of Re. 1/- each that will be issued will be determined on the basis of the Conversion Price. For further details kindly refer to page 90 of this Letter of Offer.

Notes to Capital Structure:

1. Present Rights Issue :

Type of Instrument	Ratio	Face Value (Rs.)	No. of Bonds	Issue Price (Rs.)	Consideration
Optionally Convertible Secured Bonds (Bonds) due on 2013	1 Bond for 9 equity shares of Re. 1/- each held on record date	101/-	93,48,782	101/-	Cash

2. Pre & Post issue shareholding pattern of the Company is given below:-

The present Issue is an issue of 1% Secured Optionally Convertible Bonds. Subsequent to allotment of the Bonds proposed to be issued, the Bondholders will have the option to convert the Bonds into Equity Shares of Re. 1/- each, during a period commencing from thirty days after the Date of Allotment of the Bonds uptill redemption of the Bonds. The minimum conversion price in terms of this Issue will be Rs. 55/- per Equity Share of Re. 1/- each. If every Bond issued is converted by the Bondholders into Equity Shares at the minimum conversion price of Rs. 55/- per Equity Share, a total of 1,71,67,763 Equity Shares of Re. 1/- each (i.e. the maximum number of equity shares that can be issued on conversion) will have to be issued. The table below sets forth the pre-issue and post-issue shareholding pattern of the Company under this scenario:

Category Code	Category of shareholder	Pre-Issue		Post-Issue (assuming full conversion)	
		Equity Shares of Re. 1/- each	Percentage shareholding	Equity Shares of Re. 1/- each	Percentage shareholding
(A)	Shareholding of Promoter and Promoter Group				
(1)	Indian				
(a)	Individuals/Hindu Undivided Family	2,41,56,638	28.71	2,41,56,638	23.85
(b)	Central Government/State Government(s)	-	-	-	-
(c)	Bodies Corporate	1,01,84,771	12.10	1,01,84,771	10.05
(d)	Financial Institutions/Banks	-	-	-	-
(e)	Any Other (specify)	-	-	-	-
	Total Shareholding of Promoter and Promoter Group (A)	3,43,41,409	40.82	3,43,41,409	33.90
(B)	Public Shareholding				
(1)	Institutions	1,35,29,556	16.08	6,69,65,388	65.86
(2)	Non-Institutions	3,62,68,069	43.10		
	Total Public Shareholding (B)	4,97,67,625	59.18	6,69,65,388	65.86
(C)	Shares held by Custodians and against which Depository Receipts have been issued	-	-		
	Grand Total (A)+(B)+(C)	8,41,39,034	100.00	10,13,06,797	100.00

* The promoters and shareholders falling under the promoter group and International Finance Corporation, an FII, have stated that they will not subscribe to their rights entitlement in this issue. The promoters and shareholders falling under the promoter group wish to renounce their entire rights entitlement to any prospective investor.

3. The shareholding pattern of the promoter group is as detailed below:

The present Issue is an issue of 1% Secured Optionally Convertible Bonds. Subsequent to allotment of the Bonds proposed to be issued, the Bondholders will have the option to convert the Bonds into Equity Shares of Re. 1/- each, during a period commencing from thirty days after the Date of Allotment of the Bonds uptill redemption of the Bonds. The minimum conversion price in terms of this Issue will be Rs. 55/- per Equity Share of Re. 1/- each. If every Bond issued is converted by the Bondholders into Equity Shares at the minimum conversion price of Rs. 55/- per Equity Share, a total of 1,71,67,763 Equity Shares of Re. 1/- each will have to be issued. The table below sets forth the pre-issue and post-issue shareholding pattern of the Promoter Group presuming conversion at the minimum price:

	PARTICULARS	PRESENT		POST ISSUE (assuming full conversion)	
		Equity Shares of Re. 1/- each	%	Equity Shares of Re. 1/- each	%
A	Promoter				
	L. G. Varadarajulu	49,250	0.06	49,250	0.05
	B. Vijayakumar	8852200	10.52	88,52,200	8.74
B	Immediate relatives of Promoters (Spouse, Parent, Child, Brother, Sister)				
	V. Amirtham	60,450	0.07	60,450	0.06
	Gayathri Balaji	50,000	0.06	50,000	0.05
	T. Balaji Naidu	4,000	0.00	4,000	0.00
	Uday Balaji	37,200	0.04	37,200	0.04
	Vinay Balaji	30,000	0.04	30,000	0.03
	Sudarsan Varadaraj	1,23,980	0.15	1,23,980	0.12
	Sri Harshavaradaraj	1,000	0.00	1,000	0.00
	Rajsri	44,47,880	5.29	44,47,880	4.39
	Rajvirdhan V.	50,75,300	6.03	50,75,300	5.01
	Arjun Karivardhan	5,08,520	0.60	5,08,520	0.50
	Nithin Karivardhan	5,07,000	0.60	5,07,000	0.50
	Vijayshree Karivardhan	61,250	0.07	61,250	0.06
	Vijayshree Vijayakumar	72,548	0.09	72,548	0.07
	B.Sarojini	41,24,460	4.90	41,24,460	4.07
	L. G. Ramamurthi	20,000	0.02	20,000	0.02
	L. G. N. Anand	27,600	0.03	27,600	0.03
	Dr. Jairam Varadaraj	94,000	0.11	94,000	0.09
	Balasubramanian P.	10,000	0.01	10,000	0.01
C	Company in which 10% or more of the share capital is held by the Promoter, his relative firm or HUF in which the Promoter or his immediate relative is a member				
	Elgi Automotive Services Ltd	36,92,500	4.39	36,92,500	3.64
	LGB Auto Products Ltd	32,70,314	3.89	32,70,314	3.23
	LG Farm Products Ltd	14,23,000	1.69	14,23,000	1.40
	Super Speeds (P) Ltd	14,26,900	1.70	14,26,900	1.41
	Super Transports (P) Ltd	3,50,000	0.42	3,50,000	0.35
	Silent Chain India (P) Ltd	18,000	0.02	18,000	0.02
	LG Sports (P) Ltd	4,057	0.00	4,057	0.00
D	Company in which the company mentioned in (C) above holds 10% or more of the share capital				
	N/A	Nil	N/A	Nil	N/A
E	HUF in which aggregate share of the Promoter and his immediate relatives is equal to or more than 10% of the total				
	N/A	Nil	N/A	Nil	N/A
	TOTAL	3,43,41,409	40.82	3,43,41,409	33.90

- The promoters and shareholders falling under the promoter group have stated that they will not subscribe to their rights entitlement in this issue and wish to renounce their entire rights entitlement to any prospective investor.
- ICICI Bank Ltd. in its letter dated 20/12/2005 has agreed to subscribe to the unsubscribed portion of the Promoter Group's rights entitlement and the unsubscribed portion of the Non-promoter Group's rights entitlement and have sanctioned an amount aggregating up to Rs. 100 crores towards subscription of the Issue. For detailed terms of sanction please refer to page 93 of this Letter of Offer.
- In case of conversion of the Bonds at a minimum price of Rs. 55/- per Equity Share of Re. 1/- each, the shareholding of the promoter group will reduce to 33.90%.

As such, other than for meeting the requirements indicated in the section titled "Objects of the Issue" beginning on page 19 of this Letter of Offer, there is no other intention/purpose for this Issue, including any intention to delist the Company.

Subscription by and allotment to any such party of corresponding number of equity shares on conversion of the Bonds offered in the Issue shall be in compliance with the provisions of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, Listing Agreement and other applicable laws prevailing at that time, including in relation to continuous listing requirements.

The promoters/ directors do not intend to subscribe to their entitlement and undersubscription portion, if any in this rights issue. Hence it will not result in public shareholding falling below the permissible minimum level. Thus the provisions of clause 17 of SEBI (Delisting of Securities) Guidelines 2003 are not applicable.

4. (a) The top ten shareholders of the Company as on the date of filing of the Letter of Offer is set forth as under:

	Shareholder	Shares Held	%
1	B.Vijayakumar	88,52,200	10.52
2	LGB Educational Foundation	60,75,640	7.22
3	Templeton Mutual Fund (A/C Franklin India Flexi Cap Fund)	57,21,923	6.80
4	L G B Share Holding Trust	56,58,000	6.72
5	International Finance Corporation	55,32,714	6.58
6	V.Rajvirdhan	50,75,300	6.03
7	Rajsri	44,47,880	5.29
8	B.Sarjini	41,24,100	4.90
9	Elgi Automotive AserVICES Ltd	36,92,500	4.39
10	LGB Auto Products Ltd	32,70,314	3.89
	TOTAL	5,24,50,571	62.34

(b) The top ten shareholders of the Company ten days prior to the date of filing of the Letter of Offer is set forth as under:

	Shareholder	Shares Held	%
1	B.Vijayakumar	88,52,200	10.52
2	L G B Educational Foundation	60,75,640	7.22
3	Templeton Mutual Fund (A/C Franklin India Flexi Cap Fund)	57,21,923	6.80
4	LGB Share Holding Trust	56,58,000	6.72
5	International Finance Corporation	55,32,714	6.58
6	V.Rajvirdhan	50,75,300	6.03
7	Rajsri	44,47,880	5.29
8	B.Sarjini	41,24,100	4.90
9	Elgi Automotive AserVICES Ltd	36,92,500	4.39
10	LGB Auto Products Ltd	32,70,314	3.89
	TOTAL	5,24,50,571	62.34

(c) The top ten shareholders of the Company two years prior to the date of filing of the Letter of Offer is set forth as under:

	Shareholder	Shares Held	%
1	B.Vijayakumar	75,12,200	9.56
2	LGB Educational Foundation	60,75,640	7.73
3	LGB Share Holding Trust	56,58,000	7.20
4	V.Rajvirdhan	50,75,300	6.46
5	V.Rajsri	44,47,880	5.66
6	B.Sarojini	41,24,100	5.25
7	Elgi Automotive Services Ltd	36,17,520	4.60
8	LGB Auto Products Ltd	31,06,280	3.95
9	Super Speeds (P) Ltd	14,26,600	1.81
10	LG Farm Products Ltd	14,23,000	1.81
	TOTAL	4,24,66,520	54.02

5. The total numbers of shareholders in the company as on the date of filing of this Letter of Offer are 13,875.
6. The Company has issued 55,32,714 equity shares of Re. 1/- each to International Finance Corporation (IFC) Washington on a preferential allotment basis. As per valuation certificate submitted by Deloitte Haskins & Sells, Auditors of the Company, the price was worked out to Rs. 39.89 per share (Rupees Thirty Nine and Paise Eighty Nine Only). The Company has complied with guidelines issued by SEBI in respect of preferential allotment and completed the procedure of listing of these shares. The said shares are under lock-in. IFC has expressed their intention to renounce their rights entitlement in this Issue.
7. The Company has not issued any warrant, option, convertible loan, debenture or any other securities convertible at a later date into equity, which would entitle the holders to acquire further Equity Shares of the Company.
8. Equity Shares of the Company are being traded in compulsory dematerialized mode. The market lot of the Equity Shares is 1 (one).
9. There are no other transactions in the securities of the Company during the preceding six months which were financed/undertaken directly or indirectly by the promoters, their relatives, their group companies or associates or by the above entities directly or indirectly through other persons except mentioned below:

No.	Name	Date	Purchase	Sale	Avg. Cost per share (Rs.)
1	LG Sports (P) Ltd	05/05/2006		36,300	40.40
		11/05/2006		8,296	39.00
		19/05/2006		2,250	37.25
		21/08/2006		2,250	30.19
		22/08/2006		131	31.03
		22/08/2006		2,500	30.01
		23/08/2006		6,070	29.97
		23/08/2006		865	29.99
		23/08/2006		1,150	30.06
		24/08/2006		11,050	30.01
2	Vijayshree Karivardhan	24/03/2006		5,000	41.00
		31/03/2006		2,500	38.50
		07/04/2006		2,500	41.10
		05/05/2006		2,500	40.40
		26/05/2006	4,883		38.50
		02/06/2006	13,529		30.60
		30/06/2006		43,912	26.15

No.	Name	Date	Purchase	Sale	Avg. Cost per share (Rs.)
3	LGB Auto Products Ltd	23/06/2006	1,61,409	1,03,258	28.00
		28/07/2006	2,625		23.85
4	Gayathri Balaji	07/07/2006	5,000		24.65
5	Vijayshree Vijaykumar	07/07/2006	28,636		24.65
6	B. Sarojini	20/09/2006	360		30.00
7	LGB Textiles Ltd	19/09/2006		8,881	29.10
		19/09/2006		8,062	29.26
		19/09/2006		2,802	28.97
		20/09/2006		1,200	28.94
		20/09/2006		640	28.95
		25/09/2006		2,00,000	28.00
		25/09/2006		6,100	27.97
		25/09/2006		700	27.98
		26/09/2006		2,900	28.21
		26/09/2006		2,600	28.17
		27/09/2006		25,615	28.15

10. The Company/Promoters/Directors/Lead Merchant Bankers have not entered into buyback or similar arrangements for purchase of securities issued by the Company except for arrangement for redemption of Bonds on maturity.
11. The Equity Shares of the company are of face value of Rs.1/- and marketable lot is 1 (one). At any given time there shall be only one denomination for the shares of the Company and the disclosures and accounting norms specified by SEBI from time to time will be complied with.
12. The Company will convert the Bonds, issued through this letter of offer, into equity shares upon exercising the option by the Bond holder after one month of the date of allotment. Besides this, presently the Company does not have any proposal, intention, negotiation or consideration to alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of Equity Shares or any other securities within a period of six months from the date of opening of the present Issue. However, if business needs of the Company so require, the Company may alter the capital structure by way of split/ consolidation of the denomination of the shares/ issue of shares on a preferential basis or issue of bonus or rights or public issue of shares or any other securities whether in India or abroad during the period of six months from the date of listing of the Bonds issued under this Letter of Offer or from the date the application moneys are refunded on account of failure of the Issue, after seeking and obtaining all the approvals which may be required for such alteration.
13. The entire issue price of the Bonds is to be paid on application.

VI. OBJECTS OF THE OFFERING

OBJECT OF THE ISSUE

The objects of the present issue of equity shares on rights basis are:

1. To repay existing high cost debts.
2. To meet the expenses of the issue

FUNDS REQUIREMENT

(Rs. in Lacs)	
Repayment of existing debts	9,442.27
Issue Expenses	500.00
Total	9,942.27

FUNDING PLAN

(Rs.in Lacs)	
Rights Issue of 1% Secured Optionally Convertible Bonds	9,442.27
Internal Accruals	500.00
Total	9,942.27

DETAIL BREAK UP OF COST OF PROJECT

1. Repayment of existing debts

We are currently availing working capital and term loan facilities from various banks under multiple banking arrangements. As on 31/08/2006, we have outstanding working capital facilities of Rs. 9,994.60 lacs and term loans of Rs. 7,555.45 lacs aggregating to Rs. 17,550.05 lacs. We propose to repay part of the high cost loans through the proceeds of this Issue amounting to Rs. 9,442.27 lacs. This will help to reduce the interest burden on our company and would improve the profitability and cash generation.

The details of term loans, outstanding as on 31/08/2006, are as follows:

(Rs.in Lacs)					
Name of Bank	Amount Sanctioned	Amount Outstanding	Repayment Schedule	Rate of Interest	Security
IDBI BANK	600.00	362.37	20 Qtly	9.50	Specific immovable & movable properties
UTI BANK	200.00	50.00	24 Qtly	9.00	Specific Movable properties
Export Import Bank of India	605.00	362.11	10 Half yrly	9.17	Specific Movable Fixed Assets
UTI (Apten)	800.00	550.00	16 Qtly	8.75	Specific Fixed Assets
BNP Paribas	2,500.00	2,406.25	16 Qtly	8.50	Specific Fixed Assets
ICICI BANK	200.00	200.00	16/01/07 (Single)	7.90	Movable properties
ICICI BANK	500.00	500.00	27/04/07 (Single)	7.80	Movable properties
Standard Chartered Bank	750.00	499.72	36 Monthly	7.50	WindMill
ICICI BANK	2,400.00	1,650.00	16 Qtly	7.20	Immovable and movable properties
Scotia Bank	1,200.00	975.00	16 Qtly	7.00	Immovable and movable properties
		7,555.45			

The details of the outstanding working capital facilities as on 31/08/2006 are as follows:

(Rs.in Lacs)

Name of Bank	Amount Sanctioned		Amount Outstanding		Rate of Interest Fund Based
	Fund Based	Non Fund Based	Fund Based	Non Fund Based	
<u>CC/WCDL</u>					
ICICI Bank	1,700.00	1,850.00	496.03	1,811.69	11.04
Union Bank	193.00	200.00	182.04	232.76	10.75
Andhra Bank - Main A/c	800.00	200.00	908.05	0.00	10.75
IndusInd Bank	280.00	300.00	481.64	478.49	9.50
Corporation Bank	550.00	630.00	855.58	452.51	9.25
UTI Bank	1,000.00	500.00	1,097.36	314.62	9.00
HDFC Bank	2,000.00		2,069.29		8.50
IDBI Bank	1,000.00	500.00	996.72	162.85	8.30
Scotia Bank	1,650.00		1,650.00		8.20
Sub Total (a)	9,173.00	4,480.00	8,736.71	3,452.92	
<u>Packing Credit Loan</u>					
Union Bank	320.00		319.70		8.50
Corporation Bank	200.00		0.00		6.50
IndusInd Bank	320.00		304.41		8.50
Sub Total (b)	840.00		624.11		
<u>Export Bills Disct</u>					
Union Bank	500.00		496.26		N/A
Corporation Bank	425.00		24.57		N/A
IndusInd Bank	425.00		112.95		N/A
Sub Total (c)	1,325.00		633.78		N/A
Total (Sub Total (a)+(b)+(c))	11,338.00		9,994.60		

2. Issue Expenses

The expenses for the Rights issue are estimated to be around Rs. 500 Lacs i.e. at approximately 5.3% of the issue amount.

Activity	(Rs. in lacs)
Fees to Intermediaries (including processing fee to ICICI Bank of Rs. 400.00 lacs, fees payable to the lead manager, legal advisor, registrar and others).	465.00
Advertising and Marketing Expenses	10.00
Printing and Stationery	20.00
Others Expenses	5.00
Total estimated Issue expenses	500.00

The expenses for the issue will be borne out of internal accruals of the Company.

APPRAISAL

The fund requirement is not appraised by any Bank or Financial Institution.

INTERIM USE OF PROCEEDS

The deployment of funds raised through the rights issue would be mainly for the purposes of repaying existing high cost debts. The interim use of funds is not involved as funds will be available on completion of issue.

WORKING CAPITAL

Part of the proceeds of the Issue will be used to refinance the existing high cost working capital facilities of the Company. The Company expects to meet incremental working capital requirements from internal accruals and additional/enhanced working capital facility, if necessary. For more details on the loans and working capital facility currently availed by the Company, please refer to the section titled “Financial Information” beginning on page 42 of this Letter of Offer.

FUNDS DEPLOYED

The total issue expenses for the issue will be borne out of the issue proceeds. As per the certificate of Sources and Deployment of Funds prepared by M/s. Deloitte Haskins & Sells, Chartered Accountants and Statutory Auditors to our Company, our Company has spent an amount of Rs. 430.58 lacs, till date, towards Issue Expenses which is funded through internal accruals for the time being. We have not incurred any other expenditure towards the Objects of the Issue as of date.

MONITORING OF UTILIZATION OF FUNDS

There is no requirement for a monitoring agency in terms of Clause 8.17 of the SEBI DIP Guidelines. The Audit Committee appointed by the Board of Directors will monitor the utilization of the Issue proceeds.

STATUS OF IMPLEMENTATION

The Company is not proposing to utilize the proceeds of the Issue for capital expenditure on any project. The proceeds are proposed to be utilized for refinancing existing high cost term and working capital facilities. This shall be carried out on transfer of funds on completion of the Issue.

BASIS FOR ISSUE PRICE

Qualitative Factors

- Dominant market position in automotive chains industry
- Strong presence in the replacement market for transmission systems
- Integrated operations in forging and fine blanking
- Proficiency in tool making and reverse engineering
- Strong export prospects

Quantitative Factors (based upon adjusted Profit and Loss Account)

(a) Earnings Per Share (EPS)

Year ended 31 st March	EPS(Rs)	Wts
2003-04	1.73	1
2004-05	2.15	2
2005-06	1.73	3
Weighted Average EPS	1.87	

(b) Price Earning Ratio (PE) (Based on the minimum conversion price of Rs. 55/- per share)

P/E (based on EPS on 31/03/2006)	31.79
P/E (based on weighted average EPS)	29.41

(c) Return on Networth (RONW)

Year	RONW(%)	Wts
2003-04	18.40	1
2004-05	20.07	2
2005-06	14.59	3
Weighted Average RONW	17.05	

(Figures in the bracket indicate negative figures)

(d)

Minimum RONW required to maintain pre-issue EPS #	9.34%
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Based on the conversion of 93,48,782 Bonds at the minimum conversion price of Rs. 55/- per Equity Share of Re. 1/- each resulting in an issue of 1,71,76,763 Equity Shares of Re. 1/- each resulting in a post issue paid up capital of 10,13,06,797 Equity Shares of Re. 1/- each.

(e) Net Asset Value (NAV)

NAV (pre issue) (Rs. per share)	11.86
NAV (post issue)* (Rs. per share)	18.52

* Based on the conversion of 93,48,782 Bonds at the minimum conversion price of Rs. 55/- per Equity Share of Re. 1/- each resulting in an issue of 1,71,76,763 Equity Shares of Re. 1/- each resulting in a post issue paid up capital of 10,13,06,797 Equity Shares of Re. 1/- each.

(f) **Industry P/E Ratio**
(extracted from comparison of the peer group companies mentioned in point (g))

Highest	(Rico Auto Industries)	29.7
Lowest	(Subros)	11.0
Average		20.3
(Source: Capital Market (Sept 25 – Oct 08, 2006) Sector: Auto Ancillaries)		

(g) **Comparison of key ratios with the companies of comparable size in the same industry group**

Name of the company	FV (Rs.)	Sales as on 31/03/2006 (Rs. in Cr.)	EPS	Market Price as on 18/09/2006	P/E Multiple
Amtek Auto	2	652.20	7.3	336	25.5
Automotive Stamp	10	276.80	2.6	81	17.4
Bharat Gears	10	163.20	5.0	50	16.7
Denso India	10	361.00	7.5	89	11.2
Gabriel India	1	484.40	1.1	32	24.6
MICO	10	2,977.50	103.5	3,324	27.1
Munjjal Showa	10	596.60	25.3	384	14.2
Omax Autos	10	578.60	8.8	101	11.3
Rico Auto Industries	1	668.20	2.9	80	29.7
Sona Koyo Steering	2	339.70	3.5	53	26.3
Subros	10	564.90	20.2	236	11.0
Sundaram Clayton	10	627.90	42.6	1,075	28.6
LGB	1	469.74	1.73	30	20.5

(Source: Capital Market (Sept 25 – Oct 08, 2006) Sector: Auto Ancillaries)

Basis of interest rate payable on 1% Secured Optionally Convertible Bonds:

Salient features of 1% Secured Optionally Convertible Bonds:

- Credit Rating assigned by:
 - ICRA Limited as 'LA-' (pronounced L A minus), indicates adequate credit quality and average credit risk.
 - FITCH as 'A (ind)'
- Redemption: The Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5th year from the Issue Date of the Bonds
- Coupon: 1% per annum payable semi-annually
- Yield to Investor: 9.75% p.a.
- Prevailing Yield on Government of India Securities (As on 08/09/2006) - The annualized yield on the 7-year benchmark security is 7.70 %. (Source: Reuters)

On the basis of above the Lead Manager and the Company are of the opinion that the redemption yield and coupon interest on the Bonds are justified.

VII. ABOUT THE ISSUER COMPANY

INDUSTRY OVERVIEW

Surge in automobile industry since the nineties has led to robust growth of the auto component sector in the country. Responding to emerging scenario, Indian auto component sector has shown great advances in recent years in terms of growth, spread, absorption of newer technologies and flexibility, despite multiplicity of technology platforms and low volumes. India's reasonably priced skilled workforce, large population of technology workers coupled with strengths gained by the country in IT and electronics all build up an environment for significant leap in component industry.

The Indian auto component sector is being written up as the next industry, after software, that has the potential of becoming globally competitive. Indian Auto Component Industry, with a turn over of an approx Rs. 36,300 crore (2004-05, prov.) (*Soure: Department of Heavy Industry, India-Annual Report*) and manufacturing all the key components required for vehicle manufacturing, is an important sector of the Automotive industry. The phased Manufacturing Policy (PMP) followed in the 1980s enabled the component industry to induct new technologies, new products and a much higher level of quality in their operations that enabled quick and effective localization of the component base. The Indian auto component industry over the years has played a key role in the growth and development of the country's automotive industry. The Indian auto component sector today has 420 key players who contribute more than 85% of the output of this sector.

Indian auto component industry has seen major growth with the arrival of world vehicle manufacturers from Japan, Korea, US & Europe. Due to diversities in the technological profiles of these OEMs, the sector today produces large variety of components. Today, India is emerging as one of the key auto components center in Asia and expected to play a significant role in the global automotive supply chain in the near future.

Automobile Sector

The high growth observed since 2001-02 in automobile production continued in the first three quarters of the current year. Annual growth was 16.0 per cent in April-December, 2004; the growth rate in 2003-04 was 15.1 per cent. Consequent to liberalisation, the arrival of new and contemporary models, easy availability of finance at relatively low rate of interest and price discounts offered by the dealers and manufacturers appear to have stimulated the demand for vehicles and a strong growth of the industry. The automobile industry grew at a compound annual growth rate (CAGR) of 22 per cent between 1992 and 1997. With investment exceeding Rs. 50,000 crore, the turnover of the automobile industry exceeded Rs. 59,518 crore in 2002-03. Including turnover of the auto-component sector, the automotive industry's turnover, which was above Rs. 84,000 crore in 2002- 03, is estimated to have exceeded Rs. 1,00,000 crore in 2003-04.

Auto Components Sector

The past few years have witnessed a continuous influx of global auto majors in India. Many auto majors have established facilities, which have also been aided by the liberal government policy. India crossed million-mark last fiscal, which has set the domestic auto ancillary industry on a roll. Auto MNC's are also launching their latest models in India. The domestic auto industry has also come up with new and quality models. Consequently, the importance for precision auto components has been growing.

The increase in demand for auto components in India has also resulted in an increase in revenues and exports. Exports of auto components from India have witnessed a CAGR of over 19% over the last six years. Except for FY02, when the exports were down by 7.5%, the auto ancillary exports have shown steady northward movement. In FY04, the industry achieved a milestone of US\$1bn worth of exports.

Emergence of Auto Components Industry

The auto parts industry has emerged as one of the country's fastest growing manufacturing sectors and a globally competitive one. The sector posted a significant growth of 20 per cent in 2003-04 by achieving a sales turnover of Rs. 30,640 crore. The growth has been accelerated due to availability of skilled low cost labour. There is a huge potential for higher growth due to outsourcing activities by global automobiles giants. Today this sector has emerged as another sunrise sector. India's automotive component industry manufactures the entire range of parts required by the domestic automotive industry and provides employment to 2.50 lakh workers. There are reported to be around 416 auto components manufacturers in the country. Bharat Forge Ltd, a Pune-based company has emerged as the major global supplier of automotive engines and suspension components. The company manufactures a wide range

of forgings and machined components for the diesel engine. Besides, the country has emerged as an outsourcing hub for auto parts for international companies such as Ford, General Motors, Daimler Chrysler, Fiat, Volkswagen and Toyota. These companies have set up permanent offices in India.

The auto components manufacturers have two kinds of buyers:

- original equipment manufacturers (OEM) and
- the replacement market.

The replacement market is characterized by the presence of several small scale suppliers who score over the organized players in terms of excise duty exemptions and lower overheads. The demand from the OEM market, on the other hand, is dependent on the demand for new vehicles.

Tata Motors have developed cars based on indigenous design and manufacture with 100 per cent of Indian parts and have established themselves as one of the leaders in Indian automobile industry.

In order to meet the international quality requirements, many ancillary units have entered into joint ventures with foreign components majors. In 2002, there were about 225 active collaborations of which 67 were with Japan, 40 with the UK, 44 with the Germany and 31 with the USA. India enjoys cost advantage with regard to castings and forgings. The manufacturing costs in India are reported to be 25-30 per cent cheaper when compared with their western counterparts. India's competitive advantage does not come from costs alone, but from its Full Service Supply capability.

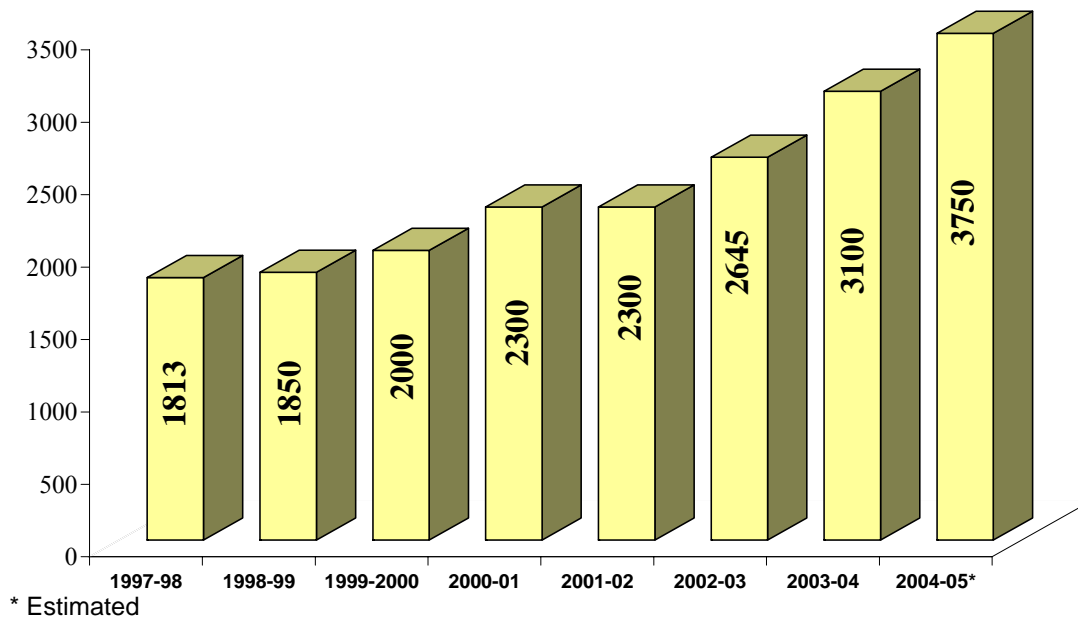
To encourage the smooth growth of the industry, the Government of India has allowed automatic approval for foreign equity investment upto 100 of manufacture of auto components. The Engineering Export Promotion Council under the aegis of Ministry of Commerce & Industry, Government of India over the years has been engaged in promoting exports of engineering goods including auto parts. The Automotive Component Manufacturers Association of India (ACMA) has been representing the Indian auto component industry. The Association has been engaged in promoting trade, technology up gradation, quality enhancement and collection and dissemination of information. For getting up-to-date information about the auto component industry, its website: www.acmainfo.com can be accessed. According to ACMA, during 2003-04, auto components exports from India crossed the US\$1 billion mark and the Association has predicted that by 2010, the figure will reach a level of US\$5 billion.

Investments

The progressive liberalisation of the norms for foreign investment and import of technology appear to have benefited the automobile sector with production of total vehicles increasing from 4.2 million in 1998- 99 to 7.3 million in 2003-04. It is likely that the production of such vehicles will exceed 10 million in the next couple of years. The global standards achieved by the industry have manifested in the increasing exports of the sector. After a temporary slump during 1998-99 and 1999-00, such exports registered robust growth rates of well over 50 per cent in 2002-03 and 2003-04 each to exceed two and a half times the export figure for 2001-02. Growth of exports of 32.8 per cent in the first three quarters of 2004-05 augurs well for the current year. Capacity utilisation in industry is at a high and most of the companies are actively engaged in enhancing capacities, making investments and even expanding their footprints within the country as well as abroad.

Following are the details of investments Auto parts companies have done from 1997 to 2005:

AUTO COMPONENT INDUSTRY INVESTMENT (IN US \$ MLN.)

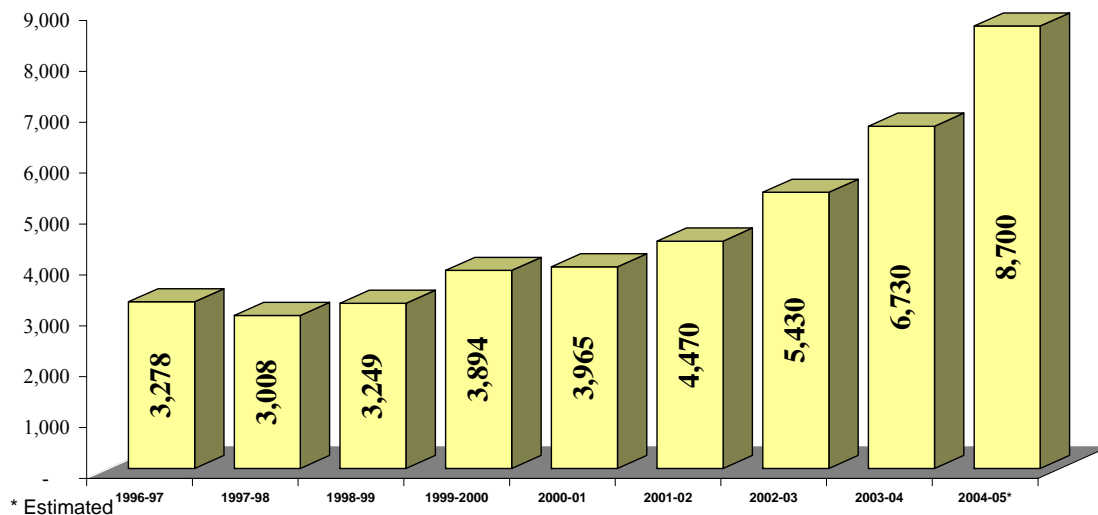


Production

Indian auto component industry is wide (over 420 firms in the organized sector producing practically all components and more than 10,000 firms in small unorganized sector, in tierized format) and has been one of the fastest growing segments of automotive industry (*Source: Department of Heavy Industry, India-Annual Report*).

Following is the Auto component industry's production from 1997 to 2005:

AUTO COMPONENT INDUSTRY PRODUCTION (IN US \$ MLN.)



Export

The auto components industry is poised to emerge as the export powerhouse of India's burgeoning economy. Future growth rates in terms of exports by auto ancillary companies are expected to match the 30-40 per cent achieved by

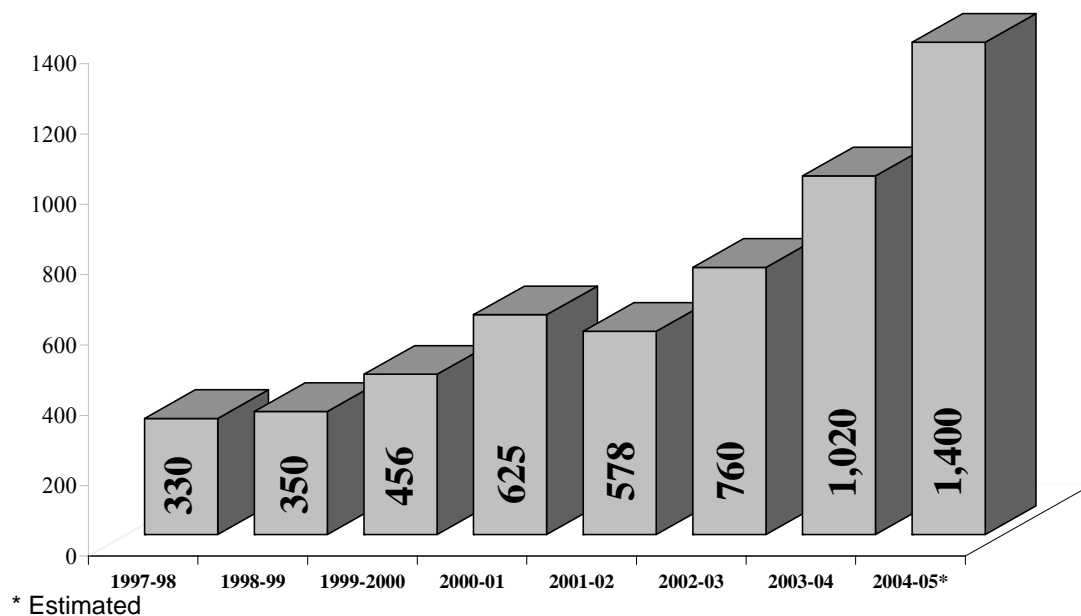
software and pharmaceutical companies, say industry watchers. According to industry estimates, exports by the auto ancillary industry will total roughly \$50 billion by 2014-2015. While the booming markets may have partly contributed to this success story, there is more to it than meets the eye, say analysts. In ever increasing numbers, global vehicle manufacturers are searching for low-cost manufacturing bases for sourcing equipment and parts for vehicles.

India, along with countries such as Mexico, China, Brazil and Thailand, offers OEMs (original equipment manufacturers) a great cost-quality proposition, thus making it a preferred destination for outsourcing. Manufacturing costs for Indian component manufacturers are 20-30 per cent lower than for their American counterparts on an average, despite the fact that Indian productivity is 50-75 per cent below international standards. Yet India is still a minnow in the global ocean of auto components: it accounted for a mere 0.2 per cent of the global business, with exports of \$800 million in 2002-2003. That figure is expected to rise to around \$1-1.5 billion by the end of 2003-2004.

According to estimates, exports already account for nearly 10 per cent of the total sales of auto components in India. The global trade in auto components at the beginning of the decade was about \$250 billion. So there's a whole big market waiting to be conquered.

Following is the Auto component industry's exports from 1997 to 2005:

AUTO COMPONENT INDUSTRY EXPORT (IN US \$ MLN.)



Geographical breakup of exports

India is now amongst one of the most preferred destinations for most of the major global OEM players. Following is an extract of the list of companies already outsourcing from the country.

- Hyundai – Export base for small cars
- Ford – exporting CKDs of Ikon to South Africa and other countries
- Skoda – Hub for exports of cars to neighboring countries
- General Motors – Global Purchasing Team
- Volvo – Global buying team
- Delphi – International purchase office
- Renault – scouting for truck part suppliers

The India Advantage

1. The country provides skilled and cheap labor. For e.g. the wage cost as a percentage of sales in Indian forging industry is less than 9% and the same for US companies was 38.8%.
2. Indian component manufacturing companies have achieved significant level of automation at a lower cost. Global benchmarks for quality standards are also not too far from being achieved.
3. Total Quality Management and Total Productivity Management by the companies also help in lowering the production cost.
4. Investments in the auto component industry in India have witnessed growth over the last seven years; investments during FY 02-03 were USD 2.6 billion.
5. Legal and accounting systems are in place to meet the global standards.
6. The technology in the industry has improved significantly with quite a few Indian companies entering into technological collaborations with global majors.
7. With respect to quality many companies have achieved various internationally recognized certifications and awards from reputed institutions

All-round Growth

Contrary to the misconception that the growth in automobile industry has catered only to the top income-stratum of society by producing mostly passenger cars, the fastest growth in volumes has come from commercial vehicles. Between 1998-99 and 2003-04, output of such vehicles has grown 2.8 times compared to the 2.2 times increase in passenger cars. Furthermore, two-wheeler output continues to dominate the volume statistics of the sector. In 2003-04, for every passenger car turned out by the sector, there were 7 two-wheelers produced. In the two-wheeler segment, there is a greater preference for motorcycles followed by scooters, with both production and domestic sales of motorcycles increasing at faster rates than for scooters in the current and previous years. However, mopeds have registered low or negative growth. Export growth rates have been high both for motorcycles and scooters. Sales incentives, introduction of new models as well as variants coupled with easy availability of low cost finance with comfortable repayment options continued to drive demand and sales of automobiles during the first two quarters of the current year. The risk of an increase in the interest rates, the impact of delayed monsoons on rural demand, and increase in the costs of inputs such as steel are the key concerns for the players in the industry. As the players continue to introduce new models and variants, the competition may intensify further. The ability of the players to contain costs and focus on exports will be critical for the performance of their respective companies. The auto component sector has also posted significant growth of 20 per cent in 2003-04, to achieve a sales turnover of Rs. 30,640 crore (US\$ 6.7 billion). Further, there is a potential for higher growth due to outsourcing activities by global automobiles giants. Today, this sector has emerged as another sunrise sector.

Following is the Auto component industry production (in US \$ Million) from 1996 to 2005, which shows a clear increasing trend over the years:

Current Scenario & Future Outlook

The auto component sector is on a growth trajectory as is evident by the fact that auto components has been designated as a “Thrust Sector” by the Government of India under the EXIM Policy. The Department of Commerce is to promote export of auto components through a specific sectoral strategy. The size of the global auto component industry is USD 1.2 trillion with most of it located in high cost countries. Global purchases of components by international vehicle manufacturers are currently estimated to be USD 45 billion.

However, the role of outsourcing is constantly increasing. Also, the problem of high rejection rates which plagued the domestic auto ancillary industry has been overcome which is exhibited in number of overseas deals concluded by the domestic industry amidst stiff competition from other Asian countries. The Government has extended various fiscal incentives and policy measures, which have helped the industry.

Critically, outsourcing of automobile components that have relatively high engineering and design content from suppliers in low cost countries like India, is gaining momentum fast. It is estimated that in the next 10 years the auto components industry will reach USD 33-40 billion.

Going by the current trends in the domestic automotive industry and as stated above, it is expected that the indigenous demand for auto components will also reach USD 13-15 billion in the next 10 years and about USD 20-25 billion would be exported. To meet the combined demand from domestic and international customers the industry will have to make significant incremental investment Hence, the Indian auto component industry (and by sequel the forging industry) is poised to achieve a position in the top slot in the world and will be in all probability a major

driver of growth and employment in the domestic economy. Considering the recovery, particularly in the first half of the financial year (which saw substantial growth in the forging industry too) i.e. domestic demand increasing by about 15% over the previous year and exports by over 25%, the above estimates look challenging yet achievable.

India has a good opportunity and potential

The McKinsey's study has highlighted that India has a good opportunity and potential to develop the auto component industry from around \$ 9 billion today to about \$ 40 billion by 2015. The same study projects the export potential as \$ 20 billion by 2015. We are already witnessing acquisitions of companies in Europe and North America by Indian automotive components manufacturing companies. All these are indicative of the fact that India is fast emerging as a global automotive hub and is engaging much attention for its high competitiveness, cost-effective solutions, good engineering and design skills etc. This is helping us project ourselves as an ideal outsourcing destination. A stable economic environment is enabling the exponential development.

RECENT DEVELOPMENTS

i) Auto Expo

The 9th Auto Expo was organized in New Delhi's Pragati Maidan. It was organized by ACMA, SIAM & CII from 20 January 2006. It provided an excellent opportunity to enhance international business for the auto component sector.

ii) Auto Compo 2005

While India enjoys certain advantages to become a global outsourcing hub for auto components industry, there are also some hitches that need to be corrected if the full potential is to be realized.

Mr. V.K. Viswanathan stated this recently; Joint Managing Director of MICO while delivering the keynote address at the "Auto Compo 2005" organized by CII in Coimbatore. The Indian auto industry, he said, is expected to grow five fold in the next 10 years to reach an annual volume of US\$35 billion and the exports might reach US\$8-09 billion. Explaining the reasons for the optimism, he said the cost of auto designing in India is less than one twelfth of the cost of doing the same in the US. Further, he said that there were some challenges too. These include poor infrastructure facilities with respect to airports, sea ports, roads and power in which India lagged behind some of its Asian rivals like China and the labour laws are also restrictive and inflexible and required attention.

iii) Setting Up of Cluster for Auto Components

The Government of India have decided to take 19 industrial clusters under the Industrial Infrastructure Up gradation Scheme of the Department of Industry Policy and Promotion, Government of India. This has been done to enhance the competitiveness of the domestic industry by providing quality infrastructure through public -private partnership.

iv) Setting up of SEZ by Mahindra Group:

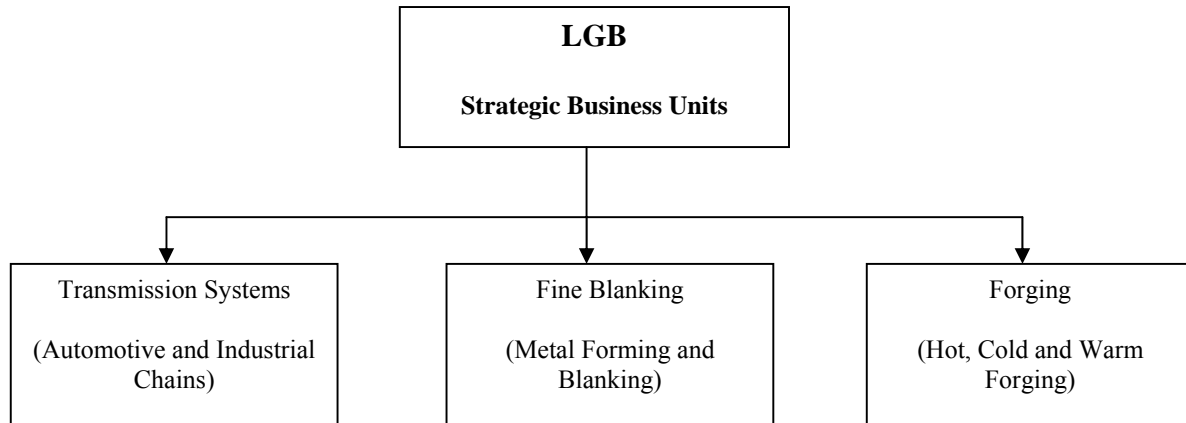
The Mahindra Group would develop the first corporate special economic zone in the country The SEZ situated about an hour drive away from Chennai will cater to three sectors: information technology, apparel and fashion accessories and auto ancillaries.

v) Sub-Committee to Promote Manufacturing

The National Manufacturing Competitiveness Council (NMCC) has set up a subcommittee to promote manufacturing of 10 sectors including auto components. The Council is working on a long-term strategy for doubling the share of manufacturing in GDP from 17% to 37% in the next few years.

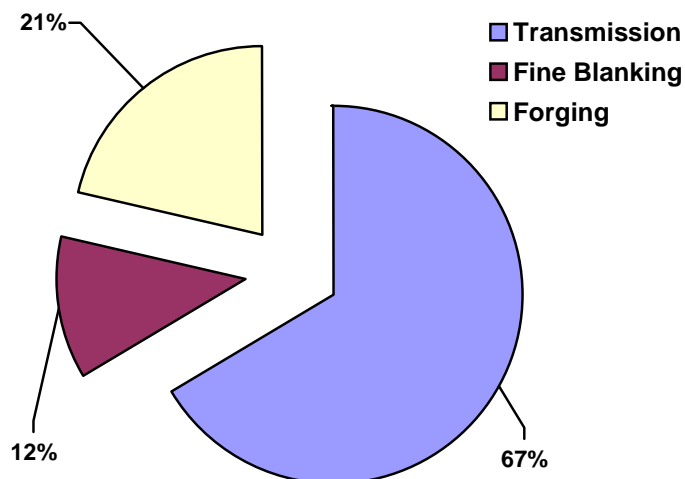
BUSINESS OVERVIEW

Established in 1937, by Mr. LRG Naidu, L.G. Balakrishnan & Bros, started out as a partnership company operating bus transport routes in Tamil Nadu. Over the years the company grew to become a 500 bus fleet unit with a captive bodybuilding, tyre re-treading and engine servicing plant in the mid 1950's. Mr. LRG Naidu's sons and subsequently grandsons took over each unit and set up separate companies in the late 1950's. It incorporated in 1956 as a private limited company and subsequently converted into public limited company during year 1975. During 1966, timing chain manufacturing operations were taken up with the collaboration of John Winklehofer, Germany. LGB has become the first Indian Company to supply Timing Chains to four wheeler OEMs in India and is the largest exporter to the U.S.



The core businesses of the company as per revenue share can be classified under the following three SBUs- Transmission (Auto and industrial) 65%, Metal Forming Fine blanking 13%, Forging Hot & Warm forging and Cold Forging 22%. Apart from this, LGB has a 100% subsidiary- LGB Textiles- carrying on yarn spinning business with an installed base of 9,936 spindles. At present company has 10 plants and is currently planning to set up a plant in Pune and Uttaranchal each for its transmission business

SBU wise sales contribution



LGB has 18 offices/depots spread all over India along with a 2000 strong dealer network and some 110 salesmen covering the entire country. The company also has a strong dealer network. The company is able to supply just in time due to its network of depots that are geographically spread out.

LGB has benefited from technology that it has absorbed from various global auto parts companies like IWIS (from Germany), Diado (Japan), Rexnord (Germany), Gelb (US) and Nichidoi (Japan). Its manufacturing facilities and processes have been accredited with national and international quality certifications and its systems benefit from Six Sigma, Balanced Scorecard and SAP.

LGB also makes Industrial Chains used in various applications. LGB is the leading player in the Indian market and exports about US\$ 5 Million to U.S.A and Europe, annually.

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The Company's manufacturing facilities are located at Ganapathy, Annur, Karur, Gudalur, Mysore, Vaiyampalayam, Nagalore, Sengalipalayam, Kodayampalayam and Pongalur. LGB is accredited with ISO 9001 by UL, USA and further has TS16949, ISO 14001, and API & Export House Certifications.

The total income of the Company was Rs. 41,942.96 Lacs, Rs. 41,274.52 Lacs and Rs. 30,014.39 Lacs for the fiscal 2006, fiscal 2005 and fiscal 2004 respectively. The net profit after tax of the Company was Rs. 1,359.42 Lacs, Rs. 1649.22 Lacs and Rs. 1361.08 Lacs for the fiscal 2006, fiscal 2005 and fiscal 2004 respectively.

Competitive Strengths

- **Dominant market position in automotive chains industry, supported by strong Original Equipment Manufacturer (OEM) relations, diversified customer base and long track record.**

LGB has been able to retain its market leadership position in the segment with a close control on cost and quality, which has thwarted new entrants, including low cost Chinese imports. LGB continues to work on its relationships with leading two-wheeler OEMs and plans to invest in facilities closer to leading OEMs like Bajaj Auto Ltd. (BAL), Hero Honda Motors Ltd. (HHML) and capture business with new entrants in Indian two-wheelers like Suzuki to retain its competitive advantage. Locating near the customer premise will drive cost advantage through better inventory management and VAT (value added tax) related advantages. Besides BAL, LGB enjoys significant market share with leading two-wheeler OEMs like TVS (80%), Honda Motorcycle & Scooter India (Private) Ltd. (HMSIL, 100%)

Transmission division's OEM business composition

Customer	2005-06	2004-05	2003-04	2002-03
BAL	47.2%	41.9%	46.6%	37.9%
HHML	29.5%	35.1%	29.1%	29.6%
TVS	15.8%	13.9%	11.7%	19.1%
YMIPL	2.8%	3.6%	2.6%	4.0%
Others	4.7%	5.5%	9.9%	9.3%

YMIPL - Yamaha Motors India Private Limited; Source: Company

- **Strong presence in the replacement market in its core transmission business, which helps mitigate cyclical risks.**

Transmission chains business prospects driven by good two-wheeler industry prospects: The transmission chain industry can be broadly classified into two main user categories – automotive chains and industrial/engineering chains. Automotive chains are largely driven by the demand from the domestic two wheelers industry, which accounts for around 45% of total transmission chain demand. Industrial/engineering chains are used extensively in various manufacturing and infrastructure related equipment and applications. The two-wheeler market, which grew at a CAGR of 11.0% during the last 10 years, coupled with the growing after market [over 50 million domestic two wheeler population, which normally needs transmission product (chains and sprockets) replacement every three years/30,000 kms] are strong revenue drivers for LGB.

Sales to replacement markets, which constitute around 40-45% of total transmission division revenue is distributed through a large network of 2000 dealers across the country. The replacement market business carries higher margin and to an extent mitigates any slowdown in OEM demands. Exports, which grew by around 39% in 2005-06, contributed 10% to the transmission division revenues.

- **Integrated operations in forging/fine blanking, helping in operating efficiency.**

LGB has built up over two decades of expertise in the process of fine blanking as we were one of the first companies in India to import fine blanking presses in 1984. We currently operate the largest number of fine blanking machines in India. The process expertise that we have gained in fine blanking can be seamlessly applied to our new initiatives in forging. Our existing customers have also expressed the desire to source forging products from us. Thus we can capitalize on our existing pool of skilled manpower in engineering as well as the relationships built over the past decades to market our forging products.

- **Proficiency in tool making, reverse engineering helps in controlling capital costs.**

As a company focused on innovation, LGB places great emphasis on R&D, which has the facility of Pro-E, CAD & CAM. The Government recognized R&D facility is equipped with state-of-the-art equipment for the testing of raw materials and finished products. We have taken great strides to bolster our manpower quality through recruitment of highly experienced personnel from various leading domestic players. Our R&D team is constantly researching ways to improve our production techniques and product lines through the study of the latest technology emerging from the developed markets of U.S.A., Japan and Germany.

- **Strong export prospects which are expected to drive revenue growth in the long term.**

We have been steadily building expertise in international quality R&D and production techniques through long term tie-ups with automobile component majors in the U.S.A. and Germany for the transfer of contemporary technology and skill sets. Our aim is to capture a significant portion of the world market for automotive chains by 2012. To this end, we have made great strides in putting together a strong product portfolio and have been actively showcasing it to large players in the western markets. Larger orders from existing customers and new customer relationships are expected to drive our export initiative over the next decade.

Trademarks

We hold trademarks for the names of the products that we manufacture and sell in the market. The table below sets forth the trademarks owned by our Company and their status:

No.	Trademark	App./ Reg. Number	Owner	Status
1.	ROLON (Word) Registered in Class 7	444479	L.G. Balakrishnan And Bros, Limited	Registration valid till October 18, 2006
2.	Registered in Class 6	214782B	M/s. Surana & Surana(International Attorneys)	Registration valid till April 4, 2015
3.	Registered in Class 12	552403	M/s. Surana & Surana(International Attorneys)	Registration valid till June 6, 2015
4.	ROLON (word) Registered in Class 12	444486B	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
5.	ROLON (word) Registered in Class 8	444482	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
6.	ROLON (logo) Registered in Class 8	444483	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
7.	ROLON (word) Registered in Class 9	444484	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006

No.	Trademark	App./ Reg. Number	Owner	Status
8.	ROLON (logo) Registered in Class 9	444485	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
9.	ROLON (logo) Registered in Class 15	444490	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
10.	ROLON (word) Registered in Class 15	444491B	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
11.	ROLON (word) Registered in Class 11	444495	L.G. Bala Krishnan And Bros, Limited	Registration valid till October 17, 2006
12.	Logo Registered in Class 9	1279454	L.G. Bala Krishnan And Bros, Limited	Registration valid till April 18, 2014
13.	Logo Registered in Class 7	1279455	L.G. Bala Krishnan And Bros, Limited	Registration valid till April 18, 2014
14.	Logo Registered in Class 12.	1279456	L.G. Bala Krishnan And Bros, Limited	Registration valid till April 18, 2014
15.	Low –Wear Csb TECHNOLOGY (logo) Registered in Class 12	1279457	L.G. Bala Krishnan And Bros, Limited	April 18, 2014
16.	CSB (logo) Registered in Class 12	1279458	L.G. Bala Krishnan And Bros, Limited	Registration valid till April 18, 2014
17.	RN (logo) Registered in Class 12	1267786	L. G. Bala Krishnan And Bros, Limited	Registration valid till February 17, 2014

Key Industry Regulations

The manufacturing [automotive and industrial chains] is an unregulated industry and as such there is no specific registration governing the same. The following regulations and policy broadly govern this industry:

A] Factory related Act(s) / Regulation(s)	
1	The Factories Act, 1948
2	The Air (Prevention & Control of Pollution) Act, 1981
3	The Water (Prevention & Control of Pollution) Act, 1974
4	Hazardous Waste (Management & Handling) Amendment Rules, 2005
5	The Petroleum Rules, 2005
6	The Indian Explosives Act, 1884
7	The Solvent, Reaffinate & Slop (Acquisition, Sale, Storage & Prevention of use in Automobiles) Order 2000
8	The Water (Prevention & Control of Pollution) Cess Act, 1977
9	The Manufacture, Storage & Import of Hazardous Chemical Rules, 1989

10	The Public Liability Insurance Act, 1991
11	The Noise Pollution (Regulation & Control) Rules, 2000
12	Ozone Depleting Substance (Regulating & Control) Rules, 2000
13	Contract Labour (Regulation & Abolitions) Act, 1970

B] Statutory Dues Act(s)/Regulation(s)	
1	Central Excise
2	Cess (including Education Cess)
3	Value Added Tax
4	Income Tax
5	Central Sales Tax
6	Customs Duty
7	Service Tax
8	Property Tax
9	Employees State Insurance
10	Provident Fund
11	Professional Tax
12	Octroi Duty
13	Fire Tax
14	Water Tax
15	Investors Education & Protection Fund

Liberalization of FDI Policy:

The Government has allowed foreign equity participation upto 100% through automatic route, for investment in companies manufacturing auto components.

Central Excise Regulations

Excise Duty is imposed on goods produced or manufactured in India under the provisions of the Central Exercise & Tariff Act, 1985 (“Act”). At present, the rate of excise duty on automotive lamps, rear view mirrors and plastic parts is 16% of the value of the goods calculated in accordance with the provisions of the Act. An additional 2% education cess is levied and therefore, the aggregate excise duty is 16.32% ad valorem.

Custom Regulations

Custom Duty is levied on imports of goods in to the country under the Customs Act, 1962 at the rates specified in the Customs Tariffs Act, 1975. At present, the basic custom duty rate is 12.5%. An additional 2% education cess is levied on the custom duty besides additional countervailing duties.

Export Promotion Capital Goods (EPCG) Scheme

The Scheme facilitates import of capital goods at 5% concessional rate of duty with appropriate export obligation. Import of second hand capital goods is allowed under the EXIM Policy as announced on 31/03/2003.

VIII. MANAGEMENT OF THE COMPANY

BOARD OF DIRECTORS

Name, Age, Father's Name, Qualification, Designation, Experience	Other Directorship	Date of Appointment	Date of expiration of current term	Number of shares held
<p>L.G.Varadarajulu (77), Son of L.R.G.Naidu <i>Qualification:</i> DAE. <i>Address:</i> 228, Tea Estates, Race Course, Coimbatore-641018 <i>Occupation:</i> Industrialist <i>Experience:</i> 52 years</p>	<ul style="list-style-type: none"> - Elgitread (India) Ltd - Elgi Rubber Products Ltd. - Elgitread Ltd. - Elgi Equipments Ltd. - Elgi Ultra Industries Ltd. - Magna Electro Castings Ltd. - Rayalaseema Technologies Ltd. - LRG Technologies (P) Ltd. - Ellargi & Co. (P) Ltd. - Elgitread (Kenya) Ltd, Kenya - Elgitread (Mauritius) Ltd, Mauritius. - Elgitread Lanka (P) Ltd, Sri Lanka. - Elgitread (Tanzania) Ltd, Tanzania. - Elgitread (Bangladesh) Ltd, Bangladesh. 	24/03/1956		46,250
<p>B.Vijayakumar, (53) Son of L.G.Balakrishnan <i>Qualification:</i> B.Sc. <i>Address:</i> 28, Kamaraj Road, Coimbatore – 641018 <i>Occupation:</i> Industrialist <i>Experience:</i> 28 years</p>	<ul style="list-style-type: none"> - Elgi Automotive Services Ltd. - L.G.B.Auto Products Ltd. - LG Farm Products Ltd. - Super Spinning Mills Ltd. - Elgi Equipments Ltd. - Coimbatore Private Industrial Estate Ltd. - Super Farm Products Ltd. - Meridian Industries Ltd. - Super Speeds (P) Ltd. - Super Transports (P) Ltd. - LGB Textiles Ltd. - LG Sports (P) Ltd. - LGB Fuel Systems (P) Ltd. 	25/11/1986		Nil
<p>P.S.Balasubramanian (65) Son of P.Subbiah <i>Qualification:</i> B.E. <i>Address:</i> 782, LGB Colony, Trichy Road, Ramanathapuram, Coimbatore – 641045. <i>Occupation:</i> Service <i>Experience:</i> 42 years</p>	<ul style="list-style-type: none"> - Elgi Automotive Services Ltd. - L.G.B.Auto Products Ltd. - LG Farm Products Ltd. - Super Speeds (P) Ltd. - LGB Textiles Ltd. - LG Sports (P) Ltd 	10/03/1995		32,000
<p>C.Nachiappan (71) Son of Chinnu Gounder <i>Qualification:</i> M.S. <i>Address:</i> 2, Park Road, Fair Lands, Salem – 636 004 <i>Occupation:</i> Business <i>Experience:</i> 44 years</p>	<ul style="list-style-type: none"> - Aqua Marine (P) Ltd. 	16/02/1983		68,000

Name, Age, Father's Name, Qualification, Designation, Experience	Other Directorship	Date of Appointment	Date of expiration of current term	Number of shares held
P.Balasubramanian (68) Son of Purushothaman Naidu <i>Qualification:</i> B.S. <i>Address:</i> 156/215, Tea Estates, Race Course, Coimbatore-641018 <i>Occupation:</i> Business <i>Experience:</i> 22 years	- Rayalaseema Technologies Ltd.	16/02/1983		10,000
S.Sivakumar (52) Son of S.Sitaraman <i>Qualification:</i> B.Com. <i>Address:</i> 46, Bharathi Park Road, 7 th Cross, Coimbatore-641011 <i>Occupation:</i> Business <i>Experience:</i> 24 years	- Elgi Automotive Services Ltd. - L.G.B.Auto Products Ltd. - LG Sports (P) Ltd.	28/06/1996		5,240
V.Govindarajulu (49) Son of V.R.Venkatesalu <i>Qualification:</i> B.E <i>Address:</i> "Ayathnaa", 60-4/49-9, Sathy Road, Ganapathy, Coimbatore – 641006 <i>Occupation:</i> Service <i>Experience:</i> 22 years	Nil	29/06/1998		Nil
P.Shanmugasundaram (56) Son of Palaniswamy <i>Qualification:</i> B.Com, LLB, FCA. Chartered Accountant <i>Address:</i> 4, Green Lands, Near Tansi, Covai Road, Karur-639002. <i>Occupation:</i> Industrialist <i>Experience:</i> 30 years	- Sabare International Ltd., - DSM Soft Private Ltd.	24-05-2001		Nil

COMPENSATION OF MANAGING DIRECTOR/WHOLETIME DIRECTORS

Remuneration to Managing Director

B. Vijayakumar, Managing Director was re-appointed for a period of 5 years from 01/01/2005 to 31/12/2009 on the following remuneration and perks:

1.	Period of appointment	:	Five years from 01/01/2005
2.	Salary	:	Salary @ Rs.1,50,000/- per month in the scale of Rs.1,50,000 – Rs.15,000/-
3.	Perquisites	:	In addition to the remuneration Shri B. Vijayakumar, Managing Director, shall also be entitled to perquisites, the annual value of which shall not exceed the annual salary.
4.	Commission	:	1% on Net Profit of the Company determined in accordance with relevant provisions of the Companies Act, 1956.
5.	Other benefits	:	Benefits under Provident Fund as per the rules of the company and this shall not be included in computing the value of perquisites. Minimum remuneration and perquisites to be paid in the event of loss or inadequacy of profits in any financial year shall be as per schedule XIII of the Companies Act, 1956.

Remuneration to Joint Managing Director

P.S. Balasubramanian, Deputy Managing Director, be re-designated as Joint Managing Director and re-appointed for a further period of 5 years from 01/04/2005 to 31/03/2010 on the following remuneration and perks:

1.	Period of appointment	:	Five years from 01/04/2005
2.	Salary	:	Salary in the scale of Rs.80,000 - Rs.10,000 - Rs.1,20,000
3.	Perquisites	:	Actual reimbursement of medical expenses, vehicle maintenance expenses, servant expenses, Entertainment and Furnishing expenses etc., not exceeding Rs.30,000/- per month. Vehicle Purchase Allowance of Rs. 4,000/-
4.	Other benefits	:	Benefits under Provident Fund as per the rules of the company and this shall not be included in computing the value of perquisites. He is also eligible for Club fees subject to a maximum of 2 clubs, leave travel concession, and personal accident insurance premium.

BORROWING POWERS

Pursuant to a resolution approved through postal ballot by Shareholders of the Company on 08/05/2006, the current borrowing powers of the Directors pursuant to Section 293(1)(a) and Section 293(1)(d) of the Companies Act is increased upto Rs. 300 crores over and above the aggregate of then paid up capital and free reserve of the Company.

CORPORATE GOVERNANCE

The Company has complied with SEBI guidelines in respect of Corporate Governance especially with respect of broad basing of Board, Constituting the committees. The extract of report on Corporate Governance as incorporated in Clause 49 of the Listing Agreement with the Stock Exchange is set out below:

Company's philosophy on Code of Governance:-

The corporate vision of LGB is to deliver world-class customer service by being committed to values. LGB is therefore committed to ethical business conduct of corporate functioning by maximizing customer satisfaction through the delivery of quality products on time and at reasonable prices whilst complying with all regulations, as applicable from time to time, with adequate transparency and accountability. At LGB, the pursuit of perfection is an on-going process enabling it to look back with immense satisfaction on its past achievements and look ahead with confidence to a promising and challenging future. The strategy remains to maintain its leadership position through systematic initiatives in product development giving customers quality products. LGB aims to ensure high ethical standards in all its business activities thereby enhancing its stakeholder's value.

Composition & category of Directors:-

The Board of LGB consists of Nine Directors. The composition and category of Directors is as follows:

Name of the Directors	Category
L.G. Varadarajulu	Promoter Non- Executive
B. Vijayakumar Managing Director	Promoter Executive
P.S. Balasubramanian Joint Managing Director	Executive
P. Balasubramanian	Independent Non- Executive
C. Nachiappan	Independent Non- Executive
S. Sivakumar	Non-Independent Non- Executive
V. Govindarajulu	Independent Non- Executive
P. Shanmugasundaram	Independent Non- Executive

Constitution and Composition of committees

Audit Committee

The Audit Committee comprises of three Non - Executive and Independent Directors. The composition of the committee is as follows:

Name of the Member	Status
P. Shanmugasundaram	Chairman
P. Balasubramanian	Member
V. Govindarajulu	Member

The committee usually meets four times during the year to discuss the following

- To oversee the Company's financial reporting process and disclosure of financial information to ensure that the financial statement is correct, sufficient and credible.
- To review and discuss with Auditors about internal control systems, the scope of audit, including the observations of the Auditors.
- Adequacy of the internal audit functions, review of major accounting policies and of accounting standards
- To review the quarterly, half yearly and annual financial statements before submission to the Board of Directors.

M. Lakshmi Kanth Joshi, Company Secretary, is the secretary of the Audit Committee.

Remuneration Committee

The Board of the Company has constituted a Remuneration Committee, comprising of 3 Independent, Non-Executive Directors

Name of the Member	Status
C. Nachiappan	Chairman
P.Balasubramanian	Member
V.Govindarajulu	Member

The Remuneration Committee has been constituted to recommend/review the remuneration package of the Managing/ Whole Time Directors, based on performance and defined criteria. The remuneration policy is directed towards rewarding performance, based on review of achievements on a periodical basis. The remuneration policy is in consonance with the existing Industry practice.

M. Lakshmi Kanth Joshi, Company Secretary, is the secretary of the Remuneration Committee.

Shareholders / Investors Grievance Committee

The Company's shares being in compulsory dematerialized (demat) list are transferable through the depository system. Shares in physical form are processed by the Registrars and Share Transfer Agents, Cameo Corporate Services Limited and approved by the Share Holder & Investors committee. The share transfers are registered and returned with a period of 30 days of receipt, if the documents are in order.

This committee has been formed to specifically look into the shareholders/investor complaints, if any, on transfer of shares, non-receipt of balance sheet, non receipt of declared dividends, etc., and also take necessary action on the above stated matters.

The Committee consists of the following Directors as its members:

Name of the Member	Status
V.Govindarajulu	Chairman
P.S. Balasubramanian	Member
B. Vijayakumar	Member

M. Lakshmi Kanth Joshi, Company Secretary is the Compliance Officer.

INTEREST OF DIRECTORS

The Company has acquired the operations of M/s. MGM Industries and Swathe Gears and Heat Theaters, Mysore based firms effective from 01/06/2004. from T. Muralidhar Bhagavat was interested in those firms. Subsequently, T. Muralidhar Bhagavat became a director of our company on 28/06/2004.

Besides this all the Directors may be deemed to be interested to the extent of reimbursement of expenses, if any, payable to them under the articles. The Directors may also be deemed to be interested to the extent of the shares, if any, held by them or by the relatives or by firms or companies of which any of them is a partner and a Director/ Member respectively and the shares if any, out of the present Offer that may be subscribed for and allotted to them or their relatives or any Company in which they are Directors / members of firms in which they are partners.

CHANGE IN BOARD OF DIRECTORS

The changes in the Board of Directors since past three years are as follows:

Name of Director	Date of Appointment/ Resignation	Reason for Appointment/Resignation
T. Muralidhar Bhagavat	28/06/2004 / 14/08/2006	Appointed as Additional Director. Regularized In the AGM on 28-07-2004 / Resigned due to personal business preoccupation
B. Vijayakumar	01/01/2005	Reappointed as Managing Director
P.S Balasubramanian	01/04/2005	Reappointed as Joint Managing Director
P.S. Srinivasan	28/07/2004	Retired from Board. Not sought for re-election.

KEY MANAGERIAL PERSONNEL

The details of our Key Managerial Personnel are as follows:

Name	Designation	Qualification	Overall Experience	Date of Joining
P. S. Balasubramanian	Joint Managing Director	B.E.	42	29/08/1963
K. Vasudevan	Chief Operating Officer (Metal Forming Division)	B.E.	35	16/01/1970
A. James Chandra Mohan	Chief Operating Officer (Forging Division)	M.Com, B.L.,FCS, DLL	20	19/03/1990
P. Prabakaran	Chief Operating Office (Transmission Division)	B.E	20	27/03/1988
Thirupathivasagam	Head -Project	BE, MBA	20	14/12/1988
P. Gandhimathinathan	Sr.Manager(HR)	BSc., BL.	20	01/01/1986
A. Sampath Kumar	Sr.Manager (Purchase)	B.A.	23	01/04/1989
N. Rengaraj	Sr.Manager (Corporate Finance & Accounts)	BBA, ACA	8	01/03/2004
M. Lakshmi Kanth Joshi	Company Secretary	B.Com,FCS	11	30/03/2005
K. Viswanathan	Manager (IT)	MCA	12	16/06/1994

Brief Profile of Key Management Personnel:

P. S. Balasubramanian	
Date of Joining of the Company	29/08/1963
Functional Responsibilities	Responsible for the overall management & control of the Company.
Previous Employment	Lecturer in Govt. Polytechnic, Coimbatore
K. Vasudevan	
Date of Joining of the Company	16/01/1970.
Functional Responsibilities	Heads the Metal Forming division. Has strong technical experience in Product Development & Tool making.
Previous Employment	Nil

A. James Chandra Mohan	
Date of Joining of the Company	19/03/1990
Functional Responsibilities	Heads the Forging operations of the Company.
Previous Employment	Eltex Super Castings Ltd.
P. Prabakaran	
Date of Joining of the Company	27/03/1988
Functional Responsibilities	Heads the Transmission Division
Previous Employment	Shanti Gears Limited
Thirupathivasagam	
Date of Joining of the Company	14/12/1988
Functional Responsibilities	Head of the Project implementation team.
Previous Employment	Nil
A. Sampath Kumar	
Date of Joining of the Company	01/04/1989
Functional Responsibilities	In-charge of the Purchase Department.
Previous Employment	Super Engineers Limited.
P. Gandhimathinathan	
Date of Joining of the Company	01/01/1986
Functional Responsibilities	Heads the HR & Administration functions
Previous Employment	Nil.
M. Laskhmi Kanth Joshi	
Date of Joining of the Company	30/03/2005
Functional Responsibilities	Company Secretary and Compliance Officer
Previous Employment	VeeJay Lakshmi Engineering Works Ltd.
N. Rengaraj	
Date of Joining of the Company	01/03/2004
Functional Responsibilities	Corporate Finance & Accounts
Previous Employment	Rubfila International Ltd as Asst.Manager (Accounts & Finance)
Viswanathan	
Date of Joining of the Company	16/06./1994
Functional Responsibilities	Heads the Information Technology department
Previous Employment	Nil

EMPLOYEES

The details of the employees for the year 2005 are as follows:

	Pongalur	Ganapathy	Annur	Vaiyampalayam	Mysore
Executives	12	49	3	1	2
Engineers/Officers	17	133	13	5	10
Supervisors	35	122	11	21	11
Others	64	31	2	13	6
Confirmed Workers	25	58	209	197	123
Contract Labour					
TOTAL	153	393	238	237	152

	Gudalur	Kondayampalayam	Sengalipalayam	Apten	MGM
Executives	3	2	1	5	5
Engineers/Officers	22	10	2	7	24
Supervisors	14	25	15	15	8

Others	7	26	19	25	22
Confirmed Workers	194	3	15	30	87
Contract Labour					
TOTAL	240	66	52	82	146

There has been no Employee Stock Option Scheme/ Employee Stock Purchase Scheme in existence as on date neither there are any other payments or benefits to officers of the company other than the salary.

DIVIDEND POLICY

The Board may, at its discretion, recommend dividends to be paid to the Shareholders of the Company. Generally, the factors that may be considered by the Board of Directors before making any recommendations for the dividend include, without limitation, our future expansion plans and capital requirements, profits earned during the fiscal year, cost of raising funds from alternate sources, liquidity position, applicable taxes including tax on dividend, as well as exemptions under tax laws available to various categories of investors from time to time and general market conditions. The Board of Directors may also from time to time pay interim dividends to our shareholders. Dividends, other than interim dividends, will be declared at the annual general meeting of the Shareholders based on the recommendation of the Board of Directors.

The dividends declared by the company during the last five years are disclosed below:

Particulars (for the years ended March 31)	2006	2005	2004	2003	2002	2001
<i>Equity Shares</i>	7,86,13,060	7,86,13,060	7,86,13,060	39,30,316	39,30,316	39,30,316
Rate of Dividend (%)	30	80	30	55	40	35
Face Value	Re. 1/-	Re. 1/-	Re. 1/-	Rs. 10/-	Rs. 10/-	Rs. 10/-
Total Dividend* (Rs. in lacs)	268.89	713.28	266.04	243.87	157.21	151.59

* Inclusive of Dividend Tax wherever applicable

IX. FINANCIAL INFORMATION

AUDITORS REPORT

Report on Unconsolidated and Consolidated Financial Information of the Company

Date: 24/07/2006

The Board of Directors
L.G.Balakrishnan & Bros Ltd.
6/16/13, Krishnanrayapuram Road,
Ganapathy, Coimbatore – 641006.

Dear Sirs,

We have examined the Unconsolidated financial information of L.G.Balakrishnan & Bros. Limited (“the Company”) as attached to this report stamped and initialed by us for identification and as approved by the Board of Directors of the Company, which has been prepared in accordance with Generally Accepted Accounting Principles in India, Part II of Schedule II of the Companies Act, 1956 (“the Act”), the securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 (the ‘Guidelines’) issued by the securities and Exchange Board of India (‘SEBI’) and the related Clarifications XIII and XIV issued by ‘SEBI’, and in accordance with the instructions dated 20-06-2006 received from the Company requesting us to carry out work in connection with the Offer document to be issued by the Company in Connection with its proposed Rights issue of Equity Shares (referred to as ‘the issue’).

A. Unconsolidated Financial Information of the Company

We have examined the attached ‘Adjusted Statement of Assets and Liabilities’ (Annexure 1) of the Company as at 31st March 2001, 31st March 2002, 31st March 2003, 31st March 2004, 31st March 2005 and 31st March 2006 and the attached ‘Adjusted Statement of Profit and Loss Account’ (Annexure 2) for each of the periods / years ended on those dates, together referred to as “Summary Statement”. The summary statements for the period / years ended 31st March 2001, 31st March 2001, 31st March 2003, 31st March 2004, 31st March 2005 and 31st March 2006, have been extracted from the financial statements for the respective period / years as audited by us and which have been approved by the Board of Directors. The said financial statements for the period / years ended 31st March 2001, 31st March 2001, 31st March 2003, 31st March 2004 and 31st March 2005 have also been approved by the members at the respective Annual General Meetings of the Company, while the financial statements for the year ended 31st March 2006 will be placed before the shareholders of the Company at the ensuing Annual General Meeting.

B. Consolidated Financial Information of the Company

We have examined the attached ‘Adjusted Consolidated Statement of Assets and Liabilities’ (Annexure – 4) and the attached ‘Adjusted Consolidated Statement of Profit and loss Account’ (Annexure – 5) of L.G.Balakrishnan & Bros. Limited along with its subsidiary Company / Companies.

For the purpose of our examination of the ‘Adjusted Consolidated Statement of Assets and Liabilities’ (Annexure – 4) and the attached ‘Adjusted Consolidated Statement of Profit and loss Account’ (Annexure – 5), as restated, we have relied on the audited financial statements reported upon by the auditors of the Subsidiary Company / Companies.

This report should not be in any way be construed as a reissuance or redating of any of the previous audit report of any other forms of Chartered Accountants nor should this be construed as a new opinion on any of the financial statements referred to herein.

C. Dividends

We further report that as per the books and records produced to us, the rates of dividend paid by the Company in respect of each of the five financial years ended 31/03/2001, 31/03/2002, 31/03/2003, 31/03/2004 and 31/03/2005 on the equity shares of the Company were as under:

Financial Year Ended 31st March	Rate of Dividend
2001	35%
2002	40%
2003	55%
2004	30%
2005	80%
2006	30%

The Company had no other class of shares during these years / periods.

D. Other Financial Information of the Company

We have examined the following financial information relating to the Company, which is proposed to be included in the Letter of Offer, the draft of which has been approved by the Board of Directors of the Company and attached to this report.

- i. Summary of Key Accounting Ratios based on the adjusted profits relating to earnings per share, net asset value and return on net worth is enclosed in Annexure 7.
- ii. Capitalisation Statement of the Company is enclosed in Annexure 8.
- iii. Statement on Tax Shelter is enclosed in Annexure 9.
- iv. Detail of Other Income is enclosed in Annexure 10.

In our view, the financial information of the Company, as attached to this report as mentioned in paragraphs (A) to (D) above, read with the significant accounting policies of the Company (Annexure 3), have been prepared in accordance with Part II of Schedule II of the Act, the 'Guidelines' and clarifications XIII and XIV issued by 'SEBI'

This report is intended solely for your information and for inclusion in the draft Offer Document in connection with 'the Issue' of the Company and is not to be used, referred to or distributed for any other purpose without prior written consent.

Yours faithfully,

For Deloitte Haskins & Sells
Chartered Accountants

Sd/-

C R Rajagopal
Partner
M.No.23418

ANNEXURE - I

STATEMENT OF RESTATED ASSETS AND LIABILITIES

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
A. FIXED ASSETS					
a) Gross Block	28,235.21	19,921.25	15,162.75	13,160.83	11,645.46
b) Less: Depreciation	10,453.53	8,586.77	7,203.68	6,011.76	5,104.99
c) Net Block	17,781.68	11,334.48	7,959.07	7,149.07	6,540.47
d) Capital work in Progress	1,183.77	2,971.71	68.30	36.76	91.66
e) Revaluation Reserve	251.19	287.02	138.91	138.91	138.91
Total Net Fixed Assets	18,714.26	14,019.17	7,888.46	7,046.92	6,493.22
B. INVESTMENTS	370.67	398.19	669.28	174.82	167.99
C. CURRENT ASSETS, LOANS & ADVANCES					
a) Inventories	9,333.54	8,209.81	5,655.47	4,370.27	3,925.32
b) Sundry Debtors	6,993.51	6,025.20	4,283.81	3,758.86	3,117.92
c) Cash and Bank Balances	1,017.81	1,120.02	197.30	529.51	655.76
d) Other Assets	42.63	10.01	19.02	5.59	16.92
e) Loans and Advances	4,060.47	2,292.37	2,026.51	1,577.66	1,364.65
Total Current Assets	21,447.96	17,657.41	12,182.11	10,241.89	9,080.57
Total Assets	40,532.89	32,074.77	20,739.85	17,463.63	15,741.78
D. LIABILITIES AND PROVISIONS					
Loan Funds					
a) Secured Loans	17,612.61	11,895.03	4,975.98	4,077.77	4,438.05
b) Unsecured Loans	768.65	895.23	1,031.29	874.71	748.62
Sub total	18,381.26	12,790.26	6,007.27	4,952.48	5,186.67
Current Liabilities					
a) Liabilities	10,408.77	9,010.15	5,329.63	4,429.17	3,381.58
b) Provisions	575.31	778.50	1,005.83	771.51	578.90
Total	10,984.08	9,788.65	6,335.46	5,200.68	3,960.48
Deferred Tax Liability	1,848.02	1,276.76	1,001.41	1,009.81	1,018.31
Total Liabilities	31,213.36	23,855.67	13,344.14	11,162.97	10,165.46
Net Worth	9,319.53	8,219.10	7,395.71	6,300.66	5,576.32
Net Worth Representing					
Share Capital	786.06	786.06	786.06	393.03	393.03
Reserves & Surplus	8,784.66	7,729.96	6,748.56	6,046.54	5,335.90
Revaluation Reserve	-251.19	-287.02	-138.91	-138.91	-138.91
Deferred Revenue Expenditure to the extent not written off	0.00	-9.90	0.00	0.00	-13.70
	9,319.53	8,219.10	7,395.71	6,300.66	5,576.32

INVESTMENTS

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
LONG TERM INVESTMENTS:					
<u>TRADE QUOTED - AT COST</u>					
Fully paid-up Equity Shares in:					
Super Spinning Mills Ltd	0.20	0.20	0.20	0.20	0.20
Elgi Finance Ltd	0.20	0.20	0.20	0.20	0.20
Lakshmi Synthetic Machinery Manufactures Ltd	0.01	0.01	0.01	0.01	0.01
Supreme Rubber Reclaimers Ltd	0.01	0.01	0.01	0.01	0.01
Tube Investments of India Ltd	0.01	0.01	0.01	0.01	0.01
6.75% Tax Free US 64 Bonds	8.54	8.54	8.54	11.27	11.27
Bharath Rubber Regenerating Co. Ltd	-	-	-	-	-
Elgi Equipments Ltd	112.29	134.06	134.06	134.06	134.06
Magna Electro Castings Ltd	6.16	7.50	7.50	7.50	7.50
Corporation Bank	1.92	1.92	1.92	1.92	1.92
<u>TRADE UNQUOTED - AT COST</u>					
Fully paid-up Equity Shares in:					
LGB Employees Co-operative Stores Ltd	0.01	0.01	0.01	0.01	0.01
Tata Refractory Ltd	2.01	2.01	2.01	2.01	2.01
Co-operative Super Market - Coimbatore Manish Commercial Premises	-	-	-	-	-
Co-operative Society Ltd, Mumbai	-	-	-	-	-
Kaveri Steels Ltd	-	-	-	-	-
<u>NON-TRADE UNQUOTED - AT COST:</u>					
Fully paid-up Equity Shares in:					
Silent Chain India (P) Limited (L.G.B.Engineering P Ltd.)	0.15	1.56	1.56	1.56	1.56
Super Transports Private Limited	-	2.98	2.98	2.98	0.43
Super Farm Products Ltd	5.00	5.00	5.00	5.00	5.00
LG Farm Products Ltd	1.00	1.00	0.05	0.05	-
Coimbatore Private Industrial Estate Limited	11.81	11.81	10.30	4.22	-
Super Energy Systems Limited	-	-	3.24	3.24	3.24
Super Speeds Private Limited	40.00	40.00	-	-	-
LG Sports (P) Limited	26.00	26.00	40.00	-	-
<u>SUBSIDIARY COMPANY</u>					
Equity Shares:					
Apten Forgings (P) Limited	-	-	251.26	-	-
LGB Textiles Limited (Super Energy Systems Limited)	154.95	154.95	-	-	-
0% Non Cumulative Redeemable Pref. Shares					
Apten Forgings (P) Limited	-	-	200.00	-	-
GOVERNMENT SECURITIES - UNQUOTED	0.40	0.42	0.42	0.57	0.56
	370.67	398.19	669.28	174.82	167.99

ANNEXURE 1.2

SUNDRY DEBTORS

(Rs. Lakhs)

	2006	2005	2004	2003	2002
UNSECURED: CONSIDERED GOOD:					
Debts outstanding for a period exceeding six months	1,084.32	347.49	321.01	388.23	411.45
Other Debts	5,909.19	5,677.71	3,962.80	3,370.63	2,706.47
Total	6,993.51	6,025.20	4,283.81	3,758.86	3,117.92

ANNEXURE 1.3

SECURED LOANS

(Rs. Lakhs)

For the year ending March 31	2006	2005	2004	2003	2002
Term Loan:					
Banks	7,704.58	5,132.47	1,247.00	1,391.53	1,436.72
Financial Institutions	-	-	280.89	305.45	325.14
Exim Bank	422.46	543.17	603.52	-	375.00
Foreign Currency Loan	-	-	-	-	162.80
From Banks:					
Cash Credit	9,485.57	5,101.52	1,725.66	1,199.90	836.12
Foreign Currency Loan	-	1,101.55	1,118.91	1,180.89	1,302.14
Vehicle Loan	-	16.32	-	-	-
Deferred Credit - HP	-	-	-	-	0.13
Total	17,612.61	11,895.03	4,975.98	4,077.77	4,438.05

ANNEXURE 1.4

UNSECURED LOANS

(Rs. Lakhs)

From:	2006	2005	2004	2003	2002
Directors	-	12.00	20.00	11.00	5.00
Intercorporate Loans	7.00	7.00	10.27	17.37	45.00
Others	41.77	70.36	64.00	10.00	8.00
Sales-tax Deferral Scheme	137.72	102.04	192.34	229.42	173.59
Fixed Deposits	582.16	703.83	744.68	606.92	514.86
Interest Accrued and Due	-	-	-	-	2.17
Sub - Total	2774.65	2900.23	3035.29	2877.71	2750.62

ANNEXURE - 2

STATEMENT OF RESTATED PROFIT AND LOSS ACCOUNT

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
INCOME					
Gross Sales	46,974.54	40,836.10	29,833.76	25,238.30	20,734.43
Less: Excise Duty & Sales Tax Payments	5,362.10	3,943.61	2,774.36	2,263.42	1,897.67
Net Sales	41,612.44	36,892.49	27,059.40	22,974.88	18,836.76
Other Income	330.52	438.42	180.63	207.64	114.50
Total	41,942.96	37,330.91	27,240.03	23,182.52	18,951.26
EXPENDITURE					
Consumption of Materials	20,930.61	19,384.86	13,450.17	11,609.40	9,695.42
Employees Cost	3,013.31	2,497.19	2,256.76	2,211.93	1,772.89
Other Manufacturing Cost	8,443.48	6,892.47	4,682.17	3,847.68	2,813.66
Administrative Expenses	1,184.99	1,106.22	829.75	762.69	859.32
Selling & Distribution Expenses	2,287.55	1,916.49	1,921.28	1,581.61	1,285.19
Sub - Total	35,859.94	31,797.23	23,140.13	20,013.31	16,426.48
EBIDTA	6,083.02	5,533.68	4,099.90	3,169.21	2,524.78
Interest	1,953.48	1,503.12	846.22	733.98	834.95
Depreciation	1,914.53	1,623.50	1,251.00	1,059.22	863.45
Net Profit before tax & extraordinary items	2,215.01	2,407.06	2,002.68	1,376.01	826.38
Provision for Tax	284.33	490.00	650.00	430.00	240.00
Deffered Tax	571.26	267.84	-8.40	-8.50	-67.38
Adjusted Profit	1,359.42	1,649.22	1,361.08	954.51	653.76
Balance brought forward from previous year	620.92	695.66	600.61	289.97	479.11
Profit available for appropriation	1,980.34	2,344.88	1,961.69	1,244.48	1,132.87
Interim Dividend inclusive of tax	0.00	444.39	0.00	0.00	0.00
Proposed Dividend	235.82	235.82	235.82	216.17	157.21
Tax on Dividend	33.07	33.07	30.21	27.70	0.00
Transfer to General Reserve	135.94	1,010.68	1,000.00	400.00	685.69
Balance Carried to Balance Sheet	1,575.51	620.92	695.66	600.61	289.97
Total	1,980.34	2,344.88	1,961.69	1,244.48	1,132.87
Basic & Diluted Earnings per Share(Rs)	1.73	2.15	1.73	24.29	16.64
Face value per share	1.00	1.00	1.00	10.00	10.00

CASH FLOW STATEMENT
(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
A. CASH FLOW FROM OPERATING ACTIVITIES					
Net Profit Before tax and extraordinary items	2215.01	2407.06	2002.68	1376.01	826.38
Adjustment for					
Depreciation	1914.53	1623.50	1251.00	1059.22	863.45
(Profit) / Loss on Sale of Assets	-29.52	14.44	-27.64	-54.53	20.12
(Profit) / Loss on Sale of Investments	-65.86	-245.16	2.70	0.00	-0.32
Assets condemned and written off	0.00	2.30	0.00	0.00	0.00
Interest Expenses	1953.48	1503.12	846.22	733.98	834.95
Interest Income	-59.35	-39.62	-22.21	-20.18	-26.31
Dividend Income	-28.01	-55.26	-25.77	-22.65	-14.42
Technical Knowhow fee written off	9.90	0.00	0.00	13.70	13.70
Foreign Exchange Loss	0.00	0.00	-11.14	80.32	86.81
Operating profit before Working Capital adjustments	5910.18	5210.38	4015.84	3165.87	2604.36
Adjustment for					
Increase in Trade and Other Receivables	-4325.81	-1972.02	-792.98	-814.38	-256.20
Increase in Inventories	-1123.73	-2554.34	-1285.20	-444.95	424.79
Increase in Trade Payables	3022.43	3680.52	873.09	1070.27	296.43
Cash Generated from Operations	3483.07	4364.54	2810.75	2976.81	3069.38
Income Tax Paid	-511.01	-654.73	-618.66	-363.62	-267.16
Cash Flow before extraordinary items	2972.06	3709.81	2192.09	2613.19	2802.22
Exchange Gain	0.00	0.00	11.14	-80.32	-93.23
Net Cash from Operating Activities	2972.06	3709.81	2203.23	2532.87	2708.99
B. CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of Fixed Assets	-6677.82	-8751.58	-2127.16	-1833.08	-1323.11
Proceeds from Sale of Fixed Assets	97.71	799.31	62.26	274.69	41.52
Purchase of Investments					
- Subsidiary	0.00	-194.17	-451.26	0.00	0.00
- Others	0.00	0.00	-54.62	-6.83	0.00
Proceeds from Sale of Investments	93.36	710.42	8.72	0.00	0.64
Interest Receipts	26.73	39.62	8.78	31.51	13.68
Dividend Receipts	28.01	55.26	25.77	22.65	14.42
Net Cash flow used in Investing Activities	-6432.01	-7341.14	-2527.51	-1511.06	-1252.85
C. CASH FLOW FROM FINANCING ACTIVITIES					
(Repayment) / Proceeds from Long Term Borrowings	5717.58	6782.99	898.21	-360.28	-362.14
Proceeds / (Repayment) of Unsecured Loans	-126.58	0.00	156.58	130.22	95.60
Interest Paid	-1964.40	-1503.12	-821.34	-760.51	-859.88
Dividend Paid	-268.89	-680.82	-241.38	-157.49	-148.55
Adjustment on account on amalgamation					
Net Cash used in Financing Activities	3357.71	4554.05	-7.93	-1148.06	-1274.97
Net Increase in Cash and Cash Equivalents	-102.24	922.72	-332.21	-126.25	181.17
Opening Balance	1120.02	197.30	529.51	655.76	474.59
Closing Balance	1017.78	1120.02	197.30	529.51	655.76

ACCOUNTING POLICIES AND NOTES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED 31/03/2006**A. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES****1. SYSTEM OF ACCOUNTING**

The accounts are prepared on accrual basis under the historical cost convention in accordance with Indian Generally Accepted Accounting Principles (GAAP) comprising the mandatory accounting standards issued by the Institute of Chartered Accountants of India and the provisions of the Companies Act, 1956.

2. USE OF ESTIMATES:

The preparation of the financial statements in conformity with Indian GAAP requires that the management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual result could differ from those estimates.

3. REVENUE RECOGNITION

- (i) Domestic Sales are recognized on the basis of sale invoice raised.
- (ii) Export Sales are recognized on the basis of dispatch of goods from the point of sale.
- (iii) Benefit on account of entitlement to import goods free of duty under the "Duty Entitlement Pass Book under the Duty Exemption Scheme" is being accounted in the year of export.

4. FIXED ASSETS

- (i) Fixed Assets are recorded at cost as adjusted by the revaluation of land. All costs relating to the acquisition and installation of fixed assets are capitalized duly adjusted for CENVAT, SERVICE TAX, VAT credits and include interest on specific loans availed for the acquisition of Fixed Assets, proportionate Technical Know-How relating to Plant & Machinery and exchange difference on foreign currency loans.
- (ii) With regard to assets jointly owned with others, the proportionate cost thereof to the Company is capitalized.

5. INVESTMENTS

- (i) Investments are valued at cost of acquisition less provision for diminution as necessary.
- (ii) Investments made by the Company are of a long-term nature and hence diminution in value of quoted investments is generally not considered to be of a permanent nature.

6. IMPAIRMENT OF ASSETS

Consideration is given at each Balance Sheet date to determine whether there is any modification or impairment of the carrying amount of fixed assets. If any condition exists, an assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of any assets exist recoverable amount.

7. DEPRECIATION

Depreciation on Plant and Machinery, Motor Cars, Trucks and Vans has been provided on straight-line method at the rates specified in the Schedule XIV of the Companies Act, 1956.

Depreciation on tools and Dies are provided on the basis of useful life as determined by the Company.

Depreciation in respect of other assets has been calculated on written down value method as the rates specified in Schedule XIV of the Companies Act, 1956.

Development cost in respect of Estate property is written off over a period of Five Years.

Goodwill is amortized over a period of five years subsequent to the year of acquisition.

Individual assets whose actual cost does not exceed Rs. 5000/- are fully depreciated.

Based on technical opinion, windmill is considered as a continuous process plant and depreciation is provided at the rate applicable thereto.

In respect of erstwhile Subsidiary Company i.e. M/s Apten Forgings Limited, the depreciation has been provided on the Straight Line Method (Double shift basis) at the rates prescribed in Schedule XIV of the Companies Act, 1956.

8. INVENTORIES

Inventories are valued as under:

- (i) Raw Materials and Store & Spare parts

At Weighted Average Costs or net realizable value which ever is lower

- (ii) Finished Products/Trading goods

At lower of cost or net realizable value inclusive of excise duty thereon.

- (iii) Semi Finished Goods

At Cost

- (iv) Agriculture Produce

At estimated realizable Value.

9. FOREIGN EXCHANGE TRANSACTIONS

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction.

Current Assets and Liabilities in foreign currency outstanding at the close of financial year are revalued at the appropriate exchange rates prevailing at the close of the year.

The gains or loss due to decrease / increase in reporting currency due to fluctuations in rates of exchange are, recognized in the profit and loss account in the case of current assets and liabilities.

Exchange differences relating to Fixed Assets are adjusted in the cost of the Asset.

10. EMPLOYEE BENEFITS

- (i) Gratuity

Payment for present liability of future payment of gratuity is being made to approved Gratuity Funds, which fully covers the same under Cash Accumulation Policy of the Life Insurance Corporation Of India.

- (ii) Superannuation

The Company contributes annually to Life Insurance Corporation towards Superannuation Fund for its eligible employees.

- (iii) Contribution to Provident Fund is made in accordance with the Employees Provident Fund Act.

- (iv) Encashment of leave is settled annually and accounted for.

11. CASH FLOW STATEMENT

Cash Flow Statement has been prepared in accordance with the indirect method prescribed in Accounting Standard 3 issued by the Institute of Chartered Accountants of India.

12. LEASES:

Assets acquired as leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and the lease rentals thereon are charged to the Profit and Loss account on accrual basis.

13. Borrowing Cost

Interest on borrowings is recognized in the profit and loss account except interest incurred on borrowings, specially raised for projects are capitalized to the cost of the assets until such time that the asset is ready to be put to use for its intended purpose except where the installation is extended beyond reasonable normal time lines.

14. TAXATION

Provision for Income tax comprises of current taxes, Fringe Benefit Tax as also deferred taxes.

Deferred tax liability is recognized for the future tax consequences of temporary differences between the tax basis and carrying values of assets and liabilities. Deferred tax assets are recognized only if there is virtual certainty that they will be realized and are reviewed every year. The tax effect is calculated on the accumulated timing differences at the end of the year based on enacted or substantially enacted tax rates.

15. Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

B. NOTES FORMING PART OF ACCOUNTS.

1. Pending the outcome of the Company's reference to the Tamilnadu High Court regarding adequacy of the compensation relating to 163.73 acres of land acquired by the State government in 1972, no adjustment has been made in the value of land.
2. The Company had purchased a Flat in Ahmedabad in 1979 for Rs. 1.40 Lac. The Flat has not yet been registered in the name of the Company. A suit was filed against the company by the builder's claiming the possession of the Flat together with an amount of Rs. 17.77 Lacs towards lease rent, compensation, and mense profit. The Company has been advised by the counsel that the claim against the company is not tenable.

3. Sales- Tax

The Sales- Tax demands of Rs. 94.54 Lakhs relating to earlier years are under Appeal/Stay before the High Court and the Company has obtained legal opinion that the demand would not be sustained.

4. SECURED LOAN

a. Term Loan:

The term loans are secured by the hypothecation of Plant and Machineries purchased out of the said loans and are collaterally secured by the equitable mortgage by deposits of title deeds of certain immoveable properties.

b. Bank Loan:

The Working Capital is primarily secured by hypothecation of inventories and book debts of the company. Also collaterally secured by creating equitable mortgage by deposits of title deeds of certain immoveable properties and hypothecation of existing block of assets of the company excluding those specific machineries charged to Banks/Financial Institution.

5. CONTINGENT LIABILITIES

	31-03-2006	31-03-2005
	(Rs. In Lakhs)	
a. Claims against the erstwhile subsidiary company M/s. Apten Forgings Limited not acknowledged as debts.	24.55	92.60
b. Guarantee given by Bankers and Outstanding	344.10	416.79
c. Amount Outstanding on Letter of Credit	2920.25	1845.75
d. (i) Estimated amount of contracts remaining to be executed on Capital Accounts and not provided for (Net after advance payments)	1762.42	583.49
(ii) commitment on account of Technical fee payable in future (for Technology Transfers)	134.25	147.10
e. Bills Discounted with Banks	700.38	1116.56
f. Towards bond issued favoring customs department for import of capital goods under the EPCG License Scheme, against bank guarantee	0.00	115.00
g. Guarantees	1550.00	1550.00
h. Disputed tax liability	229.58	229.58

6. INVESTMENTS

No provision is made in respect of diminution in value of certain long term quoted investments, which in the opinion of the management, is temporary.

7. DEFERRED TAXATION

Deferred Tax Liability as at 31st March 2006 comprises the following:-

(Rs in lakhs)

Particulars	Opening as on 01-04-2005	Charge / (Credit) During the year	Closing as on 31-03-06
Timing Difference Depreciation	1276.76	571.26	1,848.02

8. EARNING PER SHARE

	(Rs in lakhs)	
	31-03-2006	31-03-2005
Profit after taxation as per Profit & Loss Account	1359.42	1649.22
Weighted average number of equity shares outstanding	78606320	78606320
Basic and diluted earnings per share in rupees (Face value- Re 1/- per share)	1.73	2.10

9. SEGMENT REPORT FOR THE YEAR ENDED 31 ST MARCH, 2006

(Rs in Lakhs)

Sl.No	Particulars	31.03.06	31.03.05
A	Revenue		
1	Transmission	28,525.37	22,967.67
2	Metal Forming	6,429.64	4,417.85
3	Forging & Machining	9,073.37	7,250.57
4	Others	3,276.68	6,638.43
	Total	47,305.06	41,274.52
B	Profit Before Interest & Tax		
1	Transmission	3,415.38	2,570.75
2	Metal Forming	389.24	384.98
3	Forging & Machining	45.81	505.97
4	Others	318.06	448.48
	Total	4,168.49	3,910.18
	Less: Interest Expenses	1,953.48	1,503.12
	Net Profit before Tax	2,215.01	2,407.06
C	Capital Employed		
1	Transmission	9,292.67	6,983.53
2	Metal Forming	4,157.93	3,133.99
3	Forging & Machining	10,977.25	9,350.55
4	Others	4,887.59	2,716.78
	Total	29,315.44	22,184.95

10. TRANSACTION DURING THE YEAR WITH RELATED PARTIES/KEY MANAGEMENT PERSONNELS ARE AS UNDER

(Rs. in lakhs)

Nature of Transactions	Subsidiary Company	Associate Companies	Relatives of Key Managerial Personnel	Key Managerial Personnel	Total
Managerial Remuneration	-	-	-	118.13	118.13
Loan Receipts	-	-	38.00	23.00	61.00
Interest Payment	-	-	0.53	0.57	1.10
Purchase of Power, Spares	-	168.82	-	-	168.82
Rent Receipts	-	8.11	-	-	8.11
Processing/Conversion Charges Payment	16.36	145.72	-	-	162.08
Sale of Power, Stores, Materials and Service Charges	25.76	9.86	-	-	35.62
Sales Promotion Payments	-	62.35	-	-	62.35
Sales of Capital Good	-	19.17	-	-	19.17
Guarantees	1550.00	-	-	-	1550.00

11. RELATED PARTY DISCLOSURE (AS IDENTIFIED BY THE MANAGEMENT)

Name of related parties and nature of relationship where control exists are as under:

1. ASSOCIATE COMPANIES

- a. Elgi Automotive Services Limited
- b. L.G.B Auto Products Limited
- c. LG Farm Products Limited
- d. L.G. Balakrishnan & Bros – Karur
- e. L G Sports Private Limited
- f. Super Speeds Private Limited
- g. Super Transports Private Limited
- h. Silent Chain India Private Limited
- i. LGB Fuel System Private Limited

2. SUBSIDIARY COMPANY

- a. LGB Textiles Limited

3. Key Management Personnel's

- a. Sri B. Vijayakumar
- b. Sri. P.S. Balasubramanian

4. Relatives of Key Management Personnel's

- Sri. B.Vijayakumar and his Relatives (This should be inserted)
Sri. P.S. Balasubramanian and his Relatives

12. NOTES ON ACCOUNTS

The under mentioned companies constitute the “Group” in Terms of Regulation 3(1) (e) of SEBI Substantial Acquisition Shares and Takeover) Regulation 1997 as amended.

- i. Elgi Automotive Services Limited
- ii. L.G.B. Auto Products Limited
- iii. LG Farm Products Limited
- iv. LG Sports Private Limited
- v. Super Transports Private Limited
- vi. Super Speeds Private Limited
- vii. Silent Chain India Private Limited
- viii. LGB Textiles Limited
- ix. LGB Fuel Systems Private Limited

13. DETAILS OF MANAGERIAL REMUNERATION

	(Rs. In Lakhs)	
	2005-2006	2004 - 2005
Sri. B. Vijayakumar – Managing Director		
Salaries, Commission and Allowances	43.45	40.57
Contribution to Provident Fund	2.34	2.08
Other Benefits	2.87	2.87
Total	48.66	45.52
Sri. P.S. Balasubramanian Joint Managing Director		
Salaries, Commission and Allowances	21.49	15.48
Contribution to Provident Fund	2.30	1.62
Other Benefits	1.68	1.68
Total	25.47	18.78
Sri. T.Muralidhar Bhagavat Director		
Lumpsum remuneration as provided in the arrangement *	44.00	
* Subject to the approval of the Shareholders at the ensuing Annual General Meeting		
Total	44.00	

14. CALCULATION OF MANAGING DIRECTOR COMMISSION

Particulars		Rs. In Lakhs 31-03-2006
Net Profit as per Profit and Loss Account		2,215.01
Add		
Director Remuneration	118.13	
Sitting Fees	2.59	
Loss on Sale of Assets	2.23	
Provision for Doubtful debts / Advances	154.53	
		<u>277.48</u>
		2,492.49
Less: Profit on Sale of Assets	31.75	
Profit on Sale of Investments	65.86	
		<u>97.61</u>
		2,394.88
Commission @1% thereon to Managing Director		23.95

15. Pending response to circular letters regarding balances in Debtors, Creditors, Advances and Deposits account are to be confirmed/reconciled. Sundry Debtors included overdue debts of Rs. 924.78. In the opinion of the management all current assets including stock-in-trade/sundry debtors and loans and advances in the normal course of business would realize the value stated.

16. Power and fuel are net of own generation of electricity.

17. Amount payable to SSI for a period of more than one month are as follows

Allwinn Engineering, Ancy Engineering, Coimbatore Saraswathi Industries, Covai EDM Tools Pvt. Ltd, Dece Tools Pvt. Ltd, Geetanjali Engineering, Jali Maruthi Tools Pvt. Ltd, Sakthi Heat Treatment Industry, Scientific Heat Treatment, Best Heat Treatment Services, Devi Automates, G.R. Industry, Hi Tech Engineering Works, Kar Engineering

18. Details of Foreign Exchange Earnings and Out Go

(a) Expenditure in Foreign Currency (on payment basis)

Particulars	(Rs. In Lakhs)	
	31-03-2006	31-03-2005
Travelling	30.22	26.41
Technical Know-how Fee	23.08	30.99
Interest	19.47	25.99
Others	102.57	26.66
Total	175.34	110.05

(b) Value of Imports calculate on CIF basis in respect of

Particulars	(Rs. In Lakhs)	
	31-03-2006	31-03-2005
Raw Materials	172.20	450.94
Stores and Spares	27.28	80.71
Machinery	1,253.47	417.20
Total	1,452.95	948.85

(c) Earnings in Foreign Exchange

On Account of Export of Goods at FOB Value	3,383.94	2,190.45
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(d) Particulars of Consumption

Particulars	Value in Lakhs					
	Imported		Indigenous		Total	
	31-03-2006	31-03-2005	31-03-2006	31-03-2005	31-03-2006	31-03-2005
Raw Material (including Expenses)						
Value	172.20	450.94	16,195.56	15,242.47	16,367.76	15,693.41
Percentage	1.05	2.87	98.95	97.13	100.00	100.00
Stores & Spares (Including Expenses)						
Value	27.28	80.71	2,211.00	1,730.30	2,238.28	1,811.01
Percentage	1.22	4.46	98.78	95.54	100.00	100.00
Packing Materials						
Value		-	901.32	835.07	901.32	835.07
Percentage		-	100.00	100.00	100.00	100.00

19. QUANTITATIVE PARTICULARS

a. Capacities

Class of Goods	Licensed Capacity	Installed Capacity @
Industrial/Automobile Chain	Not Applicable	2,40,00,000 Units
Fine Blanked Products	Not Applicable	4,80,00,000 Strokes
Cold Forging Products	Not Applicable	96,00,000 Strokes
Hot & Warm Forging	Not Applicable	50,40,000 Strokes
Hot Forging	Not Applicable	15,000 M.T
Rubber Belts	Not Applicable	18,00,000 Nos

b. Production, Turnover and Stocks

Class of Goods	Unit	Actual Production	Opening Stock	Closing Stock	Turnover	
					Quantity	Value
1. Industrial/Automobile Chain	Mtrs	395.32	9.47	8.41	396.38	27,640.46
2. Fine Blanked Products	Nos	312.26	6.74	6.71	312.29	5,809.63
3. Rolled Steel Products	MT					1,072.22
4. Cold Forged Products	Nos	38.15	0.00	0.45	37.70	1,886.12
5. Hot & Warm Forged Products	Nos	42.80	2.82	0.11	45.51	4,117.79
6. Hot Forged Products	MT	2,879.01	0.00	0.00	2,879.01	3,069.46
7. Rubber Belts	Nos	11.67	0.88	1.66	10.89	102.19
8. Others*		-	-	-	-	3,276.68
Total						46,974.87

c. Consumption of Raw Materials

Particulars	Unit	Quantity	Value Rs in lakhs
Steel Strips / Wires / Rods / Bars	Tonnes	52,191.21	16,252.45
Rubber & Chemical	Kgs	1,65,774	167.80
Others			3,609.04
Total			20,029.29

@ Installed capacity as certified by the Management

* Quantities too numerous to list and hence not furnished

23. The figures in the Balance Sheet and in the Profit & Loss account have been regrouped and reclassified, wherever necessary, to conform to the current year's classification and expressed in terms of lakhs.

CONSOLIDATED RESTATED ASSETS AND LIABILITIES

For the year ending March 31,	2006	2005	2004
			(Rs. Lakhs)
FIXED ASSETS			
a) Gross Block	29,578.70	20,615.11	17,233.29
b) Less: Depreciation	10,618.56	8,622.34	7,988.75
c) Net Block	18,960.14	11,992.77	9,244.54
d) Capital work in Progress	1,183.77	3,556.74	173.42
e) Revaluation Reserve	251.19	287.02	322.86
Total Net Fixed Assets	19,892.72	15,262.49	9,095.10
Investments	225.43	252.95	227.73
CURRENT ASSETS, LOANS & ADVANCES			
a) Inventories	10,049.01	8,840.03	6,300.91
b) Sundry Debtors	7,158.40	6,051.98	4,697.92
c) Cash and Bank Balances	1,048.64	1,156.36	230.73
d) Other Assets	42.63	10.01	20.82
e) Loans and Advances	4,196.11	2,431.80	2,296.00
Total Current Assets	22,494.79	18,490.18	13,546.38
Total Assets	42,612.94	34,005.62	22,869.21
LIABILITIES			
Loan Funds			
a) Secured Loans	18,965.25	13,604.11	6,734.45
b) Unsecured Loans	1,091.35	1,061.79	1,031.29
Sub total	20,056.60	14,665.90	7,765.74
Current Liabilities			
a) Liabilities	10,702.53	8,986.40	5,788.45
b) Provisions	586.25	786.65	1,027.28
Total	11,288.78	9,773.05	6,815.73
Deferred Tax Liability	1,871.95	1,290.80	1,008.92
Total Liabilities	33,217.33	25,729.75	15,590.39
Net Worth	9,395.61	8,275.87	7,278.82
Net Worth Representing			
Share Capital	786.06	786.06	786.06
Reserves & Surplus	8,860.74	7,786.73	6,829.86
Revaluation Reserve	-251.19	-287.02	-322.86
Deferred Revenue Expenditure to the extent not written off	0.00	-9.90	-14.24
	9,395.61	8,275.87	7,278.82

CONSOLIDATED INVESTMENT

(Rs. Lakhs)

	2006	2005	2004
LONG TERM INVESTMENTS:			
<u>TRADE QUOTED - AT COST</u>			
-			
Fully paid-up Equity Shares in:			
Super Spinning Mills Ltd	0.20	0.20	0.20
Elgi Finance Ltd	0.20	0.20	0.20
Lakshmi Synthetic Machinery Manufactures Ltd	0.01	0.01	0.01
Supreme Rubber Reclaimers Ltd	0.01	0.01	0.01
Tube Investments of India Ltd	0.01	0.01	0.01
6.75% Tax Free US 64 Bonds	8.54	8.54	8.54
Bharath Rubber Regenerating Co. Ltd	-	-	-
Elgi Equipments Ltd	112.29	134.06	134.06
Magna Electro Castings Ltd	6.16	7.50	7.50
Corporation Bank	1.92	1.92	1.92
L.G.Balakrishnan & Bros LTD	9.71	9.71	9.71
<u>TRADE UNQUOTED - AT COST</u>			
-			
Fully paid-up Equity Shares in:			
LGB Employees Co-operative Stores Ltd	0.01	0.01	0.01
Tata Refractory Ltd	2.01	2.01	2.01
Co-operative Super Market - Coimbatore	-	-	-
Manish Commercial Premises			
Co-operative Society Ltd, Mumbai	-	-	-
Kaveri Steels Ltd	-	-	-
<u>NON-TRADE UNQUOTED - AT COST:</u>			
-			
Fully paid-up Equity Shares in:			
Silent Chain India (P) Limited (L.G.B.Engineering P Ltd.)	0.15	1.56	1.56
Super Transports Private Limited	-	2.98	2.98
Super Farm Products Ltd	5.00	5.00	5.00
LG Farm Products Ltd	1.00	1.00	0.05
Coimbatore Private Industrial Estate Limited	11.81	11.81	10.30
Super Energy Systems Limited	-	-	3.24
Super Speeds Private Limited	40.00	40.00	-
LG Sports (P) Limited	26.00	26.00	40.00
<u>SUBSIDIARY COMPANY</u>			
Equity Shares:			
Apten Forgings (P) Limited	-	-	-
LGB Textiles Limited (Super Energy Systems Limited)	-	-	-
0% Non Cumulative Redeemable Pref. Shares			
Apten Forgings (P) Limited	-	-	-
GOVERNMENT SECURITIES - UNQUOTED	0.40	0.42	0.42
	225.43	252.95	227.73

ANNEXURE 5

CONSOLIDATED ADJUSTED PROFIT AND LOSS ACCOUNT

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004
INCOME			
Sales	49,191.11	41,415.07	32,285.71
Less:Excise Duty	5,362.10	3,943.61	2,997.07
	43,829.01	37,471.46	29,288.64
Other Income	339.21	442.94	184.01
Total	44,168.22	37,914.40	29,472.65
EXPENDITURE			
Consumption of Materials	22,282.91	19,717.13	14,337.92
Employees Cost	3,118.24	2,530.26	2,352.93
Other Expenses	12,400.68	10,021.65	8,437.34
Interest	2,071.44	1,514.69	1,103.19
Depreciation	2,044.21	1,658.15	1,349.88
Total	41,917.48	35,441.88	27,581.26
Net Profit	2,250.74	2,472.52	1,891.39
Provision for Tax	289.01	498.15	650.00
Deffered Tax	581.15	281.62	21.26
Profit after Tax	1,380.58	1,692.75	1,262.65
Balance brought forward from previous year	657.28	688.50	581.39
Profit available for appropriation	2,037.86	2,381.25	1,844.04
Interim Dividend inclusive of tax	-	444.39	-
Proposed Dividend	235.82	235.82	235.82
Tax on Dividend	33.07	33.07	30.21
Transfer to General Reserve	135.94	1,010.68	1,000.00
Balance Carried to Balance Sheet	1,631.19	657.29	578.01
Total	2,036.02	2,381.25	1,844.04
Basic & Diluted Earnings per Share(Rs)	1.76	2.15	1.61
Face value per share	1.00	1.00	1.00

CONSOLIDATED CASH FLOW STATEMENT

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004
A. CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit before tax and extraordinary items	2,248.90	2,472.52	1,891.39
ADJUSTMENTS FOR			
Depreciation	2,044.21	1,658.15	1,349.88
Profit on sale of assets	(30.44)	14.44	(27.64)
Loss on sale of Investments	(65.86)	(245.16)	2.70
Assets condemned & written off	-	2.30	-
Interest Expense	2,071.44	1,514.69	1,103.19
Interest Income	(63.98)	(41.44)	(25.53)
Dividend Income	(28.79)	(57.34)	(25.77)
Deferred revenue expenditure written off	9.90	-	4.34
Technical knowhow fee written off	-	4.34	-
Foreign Exchange gain	-	-	-
Operating Profit before working capital adjustments	6,185.38	5,322.50	4,272.56
ADJUSTMENTS FOR			
Increase in trade and other receivables	(4,456.60)	(1,506.92)	(946.57)
Increase in inventories	(1,208.98)	(2,539.12)	(1,645.61)
Increase in Trade payables	3,339.94	3,206.39	997.94
Cash generated from operations	3,859.74	4,482.85	2,678.32
Income Taxes paid	(516.43)	(741.64)	(634.80)
Cash flow before extraordinary items	3,343.31	3,741.21	2,043.52
Exchange fluctuation	-	-	-
Net cash from operating activities	3,343.31	3,741.21	2,043.52
B. CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(6,743.49)	(8,611.02)	(2,297.12)
Proceeds from sale of fixed assets	99.48	799.31	62.26
Purchase of Investments			
- Subsidiary	-	-	(451.26)
- Others	-	(42.46)	(54.62)
Proceeds from sale of Investments	93.36	262.39	8.74
Interest receipts	31.36	52.25	12.10
Dividend receipts	28.79	57.34	25.77
Share Capital	-	-	200.00
Net Cash used in investing activities	(6,490.50)	(7,482.19)	(2,494.13)
C. CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds(Repayment) of long term borrowings	5,361.14	6,869.66	1,338.37
Proceeds from Unsecured loans	29.56	30.50	58.70
Interest paid	(2,082.36)	(1,523.13)	(1,078.31)
Dividend paid	(268.89)	(710.42)	(241.38)
Adjustment on account of amalgamation			
Net cash used in financing activities	3,039.45	4,666.61	77.38
Net Increase in cash and equivalents	(107.74)	925.63	(373.23)
Cash and cash equivalents (Opening balance)	1,156.36	230.73	603.96
Cash and cash equivalents (Closing balance)	1,048.62	1,156.36	230.73

ANNEXURE 6

DIVIDEND PAID

For the year ending March 31,	2006	2005	2004	2003	2002
Equity Shares					
No. of Equity Shares	78,606,320	78,606,320	78,606,320	3,930,316	3,930,316
Face Value per share (Rs.)	1.00	1.00	1.00	10.00	10.00
Paid up Value per share (Rs.)	1.00	1.00	1.00	10.00	10.00
Rate of Dividend (%)	30%	80%	30%	55%	40%
Total Dividend (Rs. In lacs)	235.82	628.85 *	235.82	216.17	157.21
Corporate Dividend Tax on above (Rs. In Lacs)	33.07	84.43	30.21	27.70	0.00

ANNEXURE 7

STATEMENT OF ACCOUNTING RATIOS

For the year ending March 31,	2006	2005	2004	2003	2002
Earnings per Share (Rs.)	1.73	2.15	1.73	24.29	16.63
Net Assets Value per Share (Rs.)	11.86	10.46	9.41	160.31	141.88
Return on Net Worth (%)	14.59%	20.07%	18.40%	15.15%	11.72%

ANNEXURE 8

CAPITALISATION STATEMENT

PARTICULARS	Pre - Issue as at March 31, 2006	Post Issue
Borrowings		
Short-term Debt	9,623	4,858
Long-term Debt	8,758	20,123
Total Debt	18,381	24,981
Shareholders' Fund		
Share Capital	786	841
Reserves	8,785	10,936
Total Shareholders' Fund	9,571	11,778
Total Capitalization		
Long-Term Debt / Equity ratio	0.92	1.71
Total Debt / Equity ratio	1.92	2.12

ANNEXURE 9

STATEMENT OF TAX SHELTER

(Rs. Lakhs)

For the year ending March 31,	2006	2005	2004	2003	2002
Tax at Notional Rate	745.57	880.78	718.46	505.68	295.02
Adjustments:					
Export Profits	0.00	0.00	75.17	71.91	53.62
Difference between Tax					
Depreciation and	-1,244.43	392.46	61.09	-15.56	31.38
Book Depreciation					
Other Adjustments	1,355.62	-343.46	-139.18	-68.85	-132.06
Net Adjustments	111.19	49.00	-2.92	-12.50	-47.06
Tax Saving thereon	539.00	397.95	67.00	69.43	31.49
Total Taxation	317.76	531.83	648.54	423.75	216.47
Taxation on Extra-Ordinary items					
Short / (excess) provision	33.43	41.83	-1.46	-6.25	-23.53
Tax on Profits before extra-ordinary items	284.33	490.00	650.00	430.00	240.00

ANNEXURE 10

OTHER INCOME

(Rs. Lakhs)

For the Year ending March 31,	2006	2005	2004	2003	2002
Other Income / PBT	24.31%	26.58%	13.27%	21.75%	17.51%
Rent & Hire Charges	58.89	57.29	40.38	43.24	45.46
Interest Receipts	59.35	39.62	22.21	20.18	26.31
Dividend Receipts	28.01	55.26	25.77	22.65	14.42
Miscellaneous Receipts	71.47	30.89	38.21	50.99	11.92
Agricultural Income	15.19	10.20	14.73	16.05	16.07
Profit on Sale of Investments	65.86	245.16	39.33	0.00	0.32
Profit On sale of Assets	31.75	0.00	0.00	54.53	0.00
Sub - Total	330.52	438.42	180.63	207.64	114.50

CONTINGENT LIABILITIES

(Rs. Lakhs)						
	Particulars	2006	2005	2004	2003	2002
1	Claims against the erstwhile subsidiary company M/s. Apten Forgings Ltd not acknowledged as debts	24.55	92.60	-	-	-
2	Amount outstanding out of letter of credit opened	2,920.25	1,845.75	750.45	1,012.91	879.26
3	Estimated amount of contracts remaining to be executed on capital account and not provided for (Net after advance payments)	1,762.42	583.49	709.41	341.35	196.39
4	Guarantees given by bankers on behalf of the Company	344.10	416.79	60.07	47.41	45.60
5	Bills discounted with Banks	700.38	1,116.56	2,483.41	1,361.69	856.38
6	Commitment on account of Technical Fee payable in future (for Technology Transfers)	134.25	147.10	199.37	232.34	252.75
7	Bond issued favouring customs department for import of capital goods under the EPCG License Scheme, against Bank Guarantees	-	115.00	115.00	-	-
8	Guarantees	1,550.00	1,550.00			
9	Disputed Tax liability	229.58	229.58	-	-	-
	TOTAL	7,665.53	6,096.87	4,317.71	2,995.70	2,230.38

CHANGES IN ACCOUNTING PERIOD

There has been no change in accounting period since past three years.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview of the business of the Company

Business Summary

LGB, part of Elgi Group, is one of the leading manufacturers of automobile transmission and industrial chains and components. Capitalizing on its component engineering expertise, LGB has recently entered into fine blanking and forging.

The core businesses of the company as per revenue share can be classified under the following three SBUs- Transmission (Auto and industrial) 65%, Forging Hot & Warm forging and Cold Forging 22%, and Metal Forming Fine blanking 13%.

Apart from this, LGB has a 100% subsidiary- LGB Textiles- carrying on yarn spinning business with an installed base of 9,936 spindles. At present company has 10 plants and is currently planning to set up a plant in Pune and Uttaranchal each for its transmission business.

Transmission business

LGB has a significant market share in the automotive chain segment. Total chain market (auto & industrial) put together is around Rs 5-6 bn, which is growing at 15-20%. Auto segment contributes to nearly 70-75% of the transmission revenues and the balance is contributed by industrial segment. LGB has a 33% market share in the industrial segment as this market has number of unorganized players as well. TI Diamond (Tube Investments) has a 35% market share in the industrial segment.

Margins of auto and industrial segment are more or less the same, but industrial margins are lower generally on account of unorganized players in the industrial segment. PBT margin of the two segments

Metal Forming

Metal forming is an offshoot of the chain business of the company. LGB is the largest fine blanking player in the country with IFB (originally Indian Fine Blanks) as the largest competitor. Capacity in this business will be increase by 100% over next one year. At present around 20% of sales of this business are internal sales and the balance to external players, mainly 2 wheelers. At present there are only 2 small car manufacturers in India and the other car manufacturers are procuring SKDs and CKDs in India. This business is presently exporting Rs 10 mn/month of fine blanks to Eaton Trucks, USA

Forging

Forging is a large industry and growing at a healthy rate of 20-25%. For LGB most of its forging division products cater to the automobile segment. At present the company has 3 plants of which it purchased 2 plants (hot and Hot & warm). The third plant was set up by the company for cold forging. Largest business in this segment is derived from the product CLAW, which contributes around Rs 20 mn/month and is growing at a fast pace. LGB is the 2nd/3rd largest player in this segment world wide and has customers like Visteon, Denso and Delphi. Apart from this it is also strong in the auto electrical segment (starter motor) and has customers like KONE.

LGB has already entered into long term contracts with various domestic players as well as foreign Tier I and II companies. The company is in advanced stage of discussions and in some cases finalised contracts with customers. The initial requirement is for 2 Million Euro or Rs 400 mn which has to be executed over year and a half. This product is under the warm forging segment. Cold forging at present is a Rs 200 mn business. However, the revenues of this business maybe lower than warm and hot, the profits are better.

Competitive strengths

Dominant market position in automotive chains sector.

We are first Indian company to operate in the automotive chains sector of the auto components industry. We currently market our chains under the proprietary brand “Rolon”, and cater to 65% of the Indian Market (OEM and replacement).

Large distribution network

We currently have 18 offices and depots spread all over India along with a 2,000 strong dealer network and 110 salesmen covering the entire country. This gives us a “just-in-time” supply capability due to our network of depots that are geographically spread out.

Technology absorption from foreign majors

We have benefited from technology that we have absorbed from various global auto parts companies like IWIS (Germany), Diado (Japan), Rexnord (Germany), Gelb (US) and Nichidoi (Japan). Our manufacturing facilities and processes have been accredited with national and international quality certifications and its systems benefit from Six Sigma, Balanced Scorecard and SAP.

Strong Research and Development focus

We have a long established research and development programme for new product development and improvement in existing products. We employ over 25 people in our R & D department comprising of engineers, Ph.Ds and analysts.

Significant developments since the date of last financial statement

There are no material developments after the date of the latest balance sheet save and except as stated elsewhere in this document, that are likely to materially affect the performance and the prospects of the Company. The Company has not discontinued any of its existing business nor commenced any new business during past years.

Factors that may affect results of Operations

◆ Unusual or infrequent events or transactions

There have been no unusual or infrequent transactions.

◆ Significant economic changes

With the Gross Domestic Product of India having grown at 8.4% in F.Y. 2005-2006 and with healthy forecasts for the forthcoming years, we do not foresee any significant downturn in the automobile industry, and consequently the automobile component industry.

◆ Known trends or uncertainties

To the best of our knowledge, other than described elsewhere in this Letter of Offer, there are no known trends or uncertainties that may have a material adverse impact on the income, costs and profits of the company from continuing operations.

◆ Future changes in relationship between costs and revenues

The industry in which we operate is a reasonable mature industry with well established players including suppliers, buyers and service providers. We do not foresee any major shake-up or other occurrences in the industry which could adversely affect the relationships between costs and revenues.

◆ Dependence of revenue on sales volume

Our revenues are a factor of the number of units sold by us and the selling price per unit. Increase in sales volume, with all costs per unit and selling prices remaining constant, will have a positive impact on our profitability.

◆ New Products

We have not introduced any new products in the market. Our current focus is on improving existing designs and streamlining our production processes in order to optimize cost efficiencies.

◆ **Seasonality of business**

The consuming industries for our products are the automobile manufacturers. As such there are no regular peak and off seasons during the year for our products. But as the fortunes of the automobile component industry is linked to that of the automobile industry, cyclical movements are evident and do affect our operations.

◆ **Dependence on single or few suppliers/customers**

Our top 5 customers account for 52 % of our revenue, with our single largest customer accounting for 26 % of our revenue. This scenario is better than the average customer contribution ratios that are prevalent in the automobile component industry and as such, we are not significantly dependent on any single customer or few customers.

We source our raw material and other inputs from a variety of reputed suppliers with no single supplier accounting for more than 16 % of our purchases. Hence we are not dependent on any single or few suppliers.

◆ **Competitive Conditions**

With the progressive reduction of import duties and norms for foreign direct investment being eased, we are exposed to competition from foreign players as well as

Results of Operations

Results of operations for the last three years are as follows: (Rs. in lacs)

Year ended	30/03/2006	30/03/2005	30/03/2004
Gross Turnover	46,974.54	40,836.10	29,833.76
Income	41,942.96	37,330.91	27,240.03
Net Profit / (Loss) before interest, depreciation, tax and extraordinary items & Prior period adjustment	4,099.90	5,533.68	6,083.02
Net Profit / (Loss) after Tax	1,361.08	1,649.22	1,359.42

Comparison of significant items of income and expenditure of LGB for the past three years are as follows:

(Rs. in lacs)

SCHEDULES	2002-03	2003-04	2004-05	2005 - 06
INCOME				
Gross Sales	25,238.30	29,833.76	40,836.10	46,974.54
Less: Excise Duty & Sales Tax Payments	2,263.42	2,774.36	3,943.61	5,362.10
Net Sales	22,974.88	27,059.40	36,892.49	41,612.44
Other Income	207.64	180.63	438.42	330.52
Total	23,182.52	27,240.03	37,330.91	41,942.96
EXPENDITURE				
Consumption of Materials	11,609.40	13,450.17	19,384.86	20,930.61
Employees Cost	2,211.93	2,256.76	2,497.19	3,013.31
Other Manufacturing Cost	3,847.68	4,682.17	6,892.47	8,443.48
Administrative Expenses	762.69	829.75	1,106.22	1,184.99
Selling & Distribution Expenses	1,581.61	1,921.28	1,916.49	2,287.55
Sub - Total	20,013.31	23,140.13	31,797.23	35,859.94
EBIDTA	3,169.21	4,099.90	5,533.68	6,083.02
Interest	733.98	846.22	1,503.12	1,953.48
Depreciation	1,059.22	1,251.00	1,623.50	1,914.53
Net Profit before tax & extraordinary items	1,376.01	2,002.68	2,407.06	2,215.01
Provision for Tax	430.00	650.00	490.00	284.33
Deffered Tax	-8.50	-8.40	267.84	571.26
Adjusted Profit	954.51	1,361.08	1,649.22	1,359.42

Comparison of Results of Operation

F. Y. 2005-2006 with F. Y. 2004-2005

There has been strong volume growth F.Y. 2005-2006 on a YoY basis. But, sustained increase in input costs, which could only be partially passed on to customers, has compressed operating margins and net income margins. This is also due to increasing revenues from fine blanking and forgings which have lower margins. The strong topline growth has however resulted in marginally higher gross cash accruals during this period.

F. Y. 2004-2005 with F. Y. 2003-2004

We had recorded a revenue growth of 37% which included a 52% rise in revenues from its main auto components businesses. This was a result of robust domestic growth in the auto segments-two-wheelers, four-wheelers and tier-1 suppliers that source from LGB. EBITDA margins after peaking at 14.5% in F.Y. 2003-2004 declined to 13.9% due to increase in input costs. Material consumption costs (59% of total costs in FY05) have increased from around 55% in the earlier years. These costs are expected to stay at higher levels pursuing operating margins going forward. These need to be passed on to customers and productivity improvements are required to mitigate such cost increases. Increase in borrowings to fund capex and increase in depreciation charges have reduced net income margin marginally in FY05 (4.5%) compared to FY04 (5.0%).

F. Y. 2003-2004 with F. Y. 2002-2003

We had recorded a revenue growth of 18% on the back of renewed demand in our consuming industries. Robust economic growth fueled an increased demand for personal and commercial vehicles and our transmission and forging divisions benefited from this. The better utilization of our inherent production capacities and higher workforce utilization helped to minimize marginal cost increases and led to a 42% growth in our Net Income. We had conducted a 1:1 bonus issue.

Risk relating to Foreign Exchange

As we derive 10% of our revenues from exports, we are exposed to foreign exchange risk to that extent. Any appreciation in the value of the rupee vis-à-vis the U.S. Dollar or any other currency that we deal in for our exports, will have an adverse impact in the net rupee denominated realizations from those export sales. There are certain outstanding debt which is dollar denominated. In case of a weakening of the Indian Rupee vis-à-vis the U.S. Dollar, the impact of repayment of the interest and principal in Rupee terms will be higher.

X. LEGAL AND OTHER INFORMATION

Outstanding Litigations and Defaults

Save as detailed herein:

- a. neither our Company, nor any Director (s) or Promoter(s) of our Company nor any of our Group Companies is party to any ongoing proceedings before any statutory or regulatory authority, nor are any show cause notices pending against any of them;
- b. neither our Company, nor any Director of our Company was party to any past proceedings where any penalty was imposed;
- c. there have been no defaults to financial institutions/ banks for non-payment of statutory dues and dues towards instrument holders like debenture holders, fixed deposits, and arrears on cumulative preference shares by the Promoters of our Company and the companies/ firms promoted by the Promoters of our Company;
- d. our Company has not failed to pay any statutory dues;
- e. no disciplinary or any other action has been taken against the Promoters of our Company, our Company or any other Group Company by the Securities and Exchange Board of India or any Stock Exchange in India; and
- f. none of the names of the directors of our Company have appeared on the RBI's defaulters list.
- g. Our Company does not have any small scale creditors to whom the Company owes a sum exceeding Rupees one Lakh which is outstanding for more than thirty days.

The details of the relevant proceedings have been classified as follows:

- A. Proceedings Filed by the Company (Civil).
- B. Proceedings filed by the Company under Section 138 of the Negotiable Instruments Act, 1881 as amended by Act 66 of 1988 (Criminal Proceedings)
- C. Proceedings Filed Against the Company and One of its Group Company's (Civil).
- D. Proceedings Filed Against the Company (Labour related).
- E. Proceedings Filed Against the Company (SLP Re Criminal Proceedings)
- F. Proceedings Filed by the Company (Labour related).
- G. Proceedings Filed by the Company (Excise Related).
- H. Proceedings Filed by the Company (Sales Tax Related).
- I. Show cause notices Filed against the Company (Excise Related).
- J. Show cause notices Filed against Elgi Rubber Products Limited ("Group Company II) and Elgi Ultra Industries Limited ("Group Company III")
- K. Income Tax Appeals Filed by the Company.

A. Proceedings filed by “the Company”, (Civil)

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	OS. No. 218/1999	Second Additional Subordinate Judge of Coimbatore	1. M/s. Gujarat Instruments Ltd., Ahmedabad. (“ Defendant ”). 2. The Official Liquidator, High Court of Judicature, Ahmedabad (“ Liquidator ”)	The Company supplied three smoke analyzers and its accessories (“ the Goods ”) to the Defendant. The Company filed this suit claiming compensation in connection with (i) the Defendant’s failure to pay the entire purchase price of the Goods and (ii) the Defendant’s failure to submit “Form C” to the Company. The Defendant went into liquidation proceedings and an official liquidator was appointed. Accordingly the Liquidator has been made a party to the suit.	7.99	Pending hearing and final disposal.
2.	E.P.153/2004	Sub- Court Palakad	P. Balakrishnan, Proprietor, Devi Lubricants, Palakad (“ the Defendant ”)	The Company has filed this execution application to recover the decretal amount by initiating a court auction of the Defendant’s assets.	6.41	Date of auction is June 14, 2006
3.	CS. No. /2000	Madras High Court	Tamil Nadu Electricity Board. (“ Defendant ”)	This suit has been filed for non payment of dues by the Defendant for supply of excess power, as has been utilized by the Defendant through their common grid.	63.58.	Pending hearing and final disposal.
4.	WP. No. 32263/2002	Madras High Court	1.The Chairman, Tamil Nadu Electricity Board 2.The Superintending Engineer, Coimbatore Electricity Distribution Circle. (“ Defendants ”)	The Company has filed this Writ Petition for restraining the Defendants from collecting tariff as specified in G.O.MS.29 dated January 31, 1995 by treating the Company’s unit no.4 as New Industry and not as an expansion unit.	Nil	Pending hearing and final disposal.
5.	WP. No. 32339/2002	Madras High Court	1. Junior Engineer, Tamil Nadu Electricity Board. 2. The Superintending Engineer. Tamil Nadu Electricity Board.	The Company has filed a Writ Petition against the notice of the Electricity Board stating the unit is not an industry and the therefore liable to be charged with higher electricity tariff (Tariff V). The Court has granted interim stay subject to the Company depositing 25% of the amount claimed by way of arrears to pay charges under Tariff V in future.	0.51	Pending final disposal

B. Proceedings filed by the Company under Section 138 of the Negotiable Instruments Act, 1881 as amended by Act 66 of 1988 (Criminal Proceedings):

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	CC. No. 880/2001	Judicial Magistrate No. II of Coimbatore.	Amardeep Singh, Proprietor- M/s Amman Traders. ("Defendant")	Criminal Proceeding was filed against the Defendant since the Defendant presented a cheque to the Company which bounced due to want of balance in the Defendant's bank account.	3.78	Pending hearing and final disposal.
2.	C.C.No. 881/2001	Court of Judicial Magistrate no. II Of Coimbatore.	1. M/s Arora Enterprises, 2. Manjit Singh (partner of Arora Enterprises). 3. Sathwant Gaur (partner of Arora Enterprises). (Defendants)	Criminal Proceeding was filed against the Defendant since the Defendant presented a cheque to the Company which bounced due to want of balance in the Defendant's bank account.	5.81	Pending hearing and final disposal.
3.	C.C.No 882/2001	In the court of Judicial Magistrate No. II OF Coimbatore.	1. M/s Gagan Enterprises 2. Mr. Kanwarjit Singh 3. Mr. Jitendra Gaur. (Defendants)	Criminal Proceeding was filed against the Defendant since the Defendant presented a cheque to the Company which bounced due to want of balance in the Defendant's bank account.	7.47	Pending hearing and final disposal.
4	C. C. No. 1197/2005	Judicial Magistrate No. III of Coimbatore	S. Prem Kumar ("Accused")	The Company entered into a memorandum of understanding with the Accused on February 28, 2004 for the payment of Rs. 7. 50 Lakhs. The said cheque returned unpaid as the payment of the cheque had been stopped by the Accused, hence these proceedings.	7. 50	Pending hearing and final disposal

C. Proceedings filed against the Company and one of its Group Companies (Civil):

Sr. No.	Suit No	Forum	Filed by	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	CS. No. 720/92	City Civil Court, Ahmedabad.	M/s. Ashok Land Development Corporation, Ahmedabad. ("Plaintiff")	The Plaintiff entered an agreement to sell the office premises to the Company. The Company defaulted in its obligations in this regard and the Plaintiff has consequently filed a suit for (a) forfeiture of the amount paid by the Company for booking the office premises (b) to re-acquire possession of the office premises that was proposed to be sold.	1.41	Pending hearing and final disposal
2.	CS. No. 722/92	City Civil Court, Ahmedabad	M/s. Ashok Land Development Corporation, Ahmedabad ("Plaintiff")	The Plaintiff entered an agreement to sell office premises in their building, Nanalal Chambers to the Company. The Plaintiff has filed a civil suit against the Company and the Group Company for unauthorized storage of their goods in the courtyard of the said building, to which the agreement did not entitle them.	17.77	Pending hearing and final disposal

D. Proceedings filed against the Company (Labour related):

Sr. No.	Suit No	Forum	Filed By	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	C. P. No. 2528/96	Labour Court, Ahmedabad	Mr. Pradeep S. Vaghela ("Petitioner")	The Petitioner filed a petition claiming for overtime wages, casual leave, sick leave, salary as per minimum wages. The Company has filed a counter statement denying the eligibility of the above claims and for the dismissal of the Petition with costs.	2.94	Pending hearing and final disposal
2.	Application. No. 13/93	In the Court of Presiding Officer, Labour Court, Mysore	Mr. K Kishore Kumar. ("Applicant")	This application is filed by the Applicant under Section 33C (2) of the Industrial Dispute Act, 1947, claiming for the computation of certain monetary benefits alleged to be due to the Applicant from the Company.	Not Specified.	
3.	Application. No. 14/93	Labour Court, Mysore	Mr. C.M. Babu ("Applicant")	This application is filed by the Applicant under Section 33 C(2) of the Industrial Dispute Act, 1947, claiming for the computation of certain monetary benefits alleged to be due to Applicant from the Company.	Not specified.	
4.	Application No. 8/93	Labour Court, Mysore	Mr. B. Sathyanarayan a Murthy. ("Applicant")	This Application is filed by the Applicant under Section 33 C (2) of the Industrial Dispute Act, 1947, claiming for the computation of certain monetary benefits alleged to be due to the Applicant from the Company.	Not Specified	

E. Proceedings filed Against the Company, (SLP Re Criminal Proceedings):

Sr. No.	Suit No	Forum	Filed By	Particulars	Quantum (in Rs. Lakhs)	Current Status
1	C. R. L. No. 198/2006	Supreme Court of India	Enmetal Manufacturing Technologies Private Limited ("Petitioner")	<p>Proceedings were filed against the Company under Section 630 of the Companies Act, 1956 on the grounds that the Company and one of its Directors, Mr. K. Hari, (also a Director of the Petitioner), were unlawfully and illegally in possession of the Petitioner's assets, properties and documents.</p> <p>The aforementioned proceedings were quashed by the High Court at Karnataka vide an order dated February 3, 2006, ("Order").</p> <p>Aggrieved by the Order, the Petitioner filed this Special Leave Petition.</p>	Nil	Pending hearing and final disposal

F. Proceedings filed by the Company (Labour related):

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	WP. No. 37754/755 /1997	High Court, Bangalore	1. Mr. Mahadevappa 2. Mr. Ravishankar ("Petitioners")	The petition was filed under S.10-4A of the IDA for reinstatement with full back wages.	Not specified	A settlement was reached whereby the Company agreed to pay the petitioner Rs.25,000 in full and final settlement of all claims including reinstatement.
2.	CS. No. ID 282/2001	Civil Judge (Senior Division), Mysore	Mr. Suresh ("Petitioner")	The petitioner had filed a suit, O.S. No. 642/1997 in the Court of the Civil Judge, Junior Division, Mysore praying for setting aside the order of termination of employment passed by the Enquiry officer. The petition was dismissed and the present appeal has been filed challenging the dismissal.	Nil	Pending hearing and final disposal.
3.	CMA (M.D)189 to 193/2004	Madurai Bench of Madras High Court	The Regional Director, Employees State Insurance Corporation Chennai ("Respondent").	The High Court has passed a temporary stay on all proceedings and judgment and decree made in certain matters by the Employee State Insurance Corporation Chennai till the disposal of this matter.	0.78	Pending hearing and final disposal

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
4.	CMA No. 387/2003	High Court of Madras.	1. K. Kandaswamy (“ Respondent ”) 2. V. Rathinam Engineer-cum-Contractor, Karur. (“ Contractor ”)	The Respondent claimed a compensation for the fracture that he had incurred while dismantling the Industrial Shed. The Trichy Labour Court upheld his petition and awarded compensation. Aggrieved by the order of the Labour Court, the Company filed a Writ Petition in the High Court, Madras for obtaining an order of interim direction directing the Workmen Compensation Commissioner (“ WCC ”), Dindigul, to withhold the amount and not to disburse the amount deposited with the Workmen Compensation Commissioner and the Company further prayed that the Contractor was responsible for any such mis happenings.	7.83	The High Court has passed an interim direction directing the WCC not to disburse the amount deposited by the Company. Pending hearing and final disposal.

G. Proceedings filed by the Company (Excise related):

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	WP 43327/2002	Madras High Court	1. The Assistant Commissioner of Central Excise, Coimbatore II Division. 2. The Commissioner of Central Excise (Appeals), Trichy. 3. The Customs Excise and Gold(Control) , Appellate Tribunal, Chennai. (“ Defendants ”)	The Company filed a classification list for their and claimed full exemption under Notification No. 71/68 dated 1.4.68. The Central Excise Department however sought to classify the product under T.I.68. The Company appealed before the Collector, Madras against such a classification and filed a fresh classification list for their goods under T.I.16 (A) But aggrieved by the Assistant Collector’s order for provisional assessment, the Company went in appeal before the Collector (appeals) who rejected their appeal. The matter was decided against the Company by the Tribunal in 1993. The Company has thus filed the writ petition in the Madras High Court to stay the recovery of the amount demanded by the Central Excise Department.	23.89	The high court has granted interim stay till disposal of the writ petition. Pending hearing and final disposal.
2.	Dated 25.02.2006	Tribunal, Chennai	Commissioner of Central Excise Department, Coimbatore. (“ Defendants ”)	M/s B.E.Gelb Consultancy Service (“ The Appellants ”) has authorized the Company to represent them in this matter. The Company has entered into an agreement with the Appellants whereby the latter shall provide technical know-how to the	5.07.	Pending hearing and final disposal.

				Company and in turn the Appellant would pay the technical know-how fees to the Company. However the Central Excise Department issued a notice stating that the Appellants rendered 'consulting engineer' services and therefore liable to pay service tax on the technical know-how fees. The Company has appealed to the Tribunal against the decision of the Assistant Commissioner along with a stay petition.		
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H. Cases filed by the Company (Sales Tax related):

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	Not Available	Gujarat Sales Tax Tribunal, Ahmedabad	State of Gujarat. ("Defendant")	The Company filed an appeal against the order of the Assistant Commissioner claiming that he had erred in levying tax under the Local Act on the inter- state sales. Further the order of assessment relating to years 1986-90 were barred by limitation u/s 42 and the local act cannot be sustained. He also erred in levying penalty u/s 4	58.49	Pending hearing and final disposal
2.	CS. No. 1425, 27, 28/2000	High Court, Madras.	1. The Tamil Nadu Taxation Special Tribunal, Chennai. 2. The Joint Commissioner (CT) (SMR), Chennai.) 3. The Assistant Commissioner (CT), Coimbatore. ("Respondents")	The Company has filed a writ petition to determine whether the income from the bus bodies supplied to the exporters could be exempt under section 5(3) of the Central Sales Tax Act, 1956.	1.14	Pending hearing and final disposal.
3.	O.S.No. 177/1995	Court of Subordinate Judge at Karur.	M/S. Ashok Leyland Ltd., Madras. ("Defendant")	The suit has been filed for reimbursement of sales tax paid by the Company to the sales tax authorities, in light of the Defendant's assurance, that no sales tax will be applicable for supply of bus bodies by the Company to the Defendant.	1.13	Pending hearing and final disposal.

I. Show Case Notice Filed Against the Company (Excise related)

Sr. No.	Notice No. /Date	Served By	Filed by	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	C. No. IV/09/64 2005 STC Date:15/09/2005	Deputy Commissioner of Central Excise, Coimbatore	Central Excise Department, Coimbatore.	The Department has alleged that the Company has failed to pay the service tax on the service charges paid by them in foreign currency to M/s Gelb Consultancy Services, USA for the 'consulting engineering services' received; and failed to register themselves under service tax and failed to file the prescribed return.	3.00	Pending hearing and final disposal.

J. Show cause notices Filed against Elgi Rubber Products Limited ("Group Company II") and Elgi Ultra Industries Limited ("Group Company III")

Sr. No.	Notice No. /Date	Served By	Filed by	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	Notice u/s 143(3)	Commissioner of Income Tax, (Appeals) Coimbatore	Asst. Commissioner of Income Tax, Coimbatore ("Defendant")	Group Company II has received Wind Mill Subsidy and treated as Capital Subsidy. The Department has disallowed the subsidy and treated it as Revenue Receipt. Group Company II has gone for an appeal with CIT (Appeals) Coimbatore	11.38	Pending hearing and final disposal.
2.	Notice Under Section 143(3)	Commissioner of Income Tax, (Appeals) Coimbatore	Asst. Commissioner of Income Tax, Coimbatore ("Defendant")	Capital Subsidy received from District Industrial Centre, Palghat, Kerala for expansion of one of Group Company II plant located in Industrial Development Area in Kanji ode West, Palghat. The Department has disallowed the same and treated as Revenue Receipt. Aggravated by this order Group Company II preferred and appeal with CIT (Appeals).	12.14	Pending hearing and final disposal.
3.	Notice Under Section 143(3)	Commissioner of Income Tax, (Appeals) Coimbatore	Asst. Commissioner of Income Tax, Coimbatore ("Defendant")	The Department has disallowed the job receipts while calculating the deductions applicable under section 80HHC of the Income Tax Act, 1961 claim. Group Company II has preferred an appeal against this order with CIT (Appeals) Coimbatore	1.08	Pending hearing and final disposal.

Sr. No.	Notice No. /Date	Served By	Filed by	Particulars	Quantum (in Rs. Lakhs)	Current Status
4.	C.S.No 314/05-06 A.Y- 2004-05	Commissioner of Income Tax, (Appeals) Coimbatore	Asst. Commissioner of Income Tax, Coimbatore ("Defendant")	The Department has disallowed the following claims made by Group Company III in its return of Income. Bad Debts and actionable claims written off and charged to revenue expenditure under section 80I A of the Income Tax Act, 1961	0.42	Pending hearing and final disposal.
5.	ITAT 2207/2005 for year 2002- 2003 ITAT 2208/2000 5 for the year 2003- 2004	ITAT	Asst. Commissioner of Income Tax, Coimbatore ("Defendant")	Disallowance of claim of Bad Debt in the return of income filed by the assesses for the year 2002-03 and 2003-2004 and the IT Department preferred appeals to the ITAT against the order of CIT Appeals. (Rs.In lakhs) 2003-04 Rs. 78.00 2002-03 Rs. 74.00	152	Pending hearing and final disposal.

K. Income Tax Appeals filed by the Company

Sr. No.	Suit No	Forum	Filed Against	Particulars	Quantum (in Rs. Lakhs)	Current Status
1.	TCA 161/2002 against ITA No. 1646/MDS 91 Assessment Year 1988-1989	High Court of Madras	Deputy Commissioner of Income Tax (DCIT), Coimbatore. ("Defendant")	The Company has filed this appeal against the order of Defendant assessing the total income of the Company without considering the credit balance, cost of manufacture of tools and dividend income.	10.21	Pending hearing and final disposal.
2.	ITA 2745 MDS/2004 & ITA 3194 MDS/2004 Assessment Year 2001-2002	Income Tax Appellate Tribunal, Chennai. (ITAT)	Commissioner of Income Tax, Coimbatore(CIT) ("Defendant")	The Company appealed against the Defendant in confirming the interest from margin money deposited for the purpose of the business was not to be regarded as business income for the purpose of deduction under Section 80 HHC.	39.61	Pending hearing and final disposal.
3.	Appeal for the Assessment Year 2003-2004	Commissioner of Income-Tax (Appeals) Coimbatore	Assistant Commissioner of Income Tax, Coimbatore. ("Defendant")	The Company appealed against the order of against the order of the Defendant for claiming Interest on Margin Money Deposits and Nabard Bonds and assessing them under the head "Income from other Sources as the interest income was in the nature of business income.	22.46	Pending hearing and final disposal
4.	ITA 1736 MDS/94 Assessment Year 1991-1992	Income Tax Appellate Tribunal Chennai .(ITAT)	Commissioner of Income Tax (Appeals). (CIT) ("Defendant")	The Company has filed an appeal against the Defendant claiming that the Defendant has erred in holding that deduction u/s 32AB cannot be withdrawn in the case of amalgamation of the companies.	32.12	Pending hearing and final disposal.

MATERIAL DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

Apart from the changes mentioned below and elsewhere in this Letter of Offer, since the date of the last financial statements disclosed (i.e., 31/03/2006) in this Letter of Offer, the Board of Directors are not aware of any circumstances that materially or adversely affect or are likely to affect the profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.

The Company has issued 55,32,714 equity shares of Re. 1/- each to International Finance Corporation (IFC) Washington on a preferential allotment basis. As per valuation certificate submitted by Deloitte Haskins & Sells, Auditors of the Company, the price was worked out to Rs. 39.89 per share (Rupees Thirty Nine and Paise Eighty Nine Only). The Company has complied with guidelines issued by SEBI in respect of preferential allotment and completed the procedure of listing of these shares.

GOVERNMENT APPROVALS

On the basis of the indicative list of approvals below, we are permitted to carry on our business activities and no further approvals from any Government authorities/RBI are required by the Company to undertake the business of the Company. It must be distinctly understood that, in granting these licenses, the Government of India and/or RBI does not take any responsibility for our financial soundness or for the correctness of any of the statements made or opinions expressed in this behalf. The approvals obtained and/or required to be obtained by us relate to our Company and also particularly to each of our manufacturing units in Ganapathy, Annur, Karur, Gudalur, MGM-Mysore, Mysore, Vaiyampalayam, Bangalore, Sengalipalayam, Kondayampalayam and Pongalur.

We have obtained necessary approvals and registrations from various authorities in relation to our business activities; which include:

- i) Permanent Account Number and Tax Deduction Account Number under the Income Tax Act, 1961;
- ii) Service Tax Registration;
- iii) Registration under the Central Sales Tax Act, 1956, and various state sales tax legislations;
- iv) Central Excise Act, 1944;
- v) Importer-Exporter Code Number under the Foreign Trade Development and Regulation Act, 1992;
- vi) Registration with the Employees' State Insurance Corporation under Employees' State Insurance Act., 1948; and
- vii) Registration under Employees Provident Fund & Miscellaneous Provisions Act, 1952.

We have also obtained necessary approvals from various authorities for conduct of business at our manufacturing units located at Ganapathy, Annur, Karur, Gudalur, MGM-Mysore, Mysore, Vaiyampalayam, Bangalore, Sengalipalayam, Kondayampalayam and Pongalur. These approvals include:

- i) Factory License under the Factories Act, 1948 for all our manufacturing units located at Ganapathy, Annur, Karur, Gudalur, Mysore, Vaiyampalayam, Bangalore, Sengalipalayam, Kondayampalayam and Pongalur;
- ii) Contract Labour Registration under the Contract Labour (Regulation and Abolition) Act 1970 for manufacturing units located at Ganapathy, Annur, Gudalur, Mysore, Vaiyampalayam;
- iii) Authorisation under Rule 3(c) and Rule 5(5) of Hazardous Wastes (Management and Handling) Rules, 1989 for manufacturing unit located at Ganapathy, Annur, Gudalur, Mysore;
- iv) Consent Order under Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 for manufacturing units located at Ganapathy, Annur, Karur, Gudalur, MGM-Mysore, Mysore, Vaiyampalayam, Bangalore, Sengalipalayam, and
- v) Consent Order under Section 25 of the Water (Prevention and Control of Pollution) Act, 1974 for manufacturing units located at Ganapathy, Annur, Karur, Gudalur, MGM-Mysore, Mysore, Vaiyampalayam, Bangalore, Sengalipalayam.

Some of the registrations/licenses/approvals obtained by us have expired in the ordinary course of business or are in the process of being applied for. We undertake to obtain all approvals, licenses, registrations and permissions required to operate our business. Certain of the registrations/licenses/approvals pending renewal/approval include:

- i) Factory License under the Factories Act, 1948 for all our manufacturing units located at Mysore and Kondayampalayam;
- ii) Contract Labour Registration under the Contract Labour (Regulation and Abolition) Act 1970 for manufacturing units located Annur and Mysore;
- iii) Authorisation under Rule 3(c) and Rule 5(5) of Hazardous Wastes (Management and Handling) Rules, 1989 for manufacturing unit located at Mysore;
- iv) Consent Order under Section 21 of the Air (Prevention and Control of Pollution) Act, 1981 for manufacturing units located at Ganapathy, Annur, Karur, Vaiyampalayam and Bangalore and
- v) Consent Order under Section 25 of the Water (Prevention and Control of Pollution) Act, 1974 for manufacturing units located at Ganapathy, Annur, Karur, Vaiyampalayam and Bangalore.

XI. OTHER REGULATORY AND STATUTORY DISCLOSURES

AUTHORITY FOR THE PRESENT ISSUE

The Board at their meeting held on 20/03/2006, approved to raise upto Rs 25,000 lacs through an issue of equity / equity linked (Securities) by way of a rights issue / preferential allotment and / or debt instrument and authorised a Committee of Directors to finalise the nature of instruments and terms and conditions of funds raising. Accordingly the Committee in their meeting held on 27/03/2006 approved the issue of 1% Secured Optionally Convertible Bonds of Rs 101/- each, aggregating Rs 10,000 lacs by way of a rights issue. The company has passed a special resolution u/s 81, 81(1A) of Companies Act, 1956 in terms of notice dated 01/04/2006 and passing of resolution through Postal Ballot Rules 2001. The results of the postal ballot were published in the newspapers on 11/05/2006.

PROHIBITION BY SEBI

The Company, its Promoters, Directors or any of the Company's associates or group companies with which the Directors of the Company are associated as Directors or Promoters have not been prohibited from accessing the capital market under any order or direction passed by SEBI.

ELIGIBILITY

LGB is an existing listed Company. It is eligible to offer this Rights Issue in terms of Clause 2.4(iv) of the SEBI (DIP) Guidelines, 2000.

The promoters, their relatives, LGB, group companies are not detained as willful defaulters by RBI/ Government authorities and there are no violations of securities laws committed by them in the past or pending against them.

DISCLAIMER CLAUSE

AS REQUIRED A COPY OF THIS LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT THE SUBMISSION OF THIS LETTER OF OFFER TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE, OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE OFFER DOCUMENT. LEAD MANAGER M/S. KEYNOTE CORPORATE SERVICES LIMITED, HAS CERTIFIED THAT THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI GUIDELINES FOR DISCLOSURES AND INVESTOR PROTECTION IN FORCE FOR THE TIME BEING. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ISSUER COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE LETTER OF OFFER, THE LEAD MANAGER IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE LEAD MANAGER, M/S. KEYNOTE CORPORATE SERVICES LIMITED HAS FURNISHED TO SEBI A DUE DILIGENCE CERTIFICATE DATED 28/09/2006 IN ACCORDANCE WITH SEBI (MERCHANT BANKERS) REGULATION 1992 WHICH READS AS FOLLOWS:

- (I) WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE LETTER OF OFFER PERTAINING TO THE SAID ISSUE.**
- (II) ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.**

WE CONFIRM THAT:

- (A) THE LETTER OF OFFER FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
- (B) ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE, AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE GOVERNMENT AND ANOTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;**
- (C) THE DISCLOSURES MADE IN THE LETTER OF OFFER ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE; AND**
- (D) BESIDE OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE LETTER OF OFFER ARE REGISTERED WITH SEBI AND TILL DATE SUCH REGISTRATION IS VALID.**

THE FILING OF THE LETTER OF OFFER DOES NOT, HOWEVER ABSOLVE THE COMPANY FROM ANY LIABILITIES UNDER SECTION 63 OF THE COMPANIES ACT, 1956, OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE LEAD MANAGER FOR ANY IRREGULARITIES OR LAPSES IN THE LETTER OF OFFER.

THE PROMOTERS / DIRECTORS OF LGB VIZ. B. VIJAYKUMAR AND L. G. VARADARAJULU DECLARE AND CONFIRM THAT NO INFORMATION/MATERIAL LIKELY TO HAVE A BEARING ON THE DECISION OF INVESTORS IN RESPECT OF THE SHARES OFFERED IN TERMS OF THIS LETTER OF OFFER HAS BEEN SUPPRESSED WITHHELD AND / OR INCORPORATED IN THE MANNER THAT WOULD AMOUNT TO MIS-STATEMENT/MISREPRESENTATION AND IN THE EVENT OF ITS TRANSPIRING AT ANY POINT IN TIME TILL ALLOTMENT/REFUND, AS THE CASE MAY BE, THAT ANY INFORMATION/MATERIAL HAS BEEN SUPPRESSED/WITHHELD AND/OR AMOUNTS TO A MIS-STATEMENT/MIS-REPRESENTATION, THE PROMOTERS/DIRECTORS UNDERTAKE TO REFUND THE ENTIRE APPLICATION MONIES TO ALL SUBSCRIBERS WITHIN 7 DAYS THEREAFTER WITHOUT PREJUDICE TO THE PROVISIONS OF SECTION 63 OF THE COMPANIES ACT.

CAUTION

The Company and the Lead Manager accept no responsibility for statements made otherwise than in this Letter of Offer or in any advertisement or other material issued by the Company or by any other persons at the instance of the Company and anyone placing reliance on any other source of information would be doing so at his own risk.

The Lead Manager and the Company shall make all information available to the Equity Shareholders and no selective or additional information would be available for a section of the Equity Shareholders in any manner whatsoever including at presentations, in research or sales reports etc. after filing of this Letter of Offer with SEBI.

DISCLAIMER IN RESPECT OF JURISDICTION

This Letter of Offer has been prepared under the provisions of Indian Laws and the applicable rules and regulations thereunder. Any disputes arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) in Coimbatore, India only.

No action has been or will be taken to permit this Issue in any jurisdiction where action would be required for that purpose, except that this Letter of Offer has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares represented thereby may not be offered or sold, directly or indirectly, and this Letter of Offer may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Letter of Offer nor any sale hereunder, shall under any circumstances create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

DISCLAIMER CLAUSE OF THE BSE

Bombay Stock Exchange Limited (“the Exchange”) has given vide its letter dated [●] permission to the Issuer to use the Exchange’s name in this Letter of Offer as one of the Stock Exchanges on which this Issuer’s securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. The Exchange does not in any manner: (i) warrant,

certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or (ii) warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

DISCLAIMER CLAUSE OF THE NSE

National Stock Exchange of India Limited (NSE) has given vide its letter dated [●] granted permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which the Issuer's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Issuer. It is to be distinctly understood that the aforesaid permission given by NSE should not in any way be deemed or construed that the Letter of Offer has been cleared or approved by NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; nor does it warrant that the Issuer's securities will be listed or will continue to be listed on the Exchange; nor does it take any responsibility for the financial or other soundness of the Issuer, its Promoters, its management or any scheme or project of the Issuer.

DISCLAIMER CLAUSE OF THE MSE

Madras Stock Exchange Limited (MSE), has, vide their letter dated [●] given permission to the Issuer to use the name of the Exchange in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. MSE has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Issuer. MSE does not in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; or take any responsibility for the financial or other soundness of this Issuer, its Promoters, its Management or any scheme or project of this Issuer; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by MSE. Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against MSE, whatsoever, by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated in the Letter of Offer or any other reason whatsoever.

DISCLAIMER CLAUSE OF THE COSE

Coimbatore Stock Exchange Limited (CoSE) has given vide its letter dated [●] permission to the Issuer to use the Exchange's name in this Letter of Offer as one of the Stock Exchanges on which this Issuer's securities are proposed to be listed. The Exchange has scrutinized this Letter of Offer for its limited internal purpose of deciding on the matter of granting the aforesaid permission to this Issuer. The Exchange does not in any manner: (i) warrant, certify or endorse the correctness or completeness of any of the contents of this Letter of Offer; or (ii) warrant that this Issuer's securities will be listed or will continue to be listed on the Exchange; or (iii) take any responsibility for the financial or other soundness of this Issuer, its Promoters, its management or any scheme or project of this Issuer; and it should not for any reason be deemed or construed that this Letter of Offer has been cleared or approved by the Exchange. Every person who desires to apply for or otherwise acquires any securities of this Issuer may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against the Exchange whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription/acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

FILING

The Letter of Offer has been filed with SEBI, Mittal Court, 'A' Wing, Nariman Point, Mumbai 400021, for its observations. After SEBI gives its observations, the final Letter of Offer will be filed with the Stock Exchanges as per the provisions of the Act.

All the legal requirements applicable till the date of filing the Letter of Offer with the Stock Exchanges will be complied with before filing the Letter of Offer with the Stock Exchanges.

LISTING

The existing Equity Shares are listed on the BSE, NSE, MSE and CoSE. The Company has made applications to the BSE, NSE, MSE and CoSE for permission to deal in and for an official quotation in respect of the Bonds as well as the resultant equity shares arising out of conversion of the Bonds which would be issued in terms of this Letter of Offer. The Company has received in-principle approvals from BSE, NSE, MSE and CoSE by letters dated [●], [●], [●] and [●] respectively. If the permission to deal in and for an official quotation of the securities is not granted by any of the Stock Exchanges mentioned above, within 42 days from the Issue Closing Date, the Company shall forthwith repay, without interest, all monies received from applicants in pursuance of this Letter of Offer. If such money is not paid within eight days after the Company becomes liable to repay it, then the Company and every Director of the Company who is an officer in default shall, on and from expiry of eight days, be jointly and severally liable to repay the money with interest as prescribed under the Section 73 of the Act.

CONSENTS

Consents in writing of the Director, Auditors, Lead Manager, Registrar to the Issue, Legal Advisors, Bankers to the Company, Debenture Trustee, Company Secretary and Compliance Officer, to act in their respective capacities have been obtained and filed with Stock Exchanges at the time of filing this Letter of Offer and such consents have not been withdrawn up to the time of delivery of the Letter of Offer for registration with the stock exchanges.

M/s. Deloitte Haskins & Sells, The Auditors of the Company have given their written consent for the inclusion of their Report in the form and content as appearing in the Letter of Offer and such consents and reports have not been withdrawn up to the time of delivery of the Letter of Offer for registration with the Stock Exchanges.

EXPERT OPINION

The Company has not obtained any expert opinion for this issue.

EXPENSES OF THE ISSUE

The expenses of this Issue include, among others, fees payable to the Lead Manager, Auditors, legal counsel, rating agency, auditors, debenture trustees, stamp duty, printing and distribution expenses, statutory advertisement expenses and listing fees. The total expenses of the Issue are estimated to be approximately Rs. 500.00 lacs, which constitutes 5.29% of the Issue size. All expenses with respect to the Issue would be met out of internal accruals of the Company. For details of Issue Expenses, refer to "Objects of Issue" on page 19 of this Letter of Offer.

Fees Payable to the Lead Manager to the Issue

The fees payable to the Lead Manager will be as per the Agreement dated 24/07/2006, a copy of which is available for inspection at our corporate office. In addition, we would reimburse all actual out of pocket expenses and services tax and such other similar levies.

Fees Payable to the Registrars to the Issue

The fees payable to the Registrar will be as per the Agreement dated 01/07/2006, a copy of which is available for inspection at our corporate office.

In addition to the above, Registrar will reimburse actual out of pocket expenses. As the fees payable to the Registrar would vary upon the number of applications received, hence total fees payable to Registrar as a percentage of the total issue expenses and as a percentage of the Issue size cannot be disclosed. Adequate funds will be provided to the Registrar to enable them to send refund orders or allotment advice by registered post/speed post.

Fees Payable to the Bankers to the Issue

No fee is payable to the Bankers to the Issue

Fees Payable to Debenture Trustee

The total fees payable to IDBI Trusteeship Services Ltd. as Debenture Trustee is an annual fee of Rs. 4.00 lacs plus service tax.

UNDERWRITING COMMISSION, BROKERAGE AND SELLING COMMISSION

No Underwriting, Brokerage and selling Commission will be payable for this issue.

OPTION TO SUBSCRIBE

Other than the present rights Issue, the Company has not given any person any option to subscribe to the Equity Shares of the Company.

STOCK MARKET DATA FOR SHARES OF THE COMPANY

The Equity Shares of the Company are listed on the BSE, NSE, CoSE and MSE. As the shares are actively traded on the BSE and NSE, stock market data have been given separately for each of these Stock Exchanges. The equity shares of the company are currently not traded on CoSE and MSE.

Whilst reviewing the information provided below, it should be noted that The Company has allotted Bonus shares in the ratio of 1:1 and each Equity Share of Rs. 10 was split into ten Equity Shares of Re. 1 each pursuant to the resolution passed by the shareholders of the Company on 27/11/2003. The Equity Shares commenced trading ex-split and ex-bonus w.e.f. 09/12/2003 on BSE and w.e.f. 10/12/2003 NSE.

The high and low closing prices recorded on the BSE and NSE for the preceding three years and the number of Equity Shares traded on the days the high and low prices were recorded are stated below:

BSE

Particulars	High			Low			Average Price (Rs.)	Total Volume
	High (Rs)	Date	Volume on date of high (no of shares)	Low (Rs)	Date	Volume on date of Low (no of shares)		
01/01/03 to 08/12/03	430.25	08/12/03	2912	65.25	02/04/03	24	160.91	239339
Bonus shares allotted in the ratio 1:1 & Equity share of Rs.10/- split into ten Equity Shares of Re.1 each								
09/12/03 to 31/12/03	31.55	18/12/03	256899	22.55	09/12/03	1	26.73	1306243
Year 2004	32.25	08/11/04	903917	10.50	24/06/04	80871		15663279
Year 2005	46.40	10/10/05	79945	25.05	20/01/05	26343		17057924
Oct. 05	46.40	10/10/05	79945	39.00	31/10/05	65844	43.07	1265105
Nov.05	45.90	11/11/05	69759	39.00	30/11/05	30930	41.95	700389
Dec. 05	41.90	14/12/05	19968	33.60	29/12/05	114165	37.73	701081
Jan. 06	40.40	02/01/06	177689	35.00	31/01/06	10616	36.77	802741
Feb. 06	35.00	01/02/06	19805	29.00	24/02/06	22392	31.86	342639
Mar. 06	42.90	27/03/06	100601	31.00	01/03/06	18923	37.56	1774882
Apr. 06	41.50	01/04/06	29696	34.50	28/04/06	18511	37.95	397442
May 06	43.30	03/05/06	260024	29.00	22/05/06	55218	36.11	811607
June 06	34.75	01/06/06	15338	20.65	08/06/05	20790	26.00	686429
July 06	27.00	06/07/06	9202	22.30	12/07/06	2697	24.00	1366104
August 06	32.00	16/08/06	146618	23.00	01/08/06	3900	25.97	4031164

NSE

Particulars	High			Low			Average Price (Rs.)	Total Volume
	High (Rs)	Date	Volume on date of high (no of shares)	Low (Rs)	Date	Volume on date of Low (no of shares)		
01/01/03 to 09/12/03	445.45	09/12/03	4742	67.55	28/01/03	822	150.70	704831
Bonus shares allotted in the ratio 1:1 & Equity share of Rs.10/- split into ten Equity Shares of Re.1 each								
10/12/03 to 31/12/03	31.55	18/12/03	509281	23.45	10/12/03	1200	27.00	1987118
Year 2004	32.45	22/12/04	398749	10.00	24/06/04	37432	20.26	40794311
Year 2005	46.45	10/10/05	152680	25.00	05/01/05	172802	36.18	38203306
Oct. 05	46.45	10/10/05	152680	39.50	31/10/05	156283	42.98	2634190
Nov.05	45.50	10/11/05	418457	39.40	30/11/05	85663	41.96	1305429
Dec. 05	40.85	06/12/05	16956	33.10	30/12/05	291288	37.77	1998922
Jan. 06	40.60	02/01/06	353902	34.60	31/01/06	35892	36.82	2167864
Feb. 06	36.00	01/02/06	38204	29.50	24/05/06	54433	31.99	908924
Mar. 06	42.90	27/03/06	232461	30.70	06/03/06	146559	37.67	4871723
Apr. 06	41.10	05/04/06	43330	35.00	28/04/06	64129	37.97	837258
May 06	43.65	03/05/06	541558	29.25	22/05/06	65343	36.23	1588552
June 06	34.10	01/06/06	20943	20.55	08/06/06	68911	25.97	1457487
July 06	26.75	14/07/06	104739	22.00	12/07/06	33460	23.96	607517
August 06	31.40	17/08/06	106880	22.90	03/08/06	16044	27.05	1105570

Week end price of Equity Shares of LGB on BSE & NSE

Week ended	BSE Price (Rs)	NSE Price (Rs.)
22/09/2006	27.75	28.10
15/09/2006	28.55	28.50
08/09/2006	28.55	28.95
01/09/2006	27.55	27.55

The closing price of LGB as on 21/03/2006 immediately after the date on which the resolution of the Board of Directors approving the issue was passed i.e. 20/03/2006 was Rs. 40.35. The market price of LGB as on 11/05/2006 immediately after the date of the results of the postal ballot i.e. 10/05/2006 was Rs. 38.10.

- The equity shares of the company were in no delivery period from [●] to [●].
- The cum-rights closing price of the shares of the company as on [●] was Rs. [●].
- The ex-rights closing price of the shares of the company as on [●] was Rs. [●].

REDRESSAL OF INVESTOR GRIEVANCES

The transfer and other related work is handled by Cameo Corporate Services Ltd.(CCSL), share transfer agents. The secretarial department actively interacts with CCSL for expeditious redressal of investor grievances and takes care of complaints received from statutory bodies such as SEBI, Stock Exchanges, Department of Company Affairs, etc. The name of the Company has never appeared in fortnightly press release on investor complaints of SEBI.

The Shareholders' Grievance Committee was constituted by the Board. The main focus of the Shareholders Committee's is to specifically look into the redressal of Investors' complaints in relation to the transfer of shares, the non-receipt of Annual Reports and the non-receipt of dividends declared by the Company, etc. Currently V. Govindarajulu (Chairman), B. Vijayakumar and P.S. Balasubramanian are the members of the Shareholders Grievance Committee.

There were no complaints pending redressal as on 31/03/2005. During the period from 01/04/2005 to 31/03/2006, 4 complaints were received. All the complaints were resolved to the satisfaction of the shareholders.

Total number of complaints received during last financial year (2004-05)	13
No. of shareholder complaints pending redressal as on April 1, 2005	Nil
Total number of complaints received during financial year (2005-06) i.e upto 31/03/2006	4
Status of the complaints	Resolved
No. of shareholders complaints pending redressal as on 31/03/2006.	Nil
Time normally taken by it for disposal of various types of Investor grievances	15 days

Investor Grievances arising out of this Issue

Investor grievances arising out of the Issue will be handled by Cameo Corporate Services Ltd., being the Registrar to the Issue. The agreement between us and the Registrar will provide for retention of records with the Registrar for a period of at least one year from the last date of dispatch of Letter of Allotment/ share certificate / Non Convertible Debentures / refund order to enable the Registrar to redress grievances of Investors.

All grievances relating to the Issue may be addressed to the Registrar to the Issue giving full details such as folio no., name and address of the first applicant, number of Bonds applied for, Composite Application Form serial number, amount paid on application and the name of the bank and the branch where the application was deposited, along with a photocopy of the acknowledgement slip. In case of renunciation, the same details of the renouncee should be furnished.

The average time taken by the Registrar for attending to routine grievances will be 15 days from the date of receipt. In case of non-routine grievances where verification at other agencies is involved, it would be the endeavour of the Registrars to attend to them as expeditiously as possible. The Company undertakes to resolve the Investor grievances in a time bound manner. Investors may contact the Compliance Officer in case of any pre-Issue/ post-Issue related problems such as non-receipt of letters of allotment/share certificates/demat credit/refund orders etc.

CHANGE IN AUDITORS

The Company has appointed Deloitte Haskins & Sells, Chartered Accountant as auditors of the Company in place retiring auditors M/s Fraser & Ross, Chartered Accountant w.e.f. 22/08/2005. Besides this there has been no change in the auditors of the Company during last three years.

CAPITALISATION OF RESERVES OR PROFITS

The Company has issued 6,01,43,060 Equity Shares as fully paid Bonus Shares by Capitalization of Share Premium and General Reserves from time to time. The details of shares issued by capitalizing of reserves during last five years are as follows:

Year/Date of Allotment	No. of Shares	Face Value	Consideration
2003	3,93,03,160	Re. 1	Bonus (1:1)

REVALUATION OF ASSETS

The Company has not done any revaluation of its assets during the last 5 years

XII. OFFERING INFORMATION

Terms of the Issue

The 1% Secured Optionally Convertible Bonds (“Bonds”) being offered are subject to the provisions of the Act and the terms and conditions of this Letter of Offer, the CAF, other terms and conditions as may be incorporated in the Debenture Trust Deed, the Memorandum and Articles of Association of the Company (“**Memorandum**” and “**Articles**”), the Foreign Exchange Management Act 1999 (“**FEMA**”) and the Letters of Allotment/ Bond Certificates to be issued. Over and above such terms and conditions, the Equity Shares arising on conversion of the Bonds shall also be subject to applicable laws, guidelines, notifications and regulations relating to issue of capital and listing of securities issued from time to time by SEBI, the Government of India, RBI and / or other authorities.

Issue Schedule

Issue Opening Date: [●], 2006

Last date for receiving requests for split forms: [●], 2006

Issue Closing Date: [●], 2006

Basis for the Issue

The Bonds are being offered for subscription for cash to those existing Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the shares held in the electronic form and on the Register of Members of the Company in respect of shares held in the physical form at the close of business hours on the Record Date, i.e., [●] fixed in consultation with the Stock Exchanges. The Company will arrange to dispatch the Abridged Letter of Offer and Composite Application Form (“CAF”) by Registered/Speed post to such Equity Shareholders in India. Upon request of shareholder/investor the Company will arrange to dispatch the Letter of Offer during the issue period.

Rights Entitlement

The Bonds are being offered on a rights basis to the existing Equity Shareholders as on Record Date in the ratio of 1 Bond for every 9 Equity Shares of Re. 1/- each.

Fractional entitlements

All fractional entitlement of 0.5 and above to be rounded up to the next higher integer and fractional entitlement of less than 0.5 to be ignored subject to a minimum entitlement of 1 Bond.

Detailed Terms of the 1% Secured Optionally Convertible Bond:

Company / Issuer	LG Balakrishnan & Bros Limited
Issue	LG Balakrishnan 2013 Optionally Convertible Secured Bonds due 2013 (“Bonds”)
Issue Size	Upto Rs. 9,447.27 lacs
Issue Date of the Bonds	[●]
Final Maturity of the Bonds	7 years from the issue date
Calculation Agent	ICICI Bank Limited, being the Calculation Agent, shall on the last working day of every month announce the Reference Price for the subsequent month. The notices received for conversion from the Bondholders in the subsequent month will be governed by the aforesaid announced Reference Price and the allotment and subsequent listing of equity shares shall commence from the last working day of the subsequent month. The same day shall be the last day for the computation of interest payable on the Bonds on which conversion option is exercised. The Calculation Agent shall announce the Conversion Price and Reference Price of the Bonds every month through such media including the Company’s website as specified by the applicable law.
Reference Price	The Reference Price, to be calculated by the Calculation Agent on the last working day of every month to be used as a Reference Price in the subsequent month, will be the average of the daily closing prices of the Equity Shares as quoted on the stock exchange where the Equity Shares of the company are most frequently traded during the month of calculation of the Reference Price.
Basis of Offering	The Bonds will be offered on a rights basis (Rights) to the shareholders whose names appear as beneficial owners in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company in respect of the Equity Shares held in physical form on the record date. The Company will issue 1 Bond for every 9 equity shares of Re. 1/- each held.
Form and Denomination of the Bonds	The Bonds will be issued in dematerialized form having a face value of Rs. 101/- each
Rating of the Bonds	The 1% Secured Optionally Convertible Bonds being offered through this Letter of Offer have been rated by: <ul style="list-style-type: none"> • ICRA Limited as LA [indicates LA- (pronounced L A minus)] • FITCH [indicates A (ind)]
Rate of Interest on the Bonds	The interest rate payable on the Bonds will be 1% p.a. to be serviced semi-annually.
Redemption at Maturity of the Bonds	Unless previously converted by the Bondholder or redeemed and cancelled by the Company, the Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5th year from the Issue Date of the Bonds. The premium payable on the Bonds will be calculated at an effective yield of 9.75% p.a.
Security	The bonds shall be secured by the Company by: <ol style="list-style-type: none"> 1. First charge / hypothecation /security interest in favour of the Security Trustee for the holders of the Bonds on the Company’s fixed assets excluding assets charged specifically to other lending institutions 2. Second charge on the entire current assets of the company 3. Ensure minimum asset coverage of 1.33 times
Conversion Right to Bond holders	The Bonds are convertible at the option of the Bondholders into Equity Shares at the Conversion Price at any time on or after the first month from the Issue Date of the Bonds and prior to the close of business (at the place the Bond is deposited for conversion) on a month prior to the Final Maturity Date of the Bonds, unless previously converted by the Bondholder, or redeemed and cancelled by the Company.
Conversion Price for Bondholders	<ul style="list-style-type: none"> – If the Reference Price is less than or equal to Rs. 70/-, the Conversion Price at which the Bonds are convertible into Equity Shares will be Rs. 55/- per Equity Share. * – If the Reference Price is above Rs. 70/- but less than or equal to Rs. 85/-, the Conversion Price will be Rs. (55+20%*(Reference Price – 70)) per Equity Share. *

	<ul style="list-style-type: none"> – If the Reference Price is above Rs. 85/- but less than or equal to Rs. 100/-, the Conversion Price will be Rs. $(58+30\%*(\text{Reference Price} - 85))$ per Equity Share. * – If the Reference Price is above Rs. 100/-, the Conversion Price will be Rs. $(62.5+50\%*(\text{Reference Price} - 100))$ per Equity Share. * (Please refer to the “Illustrative examples of Conversion Price” after this table)
Put Option to Bondholders	Any time after three years from the date of issue, the Bondholders shall have an option to get their bonds redeemed. The redemption will happen at such yield as specified in “Redemption at Maturity of the Bonds”.
Call Option to the Company	Any time after three years from the date of issue, the Company shall have an option to redeem the Bonds. The redemption will be at such yield as specified in “Redemption at Maturity of the Bonds”.
Repurchase of Bonds in the Event of Delisting	To the extent permitted by applicable law, in the event that the Equity Shares cease to be listed or admitted to trading on the BSE and the NSE (a “Delisting”), each Bondholder shall have the right, at such Bondholder’s option, to require the Company to repurchase all of such Bondholder’s Bonds at such redemption amount as specified in “Redemption at Maturity of the Bonds” on the date set by the Company for such repurchase. The date of such repurchase shall be the twentieth business day following the date the Company gives notice to the Bondholders of the Delisting or, if such notification is not given, the twentieth business day after the Delisting.
Anti-dilution Protection	The Conversion Price will be adjusted in certain circumstances, including declaration of dividends on Equity Shares exceeding 200% p.a. threshold, subdivisions, consolidations and reclassifications of Equity Shares, issuance of options, rights or warrants, capital distribution and certain other dilutive events.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated and secured obligations of the Company and will at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law, at all times rank at least equally with all other present and future direct, unconditional, unsubordinated and secured obligations of the Company.
Negative Lien	For so long as any Bond remains outstanding, the Company will not, and will procure that none of its principle subsidiaries will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of the undertaking, assets or revenues of the parent company to secure certain types of indebtedness.
Share Ranking	Equity Shares issued upon conversion of the Bonds will be fully paid and non-assessable and will rank pari passu, subject to listing, with the Equity Shares in issue on the relevant conversion date.
Indian Taxation	As applicable under the Indian Tax Laws.
Listing	The Bonds being issued in terms of this Letter of Offer will be listed on BSE and NSE
Security Trustee	IDBI Trusteeship Services Ltd.
Documentation	All documentation to be in form and substance acceptable to all parties involved in the transaction and as may be required by the Bondholders. Clauses in the documentation may include inter alia, representations and warranties, covenants, undertakings, negative pledge, termination events, transferability, default interest, events of default, waiver of immunity, agency clause, gross up and submission to jurisdiction, market disruption and breakage costs.
Governing Law and Jurisdiction	The issue shall be governed by Indian Laws and subject to exclusive jurisdiction of the courts of Mumbai.
Trading Market for the shares	The principle trading markets for the Equity Shares are the BSE and the NSE.

*** Illustrative examples of Conversion Price**

Case 1 - Reference Price is less than or equal to Rs. 70/-.

In this case the Conversion Price of each Bond will be Rs. 55/- per resultant Equity Share of Re. 1/- each.

Case 2 – Reference Price is above Rs. 70/- but less than or equal to Rs. 85/-.

In this case, the Conversion Price of each Bond, assuming a reference price of Rs. 80/-, will be calculated as follows:

$$\begin{aligned} \text{Conversion Price per Equity Share} &\rightarrow \text{Rs. } (55 + 20\% (80 - 70)) \\ &= \text{Rs. } (55 + 20\% (10)) \\ &= \text{Rs. } (55 + 2) \\ &= \text{Rs. } 57 \text{ per Equity Share of Re. } 1/- \end{aligned}$$

Case 3 – Reference Price is above Rs. 100/-

In this case, the Conversion Price of each Bond, assuming a reference price of Rs. 120/-, will be calculated as follows:

$$\begin{aligned} \text{Conversion Price per Equity Share} &\rightarrow \text{Rs. } (58 + 30\% (90 - 85)) \\ &= \text{Rs. } (58 + 30\% (5)) \\ &= \text{Rs. } (58 + 1.50) \\ &= \text{Rs. } 59.50 \text{ per Equity Share of Re. } 1/- \end{aligned}$$

Case 4 – Reference Price is above Rs. 70/- but less than or equal to Rs. 85/-.

In this case, the Conversion Price of each Bond, assuming a reference price of Rs. 80/-, will be calculated as follows:

$$\begin{aligned} \text{Conversion Price per Equity Share} &\rightarrow \text{Rs. } (62.50 + 50\% (120 - 100)) \\ &= \text{Rs. } (62.50 + 50\% (20)) \\ &= \text{Rs. } (62.50 + 10) \\ &= \text{Rs. } 72.50 \text{ per Equity Share of Re. } 1/- \end{aligned}$$

Terms of the Sanction of Rs. 1,000.00 lacs by ICICI Bank Ltd. towards subscription in this Issue

Issue	LG Balakrishnan 2013 Optionally Convertible Secured Bonds due 2013 (“Bonds”)
Issue Size	Upto Rs. 1.00 billion
Final Maturity of the Bonds	7 years from the issue date
Rate of Interest on the Bonds	1% p.a. to be serviced semi-annually
Conversion Right to Bond holders	The Bonds are convertible at the option of the Bondholders into Equity Shares at the Conversion Price at any time on or after the first month from the Issue Date of the Bonds and prior to the close of business (at the place the Bond is deposited for conversion) on a month prior to the Final Maturity Date of the Bonds, unless previously converted by the Bondholder, or redeemed and cancelled by the Company.
Conversion Price for Bondholders	<ul style="list-style-type: none"> – If the Reference Price is less than or equal to Rs. 70/-, the Conversion Price at which the Bonds are convertible into Equity Shares will be Rs. 55/- per Equity Share. * – If the Reference Price is above Rs. 70/- but less than or equal to Rs. 85/-, the Conversion Price will be Rs. $(55+20%*(Reference\ Price - 70))$ per Equity Share. * – If the Reference Price is above Rs. 85/- but less than or equal to Rs. 100/-, the Conversion Price will be Rs. $(58+30%*(Reference\ Price - 85))$ per Equity Share. * – If the Reference Price is above Rs. 100/-, the Conversion Price will be Rs. $(62.5+50%*(Reference\ Price - 100))$ per Equity Share. *
Put Option to Bondholders	Any time after three years from the date of issue, the Bondholders shall have an option to get their bonds redeemed. The redemption will happen at such yield as specified in “Redemption at Maturity of the Bonds”.
Call Option to the Company	Any time after three years from the date of issue, the Company shall have an option to redeem the Bonds. The redemption will be at such yield as specified in “Redemption at Maturity of the Bonds”.
Redemption at Maturity of the Bonds	Unless previously converted by the Bondholder or redeemed and cancelled by the Company, the Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5th year from the Issue Date of the Bonds. The premium payable on the Bonds will be calculated at an effective yield of 9.75% p.a.
Security	<p>The bonds shall be secured by the Company by:</p> <ol style="list-style-type: none"> 1. First charge / hypothecation /security interest in favour of the Security Trustee for the holders of the Bonds on the Company’s fixed assets excluding assets charged specifically to other lending institutions 2. Second charge on the entire current assets of the company 3. Ensure minimum asset coverage of 1.33 times

Ranking of the Equity Shares

The Equity Shares arising out of conversion of the Bonds shall be subject to the Memorandum and Articles of Association of the Company and shall rank *pari passu* in all respects including dividends with the existing Equity Shares of the Company.

Listing of the Equity Shares

The Equity Shares arising out of conversion of the Bonds shall be listed on the BSE, NSE, MSE and CSE. For more details refer to the section titled "Listing" on page 85 of this Letter of Offer.

Electronic Clearing Service for Payment of Interest/Redemption Proceeds

The Company offers Electronic Clearing Service facility to its shareholders. RBI has introduced the concept of Electronic Clearing Service (ECS) through the clearing house to obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service. This facility would be available in cities where RBI provides such a facility.

The Company will provide this facility to the Bondholders/Shareholders. As per the guidelines issued by RBI in this regard, the investor is required to give his mandate for ECS with all the details as per the RBI prescribed format. This will help the Company to credit the redemption of the maturity amount of the Bond to the investor's account with the concerned bank at the earliest. The investors will also have the convenience of a direct credit to their bank account without the need to receive interest warrants by post and deposit the same in their bank accounts. The bank branch will credit the investor's account and indicate the credit entry with ECS in the passbook/statement of account.

Notices

All notices to the Bondholder(s) required to be given by the Company or the Trustees shall be published in one English national daily newspaper with wide circulation, one Hindi national daily newspaper with wide circulation and one Tamil daily newspaper in Coimbatore with wide circulation and/or will be sent by ordinary post to the registered holders of the Bonds from time to time.

Debenture Redemption Reserve

The Company shall create a Debenture Redemption Reserve in respect of the Bonds in terms of Section 117C of the Act and SEBI Guidelines as may be in force from time to time.

Agents and Trustees for the Bondholders

IDBI Bank Ltd. has agreed to act as Agents and Trustees for the holders of the Bonds offered through this Letter of Offer (hereinafter referred to as "the Trustees"). The Bondholders shall, without any further act or deed, be deemed to have irrevocably given their consent to and authorized the Trustees or any of their agents or authorized officials to do, *inter alia*, all acts, deeds, matters and things in respect of, or relating to, the security to be created for securing the Bond, including the right to exclude, substitute or restore any property/assets charged in their favor and/or to create a charge on additional properties/assets in their favor including the right of the said Trustees to release or substitute relevant title deeds in respect thereof. All rights and remedies under the Debenture Trust Deed(s) and/or other security documents shall vest in, and be exercised by the said Trustees without any further reference to the Bondholders.

The Trustees will protect the interests of the Bondholders in the event of default by the Company in regard to timely payment of interest and repayment of principal and will take necessary action at the cost of the Company. The major events of default which may occur, and which defaults may continue, without being remedied for a period of 30 days after the dates on which the monies specified in (i) and (ii) below become due will necessitate the repayment of the Bonds before stated maturity are as follows:

1. Default in payment of monies due in respect of interest owing upon the Bond or redemption of the Bond;
2. Default in payment of any other monies including costs, charges and expenses incurred by the Trustees.
3. Other events of default that may occur are:
 - a. Default if committed in the performance or observance of any covenant, condition or provision contained in these presents or the Debenture Trust Deed(s) and/or the financial covenants and conditions (other than the obligation to pay principal and interest) and, except where the Trustees certify that such default is in

their opinion incapable of remedy (in which case no notice shall be required), such default continues for 30 days after written notice has been given thereof by the Trustees to the Company requiring the same to be remedied.

- b. The Company is unable to or has admitted in writing its inability to pay its debt.
- c. A receiver or a liquidator has been appointed, or allowed to be appointed, for all or any part of the undertaking of the Company and such appointment is not dismissed within 60 days of appointment.
- d. The Company ceases to carry on its business. In terms of the SEBI (Debenture Trustee) Rules & Regulations, 1993, and the Articles of Association of the Company, the Trustees may appoint a nominee director on the Board of the Company in consultation with other institutional Bondholders in the event of:
- e. Two consecutive defaults in payment of interest to Bondholders; or
Default in the creation of security for the Bonds; or
Default in the redemption of the Bonds.

Other Events of Default

- (a) Non payment of interest or principal or any other dues by the Company;
- (b) Breach of representations, warranties and undertakings by the Company;
- (c) Breach of any other obligations of the Company;
- (d) The Company not obtaining any regulatory approval to issue shares of the Company;
- (e) The Company is unable to pay its debts within the meaning of section 434 of the Companies Act, 1956 or has filed a petition for insolvency;
- (f) The Company is amalgamated with any other body corporate, without the prior permission of holders of the Bonds;
- (g) The Company is prohibited or prevented by any statutory or regulatory authority from carrying on the business which is presently being carried on by it;
- (h) The Company has voluntarily or involuntarily become the subject of proceedings under any bankruptcy or insolvency law, or is voluntarily or involuntarily dissolved or if the Company has taken or suffered to be taken any action for its reorganization, liquidation or dissolution or if a receiver or liquidator has been appointed or allowed to be appointed of all or any part of the assets of the Company or if an attachment or distraint has been levied on the Company's assets or any part thereof or certificate proceedings have been taken or commenced for recovery of any dues from the Company or if one or more judgements or decrees have been rendered or entered against the Company and such judgements or decrees are not vacated, discharged or stayed for a period of 90 days;
- (i) If in the opinion of holders of the Bonds, the Security provided by the Company is in jeopardy or ceases to have effect or is inadequate or insufficient or any document pertaining to security executed or furnished by or on behalf of the Company becomes illegal, invalid or unenforceable;
- (j) An event of default occurs under any agreement or document relating to any indebtedness of the Company or if any other lenders of the Company including financial institutions or banks with whom the company has entered into agreements for financial assistance have recalled its/their assistance or any part thereof.
- (k) One or more events, conditions or circumstances (including any change in law) shall occur or exist which in the opinion of Bondholders, could have a Material Adverse Effect.

The Company shall promptly notify the Bondholders in writing upon becoming aware of any default and any event which constitutes (or, with the giving of notice, lapse of time, determination of materiality or satisfaction of other conditions, would be likely to constitute) an event of default and the steps, if any, being taken to remedy it.

A suitable cure period to remedy the above events may be provided to the discretion of the holders of the Bonds.

Calculation Agent for the Bonds

ICICI Bank Limited has agreed to act as the Calculation Agent for this issue of Bonds. As the Calculation agent, ICICI Bank Ltd. shall on the last working day of every month announce the Reference Price for the subsequent month. The notices received for conversion from the Bondholders in the subsequent month will be governed by the aforesaid announced Reference Price and the allotment and subsequent listing of equity shares shall commence from the last working day of the subsequent month. The same day shall be the last day for the computation of interest payable on the Bonds on which conversion option is exercised.

The Calculation Agent shall announce the Conversion Price and Reference Price of the Bonds every month through such media including the Company's website as specified by the applicable law.

Security

The bonds shall be secured by the Company by:

1. First pari-passu charge / hypothecation / security interest in favour of IDBI Trusteeship Services Ltd. on the Company's fixed assets excluding assets charged specifically to other lending institutions
2. Second charge on the entire current assets of the Company

Plant	Land & Building	Plant & Machinery	Other Fixed Assets	TOTAL
Ganapathy	468.57	547.15	598.26	1,613.98
Annur	63.78	516.00	26.63	606.41
Vaiyampalayam	244.22	1,203.60	161.80	1,609.62
Mysore	28.44	329.58	51.67	409.69
Gudalur	268.58	917.24	68.57	1,254.39
Chinavellayampatti	2.39	83.08	9.14	94.61
Kodayampalayam	311.38	1,199.97	83.44	1,594.79
Apten	225.44	1,296.02	95.73	1,617.19
Sengalipalayam	0.23	344.23	7.83	352.29
Windmills at Nagercoil and Tenkashi	179.54	2,035.76	7.40	2,222.70
Karur	74.63	301.05	19.19	394.87
Pongalur	272.56	2,124.15	94.92	2,491.63
Assets at Branch Locations *	47.78	11.04	15.03	73.85
TOTAL	2,187.54	10,908.87	1,239.61	14,336.02

* Addresses of the branch locations

S.NO.	BRANCH	ADDRESS
1	Delhi	
	a) Office	201 Prabhat Kiran, 17 Rajendra Palace, Pusa Road, Delhi 8.
	b) Godown	Basement, 201 Prabhat Kiran, 17 Rajendra Palace, Pusa Road, Delhi 8.
2	Pune	
	a) Office	3, I Floor, Manisha Blitz, Survey No.106/B-206/7 Hadapsar, Pune 13
	b) Godown	Nath Ware housing Co., S No.139, AT PO, Furzungi Taluk, Haveli, Pune Dist.
3	Ahmedabad	
	a) Office	119/120 Nanalala Chambers, Opp. Times of India, Ashram Road, Ahmedabad 380 009
	b) Sarkej Godown	No :5 ,Ganesh Estate Ground Floor, Sanand Road, Near Rly. Crossing, Sarkej

The value of the assets proposed to be offered on a first pari-passu charge basis as security to the Trustee of the Bondholders is Rs. 14,336.02 lacs as per the Written Down Value of the assets in the books of accounts of the Company as on 31/03/2006, against the issue size of Rs. 9,447.27 lacs. Thus the total value of the assets being offered as security is 1.52 times the issue size of Rs. 9,447.27 lacs which is greater than the minimum required asset coverage of 1.33 times the issue size as per the terms of this issue. The Company shall be entitled at all times to replace the assets so secured with other assets of same or greater value than the assets so withdrawn subject to it maintaining at all times an asset cover of 1.33 times the issue size or higher.

The Company's fixed assets are currently under the charge of the various bankers to the Company under terms of sanction of various term loan facilities being utilized by the Company. The Company proposes to repay certain term loans currently being availed of from these banks, on completion of which, the banks will release their charge on the assets maintained by them as security. These assets will subsequently be offered on a first pari-passu charge basis as security to the holder of the Bonds being issued in terms of this Letter of Offer. The Company has obtained the No Objection Certificates from its following bankers for the fixed assets that are proposed to be offered as security: IDBI Bank, Scotia Bank, UTI Bank, ICICI Bank, BNP Paribas, Export Import Bank of India and Standard Chartered Bank.

Additionally, the Company is required to provide the Bondholders with a second charge on its entire current assets. Accordingly, the Company is in the process of obtaining No Objection Certificates from its working capital bankers for the creation of second charge in respect of the current assets currently held by them as security, namely: Union Bank, Andhra Bank, IndusInd Bank, Corporation Bank, HDFC Bank, ICICI Bank, Scotia Bank, IDBI Bank and UTI Bank.

The security interest created will be subject to the prior charges created in favour of these bankers on the Company's stock of raw materials, semi-finished and finished goods, consumable stores, book debts and other current assets. The mortgage/charge/security interest in favour of IDBI Trusteeship Services Ltd. shall be created in a form and manner satisfactory to the holders of the Bonds.

The security will be created by the Company as aforesaid in favor of the Trustees within six months from the Date of Allotment. In the event of the Company not being able to create any security within 12 months as aforesaid, the Company shall be liable to pay additional penal interest at the rate of 2% per annum over and above the coupon rate to the Bondholders. If the security is not created even after 18 months, a separate meeting of the Bondholders will be called within 21 days to explain the reason therefore and the date by which the security will be created. Application monies will be kept in a separate bank account and the Company will be permitted to have access to the funds only after the documents for creation of security as stated in the Letter of Offer are executed. The Company has received no objection certificates from the existing lenders for creation of security and to cede pari passu charge in favour of the Trustee in respect of the Bonds to be issued in terms of this Letter of Offer.

Further Issues/Borrowings

The Company shall be entitled to make further issues of debentures and/or raise further term loans and/or avail of further deferred payments/guarantees and/or financial facilities from time to time from Financial Institutions, Banks and/or any other person(s) on the security of the said properties/assets or any part thereof and/or such other assets and properties and having such ranking including ranking in priority to the security to be created in favor of the Trustees as may be decided by the Company from time to time and on such terms as to security or otherwise as may be mutually acceptable to the Company and the Trustees and the participating Financial Institutions and Banks without the Company being required to obtain any further approval/sanction of the Bondholders.

Servicing Behaviour

The Company does not have any outstanding debentures as of date. The Company has been regular in payment of interest and principle on term loans and deposits accepted under section 58A.

Listing of the Bonds

The Bonds arising out this Issue shall be listed on the BSE, NSE, MSE and CoSE. For more details refer to the section titled "Listing" on page 85 of this Letter of Offer.

Rights of Bondholders

- The Bond shall inter-se rank *pari-passu* without any preference or priority of one over the other or others.
- The Bond shall be transferable and transmittable in the same manner and to the same extent and be subject to the same restrictions and limitations as in the case of the Equity Shares of the Company. The provisions relating to transfer and transmission and other related matters in respect of Equity Shares of the Company contained in the Articles and the Act shall apply, *mutatis mutandis*, to the Bond as well.
- The Bond shall not, except as provided in the Act, confer upon the holders thereof any right or privileges available to the Shareholders of the Company including the right to receive a notice of, or to be present or attend and vote in person or by proxy at any General Meeting of the Company or to receive the annual reports of the

Company. However, if any resolution affecting the rights attached to the Bond as stated herein is placed before a meeting of the Shareholders of the Company, such a resolution will first be placed before a meeting of the Bondholders.

- Separate Registers of holders of the Bonds shall be maintained in accordance with the provisions of Section 152 of the Act and all interest and principal sums becoming due and payable will be paid to the registered holder for the time being or in the case of joint-holders, to the person whose name stands first in the said Registers.
- At a meeting of the Bondholders, every Bondholder, and in the case of joint-holders the one whose name stands first in the Register, shall be entitled to vote, either in person or by proxy, in respect of such Bonds. The Bondholder will be entitled to one vote on a show of hands and his/her voting rights on a poll shall be in proportion to the outstanding value of the Bond held by him/her. The quorum for such meetings shall be at least five Bondholders present in person.
- The proceedings of the meeting of the Bondholders shall be governed by the provisions contained in the Articles and such other rules in force for the time being to the extent applicable and in relation to matters not otherwise provided for in terms of the issue of the Bonds.
- The rights, privileges and conditions attached to the Bond may be modified or varied or abrogated with the consent of the holders of the Bond by a special resolution passed at a meeting of the holders of the Bonds, provided that nothing in such resolution shall be operative against the Company when such resolution modifies or varies the terms and conditions governing the Bonds if the same is not acceptable to the Company.
- The Bondholders will be entitled to their Bonds free from equities and/or cross-claims by the Company against the original or any intermediate holders thereof.
- The Bonds will be subject to any other terms and conditions to be incorporated in the Agreement/Trust Deed(s) to be entered into by the Company with the Trustees and the Bond Certificates/Allotment Letters that may be issued.

Procedure for Redemption of Bonds

Unless previously converted or purchased and cancelled by the Company, the Company will redeem the Bonds at a premium in 5 equal half yearly installments starting from the end of 5th year from the Issue Date of the Bonds. The premium payable on the Bonds will be calculated at an effective yield of 9.75%p.a.

Payment on redemption of the Bond will be made to those Bondholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Bonds held in the electronic form and on the Register of Bondholders of the Company at the close of business hours on the record date to be fixed by the Company for this purpose.

On payment of the final installment of redemption proceeds, the Bond Certificate shall automatically stand cancelled. No surrender of Bond certificate is required. The record date for this purpose would be fixed in consultation with the Stock Exchange prior to the redemption date. Payment on final redemption will be made by cheque payable at par at such places that we deem fit. In other places, we reserve the right to adopt any other suitable mode of payment. Also refer to “Electronic Clearing Service for Payment of Interest/Redemption Proceeds”

The Company’s liability to the Bondholder(s) towards their rights including for payment of interest or otherwise shall stand extinguished from the final installment date of redemption in all events and on the Company dispatching the final installment of redemption amounts to the Bondholder(s). Further, the Company will not be liable to pay any interest, income or compensation of any kind from the final installment date of redemption of the Bond(s).

Procedure for redemption of transferred Bonds

Buyers of the Bonds in physical form are advised to send the Bond Certificates to the Company/Registrar to the issue or to such persons as may be notified by the Company from time to time, along with a duly executed Transfer Deed for registration of transfer of the Bond. If the request for transfer of the Bonds is not received or registered by the Company, due to a technical defect, or on, the record date fixed by the Company for the said final redemption, the final redemption proceeds will be paid to the person whose name appears on the register of Bondholders. In such cases, any claims shall be settled inter-se between the parties and no claim or action shall lie against the Company or Registrar to the Issue.

Issue of Duplicate Bond Certificate(s)

If any Bond certificate(s) is/are mutilated or defaced or the cages for recording transfers of Bonds are fully utilized, the same may be replaced by the Company against the surrender of such Bond certificate(s). Provided, where the

Bond certificate(s) are mutilated or defaced, the same will be replaced as aforesaid only if the certificate numbers and the distinctive numbers are legible.

Nomination facility

In terms of Section 109A of the Act, nomination facility is available in case of Bonds which would be issued pursuant to this Issue. The applicant can nominate any person by filling the relevant details in the CAF in the space provided for this purpose.

A sole/first bondholder, along with other joint bond holders being individual(s) may nominate any person(s) who, in the event of the death of the sole holder or all the joint-holders, as the case may be, shall become entitled to the equity shares/bond. A person, being a nominee, becoming entitled to the equity shares/bonds by reason of the death of the original equity shareholder(s)/bondholder(s), shall be entitled to the same advantages to which he would be entitled if he were the registered holder of the equity shares/bonds. Where the nominee is a minor, the equity shareholder(s)/bondholder(s) may also make a nomination to appoint, in the prescribed manner, any person to become entitled to the equity share(s)/bond(s), in the event of death of the said holder, during the minority of the nominee. A nomination shall stand rescinded upon the sale of the equity share/bond by the person nominating. A transferee will be entitled to make a fresh nomination in the manner prescribed. When the equity share/bond is held by two or more persons, the nominee shall become entitled to receive the amount only on the demise of all the holders. Fresh nominations can be made only in the prescribed form available on request at the registered office of the company or such other person at such addresses as may be notified by the company. The applicant can make the nomination by filling in the relevant portion of the CAF.

Only one nomination would be applicable for one folio. Hence, in case the Shareholder(s) has already registered the nomination with the Company, no further nomination needs to be made for Equity Shares to be allotted in this Issue under the same folio.

Since the allotment of Bonds is in dematerialised form, there is no need to make a separate nomination for the Bonds to be allotted in this Issue. Nominations registered with respective DP of the applicant would prevail. If the applicant requires to change the nomination, they are requested to inform their respective DP.

Issue to Non-Resident Equity Shareholders/Applicants and FII

Applications received from NRIs and non-residents for allotment of Equity Shares shall be inter alia, subject to the conditions imposed from time to time by the RBI under the Foreign Exchange Management Act, 2000 (FEMA) in the matter of refund of application moneys, allotment of Equity Shares, issue of letter of allotment / share certificates, payment of interest, dividends, etc. The Board of Directors may at its absolute discretion, agree to such terms and conditions as may be stipulated by RBI while approving the allotment of Equity Shares, payment of dividend etc. to the non-resident shareholders. The rights shares purchased by non-residents shall be subject to the same conditions including restrictions in regard to the repatriability as are applicable to the original shares against which rights shares are issued. By virtue of Circular No. 14 dated September 16, 2003 issued by the RBI, overseas corporate bodies have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies Regulations, 2003).

Accordingly, Overseas Corporate Bodies shall not be eligible to subscribe to the Equity Shares. The RBI has however clarified in its circular, A.P. (DIR Series) Circular No. 44, dated December 8, 2003 that Overseas Corporate Bodies which are incorporated and are not under the adverse notice of the RBI are permitted to undertake fresh investments as incorporated non-resident entities. Thus, Overseas Corporate Bodies desiring to participate in this Issue must obtain prior approval from the RBI. On providing such approval to the Company at its corporate office, the Overseas Corporate Bodies shall receive this Letter of Offer and the CAF.

FIIs will not need permission of the FIPB/RBI for investment in the Issue to the extent of their Rights Entitlement. However, in case of applications from such entities in excess of their entitlement, allotment will be subject to restrictions under applicable laws, including existing ceilings on FII holdings in the Company and sectoral caps on foreign direct investment in the Company, as applicable.

Letter of Offer and CAF to non-resident Equity Shareholders shall be dispatched only to their address mentioned in the Register of Members in India as provided under Section 53 of the Companies Act.

The Company has received approval from Reserve Bank of India vide its letter no. [●] dated [●] granting permission for issue of Bonds to non resident shareholders on rights basis with repatriation benefit.

Market lot

The market lot for the Bonds in dematerialised mode is one. In case of physical certificates, the Company would issue one certificate for the Bonds to be allotted to one folio (“Consolidated Certificate”).

Minimum Subscription

If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within forty two days from the date of closure of the issue. If there is a delay in the refund of subscription by more than 8 days after the Company becomes liable to repay the subscription amount, (i.e. forty two days after closure of the issue), the Company will pay interest for the delayed period, at prescribed rates in sub-section (2) and (2A) of Section 73 of the Act.

Terms of the Underwriting Agreement

Not applicable as this Issue is not being underwritten.

Joint-Holders

Where two or more persons are registered as the holders of Bonds, they shall be deemed to hold the same as joint-tenants with benefits of survivorship subject to other provisions contained in the Articles.

Option available to the Equity Shareholders

The Composite Application Form clearly indicates the number of Bonds that the Equity Shareholder is entitled to. If the Equity Shareholder applies for an investment in the Bonds, then he can:

- Apply for his entitlement in part;
- Apply for his entitlement in part and renounce the other part;
- Apply for his entitlement in full;
- Apply for his entitlement in full and apply for additional Bonds.

Renounees can apply for the Bonds renounced to them.

How to Apply

Resident Equity Shareholders

Applications should be made on the enclosed CAF provided by the Company. The enclosed CAF should be completed in all respects, as explained in the instructions indicated in the CAF. Applications will not be accepted by the Lead Managers or by the Registrar to the Issue or by the Company at any offices except in the case of postal applications as per instructions given elsewhere in this Letter of Offer.

Non-resident Equity Shareholders

Applications received from the Non-Resident Equity Shareholders for the allotment of Bonds shall be subject to the conditions as may be imposed from time to time by the RBI, in the matter of refund of application moneys, allotment of Bonds, issue of letters of allotment/ certificates/ payment of interest/Payment of redemption proceeds etc.

The CAF consists of four parts:

- Part A: Form for accepting the Bonds offered and for applying for additional Bonds
- Part B: Form for renunciation
- Part C: Form for application for renounees
- Part D: Form for request for split application forms

Acceptance of the Issue

You may accept the Issue and apply for the Bonds offered, either in full or in part by filling Block III of Part A of the enclosed CAF and submit the same along with the application money payable to the Bankers to the Issue or any of the branches as mentioned on the reverse of the CAF before the close of the banking hours on or before the Issue Closing Date or such extended time as may be specified by the Board thereof in this regard. Applicants at centers not covered by the branches of collecting banks can send their CAF together with the cheque drawn on a local bank at Chennai /demand draft payable at Chennai to the Registrar to the Issue by registered post. Such applications sent to anyone other than the Registrar to the Issue are liable to be rejected.

Renunciation

As an Equity Shareholder, you have the right to renounce your entitlement of the Bonds in full or in part in favor of one or more person(s). Your attention is drawn to the fact that the Company shall not allot and/or register any Bonds in favor of:

- More than three persons including joint holders
- Partnership firm(s) or their nominee(s)
- Minors
- Hindu Undivided Family unless in the individual name of *Karta*. The renounee should specify that the application is being made in the name of HUF in the CAF as follows “name of the sole or first applicant: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*”.
- Any Trust or Society (unless the same is registered under the Societies Registration Act, 1860 or any other applicable Trust laws and is authorized under its Constitutions to hold Equity Shares of a Company) Such renounees can only be Indian Nationals/Limited Companies incorporated under and governed by the Act, statutory corporations/institutions, trusts (unless registered under the Indian Trust Act), minors (through their legal guardians), societies (unless registered under the Societies Registration Act, 1860 or any other applicable laws) provided that such trust/ society is authorized under its constitution/bye laws to hold Equity Shares in a company and cannot be a partnership firm, more than three persons including joint-holders, HUF, foreign nationals (unless approved by RBI or other relevant authorities) or to any person situated or having jurisdiction where the offering in terms of this Letter of Offer could be illegal or require compliance with securities laws of such jurisdiction or any other persons not approved by the Board.

Any renunciation from Resident Indian Shareholder(s) to Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to other Non-Resident Indian(s) or from Non-Resident Indian Shareholder(s) to Resident Indian(s) is subject to the renouner(s)/renounee(s) obtaining the approval of the FIPB and/ or necessary permission of the RBI under the Foreign Exchange Management Act, 1999 (FEMA) and other applicable laws and such permissions should be attached to the CAF. Applications not accompanied by the aforesaid approval are liable to be rejected and the amount will be refunded without interest. By virtue of the Circular No. 14 dated September 16, 2003 issued by the RBI, Overseas Corporate Bodies have been derecognized as an eligible class of investors and the RBI has subsequently issued the Foreign Exchange Management [Withdrawal of General Permission to Overseas Corporate Bodies] Regulations, 2003. Accordingly, the existing Equity Shareholders of the Company who do not wish to subscribe to the Bond being offered but wish to renounce the same in favor of renounees shall not renounce the same (whether for consideration or otherwise) in favour of Overseas Corporate Bodies.

The right of renunciation is subject to the express condition that the Board/ Committee of Directors shall be entitled in its absolute discretion to reject the request for allotment to renounee(s) without assigning any reason thereof.

Part A of the CAF must not be used by any person(s) other than those in whose favor this offer has been made. If used, this will render the application invalid. Submission of the enclosed CAF to the Banker to the Issue at its collecting branches specified on the reverse of the CAF with the form of renunciation (Part B of the CAF) duly filled in shall be conclusive evidence for the Company of the person(s) applying for Bonds in Part C to receive allotment of such Bonds. The renounees applying for all the Bonds renounced in their favour may also apply for additional Bonds. Part ‘A’ must not be used by the renounee(s) as this will render the application invalid. Renounee(s) will also have no further right to renounce any shares in favor of any other person.

Procedure for renunciation

To renounce the whole offer in favour of one renounee

If you wish to renounce the offer indicated in Part A, in whole, please complete Part B of the CAF. In case of joint holding, all joint holders must sign Part B of the CAF. The person in whose favor renunciation has been made

should complete and sign Part C of the CAF. In case of joint renounees, all joint renounees must sign this part of the CAF.

To renounce in part/or renounce the whole to more than one person(s)

If you wish to either accept this offer in part and renounce the balance or renounce the entire offer in favour of two or more renounees, the CAF must be first split into requisite number of forms. Please indicate your requirement of split forms in the space provided for this purpose in Part D of the CAF and return the entire CAF to the Registrar to the Issue so as to reach them latest by the close of business hours on the last date of receiving requests for split forms. On receipt of the required number of split forms from the Registrar, the procedure as mentioned in paragraph above shall have to be followed. In case the signature of the Equity Shareholder(s), who has renounced the Bonds, does not agree with the specimen registered with the Company, the application is liable to be rejected.

Renounee(s)

The person(s) in whose favour the Bonds are renounced should fill in and sign Part C of the Application Form and submit the entire Application Form to the Bankers to the Issue on or before the Issue Closing Date along with the application money.

Change and/ or introduction of additional holders

If you wish to apply for Bonds jointly with any other person(s), not more than three, who is/are not already a joint holder with you, it shall amount to renunciation and the procedure as stated above for renunciation shall have to be followed. Even a change in the sequence of the name of joint holders shall amount to renunciation and the procedure, as stated above shall have to be followed.

However, this right of renunciation is subject to the express condition that the Board of Directors of the Company shall be entitled in its absolute discretion to reject the request for allotment from the renounee(s) without assigning any reason thereof.

Please note that:

- Part A of the CAF must not be used by any person(s) other than those in whose favour this Issue has been made. If used, this will render the application invalid.
- Request for split form should be made for a minimum of one Bond or in multiples thereof and one Split Application Form for the balance Bonds, if any.
- Request by the applicant for the Split Application Form should reach the Company on or before [•].
- Only the person to whom this Letter of Offer has been addressed to and not the renounee(s) shall be entitled to renounce and to apply for Split Application Forms. Forms once split cannot be split again.
- Split form(s) will be sent to the applicant(s) by post at the applicant’s risk.

Additional Bonds

You are eligible to apply for additional Bonds over and above the number of Bonds you are entitled to, provided that you have applied for all the Bonds offered without renouncing them in whole or in part in favor of any other person(s). Applications for additional Bonds shall be considered and allotment shall be in the manner prescribed under the section titled ‘Basis of Allotment’ on page 104 of this Letter of Offer. The renounees cannot apply for additional Bonds. In case of application for additional Bonds by non-resident equity shareholders, the allotment of additional securities will be subject to the permission of the RBI. Where the number of additional Bonds applied for exceeds the number available for allotment, the allotment would be made on equitable basis in consultation with the Designated Stock Exchange. The summary of options available to the equity shareholder is presented below. You may exercise any of the following options with regard to the Bonds offered, using the enclosed CAF:

Option Available Action Required

No.	Options Available	Action Required
1.	Accept whole or part of the Bonds offered to you without renouncing the balance	Fill in and sign Part A indicating in Block III of Part A the number of Bonds accepted. If you accept all the Bonds offered in Block II of Part A you may apply for additional Bonds. Indicate in Block IV the additional Bonds applied for.
2.	Renounce all the Bonds offered to you to one person (joint renounees are deemed as one person) without your applying for any of the Bonds offered to you.	Fill in and sign Part B indicating the number of Bonds renounced in Block VII and handover the ENTIRE FORM to the renounee. The renounee/ joint renounee(s) must fill in and sign Part C of CAF.

3.	Accept a part of your entitlement and renounce the balance or part of it to one or more Renounee(s).	Fill in and sign Part D for the Split Form and send the ENTIRE CAF to the Registrar to the Issue by superscribing the envelope "LGB RIGHTS ISSUE".	
	OR	On receipt of Split Forms :	
4.	Renounce your entitlement or part of it to one or more persons (joint renounees are deemed as one person).	a	For the Bonds you are accepting, fill in and sign Part A.
		b	For the Bonds you are renouncing fill in and sign Part B indicating the number of Bonds renounced in Block VII. Each of the renounees should fill in and sign Part C.

Availability of duplicate CAF

In case the original CAF is not received, or is misplaced by the applicant, the Registrar to the Issue will issue a duplicate CAF on the request of the applicant who should furnish the registered folio number/ DP and Client ID number and his/ her full name and address to the Registrar to the Issue. Please note that the request for duplicate CAF should reach the Registrar to the Issue within 15 days from the Issue Opening Date. Please note that those who are making the application in the duplicate form should not utilize the original CAF for any purpose including renunciation, even if it is received/ found subsequently. If the applicant violates any of these requirements, he / she shall face the risk of rejection of both the applications.

Application on Plain Paper

An Equity Shareholder who has neither received the original CAF nor is in a position to obtain the duplicate CAF may make an application to subscribe to the Issue on plain paper, along with an Account Payee Cheque drawn on a local bank at Chennai / Demand Draft payable at Chennai which should be drawn in favor of the Company and send the same by registered post directly to the Registrar to the Issue.

The application on plain paper, duly signed by the applicants including joint holders, in the same order as per specimen recorded with the Company, must reach the office of the Registrar to the Issue before the Issue Closing Date and should contain the following particulars:

- Name of Issuer, being L.G. Balkrishna Bros. Limited
- Name and address of the Equity Shareholder including joint holders
- Registered Folio Number/ DP and Client ID no.
- Number of shares held as on Record Date
- Number of Bonds entitled
- Number of Bonds applied for
- Number of additional Bonds applied for, if any
- Total number of Bonds applied for
- Total amount paid
- Particulars of cheque/draft
- Savings/Current Account Number and name and address of the bank where the Equity Shareholder will be depositing the refund order
- PAN/GIR number, Income Tax Circle/Ward/District, photocopy of the PAN card/ PAN communication / Form 60 / Form 61 declaration where the application is for Bonds of a total value of Rs.50,000 or more for the applicant and for each applicant in case of joint names, and
- Signature of Equity Shareholders to appear in the same sequence and order as they appear in the records of the Company

Payments in such cases, should be through a cheque/ demand draft payable at Chennai be drawn in favor of the Bankers to the Issue marked 'A/c Payee' and marked '**LGB Rights Issue**'. Please note that those who are making the application otherwise than on original CAF shall not be entitled to renounce their rights and should not utilize the original CAF for any purpose including renunciation even if it is received subsequently. If the applicant violates any of these requirements, he/she shall face the risk of rejection of both the applications.

Last date of Application

The last date for submission of the duly filled in CAF is [•]. The Board or any committee thereof will have the right to extend the said date for such period as it may determine from time to time but not exceeding 60 (sixty) days from the Issue Opening Date.

If the CAF together with the amount payable is not received by the Banker to the Issue/ Registrar to the Issue on or before the close of banking hours on the aforesaid last date or such date as may be extended by the Board/

Committee of Directors, the offer contained in this Letter of Offer shall be deemed to have been declined and the Board/ Committee of Directors shall be at liberty to dispose off the Bonds hereby offered, as provided under the section titled "Basis of Allotment".

INVESTORS MAY PLEASE NOTE THAT THE OPTIONALLY CONVERTIBLE SECURED BONDS OF THE COMPANY CAN BE TRADED ON THE STOCK EXCHANGES ONLY IN DEMATERIALIZED FORM.

Basis of Allotment

The basis of allotment shall be finalised by the Board in consultation with BSE, which is the Designated Stock Exchange. The Board will proceed to allot the Bonds in the following order of priority:

1. Full allotment to the Equity Shareholders who have applied for their Rights Entitlement either in full or in part and also to the renounees who have applied in full or in part for the Bonds renounced in their favour.
2. To the Equity Shareholders who having applied for their full Rights Entitlement of Bonds, have applied for additional Bonds, provided there is surplus after making full allotment under (1) above. The allotment of such additional Bonds shall be made as far as possible on equitable basis with reference to number of Equity Shares held on the Record Date, within the overall size of Rights Issue at the sole and absolute discretion of the Board of Directors or Committee thereof in consultation with BSE.
3. Bonds remaining unsubscribed after making full allotments under (1) and (2) above, shall be disposed of by the Board in manner as it in its sole discretion deems fit and the decision of the Board in this regard shall be final and binding. After taking into account the full allotment under (1) and (2) above, if there is any unsubscribed portion, the Rights Issue, shall be deemed to be "undersubscribed" for the purpose of Regulation 3(1)(b) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997(Takeover Code).

The Company undertakes to complete the allotment of Bonds within a period of 6 weeks from the date of closure of the Issue in accordance with the listing agreement with the Stock Exchanges. Allotment of Bonds to FIIs shall be made in such a way so as to ensure that on conversion of the same into equity shares, FIIs shareholding in the Company does not exceed 24% of the total paid up capital of the Company on conversion. The Company shall retain no oversubscription.

Letters of Allotment / Refund

The Company will issue and dispatch letters of allotment/ Bond Certificate/demat credit and/ or letters of regret along with refund order or credit the allotted securities to the respective beneficiary accounts, if any, within a period of six weeks from the Issue Closing Date. If such money is not repaid within eight days from the day the Company becomes liable to pay it, the Company shall pay that money with interest as stipulated under Section 73 of the Act.

In case of those shareholders who have opted to receive their Right Entitlement Shares in dematerialised form by using electronic credit under the depository system, an advice regarding the credit of the Equity Shares shall be given separately.

In case the Company issues letters of allotment, the corresponding share certificates will be kept ready within three months from the date of allotment thereof or such extended time as may be approved by the Companies Law Board under Section 113 of the Companies Act, 1956 or other applicable provisions, if any. Allottees are requested to preserve such letters of allotment, which would be exchanged later for the share certificates.

Letters of allotment/ Bond Certificate/ demat credit/ refund orders above the value of Rs. 1,500 will be dispatched by registered post/ speed post to the sole/ first applicant's registered address. However, refund orders for value not exceeding Rs. 1,500 shall be sent to the applicants by way of under certificate of posting. Such cheques or pay orders will be payable at par at all the centres where the applications were originally accepted and will be marked 'A/c payee' and would be drawn in the name of the sole/ first applicant. Adequate funds would be made available to the Registrar to the Issue for the dispatch of such letters of allotment/ share certificates/ demat credit and refund orders.

As regards allotment/ refund to non-residents, the following further conditions shall apply:

In case of non-residents, who remit their application monies from funds held in NRE/ FCNR accounts, refunds and/ or payment of interest/ dividend and other disbursement, if any, shall be credited to such accounts, details of which

should be furnished in the CAF. Subject to the approval of the RBI, in case of non-residents, who remit their application monies through Indian Rupee draft purchased from abroad, refund and/ or payment of dividend/ interest and any other disbursement, shall be credited to such accounts (details of which should be furnished in the CAF) and will be made net of bank charges/ commission in US Dollars, at the rate of exchange prevailing at such time. The Company will not be responsible for any loss on account of exchange fluctuations for converting the Indian Rupee amount into US Dollars. The Bond certificate(s) will be sent by registered post at the Indian address of the non-resident applicant.

Option to receive Bonds in Dematerialized Form

Applicants to the Bonds shall be allotted securities in dematerialised (electronic) form at the option of the applicant. The Company signed a tripartite agreement with the Cameo Corporate Services Limited and NSDL on 10/02/1999 and with the Cameo Corporate Services Limited and CDSL on 12/02/2000 which enables the Investors to hold and trade in securities in a dematerialised form, instead of holding the securities in the form of physical certificates.

The Company will credit the Bonds which may be allotted pursuant to this Issue in the existing demat account of the Equity Shareholders who are holding the Equity Shares in the demat form. In case of shareholders holding Equity Shares in physical form and who have opted for Bonds in dematerialised form will receive their securities in the form of an electronic credit to their beneficiary account with a depository participant. Investor will have to give the relevant particulars for this purpose in the appropriate place in the CAF. Applications, which do not accurately contain this information, will be given the securities in physical form. No separate applications for securities in physical and/or dematerialized form should be made. If such applications are made, the application for physical securities will be treated as multiple applications and is liable to be rejected. In case of partial allotment, allotment will be done in demat option for the shares sought in demat and balance, if any, will be allotted in physical shares. Procedure for availing the facility for allotment of Bonds in this Issue in the electronic form is as under:

- Open a beneficiary account with any depository participant (care should be taken that the beneficiary account should carry the name of the holder in the same manner as is exhibited in the records of the Company. In the case of joint holding, the beneficiary account should be opened carrying the names of the holders in the same order as with the Company). In case of Investors having various folios in the Company with different joint holders, the Investors will have to open separate accounts for such holdings. Those equity shareholders who have already opened such Beneficiary Account (s) need not adhere to this step.
- For Equity Shareholders already holding Equity Shares of the Company in dematerialized form as on the Record Date, the beneficial account number shall be printed on the CAF. For those who open accounts later, the necessary details of their beneficiary account should be filled in the space provided in the CAF. It may be noted that the allotment of securities arising out of this Issue may be made in dematerialized form even if the original Equity Shares of the Company are not dematerialized. Nonetheless, it should be ensured that the Depository Account is in the name(s) of the Equity Shareholders and the names are in the same order as in the records of the Company. Responsibility for correctness of information (including applicant's age and other details) filled in the CAF vis-à-vis such information with the applicant's depository participant, would rest with the applicant. Applicants should ensure that the names of the applicants and the order in which they appear in CAF should be the same as registered with the applicant's depository participant. If incomplete / incorrect beneficiary account details are given in the CAF the applicant will get Bonds in physical form. The Bonds pursuant to this Issue allotted to Investors opting for dematerialized form, would be directly credited to the beneficiary account as given in the CAF after verification. Allotment advice, refund order (if any) would be sent directly to the applicant by the Registrar to the Issue but the applicant's depository participant will provide to him the confirmation of the credit of such Equity Shares to the applicant's depository account. Renounees will also have to provide the necessary details about their beneficiary account for allotment of securities in this Issue. In case these details are incomplete or incorrect, the application is liable to be rejected.

General instructions for applicants

1. Please read the instructions printed on the enclosed CAF carefully.
2. Application should be made on the printed CAF, provided by the Company and should be completed in all respects. The CAF found incomplete with regard to any of the particulars required to be given therein, and/ or which are not completed in conformity with the terms of this Letter of Offer are liable to be rejected and the money paid, if any, in respect thereof will be refunded without interest and after deduction of bank commission and other charges, if any. The CAF must be filled in English and the names of all the applicants, details of occupation, address, father's / husband's name must be filled in block letters.

3. The CAF together with cheque / demand draft should be sent to the Bankers to the Issue / Collecting Bank or to the Registrar to the Issue and not to the Company or Lead Manager to the Issue. Applicants residing at places other than cities where the branches of the Bankers to the Issue have been authorised by the Company for collecting applications, will have to make payment by Demand Draft payable at Chennai and send their application forms to the Registrar to the Issue by REGISTERED POST. If any portion of the CAF is / are detached or separated, such application is liable to be rejected.
4. Applications for a total value of Rs. 50,000 or more, i.e. where the total number of securities applied for multiplied by the Issue price, is Rs. 50,000 or more the applicant or in the case of application in joint names, each of the applicants, should mention his/ her PAN number allotted under the Income-Tax Act, 1961 and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN ("PAN Communication") along with the application for the purpose of verification of the number. Bidders who do not have PAN are required to provide a declaration in Form 60 / Form 61 prescribed under the I.T.Act along with the application. Bid cum Application Forms without this photocopy/ PAN Communication/ declaration will be considered incomplete and are liable to be rejected.
5. Applicants who are applying are advised to provide information as to their savings/current account number and the name of the Company with whom such account is held in the CAF to enable the Registrar to the Issue to print the said details in the refund orders, if any, after the names of the payees. Application not containing such details is liable to be rejected. Applicants should note that on the basis of name of the Applicant, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the CAF/available with the Company on record, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. These bank account details would be printed on the refund order, if any, to be sent to Applicant. Hence, Applicants are advised to immediately update their bank account details as appearing on the records of the depository participant. Please note that failure to do so could result in delays in credit of refunds to Applicant at the Applicants sole risk and neither the Lead Manager nor the Company shall have any responsibility and undertake any liability for the same.
6. The payment against the application should not be effected in cash if the amount to be paid is Rs. 20,000 or more. In case payment is effected in contravention of this, the application may be deemed invalid and the application money will be refunded and no interest will be paid thereon. Payment against the application if made in cash, subject to conditions as mentioned above, should be made only to the Bankers to the Issue.
7. Signatures should be either in English or Hindi or in any other language specified in the Eight Schedule to the Constitution of India. Signatures other than in English or Hindi and thumb impression must be attested by a Notary Public or a Special Executive Magistrate under his/ her official seal. The Equity Shareholders must sign the CAF as per the specimen signature recorded with the Company.
8. In case of an application under power of attorney or by a body corporate or by a society, a certified true copy of the relevant power of attorney or relevant resolution or authority to the signatory to make the relevant investment under this Issue and to sign the application and a copy of the Memorandum and Articles of Association and / or bye laws of such body corporate or society must be lodged with the Registrar to the Issue giving reference of the serial number of the CAF. In case these papers are sent to any other entity besides the Registrar to the Issue or are sent after the Issue Closing Date, then the application is liable to be rejected.
9. In case of joint holders, all joint holders must sign the relevant part of the CAF in the same order and as per the specimen signature(s) recorded with the Company. Further, in case of joint applicants who are renounees, the number of applicants should not exceed three. In case of joint applicants, reference, if any, will be made in the first applicant's name and all communication will be addressed to the first applicant.
10. Application(s) received from Non-Resident / NRIs, or persons of Indian origin residing abroad for allotment of Equity Shares shall, inter alia, be subject to conditions, as may be imposed from time to time by the RBI under FEMA in the matter of refund of application money, allotment of Equity Shares, subsequent issue and allotment of Equity Shares, interest, export of share certificates, etc. In case a Non-Resident or NRI Equity Shareholder has specific approval from the RBI, in connection with his shareholding, he should enclose a copy of such approval with the CAF.
11. All communication in connection with application for the Equity Shares, including any change in address of the Equity Shareholders should be addressed to the Registrar to the Issue prior to the date of allotment in this Issue quoting the name of the first / sole applicant Equity Shareholder, folio numbers and CAF number.
12. Split forms cannot be re-split.
13. Only the person or persons to whom Equity Shares have been offered and not renounee(s) shall be entitled to obtain split forms.
14. Applicants must write their CAF number at the back of the cheque / demand draft.
15. Only one mode of payment per application should be used. The payment must be either in cash or by cheque / demand draft drawn on any of the banks, including a co-operative bank, which is situated at and is a member or a sub member of the Bankers Clearing House located at the centre indicated on the reverse of the CAF where the application is to be submitted.

16. A separate cheque / draft must accompany each CAF. Outstation cheques / demand drafts or post-dated cheques and postal / money orders will not be accepted and applications accompanied by such cheques / demand drafts / money orders or postal orders will be rejected. The Registrar will not accept payment against application if made in cash. For payment against application in cash please refer point 6 above.
17. No acknowledgment/receipt will be issued for the application moneys received by the Company. However, the Bankers to the Issue / Registrar to the Issue/ Collecting Bank receiving the CAF will acknowledge their receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

Grounds for Technical Rejections

Applicants are advised to note that applications are liable to be rejected on technical grounds, including the following:

- Amount paid does not tally with the amount payable for;
- Bank account details (for refund) are not given;
- Age of First Applicant not given in case of renounees;
- PAN photocopy/ PAN Communication/ Form 60 / Form 61 declaration not given if Application is for Rs.50,000 or more;
- In case of application under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- If the signature of the existing shareholder does not match with the one given on the Application Form and for renounees if the signature does not match with the records available with their depositories;
- If the Applicant desires to have shares in electronic form, but the Application Form does not have the Applicant's depository account details;
- Application Forms are not submitted by the Applicants within the time prescribed as per the Application Form and the Letter of Offer;
- Applications not duly signed by the sole/joint Applicants;
- Applications by Overseas Corporate Bodies unless accompanied by specific approval from the RBI permitting them to invest in the Issue;
- Applications accompanied by Stockinvest;
- Applications by ineligible Non-residents (including on account of restriction or prohibition under applicable local laws) and where last available address in India has not been provided.

Mode of payment for Resident Equity Shareholders/ Applicants

All cheques / drafts accompanying the CAF should be crossed 'A/c Payee only' and marked '**LGB Rights Issue**' and payable at the place where the CAF is submitted.

Applicants residing at places other than places where the bank collection centres have been opened by the Company for collecting applications, are requested to send their applications together with Demand Draft for the full application amount favouring the Bankers to the Issue, crossed 'A/c Payee only' and marked '**LGB Rights Issue**' payable at Chennai directly to the Registrar to the Issue by registered post along with bank draft net of demand draft and postal charges so as to reach them on or before the Issue Closing Date. The Company or the Registrar to the Issue will not be responsible for postal delays or loss of applications in transit, if any.

Mode of payment for Non-Resident Equity Shareholders/ Applicants

As regards the application by non-resident equity shareholders, the following further conditions shall apply: Payment by non-residents must be made by demand draft / cheque payable at Chennai or funds remitted from abroad in any of the following ways:

Application with repatriation benefits

- By Indian Rupee drafts purchased from abroad and payable at Mumbai or funds remitted from abroad (submitted along with Foreign Inward Remittance Certificate); or
- By cheque / draft on a Non-Resident External Account (NRE) or FCNR Account maintained in Mumbai; or
- By Rupee draft purchased by debit to NRE/ FCNR Account maintained elsewhere in India and payable in Mumbai; or FIIs registered with SEBI must remit funds from special non-resident rupee deposit account.
- All cheques / drafts accompanying the CAF should be crossed 'A/c Payee only' and marked '**LGB Rights Issue - NR**' and payable at the place where the CAF is submitted.

Application without repatriation benefits

As far as non-residents holding shares on non-repatriation basis is concerned, in addition to the modes specified above, payment may also be made by way of cheque drawn on Non-Resident (Ordinary) Account maintained in Chennai or Rupee Draft purchased out of NRO Account maintained elsewhere in India but payable at Chennai. All cheques/drafts submitted by non-residents should be drawn in favour of the Bankers to the Issue and marked '**LGB Rights Issue**' payable at Chennai and must be crossed 'A/c Payee only' for the amount payable. The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.

Applicants may note that where payment is made by drafts purchased from NRE/ FCNR/ NRO accounts as the case may be, an Account Debit Certificate from the bank issuing the draft confirming that the draft has been issued by debiting the NRE/ FCNR/ NRO account should be enclosed with the CAF. Otherwise the application shall be considered incomplete and is liable to be rejected. New demat account shall be opened for holders who have had a change in status from resident Indian to NRI.

Note:

- In case where repatriation benefit is available, interest, dividend, sales proceeds derived from the investment in Equity Shares/Equity related securities can be remitted outside India, subject to tax, as applicable according to Income Tax Act.
- In case Bonds are allotted on non-repatriation basis, the interest, dividend and sale proceeds of the Equity Shares cannot be remitted outside India.
- The CAF duly completed together with the amount payable on application must be deposited with the Collecting Bank indicated on the reverse of the CAF before the close of banking hours on or before the Issue Closing Date. A separate cheque or bank draft must accompany each CAF.
- In case of an application received from non-residents, allotment, refunds and other distribution, if any, will be made in accordance with the guidelines/ rules prescribed by RBI as applicable at the time of making such allotment, remittance and subject to necessary approvals.

Disposal of application and application money

No acknowledgment/receipt will be issued for the application moneys received by the Company. However, the Bankers to the Issue / Registrar to the Issue/ Collecting Bank receiving the CAF will acknowledge their receipt by stamping and returning the acknowledgment slip at the bottom of each CAF.

The Board reserves its full, unqualified and absolute right to accept or reject any application, in whole or in part, and in either case without assigning any reason thereto. In case an application is rejected in full, the whole of the application money received will be refunded. Wherever an application is rejected in part, the balance of application money, if any, after adjusting any money due on Equity Shares allotted, will be refunded to the applicant within six weeks from the close of the Issue. For further instruction, please read the Composite Application Form (CAF) carefully.

Access to Funds

The funds received against this Issue will be kept in a separate bank account and the Company will not have any access to such funds unless it satisfies the Designated Stock Exchange with suitable documentary evidence that the minimum subscription of 90% of the Issue has been received by the Company.

Utilisation of Issue Proceeds

The Board of Directors declares that:

The funds received against this Issue will be transferred to a separate bank account other than the bank account referred to sub-section (3) of Section 73 of the Act. Details of all moneys utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such moneys has been utilised. Details of all such unutilised moneys out of the Issue, if any, shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised moneys have been invested.

Undertakings by the Company

1. The complaints received in respect of the Issue shall be attended to by the Company expeditiously and satisfactorily.
2. All steps for completion of the necessary formalities for listing and commencement of trading at all Stock Exchanges where the securities are to be listed will be taken within seven working days of finalization of basis of allotment.
3. The funds required for dispatch of refund orders/ allotment letters/ certificates by registered post shall be made available to the Registrar to the Issue.
4. The certificates of the securities/ refund orders to the non-resident Indians shall be dispatched within the specified time.
5. No further issue of securities affecting equity capital of the Company shall be made till the securities issued/offered through the Issue are listed or till the application moneys are refunded on account of non-listing, under-subscription etc.
6. The Company accepts full responsibility for the accuracy of information given in this Letter of Offer and confirms that to best of its knowledge and belief, there are no other facts the omission of which makes any statement made in this Letter of Offer misleading and further confirms that it has made all reasonable enquiries to ascertain such facts.
7. All information shall be made available by the Lead Managers and the Issuer to the Investors at large and no selective or additional information would be available for a section of the Investors in any manner whatsoever including at road shows, presentations, in research or sales reports etc.
8. The Company shall forward the details of utilisation of the funds raised through the debentures duly certified by the statutory auditors of the Company, to the debenture trustees at the end of each half year.
9. The Company shall disclose the complete name and address of the debenture trustee in the annual report.
10. The Company shall provide a compliance certificate to the debenture holders (on yearly basis) in respect of compliance with the terms and conditions of issue of debentures as contained in the prospectus, duly certified by the debenture trustee.
11. The Company shall furnish a confirmation certificate that the security created by the Company in favour of the debenture holders is properly maintained and is adequate enough to meet the payment obligations towards the debenture holders in the event of default.
12. The Company shall extend necessary cooperation to the credit rating agencies in providing true and adequate information till the debt obligations in respect of the instrument are outstanding.
13. The Company confirms that other than the disclosures made in this letter of offer, nothing material has changed in respect of disclosures made by the Company at the time of its previous issue made on 07/04/1994.

Important

- This Issue is applicable to those Equity Shareholders whose names appear as beneficial owners as per the list to be furnished by the depositories in respect of the Equity Shares held in the electronic form and on the Register of Members of the Company at the close of business hours on the Record Date i.e.
- The Company will arrange to dispatch Abridged Letter of Offer and Composite Application Form (“CAF”) by Registered/Speed post to such Equity Shareholders in India. Upon request of shareholders/Investor, the Company will arrange to dispatch the Letter of Offer during the issue period.
- It is to be specifically noted that this Issue of Equity Shares is subject to the section titled ‘Risk Factors’ beginning on page vi of this Letter of Offer.
- Please ensure that you have received the Composite Application Form (“CAF”) with Abridged Letter of Offer.
- Please read this Letter of Offer and the instructions contained herein and the CAF carefully before filling in the CAF. The instructions contained in the CAF are an integral part of this Letter of Offer and must be carefully followed. An application is liable to be rejected for any non-compliance of the provisions contained in this Letter of Offer or the CAF.
- All information shall be made available to the Investors by the Lead Managers and the Issuer, and no selective or additional information would be available by them for any section of the Investors in any manner
- The Lead Managers and the Company shall update this Letter of Offer and keep the public informed of any material changes till the listing and trading of the Equity Shares and Bonds arising out of this Issue commences.
- All enquiries in connection with this Letter of Offer or accompanying CAF and requests for Split Application Forms must be addressed (quoting the Registered Folio Number/ DP and Client ID number, the CAF number and the name of the first Equity Shareholder as mentioned on the CAF and superscribed ‘**LGB Rights Issue**’ on the envelope) to the Registrar to the Issue at the following address:

XIII. OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS

The Contracts referred to in para (A) below (not being contracts entered into in the ordinary course of the business carried on by the Company or entered into more than two years before the date of this Letter of Offer) which are or may be deemed material, have been entered into by the Company.

The contracts together with the documents referred to in paragraph (B) below, copies of all of which have been attached to the copy of this Letter of Offer which has been delivered to Bombay Stock Exchange Limited (BSE) may be inspected at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day from the date of this Letter of Offer until the closing of the subscription list.

A. MATERIAL CONTRACTS

1. Copy of Memorandum of Understanding dated 24/07/2006 between the Company and Keynote Corporate Services Limited, Manager to the Issue.
2. Copy of Memorandum of Understanding dated 01/07/2006 between the Company and the Registrar to the Issue.
3. Copy of Tri-Partite Agreement dated 10/02/1999 between the Company, Cameo Corporate Services Limited and National Securities Depository Limited.
4. Copy of Tri-Partite Agreement dated 12/02/2000 between the Company, Cameo Corporate Services Limited and Central Depository Services (India) Limited.

B. DOCUMENTS FOR INSPECTION

1. Copy of Memorandum and Articles of Association of the Company.
2. Copies of Annual Reports for the years ended 31/03/2002, 31/03/2003, 31/03/2004, 31/03/2005 and 31/03/2006
3. Copy of notice dated 01/04/2006 for passing resolution through postal ballot.
4. Copy of Special Resolution under Section 81(1A) of Companies Act passed by means of postal ballot as per notice dated 01/04/2006, the results of which were published on 11/05/2006.
5. Copy of report dated issued by 24/07/2006, by M/s. Deloitte Haskins & Sells, Chartered Accountants and Statutory Auditors of the Company in terms of Part II Schedule II of The Companies Act 1956.
6. Copy of Certificate of Sources and Deployment of Funds dated 04/09/2006 prepared by M/s. Deloitte Haskins & Sells, Chartered Accountants and Statutory Auditors to the Company.
7. Copy of Legal Due-diligence Report prepared by J. Sagar & Associates, Legal Advisors to the Issue.
8. Copy of Letter of Offer dated 07/04/1994 of the previous rights issue of the Company
9. Copies of Consent letters from the Lead Manager to the Issue, Registrar to the Issue, Legal Advisor to the Issue, Auditor to the Company, Bankers to the Company and Compliance Officer.
10. Copy of Consent letter dated 30/06/2006 from IDBI Trusteeship Services Ltd., the Debenture Trustee for the proposed issue of Bonds.
11. Copy of letter from ICICI Bank Ltd. dated 20/12/2005 and subsequent letter dated 04/09/2006 containing amendments to the first letter regarding sanction of funds towards subscription of the Issue.
12. Copies of letters of rating dated 15/05/2006 and 19/04/2006 issued by FITCH and ICRA respectively.
13. No Objection Certificates from banks for extending the charge on fixed assets of the Company in favour of the Bond holders.
14. Copy of in-principle approval received from BSE, NSE, MSE and CSE vide their letters dated [●],[●],[●] and [●] respectively.
15. Copy of SEBI observation letter No. [●].

DECLARATION

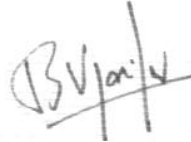
No statement made in this Letter of Offer shall contravene any of the provisions of the Companies Act, 1956 and the rules made there under. All the legal requirements connected with the said issue as also the guidelines, instructions etc. issued by SEBI, Government and any other competent authority in this behalf have been duly complied with. We further certify that all the disclosures made in the Letter of Offer are true and correct.

Yours Faithfully

Signed by all the Directors of L.G. Balkrishnan & Bros.Limited



L.G. Varadarajulu



B. Vijayakumar



P.S. Balasubramanian



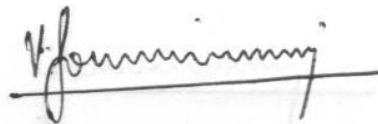
P. Balasubramanian



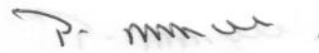
C. Nachiappan



S. Sivakumar



V. Govindarajulu



P. Shanmugasundaram

Place: Coimbatore

Date: