

**REPORT ON CORPORATE GOVERNANCE FOR THE YEAR 2011-12
(PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT)**

The Company pursuant to Clause 49 of the listing agreement with the Stock Exchanges furnishes its report on the code on Corporate Governance.

1. Company's Philosophy on Code of Governance:

Your Company is fully committed to the principles of transparency, integrity and accountability in all spheres of its operations and has been practicing the principles of good corporate governance over the years. In keeping with this commitment, your Company has been upholding fair and ethical business and corporate practices and transparency in its dealings and continuously endeavors to review strengthen and upgrade its systems and procedures so as to bring in transparency and efficiency in its various business segments.

Your Board of Directors present the Corporate Governance Report for the year 2011-12 based on the disclosure requirements under Clause 49 of the Listing Agreement existing as on 31st March 2012.

2. Board of Directors:

The Board of Directors of the company is composed of committed persons with considerable experience in varied fields and comprises a majority of Non-Executive Directors. The Board is properly constituted as per Clause 49 of the Listing Agreement.

None of the Directors on the Board is a Member of more than 10 Committees or Chairman of more than 5 Committees across all the Companies in which he is a Director. Necessary Disclosures regarding Committee positions in other Public Companies as on March 31, 2012 have been made by the Directors.

During the financial year ended 31st March, 2012, 5 Meetings of the Board of Directors were held as on 23/04/2011, 20/07/2011, 18/08/2011, 15/10/2011 and 16/01/2012.

| Sr. No. | Name of Director | Category of Directors | No. of Board meetings Attended | Attendance at Last AGM | No. of Other Directorship | No. of other Committee membership in other Companies |
|---------|-------------------|--------------------------------------|--------------------------------|------------------------|---------------------------|--|
| 1 | S. G. Bellad | Executive Director /Independent | 05 | Yes | NIL | NIL |
| 2 | V G Hiremath | Non-Executive/ Independent/ Director | 05 | Yes | NIL | NIL |
| 3 | Meena H. Umachagi | Non-Executive/ Independent/ Director | 05 | Yes | NIL | NIL |

Notes:

1. Excludes alternate directorships and directorships in foreign companies and private companies which are neither a subsidiary nor a holding company of a public company.
2. Excludes Committees other than Audit Committee and Shareholders'/ Investors' Grievance Committee and Companies other than public limited companies.

The Board periodically reviews compliance reports of all the laws applicable to the Company and has put in place procedures to review steps to be taken by the Company to rectify instances of non-compliance, if any.

Board Committees

The Board has constituted the following Committees of Directors:

7. AUDIT COMMITTEE:

Audit Committee is consisting of Shri Vijay Hiremath- Chairman, Shri. S G Bellad and Mrs. Meena Umachagi as Members of the Audit Committee.

i. Terms of Reference

The role and terms of reference of Audit Committee covers are as mentioned under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956, besides other terms as may be referred by the Board of Directors.

ii. Composition

The Audit Committee comprised of Shri. V G Hiremath as Chairman, Shri S.G. Bellad and Ms. Meena Umachagi as Members. The composition of the Board of Directors is in accordance with Clause 49 of the Listing Agreement.

During the 2010-11 under review 5 meetings of the Audit Committee were held on, 23/04/2011, 20/07/2011, 18/08/2011, 15/10/2011 and 16/01/2012. The attendance of members is as follows:

| Name | Category | Meetings during the year 2010-11 | |
|-----------------------------|--|----------------------------------|----------|
| | | Held | Attended |
| Mr. V G Hiremath - Chairman | Independent, Non – Executive Director | 5 | 5 |
| Shri S.G. Bellad - Member | Executive Director | 5 | 5 |
| Ms. Meena Umachagi - Member | Independent Non – Executive Director | 5 | 5 |

A brief description of the terms of reference of the Audit Committee is as follows:

To review Internal Audit Reports, Statutory Auditors' Report on the financial statements, to generally interact with the Internal Auditors and Statutory Auditors, to review the adequacy of internal control systems, to select and establish accounting policies, to review financial statements before submission to the Board, to recommend the appointment and removal of external auditor and fixation of audit fees and other matters specified under Clause 49 of the Listing Agreement and Section 292A of the Companies Act, 1956.

8. SHAREHOLDERS AND INVESTOR GRIEVANCE COMMITTEE:

Shareholders and Investor Grievance Committee is consisting of Shri Shivaputra Guruputrapa Bellad – Chairman, Shri. Shri. Vijayakumar Gurulingayya Hiremath and Ms Meena Hanamanth Rao Umachagi as Members of the Shareholders and Investors Grievance Committee.

(i) Terms of references

- a) To scrutinize and approve registration of transfer of shares / debentures / warrants issued / to be issued by the company.
- b) To exercise all power conferred on the Board of Directors under Article 43 of the Article of Association.
- c) To decide all questions and matters that may arise in regard to transmission of shares / debentures / warrants issued / to be issued by the Company.
- d) To approve and issue duplicate shares / debentures / warrants certificates in lieu of those reported lost,
- e) To refer to the Board and any proposal of refusal of registration of transfer of shares / debentures / warrants for their consideration.
- f) To look into shareholders and investors complaints like transfer of shares, non-receipt of declared dividends, etc., and
- g) To delegate all or any of its power of Officers / Authorized Signatories of the Company.

The constitution and terms of reference of the Share Transfer & Shareholders'/ Investors' Grievance Committee is in agreement with the guidelines prescribed under Clause 49 of the Listing Agreement entered into with the Stock Exchanges.

This committee (i) approves and monitors transfers, transmission, splitting and consolidation of securities and issue of duplicate Certificates by the Company; (ii) looks into various issues relating to shareholders, including the redressal of shareholders' and investors' complaints like transfer of shares, non-receipt of Balance Sheet, dividend etc.; and (iii) carries out the functions envisaged under the Code of Conduct for Prevention of Insider Trading adopted in terms of Regulation 12(1) of the SEBI (Prohibition of Insider Trading) Regulations, 1992.

The Share Transfer & Shareholders' / Investors' Grievance Committee, 5 Meetings of the Board of Directors were held as on 23/04/2011, 20/07/2011, 18/08/2011, 15/10/2011 and 16/01/2012. The attendance of the members is as follows:

Name and designation of Compliance officer:

·Mr. S. G. Bellad, Compliance Officer.

| | | |
|--|---|---|
| No. of shareholders' complaints received during the year | : | 0 |
| No. of complaints not resolved to the satisfaction of shareholders | : | 0 |
| No. of pending share transfers | : | 0 |

1. General Body Meetings:

(a) Location and time where last three Annual General Meetings were held:

| Financial Year | Date | Time | Location |
|-----------------------|-------------|-------------|--------------------------|
| 2008-2009 | 30/09/2009 | 3.30 P.M | Jodalli, Tq: Kalaghatagi |
| 2009-2010 | 30/09/2010 | 3.30 P.M | Jodalli, Tq: Kalaghatagi |
| 2010-2011 | 30/09/2011 | 3.30 P.M | Jodalli, Tq: Kalaghatagi |

(a) Whether Special Resolutions were put through postal ballot last year : No

(b) Are votes proposed to be conducted through postal ballot this year : No

2. Other disclosures:

(a) Related Party Transactions

Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the Directors or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of Company at large:

None of the transactions with any of the related parties were in conflict with the interest of the Company at large.

(b) Disclosure of Accounting Treatment

In the preparation of financial statements, the Company has followed the Accounting Standards issued by the Institute of Chartered Accountants of India to the extent applicable.

(c) Disclosures on Risk Management

During the year under review, a detailed exercise on Business Risk Management was carried out covering the entire spectrum of business operations and the Board has been informed about the risk assessment and minimization procedures as required under Clause 49 of the Listing Agreement. The Company has framed the Risk Assessment and Minimization- Procedure which will be periodically reviewed by the Board.

(d) Code of Conduct

The Board of Directors has not adopted the Code of Ethics and Business Principles for the Non-executive Directors as also for the employees including Executive Director.

- (e) Details of non-compliance by the Company, penalties, and strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years:
None

REMUNERATION OF DIRECTORSDetails of remuneration paid to Directors

None of Directors have been paid during the year.

3. General Shareholder information:

- (a) AGM date, time and venue: Annual General Meeting will be held on Friday, 29th September, 2012, at 03.30 P.M. at Jodalli – 580114, Via Dharwad, Tq. Khalghatagi, Karnataka 580114.

- (b) Financial Year: The Financial Year is from 1st April 2012 to 31st March 2013. Tentative Schedule

| | |
|---|-------------------------|
| Unaudited Results for quarter ending June 30, 2012 | : End of July 2012 |
| Unaudited Results for quarter ending September 30, 2012 | : End of October 2012 |
| Unaudited Results for quarter ending December 31, 2012 | : End of January 2013 |
| Unaudited Results for quarter ending March 31, 2013 | : End of April 2013 |
| Audited Results for year ending March 31, 2013 | : End of July 2013 |
| AGM for year ending March 31, 2013 | : End of September 2013 |

- (c) Book Closure period: 20th September, 2012 to 29th September, 2012, both days inclusive.

- (d) Dividend payment: The Company has not declared any dividend.

- (e) Stock Exchanges where securities are listed.

The Company's securities are listed at:

Bombay Stock Exchange Limited & Bangalore Stock Exchange Limited

STOCK MARKET DATA:

There has not been any trade in the shares of the Company during the year ended 31st March, 2012. Currently, shares of the Company are listed at the Bombay Stock Exchange Limited and Bangalore Stock Exchange Limited. The trading in the equity shares of the Company has been suspended due to non-Compliances of the some of the clause of listing agreement with BSE.

(f) **Scrip code:** 531112 - Bombay Stock Exchange Limited - **(ISIN: INE011E01011)**

– Bangalore Stock Exchange Limited

(g) Registrar and Transfer Agent: Sharepro Services (India) Pvt Ltd

13 AB Samhita Warehousing Complex,
2nd Floor, Sakinaka Telephone Exchange Lane,
Saki Naka, Andheri E, Mumbai - 72

(h) Share transfer system with number of shares transferred:

Share transfers in physical form are registered and returned within a period of 15-20 days from the date of receipt, in case documents are complete in all respects. The Share Transfer & Shareholders' / Investors' Grievance Committee meets at least every fortnight. The total number of shares transferred during the financial year under review was as below:

| | <u>No. of transfers</u> | <u>No. of Shares</u> |
|--|-------------------------|----------------------|
| Transfer: | 88 | 125000 |
| Other cases (like; deletion, transmission, transposition etc.) | - | - |
| Total: | 88 | 125000 |

(i) Dematerialization of shares and liquidity: Having connectivity with NSDL (ISIN: INE011E01011)

(j) Outstanding GDRs/ Warrants, Convertible Bonds, conversion date and its impact on equity. Nil

(k) Distribution of Shareholding and Shareholding Pattern as on 31st March, 2012.

(i) Distribution of Shareholding as on 31st March, 2012:

| No. of Shares | No. of Shareholders | % of holding |
|---------------|---------------------|---------------|
| 001 to 500 | 871 | 55.23 |
| 001 to 500 | 862 | 51.74 |
| 0501 to 1000 | 583 | 34.99 |
| 1001 to 2000 | 105 | 6.30 |
| 2000 to 5000 | 74 | 4.44 |
| 5001 to 10000 | 14 | 0.84 |
| Above 10001 | 28 | 1.68 |
| TOTAL | 1666 | 100.00 |

(ii) **Shareholding pattern as at 31st March, 2012:**

| | No. of Shares held | % of Equity |
|--|---------------------------|--------------------|
| Promoter Group* | 1960000 | 56.00% |
| Resident Body Corporate | 00 | 00 |
| Mutual Funds and UTI | 00 | 0.00 |
| Banks & Financial institutions & Insurance Companies etc. | 00 | 00 |
| Corporate Bodies | 00 | 00 |
| General Public | 1186700 | 33.91% |
| NRIs/ OCBs | 353300 | 10.09% |

(i) Address for correspondence:

The Company's Registered Office is situated at :
**Jodalli - 580114, Via Dharwad, TQ, Khalghatagi,
 Karnataka 580114**

Non-Mandatory Requirements:

The Company is not yet implementing the non-mandatory requirements under Clause 49 of the Listing Agreement. However, adoption of other non-mandatory requirements under Clause 49 of the Listing Agreement is being reviewed by the Board from time to time.

WHISTLE BLOWER POLICY**1. Preface**

- 1.1 The Company believes in the conduct of the affairs of its constituents in a fair and transparent manner by adopting highest standards of professionalism, honesty, integrity and ethical behaviour.
- 1.2 The Company is committed to developing a culture where it is safe for all employees to raise concerns about any poor or unacceptable practice and any event of misconduct.
- 1.3 Clause 49 of the Listing Agreement between listed companies and the Stock Exchanges, inter-alia, provides, a non-mandatory requirement, for all listed companies to establish a mechanism called "Whistle Blower Policy" for employees to report to the management instances of unethical behaviour, actual or suspected fraud or violation of the Company's code of conduct or ethics policy.
- 1.4 The purpose of this policy is to provide a framework to promote responsible and secure whistle blowing. It protects employees wishing to raise a concern about serious irregularities within the Company.
- 1.5 The policy neither releases employees from their duty of confidentiality in the course of their work, nor is it a route for taking up a grievance about a personal situation.

2. Policy

- 2.1 This Policy is for the Employees as defined hereinafter.
- 2.2 The Policy has been drawn up so that Employees can be confident about raising a concern. The areas of concern covered by this Policy are summarized in paragraph 5.

3. Definitions

- 3.1 “Disciplinary Action” means any action that can be taken on the completion of / during the investigation proceedings including but not limiting to a warning, imposition of fine, suspension from official duties or any such action as is deemed to be fit considering the gravity of the matter.
- 3.2 “Employee” means every employee of the Company (whether working in India or abroad).
- 3.3 “Protected Disclosure” means a concern raised by a written communication made in good faith that discloses or demonstrates information that may evidence unethical or improper activity.
- 3.4 “Subject” means a person against or in relation to whom a Protected Disclosure is made or evidence gathered during the course of an investigation.
- 3.5 “Whistle Blower” is someone who makes a Protected Disclosure under this Policy.
- 3.6 “Whistle Officer” or “Committee” means an officer or Committee of persons who is nominated/ appointed to conduct detailed investigation.
- 3.7 “Ombudsperson” will be a Non-Executive Director for the purpose of receiving all complaints under this Policy and ensuring appropriate action. In the first instance, the Board shall appoint this Ombudsperson. The Director shall have the authority to change the Ombudsperson from time to time.

4. The Guiding Principles

- 4.1 To ensure that this Policy is adhered to, and to assure that the concern will be acted upon seriously, the Company will:
 - 4.1.1 Ensure that the Whistle Blower and/or the person processing the Protected Disclosure is not victimized for doing so;
 - 4.1.2 Treat victimization as a serious matter including initiating disciplinary action on such person/ (s);
 - 4.1.3 Ensure complete confidentiality.
 - 4.1.4 Not attempt to conceal evidence of the Protected Disclosure;

4.1.5 Take disciplinary action, if any one destroys or conceals evidence of the Protected Disclosure made/to be made;

4.1.6 Provide an opportunity of being heard to the persons involved especially to the Subject;

5. Coverage of Policy

5.1 The Policy covers malpractices and events which have taken place/ suspected to take place involving:

1. Abuse of authority
2. Breach of contract
3. Negligence causing substantial and specific danger to public health and safety
4. Manipulation of company data/records
5. Financial irregularities, including fraud, or suspected fraud
6. Criminal offence
7. Pilferation of confidential/propriety information
8. Deliberate violation of law/regulation
9. Wastage/misappropriation of company funds/assets
10. Breach of employee Code of Conduct or Rules
11. Any other unethical, biased, favoured, imprudent event

5.2 Policy should not be used in place of the Company grievance procedures or be a route for raising malicious or unfounded allegations against colleagues.

6. Disqualifications

6.1 While it will be ensured that genuine Whistle Blowers are accorded complete protection from any kind of unfair treatment as herein set out, any abuse of this protection will warrant disciplinary action.

6.2 Protection under this Policy would not mean protection from disciplinary action arising out of false or bogus allegations made by a Whistle Blower knowing it to be false or bogus or with a *mala fide* intention.

6.3 Whistle Blowers, who make any Protected Disclosures, which have been subsequently found to be *mala fide*, *frivolous* or *malicious* shall be liable to be prosecuted under Company's Code of Conduct.

7. Manner in which concern can be raised

7.1 Employees can make Protected Disclosure to Ombudsperson, as soon as possible but not later than 30 consecutive days after becoming aware of the same.

- 7.2 Whistle Blower must put his/her name to allegations. Concerns expressed anonymously WILL NOT BE investigated.
- 7.3 If initial enquiries by the Ombudsperson indicate that the concern has no basis, or it is not a matter to be investigation pursued under this Policy, it may be dismissed at this stage and the decision is documented.
- 7.4 Where initial enquiries indicate that further investigation is necessary, this will be carried through either by the Ombudsperson alone, or by a Whistle Officer/Committee nominated by the Ombudsperson for this purpose. The investigation would be conducted in a fair manner, as a neutral fact-finding process and without presumption of guilt. A written report of the findings would be made.
- 7.5 Name of the Whistle Blower shall not be disclosed to the Whistle Officer/Committee.
- 7.6 The Ombudsperson/Whistle Officer/Committee shall:
- i) Make a detailed written record of the Protected Disclosure. The record will include:
 - a) Facts of the matter
 - b) Whether the same Protected Disclosure was raised previously by anyone, and if so, the outcome thereof;
 - c) Whether any Protected Disclosure was raised previously against the same Subject;
 - d) The financial/ otherwise loss which has been incurred / would have been incurred by the Company.
 - e) Findings of Ombudsperson/Whistle Officer/Committee;
 - f) The recommendations of the Ombudsperson/Whistle Officer/Committee on disciplinary/other action/(s).
 - ii) The Whistle Officer/Committee shall finalise and submit the report to the Ombudsperson within 15 days of being nominated/appointed.
- 7.7 On submission of report, the Whistle Officer /Committee shall discuss the matter with Ombudsperson who shall either:
- i) In case the Protected Disclosure is proved, accept the findings of the Whistle Officer /Committee and take such Disciplinary Action as he may think fit and take preventive measures to avoid reoccurrence of the matter;
 - ii) In case the Protected Disclosure is not proved, extinguish the matter; Or
 - ii) Depending upon the seriousness of the matter, Ombudsperson may refer the matter to the Committee of Directors (Whole-time Directors) with proposed disciplinary action/ counter measures. The Committee of Directors, if thinks fit, may further refer the matter to the Audit Committee for necessary action with its proposal. In case the Audit Committee thinks that the matter is too serious, it can further place the matter before the Board with its 8 recommendations. The Board may decide the matter as it deems fit.

- 7.8 In exceptional cases, where the Whistle Blower is not satisfied with the outcome of the investigation and the decision, she can make a direct appeal to the Chairman of the Audit Committee.

8. Protection

- 8.1 No unfair treatment will be meted out to a Whistle Blower by virtue of his/her having reported a Protected Disclosure under this Policy. The Company, as a policy, condemns any kind of discrimination, harassment, victimization or any other unfair employment practice being adopted against Whistle Blower. Complete protection will, therefore, be given to Whistle Blower against any unfair practice like retaliation, threat or intimidation of termination/suspension of service, disciplinary action, transfer, demotion, refusal of promotion, discrimination, any type of harassment, biased behaviour or the like including any direct or indirect use of authority to obstruct the Whistle Blower's right to continue to perform his duties/functions including making further Protected Disclosure. The Company will take steps to minimize difficulties, which the Whistle Blower may experience as a result of making the Protected Disclosure.

Thus, if the Whistle Blower is required to give evidence in criminal or disciplinary proceedings, the Company will arrange for the Whistle Blower to receive advice about the procedure, etc.

- 8.2 The identity of the Whistle Blower shall be kept confidential.
- 8.3 Any other Employee assisting in the said investigation or furnishing evidence shall also be protected to the same extent as the Whistle Blower.

9. Secrecy/Confidentiality

The Whistle Blower, the Subject, the Whistle Officer and everyone involved in the process shall:

- a. maintain complete confidentiality/ secrecy of the matter
 - b. not discuss the matter in any informal/social gatherings/ meetings
 - c. discuss only to the extent or with the persons required for the purpose of completing the process and investigations
 - d. not keep the papers unattended anywhere at any time
 - e. keep the electronic mails/files under password
- If any one is found not complying with the above, he/ she shall be held liable for such disciplinary action as is considered fit.

10. Reporting

A quarterly report with number of complaints received under the Policy and their outcome shall be placed before the Audit Committee and the Board.

11. Amendment

The Executive Director of the Company has the right to amend or modify this Policy in whole or in part, at any time without assigning any reason, whatsoever.